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Affect Factor Analysis of the Chinese Government Administrative Costs -- Empirical Analysis Based on the Data from 1978 to 2010

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Abstract
At present our government administration cost has increased year by year, its growth far beyond the growth of economic and financial. This paper makes use of SPSS software, using multiple regression analysis, conduct research on the influence factors of the governmental administractive costs, based on statistical data between 1978-2010, and make nation as a research sample. The results show: the financial revenue and expenditure level, the level of economic development, the scale of the government are the main factors affecting growth of government administrative costs, with which is positive correlation. Conclusion: The key to lower government administrative costs is to reduce administrative management fee share in the government revenue and expenditures, shrinking government scale, transforming the government functions.

Key words: Government Administrative Costs; Influence Factors; Multiple Regression Analysis; Ridge Regression Analysis

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INTRODUCTION
Since the reform and opening up, the size of Chinese administrative costs[1] and its growth rate are very outstanding, some scholars call China "the highest administrative cost state in the world".

The new system economist Kos pointed out that: the Government doesn't completely run without cost, the Government's administrative mechanism itself is not without cost, in fact, sometimes the cost is staggering. This is just been confirmed in our country.

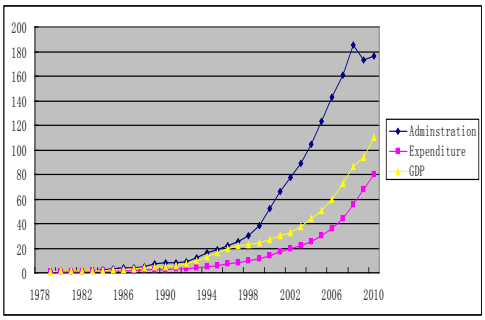

Figure 1
The Growth of Administrative Expenses, GDP, Financial Expenditure Comparison Chart
Source: painting according to the related data of the China Statistical Yearbook
Note: due to display times relations, and therefore data being not adjusted with CPI, the conclusion being not affected

According to the graph in Figure 1 China's GDP, the fiscal expenditure and administrative costs remain generally synchronous growth in 1978-1998. This is because the beginning of reform and opening up, economic construction has become the party and government center, a great demand

[1] Before 2006, administrative cost refers to administrative management fee according to the classification of the function in fiscal expenditure. Administrative cost has being formed by three parts about general public service, foreign affairs and public safety since 2007, in order to meet the need of new international standards. Administration cost in this paper refers to the administrative management fee.

for investment funding, however, limited financial resources, and administrative expenses remained consistent with the increase in GDP and financial expenditure. From 1998 to 2010, administrative expenses exceed the growth rate of GDP and financial expenditure, was rapidly rising trend. Among them, the slight decline in 2007 due to changes in statistical coverage. Questioned by scholars who this fall below the provincial level local government administrative fees, make sure that the published data have a serious tendency to "shrink". Administrative expenses in 1998 increased significantly, it is not only "outperform" GDP growth, more rapid increase in fiscal spending thrown far behind.

Administrative expenses is an important financial expenditure, recurrent expenditure, all levels of government to fulfill their social responsibilities, material security, the economic foundation of the government provision of public services to the public. Therefore, the administrative expenses necessary social spending. According to Wagner's law, with the socio-economic development and the expansion of government functions, administrative expenses will increase. Therefore, on the basis of economic development to maintain the steady growth of the administrative expenditure is necessary, under normal circumstances, the absolute number of administrative expenses must be a continuous growth process; administrative spending growth must be based on economic development, must maintain the proper ratio of government financial resources.

The 17th National Congress of the CPC clearly proposes to establish a standardized system of public spending, reduce administrative costs, and strict control of administrative costs to prevent the excessive growth of the expenses of administration, effectively speeding up the construction of an economical government. Therefore, analysis of the relationship between the administration cost and GDP, fiscal revenue and expenditure, the size of government, to strengthen the administrative costs of the impact factors of empirical research, of great significance to predict and control the scale of its growth.

Domestic and foreign experts and scholars on the cost of government administration, focused on qualitative analysis and norms, the lack of quantitative analysis and empirical research, the existing empirical research the use of a single variable to explain. In this study, multivariate regression analysis, the choice of the 1978-2010 revenue, expense, GDP, wage and other indicators. Find out the impact of government administration the main factors of cost from fiscal revenue and expenditure levels, the level of economic development, the size of government, government functions to, convenient to control the cost of government administration from the source.

1. LITERATURE REVIEW

There is one view that the Government's public expenditure and economic growth was positively correlated.

A. Abroad with economic development, public expenditure for the exercise of state functions to continuously increase the proportion of government consumption expenditure as a share of national income is also rising. This is called "the law of public spending is growing", also known as "Wagner's Law". Since the 20th century, some economists use modern econometric methods, the study also confirmed that this "rule". Ram did a regression on the cross-sectional data and time series data of 115 countries in the 1960-1980 period, respectively, found that the growth of public consumption, economic growth has a significant positive effect. Davarajan, Swaroop, and Zou (1996) used data from 43 developing countries from 1970 to 1990 examined the relationship between the two and found that the total central government expenditure to GDP ratio five-year moving average growth rate of real per capita GDP have a positive impact on the share of recurrent expenditure to total expenditure has a significant growth effect. Geoffrey J. Wyatt used production function analysis of the relationship between government spending and economic growth, quantitative analysis of time series models for 11 countries and more than 30 industrial enterprises, draw the conclusion that the size and structure of government spending affect growth rate level.

B. Domestic: Yang Ji and Liu Kejie (2002) found that the administrative expenses and financial expenses are related through the 1978-2000 fiscal expenditure regression results. Zhuang Tengfei (2006) draw the conclusion that the period of economic restructuring, public expenditure, government consumption expenditure to economic growth have a significant positive effect, through 14 provinces and autonomous regions in China from 1991 to 2003.

But another part of the scholars hold the view that economic growth will lead to the downsizing of administrative costs:

A. Abroad: Landau (1986) has selected several groups of multinational sample of the different time periods on the size of government and the average economic growth rate of return, found that per capita real GDP growth and government consumption to GDP ratio was significantly negatively correlated. Grier and Tullock (1989) used 24 OECD countries from 1951 to 1980 and 89 other countries from 1961 to 1980 data, regression analysis also found that government expenditure size and economic growth a significant negative correlation. Barro (1991) analyzed data on 98 developing and developed countries in 1965-1985, found that for public consumption services spending and economic growth was a negative correlation. Barro believe that public spending has a significant impact on economic growth, its explanation is that government consumption on the economy distorted, while not able to provide sufficient incentives for investment and economic growth. Gross man (1988) think that there is a nonlinear relationship between government spending and economic growth, he used a simultaneous equations

model and U.S. data, found that the Government provide the positive effect of public goods by government spending to bring the rent-seeking and the effect of mismatch of resources offset the overall net effect is negative, that is, government spending on economic development have an adverse impact.

B. Domestic: Zeng Juan, Zhao Fujun (2005) through the use of China 1980-2000 between the data drawn from the analysis: the structure of fiscal expenditure, administrative expenditure and economic growth is negatively correlated. Jiang Kezhong (2011) found: administrative expenses and the level of economic development, fiscal revenue negative, other public finance expenditure on administrative expenses, there are significant "squeeze out" effect though 30 provinces between 1998 and 2006 panel data regression analysis.

Foreign experts in the study of government administrative costs, most investigated the relationship between economic growth and government public spending, and the conclusions vary widely. Domestic experts, scholars, government administrative costs, mainly focused on qualitative analysis and norms, the lack of quantitative analysis and empirical research, the existing empirical research more choice of a single variable to explain the impact of administrative costs, and more from the provincial angle to the local government as a research specimen. In short, the empirical research on the cost of government administration needs to be strengthened, the original index system need to be extended.

2. RESEARCH DESIGN

In this thesis, summarize the relevant theoretical and research basis of the results of the government's administrative costs, from the national level rather than from the perspective of local government, the administration cost growth factors, trying to find them on the administrative costs, in order to provide some basis for reference and ideas on the control of the government administration costs.

2.1 Assumption

2.1.1 The Cost of Government Administration and Economic Development Level

Jiangke Zhong (2011) suggest that the level of economic development be negatively correlated with the level of administrative expenses. Local government officials in the assessment and promotion hopeless case his main object of study to the local government that China's GDP as the main performance assessment mechanism, does create a reverse incentive effect, the economy is relatively backward, increase with their own welfare more closely related administrative expenses. This paper argues that the socio-economic development, GDP, a substantial increase to stimulate the expansion of fiscal expenditure, GDP growth is a solid foundation for China's fiscal expenditure growth. As the composition of the contents of the financial expenditure, administrative expenditure has been a corresponding growth. Therefore, economic growth is the growth of administrative expenses basis in reality, the government's administrative costs and the level of economic development with growth with the reduction. It is assumed that:

Assumption 1: Level of economic development was positively correlated with the level of government administrative costs.

2.1.2 Government Administrative Costs and Financial Revenue and Expenditure Level

Since the reform and opening up, along with economic development, the administrative departments in charge of revenue steady growth of China's budget is "fixed income support", revenue is the basis of financial expenditure. The rapid growth of administrative expenses, expansion of the scale of fiscal revenue and expenditure funds possible. The lack of strong oversight and constraints of the environment, in accordance with the point of view of public choice theory and the reality of our country will inevitably lead to the expansion of administrative expenses. In this paper, to indicate the level of fiscal revenue and expenditure from financial income and expenditure. It is assumed that:

Assumption 2: Level of fiscal revenue and administrative costs are related.

Assumption 3: Level of financial expenditure and administrative costs are related.

2.1.3 Government Administrative Costs and the Size of Government Relations

Administrative expenses by cost elements are divided into two categories of personnel funds and public funds, remaining at about 50 percent from the 1978-2010 administrative staff personnel expenses accounted for the proportion of administrative expenses, personnel expenses is the impact of government administration an important indicator. Changes in the number of executives reflects the changes in the size of government, is the direct administrative expenses increase or decrease. China's central government since the reform and opening up in 1982, 1988, 1993, 1998, 2003's administrative reforms to streamline the institutions and personnel from government agencies in volume terms is indeed a streamlined, but the statistical data found in eat financial rice number and not decreased. It is assumed that:

Assumption 4: The number of civil servants and government administrative costs are related.

Assumption 5: The salaries of civil servants and government administrative costs are related.

2.1.4 The Relationship Between Levels of Government Administrative Costs and Public Service Providers

For the community to provide public services is one of the main functions of government. In recent years, with the implementation of the strategy of "people first" scientific

development concept and building a "harmonious society" target, the government has increased investment in public services, culture, education, science and public health and social security. Sun Yongjun (2010) empirical research: public service delivery between the level of administrative expenses there is a significant positive correlation between public service providers to raise the level of increase in the demand for administrative costs. Given by of Jiang Kezhong (2011) concluded that: in the context of public finance reform, the status of local government infrastructure spending and basic education, health care spending pressures are negatively correlated with the level of local government administrative expenses; other public financial expenditure there are significant "crowding out" administrative expenses. This paper argues that increased spending does not produce the corresponding efficiency of government administrative fees; administrative expenses, the level and increase investment in public services and there is no "shift" significant relationship. It is assumed that:

Assumption 6: The level of public service providers and government administrative costs aren't related

2.2 Data Selection and Model Design

This paper selects the administrative costs in the 1978-2010 year, our government state organs and administrative expenses as explanatory variables. The explanatory variables for fiscal revenue, fiscal spending, GDP, the salaries of civil servants, public service, civil service number. Comparable prices (1978 = 100) for processing the raw data, to exclude the impact of the price factor. This article with SPSS19 packages using OLS regression analysis. Therefore, to build a multiple linear regression model:

$$Admini = \beta_0 + \beta_1 Revenue + \beta_2 Expense + \beta_3 GDP + \beta_4 Wage + \beta_5 Service + \beta_6 People$$

Table 1
The Definition and Explanation of Variable Chart

Type	Evaluation content	Variable index and symbol	Data explanation
Explained variable	Government administrative costs	Administrative management fee (Admini)	Before 2006, administrative cost refers to administrative management fee according to the classification of the function in fiscal expenditure. Administrative cost has being formed by three parts about general public service, foreign affairs and public safety since 2007. Measurement unit: one hundred million yuan.
Explanatory variable	Economic development level	Gross domestic product (GDP)	Measurement unit: one hundred million yuan
	Financial revenue and expenditure level	Revenue (Revenue)	Measurement unit: one hundred million yuan.
		Financial expenditure (Expense)	Measurement unit: one hundred million yuan.
	Government scale	Civil servants number (People)	Party and government organs person Measurement unit: ten thousand persons.
		Civil servants salary (Wage)	Party and government organs salary Measurement unit: one hundred million yuan.
	Government function	Public service (Service)	Cultural, educational, scientific, healthy, social security fee,etc. Measurement unit: one hundred million yuan.

3. EMPIRICAL RESULTS

3.1 Descriptive Statistics

It can be seen (Table 2): the number of sample is 33, and there is no missing value records, including the variables mean, standard deviation, maximum, minimum, and so on. The maximum test period the final year 2010, all indicators are basically growth year after year, the maximum in 2010; the minimum in the first year of the test period, in addition to the fiscal revenue and expenditureis the lowest in 1981, remaining indicators-1978 years minimum. This is because in 1980, due to the larger budget deficit, the currency too much, and many commodity prices, inflationary pressures, the state lowered the revenue and expenditure for the past two years, in 1980, financial income and financial expendituregrowth rates were -5.88% and -10.82%, in 1981, financial income and expenditure of the annual growth rate of -1.01% and -9.53%. In general, 1978-2010 is basically a linear growth.

Table 2
Descriptive Statistics

Variable	Maximum	Minimum	Mean	Std. Deviation	N
Admini	2835.77	52.90	669.4415	832.79821	33
Revenue	15581.54	1048.21	3667.4321	3923.84135	33
Expense	16851.41	1014.88	3929.9927	4178.93835	33
GDP	75225.41	3645.2	21300.64	19601.85752	33
Wage	1017.90	26.5	257.4403	280.55345	33
Service	5864.57	146.96	1147.1688	1479.15393	33
People	1428.5	430	993.7394	277.48906	33

3.2 Regression Analysis

In this paper, Multiple Linear Regression is done step by step. Admini as the dependent variable, Revenue, Expense, GDP, Wage, Service, People as independent variables, added to the model, forming six model. Model 6 is chosen.

Q1: There are larger multicollinearity in the model. Generally speaking, model exists multicollinearity when VIF > 10. Observed in Table 3 found that, in addition to variables People VIF < 10, the VIF else are much more than 10, show that the model (and the other 5 models) exists larger multicollinearity, meaning that explanatory variables between a strong correlation, the estimated number of the coefficients and the number of T will be affected.

Q2: Arguments Service and People coefficient not significant. In Table 3, the testing number P of Service and People were 0.104 and 0.316. Both of them is greater than 0.05, not significant. In order to solve the above question, the variable Service and People need to be deleted, and the data should be regressed by OLS. Results are shown in Table 4, Table 5.

Table 3
Coefficients

Model 6		Unstandardized coefficients		Standardized coefficients	T	Sig.	Collinearity statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	75.669	64.545		1.172	.252		
	Revenue	.130	.039	.611	3.294	.003	.003	311.362
	Expense	-.164	.041	-.821	-4.014	.000	.003	379.046
	GDP	-.024	.008	-.555	-2.997	.006	.003	310.169
	Wage	4.710	.742	1.587	6.350	.000	.002	565.553
	Service	.109	.065	.194	1.683	.104	.008	119.851
	People	-.075	.073	-.025	-1.023	.316	.187	5.358

3.3 Correlation Analysis

The correlation among "Revenue", "Expense", "GDP" and "Wage" is very high. The correlation coefficient among them is more than 0.9, and at the 0.01 significance level.

Observed in Table 4 found that the VIF of all variables are bigger than 10, that the model is still more serious multicollinearity, show that the model is still more serious multicollinearity.

Table 4
Coefficients

Model 6		Unstandardized coefficients		Standardized coefficients	T	Sig.	Collinearity statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	-9.678	28.295		-.342	.735		
	Revenue	.161	.035	.759	4.565	.000	.004	240.964
	Expense	-.125	.035	-.628	-3.623	.001	.004	261.512
	GDP	-.024	.007	-.573	-3.372	.002	.004	251.781
	Wage	4.267	.704	1.438	6.064	.000	.002	489.356

Table 5
Correlations

Variable		Admini	Revenue	Expense	GDP	Wage
Admini	Pearson Correlation					
	Sig.(2-tailed)					
	N					
Revenue	Pearson Correlation	.994**				
	Sig.(2-tailed)	.000				
	N	33				
Expense	Pearson Correlation	.991**	.998**			
	Sig.(2-tailed)	.000	.000			
	N	33	33			
GDP	Pearson Correlation	.989**	.983**	.984**		
	Sig.(2-tailed)	.000	.000	.000		
	N	33	33	33		
Wage	Pearson Correlation	.996**	.991**	.992**	.997**	
	Sig.(2-tailed)	.000	.000	.000	.000	
	N	33	33	33	33	

**. Correlation is significant at the 0.01 level (2-tailed)

Ridge regression method can solve the model more serious multicollinearity. The regression results are as follows:

Table 6
Different K Value Given, Coefficients and Variable Beta Coefficient

K	RSQ	Revenue	Expense	GDP	Wage
0	0.99678	0.759301	-0.62774	-0.57328	1.437527
0.01	0.99323	0.350587	0.11424	0.148155	0.38352
0.02	0.99267	0.305789	0.176366	0.192932	0.31911
0.03	0.99243	0.288018	0.198906	0.209148	0.29571
0.04	0.99227	0.278226	0.210281	0.217399	0.283441
0.05	0.99215	0.271881	0.216981	0.222285	0.275762
0.06	0.99203	0.267344	0.22129	0.225428	0.270414
0.07	0.99192	0.263875	0.224214	0.22755	0.266412
0.08	0.99181	0.261092	0.226267	0.229022	0.263256
0.09	0.99169	0.258775	0.227737	0.230053	0.260667
0.1	0.99156	0.25679	0.228797	0.230772	0.258477
0.2	0.9898	0.244557	0.230445	0.231026	0.245468
0.3	0.98716	0.236795	0.227375	0.227559	0.237505
0.4	0.98374	0.230371	0.223309	0.223314	0.230991
0.5	0.97964	0.224625	0.218982	0.218888	0.225192
0.6	0.97495	0.219323	0.214626	0.214472	0.219853
0.7	0.96976	0.214356	0.210336	0.210142	0.214859
0.8	0.96415	0.209664	0.206151	0.205931	0.210144
0.9	0.95818	0.205207	0.20209	0.201851	0.20567
1	0.9519	0.20096	0.198159	0.197906	0.201407

The coefficient of determination in the above table for the different K and the beta coefficient of each variable. Here is a list of 20. Order to observe changes in the coefficient of determination and variable Beta coefficient, can be the coefficient of determination R^2 and beta coefficients of each variable value changes in the drawing with K, as shown below.

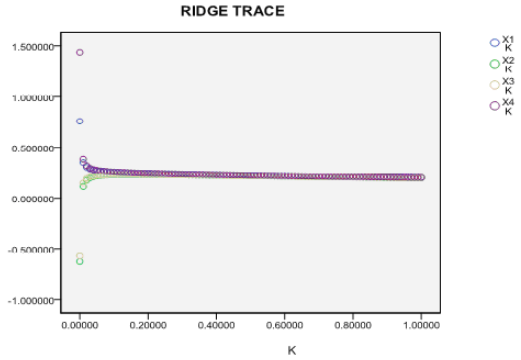

Figure 2
Ridge Mark of the Explanatory Variables

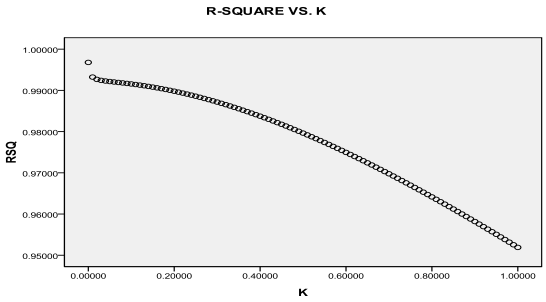

Figure 3
R-Squared Figures and K Value Scatterplot Chart

The last two graphs Scatter Ridge trace map and the coefficient of determination. K to reach 0.06 Ridge trace in Figure 2 Ridge trace became steady, the regression coefficient has begun to stabilize. The coefficient of determination of K a scatter plot, we can see that the coefficient of determination decreased, but K over 0.04, the coefficient of determination has been in slow decline, there was no significant fluctuations. Therefore, the choice K = 0.04 is more appropriate. When K = 0.04, the following ridge regression table as shown below.

Table 7
Coefficients (K = 0.04)

	B	SE(B)	Beta	B/SE(B)
Revenue	0.059051	0.005143	0.278226	11.48296
Expense	0.041906	0.004672	0.210281	8.970287
GDP	0.009236	0.001194	0.217399	7.735648
Wage	0.841368	0.05256	0.283441	16.00784
Constant	-125.155	19.3553	0	-6.46617
RSquare	0.992271			
AdjRSquare	0.991167			
F	898.6773			
Sig F	0.0000			

According to the above empirical research done to come to the following analytical results:

A. Observation of Table 3, the testing number P of Service and People were 0.104 and 0.316. Both of them is greater than 0.05, not significant.

Showing that the number of civil servants and government administrative expenses not directly related to, the assuming 4 does not hold; the cost of government administration and public service providers there is no direct relationship, the assuming 6 is proved.

B. Observation of Table 4, the correlation coefficient between the independent variable Revenue, Expense, GDP, Wage and the dependent variable Admini are 0.994, 0.991, 0.989, 0.996, all over 0.9. Description of factors influencing our government administrative expenses including Revenue, Expense, GDP, Wage, with its positive correlation. The instructions assume that the Assumption 1, Assumption 2, Assumption 3, Assumption 5 establishment.

C. Observation of Table 7, goodness of fit of the final model is very good, AdjRSquare is 0.991167, the model has strong explanatory power. The testing number P is 0.0000 smaller than 0.05, the whole model is very significant. The final model expressed as:

Admini = –125.155 + 0.059051 Revenue + 0.041906 Expense + 0.009236 GDP + 0.841368 Wage

After multiple linear regression analysis and ridge regression analysis. Can be found Admini is positively correlated by Revenue, Expense, GDP, Wage.

CONCLUSION

Since the reform and opening up, the administration cost (administrative fee) synchronized with the level of economic development, the level of fiscal revenue and expenditure growth, but the increase was far more than them in China. Studies have shown that economic growth, fiscal revenue and expenditure, the size of government to play a positive role for government administrative costs.

A. The transformation of government functions and then determine the reasonable size of government is the main way to reduce government costs. The size of the size of government is generally determined by the functions of the government, government functions determined by the economic and social development needs of China's current situation, China should be established to "coordinate government". Government functions mainly to provide the conditions for market mechanisms play a role in the greatest possible, at the same time try to compensate for the deficiencies of market mechanisms to achieve the perfect combination in between market and government. Meanwhile, we must bind the Government self-expansion of the impulse, to streamline government agencies and personnel.

B. Coordinate the relationship between the factors. Based on the above analysis, as the government, on the one hand, efforts to promote sound and rapid economic development, bigger financial cake, to provide the financial base for the administrative expenses; the other hand, raise the level of control of the size of government, public service between the trade-offs and administrative expenses increased, and strive to finda balance between the three, the size of government to streamline the case of the rational allocation of administrative expenses, the level of public service delivery has also been effectively improved.

C. To quantify administrative costs, and its growth rate should be synchronized with the balance of payments. Generally speaking, the balance between income and expenditure to pay attention to other aspects of balance or less than the income growth rate but only administrative expenditure growth rate too fast, the reason is not very full. Change the "fixed income support" budget pattern of revenue and to support the administrative costs should be synchronized with the total financial expenditure, to calculate a reasonable financial expenditure function, have a scientific and reasonable reference standard, we are able to scientific judgment of the administrative costs.

D. The limitations of this thesis. China's administrative expenses have not yet made public,scholars can not get data to study only from the periphery-related factors, the empirical research on the cost of government administration in trouble, this thesis is no exception.Seeing a message, Guangdong Province, will be announced before the end of the year to the utilities expenditures such administrative fee bill, which is both the government a big step forward in the sun on a transparent construction, more to facilitate future empirical research.

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