

The Causes and Risk Prevention of Local Government Debt in China

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Abstract

The problem of local government debt has always been a matter of great concern to the CPC Central Committee and all sectors of society. At present, local governments in China generally face more serious debt problems. Problems such as relatively simple financing methods, unreasonable supervision systems, and inadequate scientific evaluation systems for local government officials are important reasons why local governments are willing to risk borrowing. To get rid of the problem of debt to the development of local governments, we must accelerate the reform of the fiscal and taxation system and the central government transfer payment system, strengthen the reform of the performance evaluation mechanism of local governments, expand local government financing channels, strengthen the supervision of local government debt, and create a mature local government financing and supervision system promotes the scientific and sustainable operation of the local government's financial system.

Keywords

Local government debt; fiscal and taxation system reform; financing channels; risk supervision.

1. Introduction

With the rapid advancement of urbanization and industrialization in China, the debt problem of local governments has also become increasingly prominent, becoming a hot topic in all sectors of society. In July 2017, local government debt was clearly listed as one of the five "gray rhinos" to be wary of in China's economic development by the China Finance Office. According to the national local government debt audit data released by the National Audit Office, as of 2018, China's local government debt rose to 18.3862 trillion-yuan, accounting for 100.28% of the country's total fiscal revenue that year. The huge local government debt has become the current Chinese government's prevention and resolution of major risks the core point. In December 2018, the Central Economic Work Conference once again emphasized that "the local government debt risk must be dealt with in a firm, controllable, orderly, and modest manner". Subsequently, the Central Financial Work Conference once again emphasized the need to "strictly control the hidden debt of local governments and effectively prevent and resolve financial risks." The three orders at the policy level reflect the central government's emphasis on local government debt issues and its determination to resolve the local government debt crisis.

China's economy has entered a new normal, transitioning from high-speed development to high-quality development, and economic growth has begun to slow down. On the one hand, local development is faced with the problem of slowing down or even declining economic growth. Under the stimulation of political achievements, local government officials are forced to develop the idea of debt development; on the other hand, the problem of local government debt has become the overhead of local governments. The "Sword of Damocles" always reminds local governments not to cross the red line. It is difficult for the government to find a balance

between stabilizing economic growth and controlling local government debt. Under this background, clarify the causes of the local government debt problem, propose risk prevention measures to crack the local government debt problem, and set the next strategic layout for the local government And relevant policy formulation to provide a basis for decision-making.

2. The Cause of the Local Government Debt Problem

2.1. Driven by the Concept of Political Achievements

China's evaluation of the performance of local officials is often closely linked to the performance of local GDP. Many local officials also regard their performance as an important factor in determining their promotion. The specific performance is indicators such as GDP growth rate and government revenue during the tenure of officials. In order to beautify the above indicators and achieve the predetermined performance growth goals, local officials often borrow debt financing development, blindly or repeatedly invest in various projects, and ignore the economics of the project itself. Benefits and social benefits. Although the central government has repeatedly stressed that GDP cannot be used as the only indicator of performance evaluation, within a short period of time, the promotion evaluation standards of government officials within the system must be difficult to break away from the constraints of GDP, and GDP will also be one of the important standards for promotion evaluation of local officials . Driven by this concept of political achievements, officials in backward or remote areas often use debt-bearing methods to obtain opportunities for promotion in order to stimulate local economic development and catch up with the economic levels of developed regions. Of course, driven by this concept of political achievements, this development model will often lead to misallocation of resources, waste of financial resources, and increased government debt risk.

2.2. Power and Responsibility Are Not Equal

That is, the local government's financial power and power are not equal. Local governments have unequal powers and responsibilities for fiscal revenues and fiscal expenditures, and the central government considers regional coordinated development and transfers most of the fiscal transfers to the western regions that need more support. As a result, governments in other regions face fiscal expenditures greater than fiscal revenues. In order for the local economy to develop effectively and sustainably, local governments must rely on platform companies to borrow money and other means to survive. Because of the diversified and concealed characteristics of financing on the financing platform, local governments cannot accurately count their debts, which in turn increases the local government's debt risk. The central high-level officials are also aware of the unequal powers and responsibilities between the central and local governments in fiscal revenue and expenditure. Unequal status quo, but this situation cannot be completely reversed in the short term. Therefore, the unequal power and responsibility formally lead to an important reason for local governments to raise debt.

2.3. Defects of the Financial Budget System

A reasonable fiscal budget system is the basis for reasonable expenditures of local governments. However, due to the lack of effective supervision of local governments' fiscal revenues and expenditures, it is also difficult for the budget mechanism to restrict local government expenditures, which often causes local governments to exceed budget expenditures. For example, when a loss occurs in a state-owned enterprise, the local government will add investment and subsidies to the state-owned enterprise. Once the government has excessive spending, it will borrow to make up for the deficit. In addition, in order to stimulate local economic growth and mobilize the enthusiasm of the local government, the central government will grant certain financial subsidies to the local government, but the central government's transfer payments to the local government are mostly in the form of special transfer payments.

Under the existing system Therefore, special transfer payments must be earmarked, which results in the central transfer payment not necessarily matching the actual local demand. Not only is it a waste of financial resources, it also fails to meet the real needs of local development.

2.4. Local Government Financing Channels Are Single

China has a vast territory, and the development situation of each region is different. For regions with developed economic foundations, the industrial foundation is strong, and the local government has a wide range of tax sources, so the debt crisis is relatively light. For regions with relatively backward economic development, the industrial foundation is weak, population migration is serious, and the local fiscal and tax base is weak. Some places can only rely on land finance to obtain financial revenue by "selling land" to maintain a balance of revenue and expenditure. In recent years, the central government has made great efforts to regulate and control real estate, and the room for housing prices to rise has become smaller and smaller, which has led to a sharp reduction in local government fiscal revenue and a decline in debt repayment ability, which has increased the local government's debt risk. On the other hand, the financing method of most local governments is the issuance of local government bonds, and the issuance of local government bonds has many restrictions and complicated procedures, resulting in a low issuance rate. On the one hand, there is a sharp decrease in fiscal revenue, on the one hand, there is a single financing channel, which has caused a huge capital gap in the short term for local governments, and local debt risks are more likely to be triggered.

In summary, the debt problem of the local government is not caused by a single reason. It is due to the unequal power and power of the local government, which leads to excessive local government fiscal expenditures and the need to borrow to make up for the deficit. At the same time, the fiscal budget system The shortcomings of the local government's lack of effective supervision of the local government's fiscal revenue and expenditure, and the unreasonable central government's transfer payment structure to the local government have made the local government's financial burden too heavy; the evaluation mechanism of local government officials is closely linked to GDP and GDP The performance of relevant indicators has become the main criterion for promotion evaluation of local officials. The development of debt to promote local economic development, highlight political achievements, and obtain promotion opportunities; Finally, due to the shortcomings of the land financial system, plus the government's regulation of the real estate market, and government financing The single channel leads to a sharp decrease in fiscal revenue on the one hand, and difficulty in obtaining new funds on the other.

3. Countermeasures and Suggestions for Defusing Local Government Debt Risk

General Secretary Xi Jinping has made clear requirements to prevent and resolve major risks: we must be highly vigilant against the "black swan" incident and the "grey rhinoceros" incident; we must have both the precautions to prevent risks and the high-handedness to deal with and resolve risk challenges ; It is necessary to fight well in the prepared war of preventing and resisting risks, as well as the strategic active war of turning risks into opportunities and turning crises into opportunities ([http:// theory. people. com/ m1/ 2019/ 0122/ c40531-30584911.html](http://theory.people.com/m1/2019/0122/c40531-30584911.html). 2019-01-22.). To resolve the problem of local government debt, it is necessary to deepen the reform of the fiscal and taxation system, strengthen the supervision and performance evaluation of the local government, and more importantly, fundamentally solve the shortcomings of mismatch of power and financial power, and establish a more scientific and efficient, Fair financial and tax distribution system.

3.1. Accelerate the Reform of the Fiscal and Taxation System

The debt problem caused by the unequal powers and powers of the local government can be re-divided to divide the proportion of fiscal funds according to the principle of equivalence of powers and powers by redistributing the powers and powers from the central government to the local finance. Either decentralize the central government's financial authority to the local government to increase the local government's financial capacity; or appropriately relinquish power to the central government and central government or higher-level government to provide public services such as pensions and education and infrastructure construction. Accelerating the reform of the fiscal and taxation system can not only resolve the local government debt crisis in the short term, but also stimulate the enthusiasm of local governments. In the long run, it can lay a solid foundation for comprehensively deepening the reform of the economic system and solving many long-standing ills in the Chinese economy basis.

3.2. Accelerate the Reform of the Central Government Transfer Payment System

The central government's fiscal transfers are often realized through special funds, so on the one hand, it will cause waste of resources, and on the other hand, it is difficult to solve the problem of local government fiscal revenue. Therefore, it is necessary to give local governments greater autonomy to enable local governments to allocate transfer funds according to the actual local conditions. At the same time, we must further deepen the reform of supporting measures for special transfer payments, implement differentiated policies for each region, analyze specific issues, and adopt special policies for special regions.

3.3. Strengthen the Reform of the Performance Evaluation Mechanism of Local Governments

The local government performance evaluation mechanism should be more comprehensive and diversified, and a reasonable and sustainable evaluation mechanism and evaluation indicators should be established. On the one hand, the central government has repeatedly emphasized the need to get rid of the "GDP-only" local government performance appraisal mechanism. This move will, to a certain extent, inhibit the impulse of local government officials to borrow, which will help the local government appraisal mechanism become scientific in the long run. And sustainable development; but on the other hand, without the GDP assessment system, local government officials may lose their "struggle" and appear to be "lazy." Because once GDP is not used as the main assessment indicator, local government officials will no longer pursue local economic development and will no longer risk develop debts. Therefore, this tendency of local government officials to "lazy politics" inaction may rise. Therefore, when reforming the performance evaluation mechanism of local governments, although the GDP index must be weakened, it cannot be completely eliminated from the evaluation system, and it must still be used as an important evaluation index in the short term. After all, without economic development and incentive mechanisms, the entire economic and social development goals will be difficult to achieve, which runs counter to the goals of reform.

3.4. Broaden Local Government Financing Channels

Under the existing system, the main source of local government fiscal revenue is achieved through "land finance". Once the central government strengthens the regulation of housing prices, local government fiscal revenue will be greatly affected, so it is necessary to expand local government fiscal revenue. Sources, and expand local government financing channels. On the basis of the distribution of existing tax types, the central government can hand over the new tax types to localities.

3.5. Strengthen the Supervision of Local Government Debt

Due to historical reasons, the local government has accumulated the top two debts. Although the local government debt can be relieved by issuing local government bonds, for some regions, due to the excessive issuance scale, the government has to bear high interest costs. Especially for the economically backward areas, in the past, in order to develop the economy rapidly, a large amount of government debt was accumulated. Some projects that rely on government debt financing have a limited effect on the local economy. If there is no financial support from the higher-level government, there will be great Default Risk. Therefore, the regulatory department should always monitor the risk exposure of local government debt, assess the debt risk, and report to the higher authority in a timely manner; before investing in the project, the government should do a good job of assessment in advance. Projects that bring financial revenue to the government within a certain period of time must be properly adjusted even if they stop losses.

4. Conclusion

The debt problem of local governments in China should be realistic and realistic, and systematically and in-depth analysis of their causes should be targeted to introduce relevant policies and measures to strengthen the management of local government debt issues, so as to promote the local government to become more scientific, Reasonable borrowing, accelerate the digestion of historical debt, and rationally plan future investment. Only when the local government abides by the regulations of the central government and borrows scientifically and in a planned manner can the government's liabilities be controlled within a reasonable range, so that the local government can truly invest in the overall situation of socialist construction.

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