Three Models of Local Public Financing in PRC

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Local Developmental State and Infrastructure Development Financing

Local Developmental State

- Subnational governments are often the key drivers of development and growth from the ‘bottom up’ (Oi, 1995; Bateman, 2017).
- Looking closer, many examples of ’top-down’ achievements were actually ‘bottom-up’ successes.
- This realization gave rise to the concept of the Local Developmental State (LDS).
- Role of local public financing.

Importance of infrastructure investment

- Emerging consensus in theoretical and policy analysis of development on the importance of investment in physical infrastructures (roads and railways, water and waterway management, irrigation and farmland consolidation, access to electricity and other energy sources as well as access to mass communications).
  - World Bank, 1994;
  - Wu et al., 2005; Sahoo et al., 2012; Ouattara et al., 2019.
- In China many large scale physical infrastructure investments have been carried out not by the private sector, nor by the central government, but by local governments.

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A time line

- Model 1, the commune:
  - 1960s-1970s
- Model 2, land financing:
  - 1994-present
- Model 3, property tax:
  - Any time soon, into the future

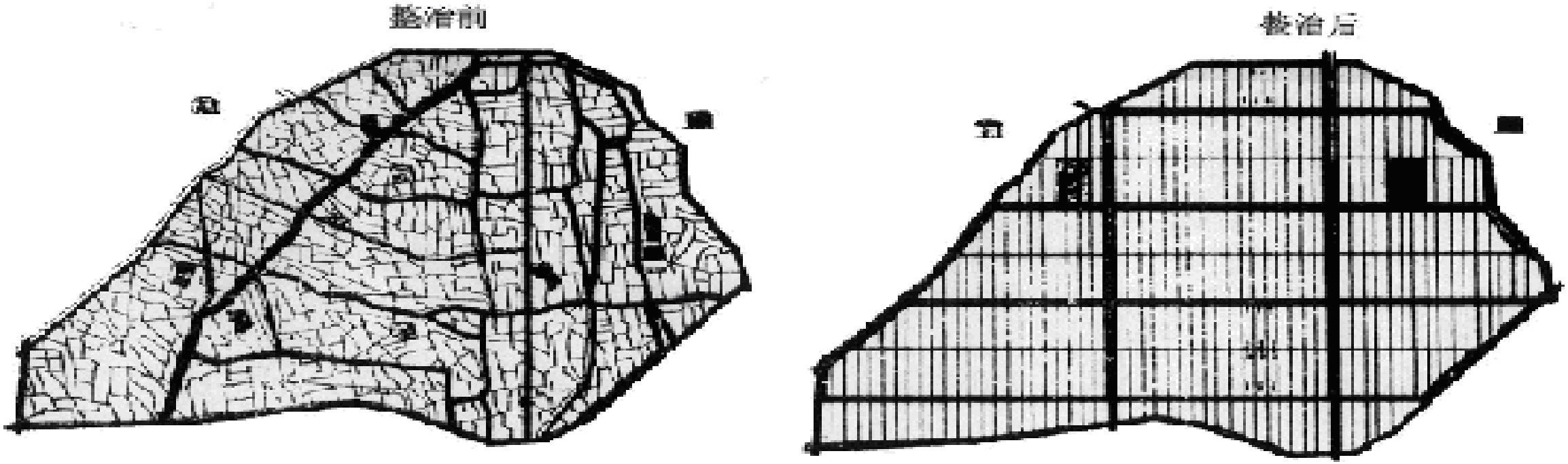
Model 1: Local Public Financing under the Commune

Funding for infrastructure investment under the commune

	Items of Infrastructure Investment	Funding Source	
		Material and running costs (non-labour)	Labour and running costs (labour)
Physical Infrastructure Investment	Rural and farm roads	Accumulation Fund	Workpoints
	Irrigation stations and canals		
	Farm drainage ditches		
	Farmland consolidation (plot reconfiguration and leveling)		
	Farm machineries		
	Other		
Social Sector Investment	Building, manning and running schools	Welfare Fund	Workpoints
	Building, manning and running village clinics		
	Providing basic social protections		
	Other		

图 A1₁

台湾某农地整治区整治前后的地块道路情况比较



资料来源：谢智荣（1992）

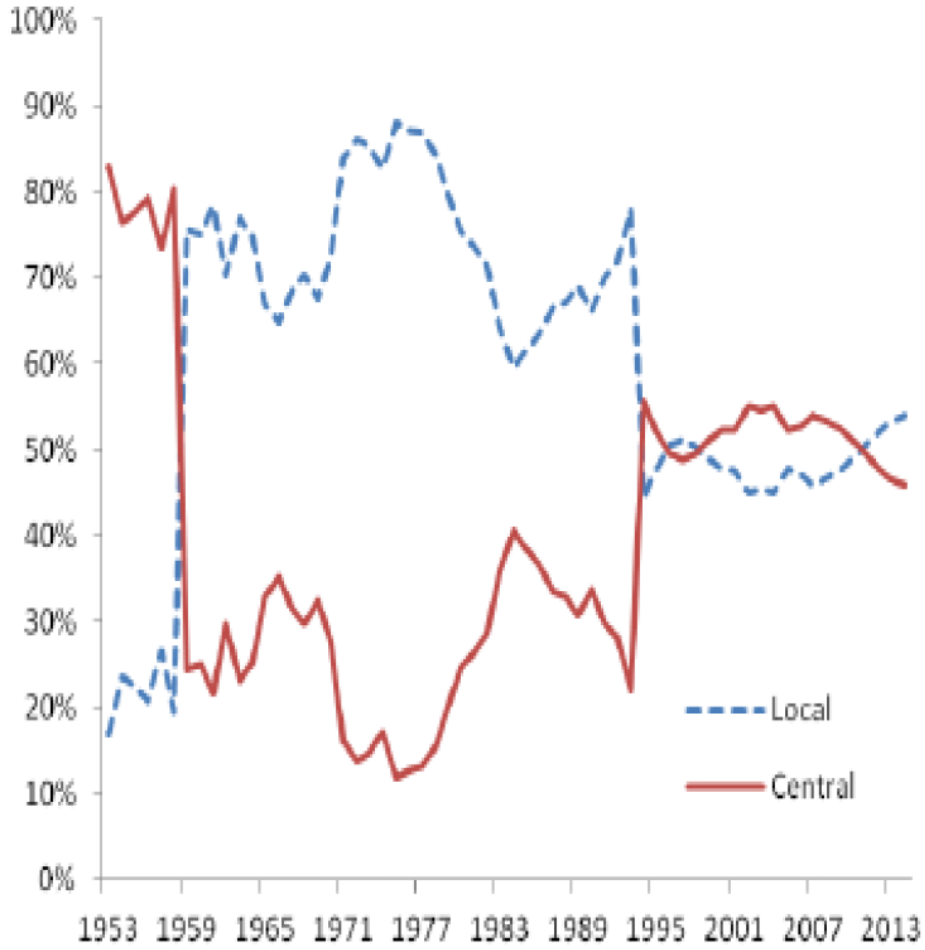
Fig. 1-1

Model 2:
Land Financing

Three key ingredients

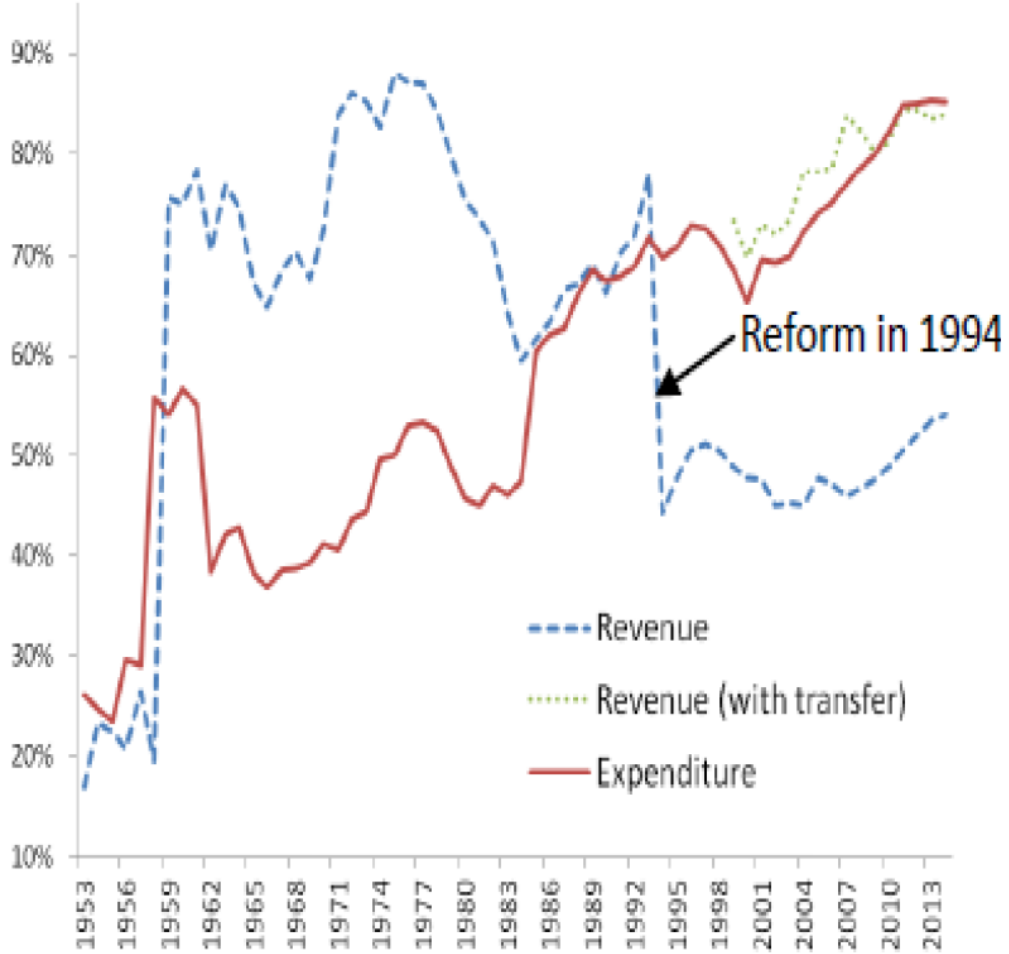
- Rural reform in the early 1980s that maintained public/collective ownership of rural land.
- Dire public revenue gap for local governments after the 1993-94 fiscal reform.
- The introduction of the *Zhaopaigua* mechanism in 2004
  - bidding,
  - auction or
  - Listing.

Central and Local Governments' shares of Total Fiscal Revenue in China, 1953-2014



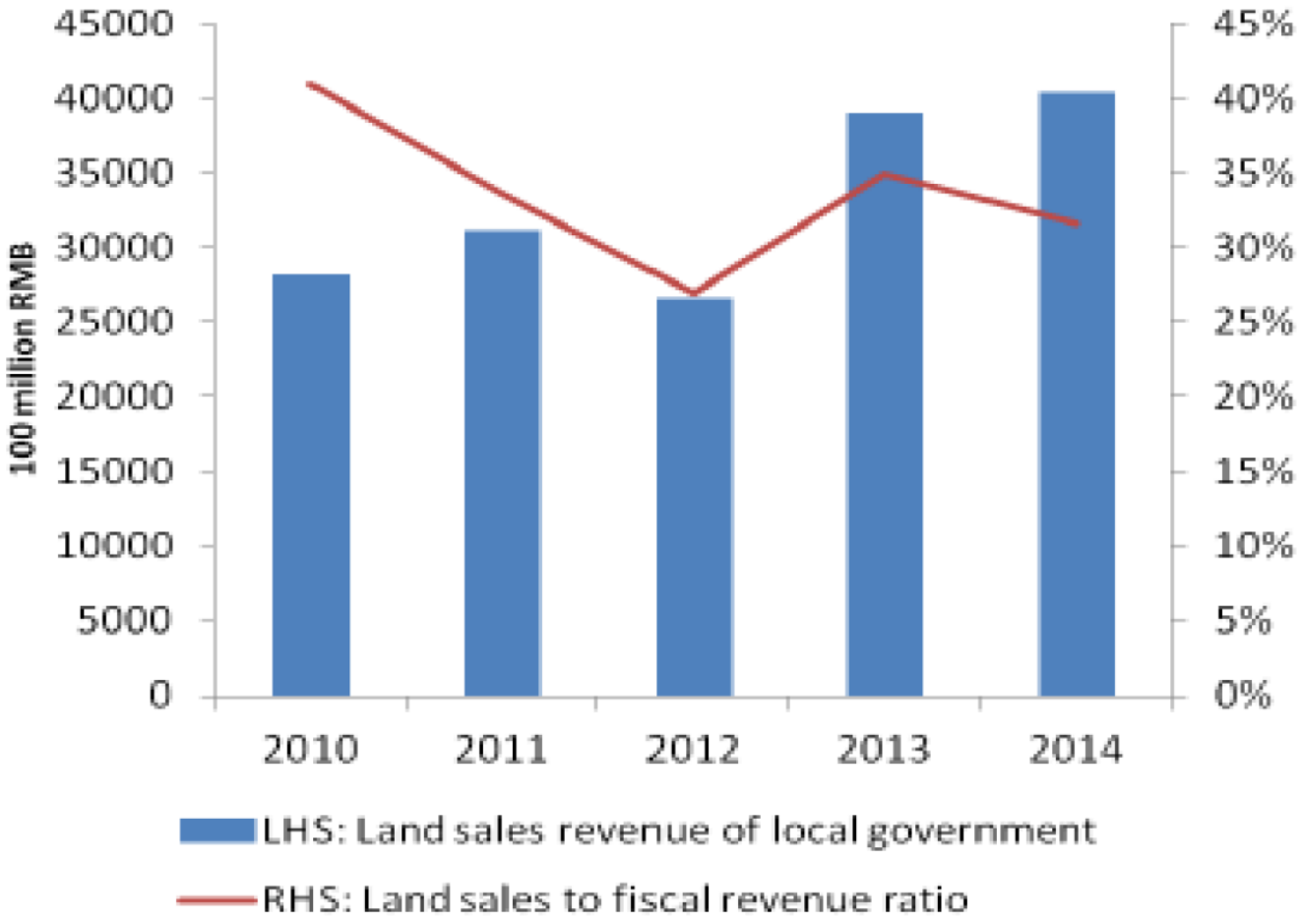
Data source: Huang (2016); CEIC.

Shares of Local Government Revenue and Expenditure with and without Central Transfer, 1953-2014

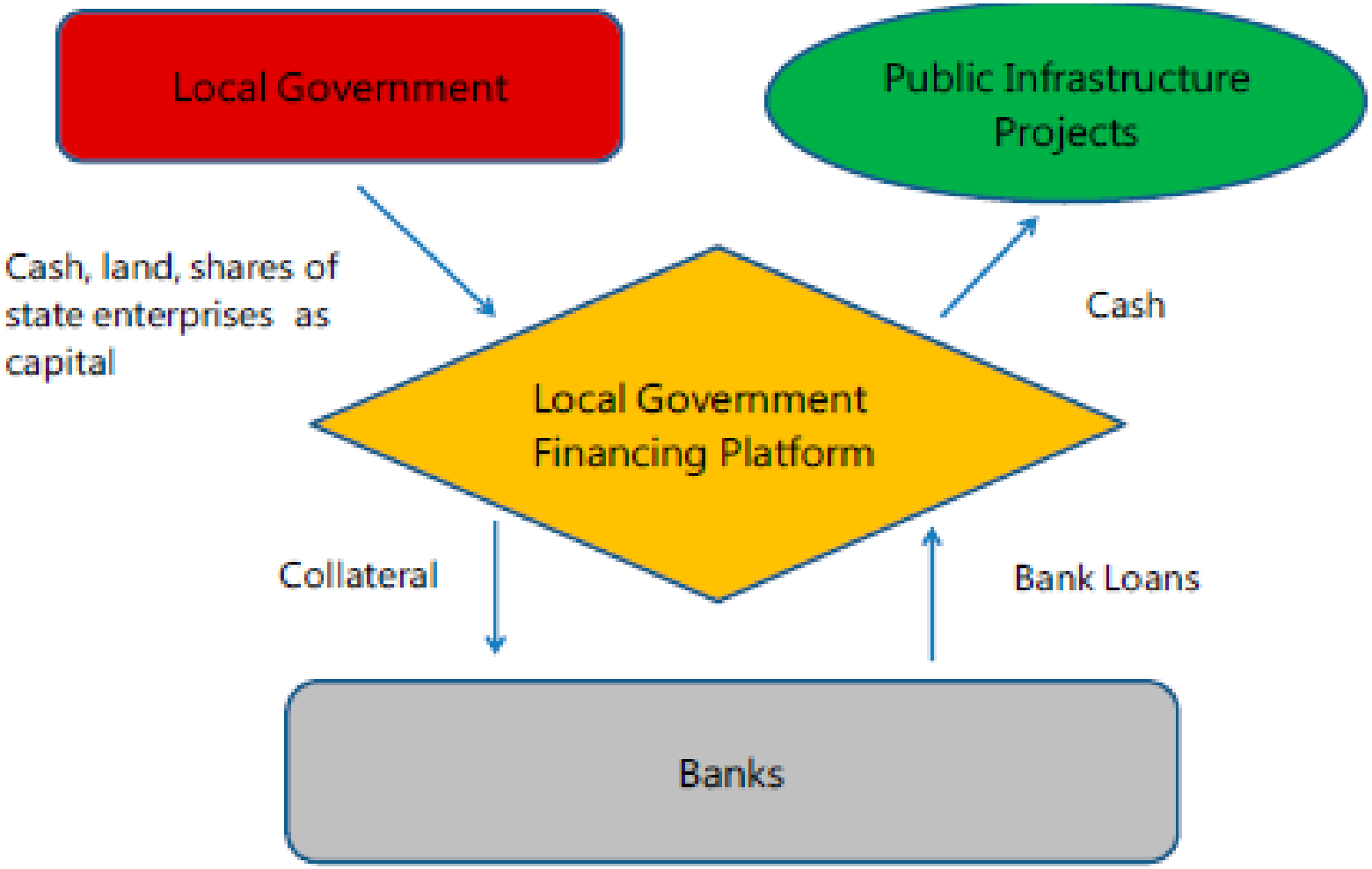


Data source: Huang (2016); CEIC.

Share of Land Sale/lease Revenue in Total Local Government Revenue



Local Government Financing Vehicles (LGFVs): A later development to land financing



Land Financing and the Real Estate Sector

	Boom Period and Cumulative Price Rise		Period of Adjustment and Cumulative Price Fall	
	Boom Period	Cumulative Price Rise (%)	Period of Adjustment	Cumulative Price Fall (%)
Japan	1978-1991	145	1991-2009	46
US	1993-2006	159	2006-2011	30
HK, China	1985-1997	759	1997-2003	62
UK	1994-2007	226	2007-2009	9
S Korea	1975-1991	881	1991-1995	11
Switzland	1979-1990	114	1990-1999	21
Canada	1985-1994	96	1994-1996	4
France	1998-2011	153	2011-2015	5
Denmark	1994-2007	216	2007-2009	17
Spain	1994-2007	235	2007-2013	35
China	1994-	383		

Source: Xingye Security Institute.

Model 3:
Property Tax

Reasons for property tax

- Dwindling source of land.
- Besides taxing businesses, a local government may raise its tax revenue from residents in three ways:
  - according to a person's income,
  - according to his/her property,
  - on a per-capita basis.
- In many countries, the right to levy an income tax is but the privilege of the central government. So a local government may raise its tax revenue only in the other two ways.
- Two principles to inform the choice:
  - Equitable tax burden
  - Easy to collect.
- Poll tax fiasco in UK in the early 1990s under Mrs Thatcher.

When to introduce?

- A form of property tax has existed in PRC since 1986, but only in respect of non-domestic buildings.
- The question facing the government and the tax authority in PRC is when and how to levy a similar tax on domestic properties.
- Discussions and debates over the issues have gone on throughout the last decade, with city-level experiments conducted in Shanghai and Chongqing.
- Yet there has been no firm decision on nationwide implementation from the government.
- Much opposition has come from the better-propertied sections of the population, and it is not clear when the government will eventually take the decisive step.

How much can a property tax on residents raise?

- A macro-level study by the Chinese Academy of Social Sciences in 2015 reported that a tax on domestic dwellings at one percent of the rentable value could raise 1.6 trillion CNY in that year.
- But no doubt some such dwellings will have to be tax-free.
- According to the same study, the total value of land leasing proceeds in the country would fall rapidly, to only around 1.5 trillion CNY in 2017 because of a dwindling of the land sources.

Thanks!

Questions are welcome!