

Research on the division of intergovernmental authority and expenditure responsibility for preschool education

Manman Hu

Guangzhou Huashang College, Guangzhou, 511300, China

Abstract: *The government is an important responsible subject for the development of education. Clarifying the division of educational powers and expenditure responsibilities among governments is crucial to optimizing the allocation of educational resources, improving the efficiency of fiscal funds, and perfecting the financial system for education. As the basic part of national education system, preschool education has a profound impact on children's all-round development. Based on the basic theory of public finance, this paper analyzes the necessity for government intervention in preschool education and discusses the main contradictions faced by current division of powers and expenditure responsibilities among governments. It proposes specific optimization paths to promote fair and high-quality development of preschool education.*

Keywords: *preschool education, Government, Power of affairs, Expenditure responsibility*

1. Introduction

Education is an important part of basic public services. With the increasing emphasis on preschool education, issues related to equity and efficiency in resource allocation for preschool education have become increasingly prominent. As the main provider and manager of preschool education, it is crucial for governments at all levels to clearly define their educational powers and expenditure responsibilities, in order to ensure inclusive and equitable access to preschool education. The Notice of the General of the State Council on Issuing the Reform Plan for Dividing Financial Authority and Expenditure Responsibilities between Central and Local Governments in the Field of Education (Guo Ban Fa [2019] No. 27) points out that we should follow the characteristics of public services in the field of education, adhere to educational laws, reflect Chinese characteristics, and form a division model of financial authority and expenditure responsibilities in the field of education with central leadership, reasonable authorization, systematic integrity, scientific norms, clear rights and responsibilities, and efficient operation as soon as possible. We should accelerate the establishment of a clear-righted, coordinated financial relationship between the central and local governments with balanced regional resources. The division of authority and expenditure responsibility is a complex issue and an important topic. Based on the theoretical foundation of government intervention in preschool education, this paper analyzes the main contradictions faced by intergovernmental educational powers and expenditure responsibilities, with a view to providing an optimized path for the division of educational powers and expenditure responsibilities among governments.

2. The necessity of government intervention in preschool education

2.1 Preschool education is a quasi-public product with public welfare as its fundamental attribute

The concept of public goods was first introduced by Samuelson in his book "The Pure Theory of Public Expenditure". Pure public goods or services refer to those whose consumption by one individual does not lead to a reduction in the consumption of such goods or services by others. The indivisibility of utility, the non-competitiveness of consumption and the non-excludability of benefit are three distinct characteristics of public goods. The beneficiaries of preschool education include the state, society and individuals, which belongs to public goods. However, due to the limited nature of educational resources themselves, they cannot fully satisfy the non-competitive consumption to a certain extent. Therefore, they are indeed quasi-public goods. As the importance of preschool education to national, social and individual development continues to increase, its characteristics of low investment with high returns are

increasingly prominent. Its public product attributes have also been continuously strengthened. According to the basic theory of public finance, it is known that the provision of public goods by the market will result in a Pareto inefficiency for society as a whole and be detrimental to the efficient allocation of resources. Therefore, the development of preschool education industry must be led by government.

2.2 Preschool education has strong positive externalities

Positive externalities refer to the situation where an individual's economic activity brings benefits to themselves while also benefiting others or society, with zero marginal costs for other individuals or organizations to obtain those benefits. Preschool education has strong positive externalities. On the one hand, individuals receive education and gain knowledge while the country and society also enjoy the accumulation of human capital and improvement in social environment. Ma Haitao^[1] pointed out that in all levels and types of education, the higher the level of education, the weaker the externality of educational undertakings becomes. Therefore, by appropriately allocating limited education funds to the field of preschool education and leveraging government financial investment, we can improve the efficiency level of society as a whole.

2.3 Government correction of positive externalities of Preschool education

Under the positive externality of preschool education, the private marginal benefit or cost deviates from the social marginal benefit or cost, which leads to the distortion of resource allocation, i.e. market failure. The scope of the government's activities is the area of market failure. Therefore, the government's intervention in the field of preschool education, correcting the externality through financial subsidies, and providing the quantity of preschool education supply where the private marginal benefit equals the social marginal benefit will improve the social efficiency, and help to realize the efficiency and fairness.

3. The internal mechanism of the division and interaction between intergovernmental preschool education powers and expenditure responsibilities

The theory of fiscal decentralization reveals the necessity for local governments to exist in the supply of basic public services. It also indicates that the financial functions and revenues and expenditures of central government and local governments are relatively independent, and should follow the principle of unifying financial power with administrative authority when providing basic services such as public goods. That is, one level of government corresponds to one level of financial power. The fiscal authority of the government refers to the tasks and responsibilities that governments at all levels should undertake in providing public services, as well as their powers over public administration. It embodies the functional orientation of the government. The responsibility of expenditure refers to the obligation of governments at all levels to use fiscal funds to fulfill their duties and meet public service needs^[2]. Under the fiscal decentralization system, expenditure responsibilities are often closely related to administrative powers. That is, governments determine their corresponding expenditure responsibilities based on the scope of administrative power they bear.

Based on the advantages of information sources, at present, the academic community mainly divides expenditure responsibilities according to the scope of benefits and jurisdiction of public goods. Local governments (especially grassroots local governments) are often better able to grasp the distribution of local educational resources and understand the needs of local residents for education services, thereby providing high-quality education services that meet local residents' preferences and avoiding redundant or inefficient allocation of educational resources. The development of preschool education in China is a shared financial responsibility among the central, provincial, and county governments. Among them, the county government bears the main expenditure responsibility, following the principle of "local focus with central rewards and subsidies". Considering the spillover problem of public goods, the central government and provincial and municipal governments mainly undertake supplementary expenditure responsibilities and coordinate resource allocation through transfer payments and tax rebates. Local governments bear over 90% of the expenditure for preschool education, while the central government and provincial finance provide appropriate financial subsidies to financially weak areas through transfer payments. The theory of fiscal decentralization points out that by clarifying the financial responsibilities of central and local governments, it can improve the efficiency and quality of public service supply. In the field of preschool education, reasonable division

of financial power can encourage local governments to increase investment in education and optimize resource allocation.

There are practical constraints in the division of intergovernmental educational powers and expenditure responsibilities. Since the tax distribution system reform in 1994, governments at all levels have clearly defined their main sources of income based on the division of taxes. The financial powers of governments at all levels have been basically determined, but the responsibilities for affairs and expenditures are still unclearly defined. The level of government financial power and resources directly constrains the division of responsibilities among governments. Financial power refers to the authority or jurisdiction that a government possesses in fiscal management and revenue-expenditure activities. It serves as both the material foundation for the government to fulfill its functions and an important means of regulating economic operations. It determines the scope and extent of financial resources that the government can control and utilize. Financial resources refer to the financial resources owned or disposable by governments at all levels within a certain period of time. The difference between the two is mainly reflected in transfer payments and tax refunds from higher-level governments [3]. The relationship between authority and expenditure responsibility is the relationship between "who does the work" and "who spends money". Only when the powers of government are commensurate with its expenditure responsibilities can we avoid the problem of absence of responsibility in government spending and ensure that the powers of government are effectively implemented. Due to the differences in regional economic development and levels, even if the criteria for dividing financial power are the same, the fiscal revenue capacity and level of government between different regions will vary. In this case, it is necessary to consider the actual financial situation of governments at all levels, including local revenues generated by financial arrangements and fiscal transfer payments from higher-level governments [4].

4. The main contradiction in the division of powers and expenditure responsibilities between governments on preschool education

In recent years, with the state's emphasis on education and the introduction of a series of policy documents, the development of preschool education has gradually become an important part of government work. At present, the relevant powers and expenditure responsibilities of preschool education are mainly shared by central and local governments. However, due to unclear government roles and responsibilities, there is a high degree of arbitrariness in the allocation of power and responsibility among different levels of government, leading to many problems in specific implementation.

4.1 The government's responsibility positioning is not clear, and the "top-down" government level tends to cause responsibilities to be shifted downward

The lack of clarity in the definition of authority is the fundamental reason for unclear expenditure responsibilities and unreasonable financial matching. At present, there are only some principled provisions for the division of responsibilities and expenditure in China's preschool education such as "local responsibility with central subsidies" or "local responsibility with hierarchical management", which do not clearly define the proportion of educational projects shared by governments at all levels. This has led to a mismatch between local government powers and financial resources during actual implementation. The "top-down" government hierarchy is prone to downward responsibility shifting. County governments are the main responsible entities for preschool education, with a wide range of activities but not enough financial resources. The lack of financial resources can easily lead to fiscal gaps, and superior governments may be unable to take full charge due to vague division of responsibilities. Under the hierarchical fiscal and taxation system, subordinate governments are inherently in an unequal position of game with superior governments. Even if there is transfer payment from superior governments, it is difficult to compensate for the absence of expenditure by county-level governments.

4.2 Local governments have broad responsibilities but limited financial resources, and the structure of education expenditure is unreasonable

Although both the central and local governments are responsible for the development of preschool education, most responsibilities are undertaken by local governments, especially county-level governments. Other education such as preschool education, general high school education, vocational

education and higher education are all the common financial powers of central government and local governments. As preschool education is not included in compulsory education system, it has received insufficient attention from the government, so expenditure on preschool education only accounts for a very small proportion of government fiscal expenditure. According to the research of Sun Kai and Wang Bing [4], less than 3 RMB out of every 100 RMB in central finance is allocated for preschool education, while about 3.79 RMB out of every 100 RMB in local finance is used for supporting preschool education. Most of the education funds are distributed to compulsory education and higher education. It can be seen that there is a serious imbalance in the expenditure structure of governments at all levels in China, which does not pay enough attention to financial investment in preschool education. At the same time, there is also a serious problem of uneven distribution of fiscal expenditure between regions and urban-rural areas. Taking Guangdong Province as an example, from 2011 to 2021, the average public financial budget expenditure on education per student in local kindergartens in Guangdong Province was about 4,784 RMB, while the average value of this indicator for local rural kindergartens was only 2,628 RMB. This shows that there is a significant disparity in financial investment between urban and rural areas, and the distribution is seriously uneven.

4.3 The accelerated population flow has increased the difficulty in dividing the responsibility for preschool education expenditure

In the context of accelerated new urbanization, rural laborers are pouring into cities and the education of children who move with their parents has become a difficult problem in cross-regional public goods supply. The expenditure on preschool education is mainly borne by local governments, especially county-level governments. However, the cross-regional population flow brought about by new urbanization has increased the pressure of cross-regional educational expenditure. The enrollment of public kindergartens follows the principle of territoriality, based on the student's registered residence or residence permit. The spillover effect is relatively small, and the responsibility can still be borne by the grassroots government. However, the new urbanization emphasizes more on education equity, and stresses that all children, regardless of their registered residence or place of residence, can enjoy high-quality and fair preschool education. This requires the central and provincial governments to increase their overall planning for preschool education, clarify the responsibility sharing mechanism among all levels of government in terms of expenditure on preschool education, and ensure a balanced allocation of educational resources.

4.4 The fiscal system is not perfect and the structure of transfer payments is unbalanced

The financial expenditure of local governments on preschool education is restricted and constrained by the central government, making it impossible to make flexible adjustments based on actual needs. The mismatch between powers and expenditure responsibilities is mainly reflected in local governments, while the central government often uses transfer payments to fill the financial gap of local governments. Transfer payments are divided into general transfer payments and special transfer payments. When allocating education funds through special transfer payments, specific directions for the use of funds are usually clearly defined, forcing grassroots governments to allocate educational resources strictly in accordance with established purposes after receiving such funds. In the context of asymmetric information, a high proportion of special transfer payments tends to reduce the efficiency of education funding. From the perspective of multi-level structure of education transfer payments, central government's transfer payments to local governments are more focused on compulsory education. The general transfer payment only focuses on compulsory education while special transfer payment is biased towards higher education. The support for preschool education in transfer payments is relatively small, resulting in unfair allocation of educational resources.

5. Improve the path of dividing the responsibilities and expenditure responsibilities between governments in preschool education

5.1 Promote the legislative process of the Preschool Education Law and clarify the division of powers and expenditure responsibilities

In June 2024, the draft of the preschool education law was submitted to the second session of the Standing Committee of the National People's Congress for deliberation, indicating that China's preschool education legislation has taken a big step forward. Next, we should accelerate the formal

legislative process of preschool education, formulate specific laws and regulations on preschool education, clarify its legal status, development goals, management system and safeguard measures. In this way, we can reasonably define the division of powers and expenditure responsibilities between central and local governments in the field of preschool education through legislation to ensure that the central government plays a guiding and supplementary role while local finance bears primary responsibility for expenditure. Specifically, the proportion and growth mechanism of central financial investment in preschool education can be clarified, while giving local governments certain fiscal autonomy. The division of powers for intergovernmental preschool education should be refined, and the specific responsibilities of governments at all levels in managing preschool institutions and teacher training should be clarified to avoid overlapping duties and improve management efficiency.

5.2 Improve the financial investment mechanism and optimize the structure of government education expenditure

The central and local governments should increase financial investment in preschool education to ensure the steady growth of educational funds. On the one hand, we can expand the total amount of resources for the development of preschool education by establishing a fund for its growth, encouraging donations from all sectors of society, and motivating private institutions to invest in running kindergartens. On the other hand, on the premise of clarifying government expenditure responsibilities, optimize the structure of fiscal expenditure and increase the proportion of preschool education in all levels of educational expenditure. At the same time, formulate differentiated financial investment policies to strengthen support for preschool education in underdeveloped areas and rural regions, narrowing regional disparities in education.

5.3 Multi-channel improvement of cross-regional education expenditure responsibility issues

Preschool education is a weak link in general education, facing the problem of cross-regional educational expenditure brought about by urbanization and population mobility. First, the central government should strengthen overall planning and guidance for cross-regional education expenditure responsibilities. It should also increase financial transfer payments to economically underdeveloped areas and population inflow areas, especially in the field of education, so as to alleviate the pressure on educational expenditures in these regions. Secondly, we should strengthen information sharing and communication between the central government and local governments, establish a cross-regional education information sharing platform, enhance communication and collaboration among various regional governments and educational departments, and jointly address the challenges to education brought about by population mobility. Finally, we should encourage and support cross-regional joint education to achieve the sharing and optimal allocation of educational resources. For example, children of the floating population can enjoy high-quality educational resources through distance education and online courses.

5.4 Improve the transfer payment system and strengthen government budget management

To optimize the intergovernmental education powers and expenditure responsibilities, it is necessary to improve the transfer payment system. The central government should set standards for grassroots educational financial security, assess funding gaps, incentivize local governments through fiscal transfers, and ensure steady growth in education funding. Firstly, we should gradually increase the proportion of financial transfer payments for education and reduce central special transfer payments for education to more effectively balance regional educational resources. Secondly, optimize the direction of transfer payments, increase investment in software development such as teacher training, improve teachers' salaries, and ensure the improvement of education quality. The central government's transfer payments should focus on supporting economically underdeveloped areas, first helping them to meet the basic national education standards and then gradually promoting equalization of educational services. In addition, we should strengthen the budget management of education expenditure projects. The higher-level government should ensure that education funds are fully allocated according to the proportion of sharing, and timely allocate transfer payment funds. Grassroots governments should also scientifically, completely and normatively prepare and implement education project budgets, implement the educational service standards formulated by higher-level governments, and ensure that education funds are used reasonably and effectively.

6. Conclusions

Rationalizing the division of authority and responsibility for expenditure on general education among governments. It is directly related to whether the development of education can have sufficient and reliable financial and institutional guarantee, and it is also a key and difficult issue in the deepening of the reform of regulating the shared authority between the central and local governments. This paper systematically analyzes the necessity of government involvement in the development of preschool education and the basic contradiction in the division of expenditure responsibility for general education among governments, and puts forward a path to improve the division of authority and expenditure responsibility for preschool education among governments in the hope that it can, to a certain extent, promote the inclusive and fair development of preschool education in China.

Acknowledgement

1) Youth Academic Program of Guangzhou Huashang College “Research on the Funding Guarantee Mechanism of Inclusive preschool Education in Guangdong Province” (2022HSXS034).

2) 2024 Guangzhou Huashang College Civic and Political Integration Course “Tax Planning” (HSRHKC2024111).

References

- [1] Ma Haitao, Peng Qianqian. *Research on Fiscal Policy for Equalizing Preschool Education in China* [J]. *Fiscal Supervision*, 2018 (15): 29-36.
- [2] Li Qiyun. *Research on Establishing and Improving a Financial and Tax System that Matches Authority* [M]. Beijing: China Finance and Economics Press, 2013.
- [3] Li Zhenyu, Wang Jun. *Research on the Division of Central and Local Education Financial Authority and Expenditure Responsibility* [J]. *Tsinghua University Education Research*, 2017, 38 (05): 35-43.
- [4] Sun Kai, Wang Bing. *Research on the Division of Government General Education Authority and Expenditure Responsibility - From the Perspective of Providing Fair and Quality Education* [J]. *Research on Financial Issues*, 2018, (08): 73-81.