

# China's Taxation System and Fiscal Policy

Yu Liu

Email: yu\_liu@fudan.edu.cn

## 1 Overview

This course discusses China's tax system in light of optimal taxation theories. The course starts with a brief description of China's tax legislation system, collection and administration system, and revenue from various types of taxes. Next, we study how states were financed in the pre-modern times and the origins of state capacity. We then cover the optimal taxation theories in length and assess the current tax system in China at the end of this course. My office is located at Building 11, Room 107 (next to the Guanghai Twin Towers). Feel free to send me emails if you have any questions or concerns regarding the class.

## 2 Course Requirement

Each student is evaluated based on three parts: class discussion, an individual presentation, and a short essay.

Evaluation	% of Final Grade
1. Class Discussion	20%
2. Individual Presentation	30%
3. Short Essay	50%

### Class Discussion (20%):

In this course, any opinion or idea will be appreciated. Students are expected to actively participate in class discussion and share your perspective.

### Individual Presentation (30%): October 20

Each student searches for a phenomenon that is related to tax. It could be from any country in any period of time. Each student has 10 minutes to talk.

### Short Essay (50%): December 24

Students extend their presentations further and write a short essay discussing this particular type of tax in details and it can be related to the optimal taxation theories. In addition, you need to link it to the general institutional and history background of the country you discuss. Also, you need to examine how this tax affects the efficiency and equity of resource allocation. You may use the research papers we discuss in class, or other source, to support your argument. The essay should be no less than four pages, font 12, double spaced.

## 3 Reading

### 1. China's Tax System

- Du, Li and Fan Yongming. 2014. "Public Economics." Fudan University.
- Shen, Chunli, Jing Jin and Hengfu Zou. 2012. "Fiscal Decentralization in China: History, Impact, Challenges and Next Steps." *Annals of Economics and Finance*, 13-1, 1-51 (2012).

## 2. China's Tax Reform

- Xie, Xuren. 2009. "China's 60 Years Tax Reform." Economics and Science Publisher.
- Ye, Zhenpeng. 2013. "Research on Chinese Tax Reform." China Finance and Economics Publishing House.

## 3. Tax-Farming and the Ancient Tax System

- Bartlett, Bruce. 1994. "How Excessive Government Killed Ancient Rome." *Cato Journal*. 14(2).
- White, Eugene N. 2004. "From Privatized to Government-Administered Tax Collection: Tax Farming in Eighteenth-Century France." *The Economic History Review*, 57(4):636-663.
- Johnson, N.D. and Koyama, M. "Tax Farming and the Origins of State Capacity in England and France." *Explorations in Economic History*, 2014.

## 4. Pre-Modern Britain, Sweden, and United States' Tax System

- Steinmo, Sven, 1996. "Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State." Yale University Press.

## 5. Origins of State Capacity

- Besley, Tim and Persson, Torsten . 2009. "The Origins of State Capacity: Property Rights, Taxation and Politics." *American Economic Review*, 99 (4), 1218-44.
- Besley, Tim and Persson, Torsten . 2010. "State Capacity, Conflict and Development." *Econometrica*, 78, 1-34.

## 6. Direct v.s. Indirect Taxation

- Atkinson, A.B. and Stiglitz, J.E. 1976 "The Design of Tax Structure: Direct versus Indirect Taxation." *Journal of Public Economics*, 6 (1-2), 55-75.
- Saez, E. 2001. "The Desirability of Commodity Taxation under Non-linear Income Taxation and Heterogeneous Tastes." *Journal of Public Economics*, 83 (2): 217-230.

## 7. Presentations

- Individual Presentations

## 8. Optimal Taxation of Labor Income

- Mirrlees, James. 1971. "An Exploration in The Theory of Optimal Income Taxation." *Review of Economic Studies*, 1971.
- Diamond, Peter. 1998. "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Rates." *American Economic Review*, 1998.
- Saez, E. "Using Elasticities to Derive Optimal Income Tax Rates." *Review of Economic Studies*, 2001.

## 9. Optimal Taxation: Theory to Practice

- Mankiw, N. Gregory, Matthew Charles Weinzierl, and Danny Ferris Yagan. 2009. "Optimal Taxation in Theory and Practice." *Journal of Economic Perspectives* 23(4): 147-174.
- Piketty, Thomas and Emmanuel Saez. 2012. "Optimal Labor Income Taxation." *Handbook of Public Economics*, Chapter 7.

## 10. Sufficient Statistics Approach to Welfare Analysis

- Chetty, Raj. 2009. "Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods." *Annual Review of Economics*, 1: 451-488.
- Chetty, Raj. 2009. "Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance," *American Economic Journal: Economic Policy*. 2009. 1(2), 31-52.

## 11. Optimal Indirect Tax

- Ramsey, Frank. 1927. "A Contribution to the Theory of Taxation." *Economic Journal* 37: 47-61.
- Arvind Virmani. 1989. "Indirect Tax Evasion and Production Efficiency." *Journal of Public Economics* 39(2), 223-237.
- Emran, M. Shahe and Stiglitz, Joseph. 2005. "On Selective Indirect Tax Reform in Developing Countries." *Journal of Public Economics* 89(4), 599-623.

## 12. Tax Reform in Developing Countries

- Bahi, Roy W. and Richard M. Bird. 2008. "Tax Policy in Developing Countries: Looking Back and Forward." *National Tax Journal*. Vol LXI, 2, 2008.
- Wayne Thirsk. 1997. "Tax Reform in Developing Countries." World Bank.

## 13. Fiscal Assignments

- Musgrave, R. A. 1983. "Who Should Tax, Where, and What?" In McLure, C. E., editor, *Tax Assignment in Federal Countries*. Australian National University Press, Canberra.
- Oates, W. E. 2005. "Toward A Second-Generation Theory of Fiscal Federalism." *International Tax and Public Finance*, 13:349-373.

## 14. China's Tax System and Tax Theories

- Gordon, Roger and Wei Li. 2009. "Tax Structures in Developing Countries: Many Puzzles and a Possible Explanation." *Journal of Public Economics*, vol. 93, 855-866.
- Piketty, Thomas and Nancy Qian. 2009. "Income Inequality and Progressive Income Taxation in China and India, 1986-2015." *American Economic Journal: Applied Economics*, vol. 1, 53-63.