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TESTIMONY

Statement of
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Mr. Chairman and members of the U.S.-China Commission, thank you for inviting me to testify before you today at your hearing on Chinese budget issues and the role of the PLA in the economy. Although I have been to China four times over the past two years and spoken to various delegations of Chinese officials here in Washington several times, I do not have any expertise about the Chinese budget process. My focus is the budget process in the United States. I went to China as part of a team from the Organization for Economic Cooperation and Development (OECD) to discuss Western budgeting practices. Much was said during that meeting about the budget process in the United States and a few other OECD countries, but virtually nothing was said about the Chinese budget process.

While in China, I spoke to members of the National People's Congress, including members of the Standing Committee, and officials and staff from both the Chinese Treasury and regional budget offices. The level of understanding exhibited by the members about the U.S. budget process was very high. All were very well informed about our processes and practices, and they asked very good questions.

In speaking before that group, I focused on several main issues. One issue was the transparency of the United States' budgeting process. Unlike in many other countries, in the United States all information regarding spending requests, appropriations, debates, and so on is made available to the general public.

The separation of powers was another area I discussed. The legislative and executive branches sometimes have opposing agendas, and conflicts often arise between Democrats and Republicans, the House and the Senate, budget committees and appropriators. In spite of the conflicts, however, the Congress is still able to come together and pass the budget every year.

Third, I emphasized the differences between the budget process in a system like ours and the process in a parliamentary-style government. Although I covered both systems, most of the questions asked during the meeting concerned the United States' system.

In general the questions I received from the Chinese, particularly from the staff, concerned budget execution as opposed to budget formulation. For example, several questions were posed about what happens to funds after an appropriation bill is signed. I spent quite some time explaining our obligation-based system, including details of how we warrant, apportion, obligate, and audit funds after programs have been authorized and appropriations provided. In particular, the Office of Management and Budget's power of apportionment generated much interest among the people I spoke to.

Another area of interest was the operations of the Internal Revenue Service and, to a lesser extent, the Treasury's Financial Management Service. The fact that our government's tax system largely rests on the voluntary compliance of our citizens, despite the complexity of our tax code, prompted much discussion with the Chinese I spoke to.

I recently went to Singapore with the Organization for Economic Cooperation and Development to chair a meeting of senior budget officials from Asian countries, including China. At that meeting there was much discussion about common problems that Asian budget officials face, many of which we face here in the United States, too. Those problems include performance budgeting, issues related to cash versus accrual accounting, and transparency and the level of detail contained in budget documents. It was a very positive experience, and I expect there to be future meetings of those senior budget officials.

I'm sorry I don't have more to contribute on the Chinese budget process, but I'll be happy to answer any questions you may have on my interactions with the Chinese officials.