

Research Reviews on “Chinese Land Finance”

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Abstract—Since the reform of tax right division, the problem on land finance is more and more serious as the economy develops. Land transfer rent and the relative taxes and fees have already become the main component of local finance revenue. Even though this kind of way will bring the problem of the oversize of the city, government credit crisis, price bubbles in the real estate in the long term run, the land finance still get further development because it can benefit the fiscal revenue and the improvement of the local GDP. Therefore we need to find the effective way to govern the land finance, readjust the tax division system, and distribute the income brought by the land finance. Only in this way can we achieve the sustainable development in both economy and society.

Key words—system of tax distribution; land finance; land government; adjustment of tax system.

In recent years, the local governments devote themselves mainly in the activities on land finance in the process of modernization and urbanization. The land finance revenue takes more and more part in the local finance revenue. According to the statistics, the land finance revenue was 50.77 billion yuan, 10.2% of the local finance revenue in 1998, while the land finance revenue was 1920.99 billion yuan, 71.7% of the local revenue. The land policy gets its roots in the system of Chinese economy system and the era of economy development with a complex origin, and pros and cons. This article give in depth analysis on the cause of the land finance, and state the objective evaluation of the role of land finance in the process of economic development and modernization, the negative influence and the potential crisis of land finance. On analysis basis, the counter measure and and suggestions are given

1. The essence and present situation of the land finance

The land finance origins from the land employment income, and get further development in the process of the economy development and system reform. It's a system comprised of tax revenue on land and relevant industry and land store financing system. Land finance, or the second finance, means that some local governments gain the financial support through the transfer of land-use right. Yi ling summarizes the land finance to be the abnormality of the excessive dependence on relevant tax and financing incomes. That is to say ,on one hand promote the excessive development of manufacture, real estate, and construction industries through the investment promotion derived from the allocation or lease of land,

thus get more tax income; on the other hand, get land transfer rent through different ways, and get more finance through the mortgage of land-use right.

In term of the component of the land finance, there are four components: land transferring rent, tax income from real estate, land mortgage finance, investment invitation of land.

2. The cause of the land finance

The problem of the land finance is so outstanding because it gets its root in the Chinese particular economic and social factors. The main cause of land finance are the system of tax distribution, land institutions, land reserve system, land income distribution system, government performance assessment system.

2.1. The system of the tax distribution is unreasonable

China started to reform the system of tax distribution since 1994, in order to improve the central government's micro-economic control ability, increase its finance income, decrease the finance income of the local government and construct the payment transfer system between the central and local government. But after the reform, the financial rights of the local government has decreased greatly, while its duties and responsibilities has increased. In recent years, the local government devote themselves to the process of the urbanization, infrastructure construction, and economy development. And all these need a lot of fund support. So the fund gap between the finance income and the finance payment make the local government search another way to get

more fund for the local government, and there comes the land finance. The following data of 1994-2009 can reflect the issue that the land finance income and the

proportion the land finance taking of the fiscal expenditure relate positively to the gap between the local finance revenue and fiscal expenditure.

Table1. the proportion of the finance land revenue in the fiscal expenditure(billion yuan)

Year	Local finance income	Local fiscal expenditure gap	The land finance income's proportion of fiscal expenditure (%)
2000	104.488	396.059	10.08
2001	179.640	533.126	13.68
2002	309.290	676.645	20.24
2003	628.586	737.987	36.48
2004	710.193	869.944	34.49
2005	709.538	1005.355	28.21
2006	963.907	1212.775	31.67
2007	1470.334	1476.667	38.35
2008	1325.661	2059.870	26.92
2009	1905.202	2844.155	31.21

2.2. There are defects in the existing land system

The land in our country is owned by the state. Local government has the right of graded management and because of the rights the local government achieves land finance income in all round way.

The other reason of this issue is the existing particular land expropriation system. The existing land expropriation system rules that the land ruled by the country collectives can be traded in the fist-class land market after it becomes the state-owned land. In fact, it enhances the state's monopoly and promotes the further development of the land finance.

2.3. The existing land income distribution system is unreasonable

According to the regulation of the land administration law, the government need to pay the farmers whose land was levied the land compensation, resettlement subsidy, attachment to land, and fee for compensation of crops. But this compensation is too low, and the farmers suffer the most but benefit the least. Nowadays, the prices of land and the real estate have risen a lot, while the compensation the farmers get is still the same. There is no doubt that the local government is much more active on land finance in term of the giant margin.

2.4. The government performance evaluation system makes the local government take short-term action

In the existing promotion evaluation system for the local government leaders, the main index are GDP, finance revenue and so on. As to the happiness index , and sustainability index, the evaluation system pay no attention to them. All this leads to the short-term action for the local government leaders. And thus the land finance is one of the most effective way.

3. Analysis on the roles the land finance performing

3.1 The positive effect

3.1.1. It relieve the deficiency of fiscal expenditure

Since the reform of tax distribution system, local finance income takes lower proportion of the state finance income, falling from 80% to 50%. The transfer payment from the central government is not enough for the local government to proceed the urbanization and modernization. The emergence of the land finance supply a lot of fund for the local government to meet the money demand of development.

3.1.2. It speeds up the process of urbanization and industrialization

The land levied from the farmers , it supplies land and fund for the urbanization. Meanwhile, the government rent the land to the enterprises at low prices or even in order to invite the investment and gain the proceeding tax income and the rise of the local GDP. What's more the government use the land as mortgage to get loans from the bank, thus get more fund for the urbanization and industrialization.

3.1.3. It promotes the development of economy

Land finance is essential an overdraft way of development. It overdrafts the benefits of the future. In the economic transitional period, land finance has become the important engine for economy development. Firstly, it attracts investment with cheap land. Secondly, it makes the government gain excessive money at high price of the land, and have more fund for the infrastructure. Thirdly, it provides the resource for the urbanization, promotes the development of the real estate and architecture industry and increases the local tax income. Lastly, it assigns the finance capital, and enlarge the investment scale of the finance capital.

3.2. The negative effect

3.2.1. It violates the interest of the farmers

The existing finance revenue system take no account

of the willing of the farmers, and give very little of compensation to the farmers whose land was levied. Meanwhile, the farmers lose their dependence –land, and it leads to many idle hands, which will be harmful to the social stability.

3.2.2. It will rush the price of real estate

Land finance is the main reason for the over high price of the real estate. According to the statistics, the common component of the development expense of the real estate in Beijing, Shanghai, Guangzhou, Shenzhen, Qingdao, Xi'an, Chengdu, and Suzhou shows that 58.2% of the direct expense is the land cost; 49.2% of the total expense flows into the government; 37.36% of the total income belongs to the government. This is the reason why the price of the real estate is so high.

3.2.3. It brings great credit and finance risks to the government

Another fund origin of the land finance is that the government mortgages the land and the credit fund to earn more loans. It provides the local government an important platform to raise money. Because of the limitation, the government will face to the dual risks of no incremental revenue and no sustainable current fund. It will contribute to the monetary crisis and credit crisis.

3.2.4. The giant interest will lead to rent-seeking behavior and corruption

Rent-seeking means the activities people seek for wealth transfer with the protection of the government. Land, the rare and nonrenewable resource, provides the government the giant rent-seeking space. The government gets the land ownership at a low price, transfer it into public resource, and then sell it to the enterprises at a high price. In the process above, it's very easy to lead to the rent-seeking behavior, accompanied with the illegality and corruption.

4. The basic way to deal with the issue of land finance

In order to change the situation of the land finance, maintain the sustainability of the fiscal, the land, and the economy, decrease the credit and debt risks the government facing with, I give the following recommendations:

4.1. Perfect the fiscal and tax systems

In order to deal with this issue, our government needs to start with the adjustment of the fiscal and tax systems, distribute the fiscal income reasonably, and promote the fiscal transfer payment from the central to the local governments. Meanwhile, make sure that the local government gets more platforms to raise money. And make the reasonable budget for the local government to prevent the impulse of the leap-forward development.

On the other hand, develop the structure of tax system

to make sure the governments gain the long-term tax income. The existing tax systems don't pay much attention to the possession. We should set the property tax on land in light of the experience of the foreign countries.

4.2. Reform the existing land and reserve system

The existing land and land reserve systems and esplees distribution system all make it convenient to proceed the blind expansion, and supply the government great motivation to apply the land finance. We need to learn from other countries, promote the land regulation, weaken the local governments' rights to the land, and standard the market of the land. Meanwhile, promote the land compensation system, increase the role of the farmer in the land levy and transfer process, in order to narrow the interest gap the government gains, and weaken the motivation to apply the land finance. Lastly restrict the debt mortgage of land, and decrease the short-run interest and the potential risks to the government.

4.3. Promote the performance assessment index of government

The existing performance assessment index of government mainly focuses on the dominant indicators such as GDP, and finance income, which will lead to the short-run activity of the government. Therefore, we need to promote the existing index, and put importance to the promotion of the livelihood, the sustainability of the economic development, and so on. Thus make sure the government would use the land resource effectively.

4.4. Strengthen the supervision to the local government

The unrulred land transfer and the financing scale derived by the land finance, and the rent-seeking behavior and corruption all relate to the lack of the supervision to the local government. The central government needs to set the relevant regulation, institutions, and assessment index in order to strengthen the supervision of the local government and make sure the land finance can be in the right process.

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Vitae

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