

**Suitable fiscal policies and
mechanism innovations to
promote consumption**

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The promotion of consumption affects the consideration of optimizing the comprehensive economic structure under the tide of the global financial crisis, as well as the transformation of the mode of economic development in the medium-and long-term in China.

We have to promote consumption in a reasonable way and in line with the phase of development and modernization strategy. At this stage, we should avoid the kind of "hanging high appetite" and unsustainable premature consumption. In such a developing country as China, we should avoid the so-called "welfare catching up on the basis of populism", as a consumption promoting style.

The promotion of consumption at this stage is mainly to improve purchasing power of low-and middle-income group appropriately.

First, we should focus on improving income and consumption of low- and mid-income classes, especially the consumption level of low-income households.

When the prices of agricultural products rise, we should not rush to take a lot of measures to prevent prices from rising; instead, we should consider using fiscal funding to subsidize urban low-income residents. As such, we can both raise income level of rural farmers and maintain living standards of low-income people and social stability.

Second, efforts should be adopted on fiscal policies and other aspects of system to eliminate social members' " consumption worries" and "precautionary savings."

The basic old-age security should be coordinated on the provincial level as soon as possible, and then around the whole society. Thus, we can eliminate the barriers of old-age pension and worries of those flowing human capital.

In addition, we must also deal with:

- Compulsory education
- Medicare
- Basic housing security

Third, we should develop the consumption potential through a set of policies.

- Consumer credit (secured and unsecured)
- "Appliances subsidies to the countryside"
- "Motor subsidies to the countryside"
- Loosening of the family planning policy in large cities,

Fourth, we should actively consider promoting income redistribution, curbing undesirable income disparities, “pump the fat to fill the thin”.

- In recent years the share of income of monopolistic enterprises in total national income has remarkably increased, which requires policy adjustments.

- Reform of personal income tax: move from taxing each category of income separately (11 categories presently) to taxing the sum of certain categories.

-- Special attention should be given to Real Estate Tax (Property Tax) which also plays a role in the area of income distribution.

-- In the long run, it is also necessary to discuss the problems about heritage and Gift Tax.

Thank you !