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Fiscal Decentralization to Promote Carbon Emission Reduction: Based on the Perspective of "Directly Administered Counties"

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Abstract: The reform of "directly administered counties" is a positive attempt to promote the reform of financial decentralization and rationalize the financial allocation relationship between provincial and sub-provincial governments in China, and is an important initiative to stimulate the development of counties. Based on the reform of the "directly administered counties by provinces" system, we attempt to clarify the impact of the "directly administered counties by provinces" reform on the environmental governance of local governments, which is conducive to promoting the construction of local ecological civilization and green economic development, and further providing a basis for China to achieve the "double carbon goal". This article is an attempt to clarify the impact of the "provincial counties" reform on local governments' environmental governance, which is conducive to promoting local ecological civilization and green economic development, and further contributing to the achievement of China's "double carbon goal". The article provides useful reference for deepening the reform of "directly administered counties", optimising the environmental governance of local governments and promoting the "double carbon" initiative.

Keywords: Provincial reform, Environmental governance, Carbon emissions.

1. Introduction

China's economic and social progress has been remarkable since its reform and opening up, with rapid growth in total GDP and a significant decline in rural poverty due to accelerated urbanisation. However, China's traditionally crude economic development has resulted in massive consumption of resources and energy, and an exponential increase in environmental pollution and carbon emissions, posing significant environmental problems and climate risks to society. According to the IEA, China's total carbon emissions will exceed 9.8 billion tonnes in 2019, ranking first in the country. As one of the largest emitters of greenhouse gases in China, the country plays a pivotal role in world weather management. In order to control the level of China's carbon emissions, General Secretary Xi Jinping will make a commitment to the world on 22 September 2020 at the 75th General Assembly that China's carbon dioxide emissions will aim to peak by 2030 and work towards carbon neutrality by 2060." The 14th Five-Year Plan and the outline of the 2035 Economic Vision both point out that during the window of carbon peaking, it is necessary to make solid efforts to manage carbon neutrality and promote a change in the growth model. The National Economic Council (NEC) is even clearer: "We must properly understand and grasp the importance of carbon neutrality during the carbon peak". In this critical period of achieving the "double carbon" target, how to deepen the reform of the fiscal and taxation system that is conducive to green and low-carbon development, and support the timely achievement of the carbon peak and carbon neutrality target has become a major strategic issue that our government needs to address.

General Secretary Xi Jinping of the Central Committee pays sufficient attention to regional development and county management and has made a series of major speeches indicating that county-level management is the link between the top and the bottom, a major guarantee for developing the economy, ensuring the people, maintaining community stability and improving the long-term stability of the country. Therefore, a flourishing county economy and efficient county governance are inevitable requirements for high-quality development, but the city-controlled county system implemented in recent years to promote urbanisation is no longer sufficient or even hinders current county development. In order to break the political shackles that have shackled the development space of counties, the state has gradually implemented the reform of the financial system of "direct provincial control over counties". The reform of the decentralisation system of "provincial direct control over cities and counties" is carried out in two main ways: one is to "expand power and strengthen counties" or "strengthen counties and expand power", which means that part of the economic and social management authority belonging to prefecture-level cities is transferred to county-level governments, mainly focusing on project approval and investment rights. The aim is to give county-level governments greater discretionary powers and to stimulate county development. The second is the "financial provincial administration of counties", that is, the county by the provincial government unified administration, the municipal government only control the municipal area, the "province - city - county" three-tier governance model into "province - city, The aim is to rationalise the governance of the province by rationalising the government under the province. The aim is to alleviate the financial difficulties of counties and rural areas by rationalising the relationship between the provincial government and local financial allocations in order to provide better services and improve the economic and social vitality of the county (Zheng Xinye et al., 2011). According to Wang et al. (2020), the results show that the reform of "directly administered counties" can significantly reduce the level of

regional air pollution management, while the reform of "strong counties to expand power" significantly increases the level of regional air pollution management. Cai, Jiayao et al. (2018) found that the water quality in the reformed areas changed significantly, with indicators such as biochemical oxygen demand (COD) and ammonia nitrogen pollutants (NH) in river water improving significantly compared to those in areas not included in the "directly administered counties" financial system reform experiment. Zhang (2020) found that PM2.5 surface levels in the pilot counties that underwent provincial urban transformation decreased by approximately 0.28% relative to the national sample average, indicating that urban haze air pollution was significantly controlled through provincial urban transformation. This suggests that the "directly administered county" reform, a fiscal decentralization reform, significantly influenced local environmental pollution levels. Therefore, based on this exogenous change in the relationship between the hierarchical and vertical levels of government, this paper attempts to clarify the mechanisms of the 'directly administered county' reform on the environmental governance of local governments, in order to provide further lessons for the development of quality local governance.

2. Theoretical Mechanisms

As a public good with no defined property rights, the control of CO2 emissions is led by government departments. As China's environmental management is based on the "local principle and hierarchical management", the central government mainly plays a supervisory role, while local governments have great decision-making power in the field of environmental management. The reform of the 'direct provincial control of counties' is a useful initiative by the central government to adjust the financial relationship between the provincial and sub-provincial governments and to expand the economic and social management power at the county level in order to stimulate the development potential of the counties. Theoretically, this decentralisation reform expands the administrative and financial powers of local governments, which in turn affects their revenue and expenditure behaviour, and accordingly, the preferences of county governments for the provision of public goods will also be adjusted. Therefore, this paper analyses the logical mechanism of local environmental governance in the context of "Chinese decentralisation", taking into account the motivation of local government behaviour from both the positive and negative sides.

2.1. Positive Effects of the "Directly Administered Counties" Reform on Carbon Emissions

By establishing a direct link with the county treasury, the 'directly administered county' reform has largely alleviated county government revenue constraints and laid the financial foundation for promoting regional environmental governance. Firstly, the reform of the 'directly administered county' taxation system has given greater financial autonomy to the county treasury and increased the share of tax revenue. This has enabled local governments to better utilise tax policy incentives to promote the green and low-carbon development of market players. The reform of the "directly administered counties" has given the county governments the financial space to provide tax incentives to market players in energy conservation and emission reduction, green and low-carbon technology innovation and resource recycling through VAT, corporate income tax and other corporate taxes, thus encouraging enterprises to accelerate green and low-carbon technology research and achieve high-end, green and intelligent transformation. On the other hand, the system of "directly administered counties" can improve the level of county-level financial resources and promote local governments to increase their expenditure on environmental management, thus drawing a new picture of green development in counties. With the continuous promotion of the rural revitalization strategy, the reform of "directly administered counties" will enable local governments to more actively invest their financial budget resources in ecological management and restoration, thus promoting the development of ecological economy in counties, and striving to change their rice bowls from "resource rice" to "ecological rice".

2.2. Negative Effects of the "Directly Administered Counties" Reform on Carbon Emissions

Firstly, the reform of the 'counties under direct provincial control' has exacerbated air pollution by increasing the responsibility of local governments to spend on economic affairs. A summary of the documents related to the "expansion of county authority" in various provinces and cities shows that a large proportion of the expanded economic and social authority is submitted directly by the county to the provincial level for approval, while a small proportion is handed over to the county for direct approval. For example, in the "Implementation Opinions on Expanding the Economic and Social Management Authority of Ningguo and Other Twelve Pilot (Cities)" issued by Anhui Province in 2007, the county governments were given about 30% of the approval or decision-making authority directly, while the remaining 70% was submitted directly by the county to the provincial government for approval, in other words, the responsibility for industry management belonging to the municipal government was devolved to the county government. It is true that as the economic management authority of county-level people's governments gradually expands, the policy of unification of authority and responsibility suggests that the devolution of authority for project approval, whether in relation to investment, or the transfer and devolution of industrial management, such as agriculture, forestry, or industry, indicates, first and foremost, an expansion of expenditure responsibility and a rapid expansion of expenditure scale for county-level people's governments (Li Yongyou et al., 2021). Under the established comprehensive evaluation system, which is dominated by GDP and national revenue, the expansion of the government's fiscal responsibility means that infrastructure construction and industrial development become the main elements of performance assessment, and local officials tend to build "performance projects" during their term of office based on their personal interests and choose to invest in infrastructure construction, industrial structure optimization, and other projects that can bring short-term economic benefits and performance results (Zhou, Li-An et al., 2021). In other words, the environment is one of the most important issues in the short term. In other words, public goods such as the environment, which have a low return on investment in the short term or even no economic return on expenditure, are excluded from the "performance projects".

Secondly, the reform of the "direct provincial control of counties" has intensified the horizontal competition between government departments at the county level and the vertical competition between government departments at the county level, further strengthening the market segmentation, which is detrimental to environmental governance. The reform has transformed the relationship between counties and municipalities from one of subordination to one of equality, allowing county governments to compete with municipal governments for resources on the same level. Before the reform, counties competed with each other only within the municipality, but after the reform, the competition was extended to the province. As a result, the vertical competition at the county level and the horizontal competition at the county level were intensified at the same time. In the process of 'top-down competition' based on the evaluation criteria of higher levels of government, county-level government departments may resort to a variety of beggar-thy-neighbour approaches, thus reinforcing regional protectionism and the ineffectiveness of environmental governance by fragmenting industries (Cai, J. Y. and Zhang, 2018; Wang, Y. Q. et al., 2006). Because the spatial spillover effects of managing public goods such as the environment are large, the direct spillover effect of environmental management in the region on the average carbon emissions of neighbouring regions is significantly larger than its direct effect on the average carbon emissions of the region. (Mao et al., 2016). In a competitive situation, jurisdictions do not want to use their own financial resources to contribute to the environmental management of other regions, but are waiting to take advantage of neighbouring regions in order to avoid cost losses and share common benefits to the greatest extent possible. The result of this game is a "collective action dilemma" in the management of carbon pollution, which is not conducive to the promotion of pollution management in each jurisdiction.

3. Path Selection

To make better use of fiscal decentralization to help achieve the "double carbon" objective, the following aspects should be addressed:

3.1. Strengthen the Top-level Design and Planning of Fiscal and Taxation Policies at the County Level to Support and Guide Market Players in Green and Low-carbon Development

First, strengthen the role of taxation policies to market players as incentives. In accordance with the requirements of speeding up the reduction of air pollution and the realization of the "double carbon" goal, research to support carbon emission reduction related tax policies, better incentivize enterprises in low carbon zero carbon, energy saving and environmental protection and other green technology research and development and material application on all-out research.

Second, strengthen the role of financial funds to support the work related to carbon peaking and carbon neutral. The county should focus on the allocation of funds, increase the protection of funds in important areas such as environmental protection and ecological restoration, develop policies and measures to encourage price regulation in important industries such as raw and auxiliary materials, energy, production processes and product sales, and improve the precision of financial funding policies.

3.2. Strict Environmental Objectives and Tasks, Innovative Local Performance Assessment Mechanisms

The first is to reasonably allocate county-level development goals and tasks and appropriately reduce economic expenditure responsibilities, while deploying relevant goals and tasks around prominent ecological and environmental problems around the masses, thus encouraging localities to increase environmental management expenditure and promote green development.

Secondly, it is recommended that the weight of environmental protection items be increased in the current appraisal system, and that the management of carbon dioxide emissions be included as part of the national ecological and environmental protection inspection and the appraisal of party and government leaders, so as to prevent the government from focusing only on competition oriented by fiscal revenue, GDP and other visible indicators. At the same time, it is important to use the spirit of nailing down the process of assessing and evaluating the accountability of local ecological and environmental protection work, so as to improve the initiative of local environmental management and avoid public material supplies such as the environment, which are neglected by the government because they are not effective in a short term.

3.3. Prevent Local Protectionism from Interfering with Environmental Governance and Deepen Inter-regional Cooperation in Reducing Pollution and Carbon Emissions.

First, the county should break the protectionist ideological confinement, actively break down walls and cut through them, integrate ecological and environmental protection in neighbouring areas, establish consultation and cooperation mechanisms in dealing with greenhouse gas emission reduction and regional environmental access, and collaborate to build a low-carbon, high-quality development plateau.

Second, to establish a sound system of coordination and promotion of government work with horizontal communication between government finance departments and other departments. To do a good job with the national development and reform, science and technology, industrial production and information construction, resources, environment, housing and urban engineering construction, transportation, environmental protection, agriculture and rural areas, energy, forestry and grass, meteorology and other departments of collaboration and support, fully mobilize the initiative of people in all areas of society, become a common synergy of construction work.

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