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## China should boost public spending on health and education, says OECD study

China needs to boost spending on health and education and to allocate public funds more effectively, according to a new OECD report aimed at helping the Chinese government in its drive to modernise the economy while meeting its social objectives. At the heart of the new study is a call for a reform of relations between central and regional government over taxation and expenditure.

**Challenges for China's Public Spending: Towards Greater Effectiveness and Equity** finds that public spending on health and education may be too low and inefficient to meet China's development needs. Official spending in these areas, along with culture and science, amounted to the equivalent of 5.5% of GDP in 2002 compared with an average of 28.2% for OECD countries.

Local authorities, responsible for funding health, education and social programmes in China, are often insufficiently resourced and hampered by limited autonomy. The way funds are transferred from the central government is inefficient, the report says. To make up for funding gaps, local governments have resorted to a range of unofficial levies and charges. The recourse to debt by local government is also widespread despite the fact that under Chinese law it is illegal for these authorities to borrow or issue bonds.

Although official government spending overall has grown rapidly in China – from 17.7% of GDP in 1995 to 27.4% of GDP in 2003 – it is still well below the OECD average of 44.5%. This acceleration in Chinese public spending has been most marked in infrastructure investment and in public administration.

Education funding is unevenly distributed between regions while a comparatively large share of spending is channelled into tertiary institutions at the expense of primary and secondary schools. Healthcare services in rural areas remain severely underfunded. Given the limited financial capacities of rural authorities and the large number of rural poor, a significant increase in government spending on healthcare is required alongside wide-ranging reforms. The study adds that nearly 50% of the urban population and 80% of the rural inhabitants lack medical insurance.

The study recommendations include:

- Bringing unofficial expenditure onto the official budget to improve accountability and efficiency. This would entail accurate and comprehensive reporting of all government spending.
- Improving transparency by reforming accounting systems so that amounts spent on key social, development and strategic needs can be clearly determined and assessed.
- Reforming the relationship between central and local government to ensure that spending responsibility matches financial resources.
- Improving the accountability of local government by setting performance targets in key areas such as education and health and introducing more standardised benchmarks for evaluating spending.
- Taking measures to eliminate duplication and excessive layers in administration of local governments.

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The report forms part of a series of OECD studies emerging from the ongoing co-operation programme between the OECD and China started in 1995. The aim is to share with China the OECD's experience on how to balance and sustain economic growth, modernise governance systems and integrate smoothly in the international economy. Previous OECD studies have included the Economic Survey of China, Governance in China, Review of Agricultural Policies and China in the World Economy.

Journalists may obtain a copy of **Challenges for China's Public Spending: Towards Greater Effectiveness and Equity** by contacting OECD's Media Division (tel. 33 1 45 24 97 00 or <mailto:news.contact@oecd.org> ). For further information about the study, please contact Margit Molnar of the OECD's Economics Department ( tel. 33 1 45 24 89 49; <mailto:margit.molnar@oecd.org>).