CENTRALIZATION OF TAXING POWER AND ECONOMIC DEVELOPMENT: CHINESE EVIDENCE

Presented by Associate Professor Wei Cui,
China University of Political Science and Law

Discussant: Professor Cheryl Saunders, The University of Melbourne

WEI CUI is an Associate Professor at the China University of Political Science and Law (CUPL) in Beijing.

He participated in a World Bank-supported project producing an expert draft of the China's VAT Law (2009) and is consultant to the Budgetary Affairs Commission of the National People's Congress on VAT reform, and has also advised the State Council's Legislative Affairs Office, the Ministry of Finance, and the State Administration of Taxation on rulemaking in the income tax area.

During 2009-2010, he served as Senior Tax Counsel to the China Investment Corporation and founded the Center for Comparative Fiscal Research at CUPL. His current research interests include consumption tax theory and practice, international taxation, the rule of law in tax administration, and taxation of real estate.

Professor Wei Cui received his B.A. from Harvard College, M.A. (philosophy) from Tufts University, JD from Yale Law School, and LL.M (Tax) from New York University Law School. Before starting to teach in Beijing, he practiced US tax law in New York with Simpson Thacher & Bartlett.

He is in Melbourne to teach Chinese Tax and Investment Law in the Melbourne Law Masters at the end of August as a Senior Fellow of the Law School.

ABSTRACT

In trying to understand China's economic development in the last 30 years, a vigorous debate, with implications for developing countries in general, has taken place among social scientists concerning what role fiscal decentralization played in Chinese reform. Theorists of “market-preserving federalism” argue that decentralization created effective incentives for local governments to promote growth, but critics contend that centralization, most importantly as embodied by the system of cadre management within the Communist Party, is what made China economically successful.

This paper examines a crucial embodiment of centralization that is still little discussed and poorly understood, namely the centralization of tax legislative power. The paper shows: (1) the degree of centralization cannot be taken for granted and should be understood in terms of political cycles; (2) the evidence consistently points to the risk of vicious tax competition upon decentralization; but (3) centralization leaves reform in the hands of those arguably least motivated to carry it out.

Professor Cheryl Saunders is a laureate professor and holds a personal chair in law. She teaches in both the JD and the MLM and is the founding Director of the Centre for Comparative Constitutional Studies at the Melbourne Law School.

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