

Status analysis and control measures of the debt risk in Chinese local government: based on the study of the relationship among “power, responsibility and interests”

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From the view of current condition and developing trend of the debt scale in Chinese local government, if it could not be controlled by an effective way, the debt crisis will explode in the near future. According to the regional distribution in our country, except for Beijing, Shanghai, Tianjin and Hainan, the debt risk mainly concentrates in the western region. In a further step, it can be seen that this risk of debt is resulted by the imbalanced relationship among “power, responsibility and interests” which contains none-accordance of debt power (such as debt financing power), confusion of debt responsibility (such as debt management responsibility) and distortion of debt interests (such as the private benefit and the public interests). If we want to correct this problem, the keynote is to prevent the local government’s debt to be used by the purpose of reaching the private interests. Actually, it should play a role that the local debt financing takes to the “faithful” service for the social interests. For realizing this purpose, it should keep eyes on the relationship among “power, responsibility and interests”, which is the most important factor as for setting up the control system of debt risk about our local governments. Particularly, it includes the following aspects. First of all, it should find the right time to empower the local government with the debt power. Secondly, on the basis of both positive and negative sides, it should design a system to restrict the debt responsibility in the local government, in order to solve the problems such as new debt, invalid debt and overdue debt expansion. Thirdly, it should propose the guidance mechanism to realize the convergence from the private benefit to the social interests on the local debt.

Keywords: local government debt, risk control, “power, responsibility and interests” relationship

1. Background

On the meeting of the Third Plenary Session of the Eighteenth Central Committee of CPC, it presented that “a management and risk pre-warning mechanism should be established to regulate the normative and reasonable debt in both of the central and local governments”. Soon after, the Fourth Plenary Session highlighted the borrowing

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behavior of local government should be standardized by the law,¹ which mainly plays a role of forming an institutional system which could be adjusted with the evolution of local debt in our country. It is either the inevitable choice to control the current risk or the important goal to reform the financial system in the future of China. With regard to how to build this institution, it is also on the continuous exploration whether in the theoretical research fields or in some practical departments. Institution is considered as a type of stipulation or constraint for responsibility, which aims at avoiding the abuse of power due to pursuing some special interests.² As far as the debt of local government, if being far away from the responsibility constraint, the debt power would be expanded step by step since the private benefit corrodes the social interests. After that, it will lead to the debt enlarge blindly, and then the debt crisis would be exploded eventually. Therefore, for making efficiency to control and manage the debt risk, it is necessary to consider the relationship between debt and “power, responsibility and interests”.

There are two goals about this research. On the one hand, it will evaluate and adjust the debt status of the Chinese local government. On the other hand, through exploring the internal mechanism which is generated by the local debt, it intends to propose the measure to the precaution against the risk. Referencing to some relative articles, this paper tries to create a new framework about the relationship among the debt “power, responsibility and interests” in order to analyze its risk. The research emphasizes on revealing the reason, from the view of imbalance relationship among “power, responsibility and interests”, why the debt behavior bring about the none-social interests. Based on it, the original reason and the relevant influential factors would be found about the generation of the debt risk, and then the long term predicament of how to control it would be resolved fundamentally.

2. The evaluation on the debt scale and risk in our local governments

By the end of 2010, the debt balance about the local government in the whole country was up to 107,174.91 billion yuan; by the end of 2012, the balance was increased to 158,858.32 billion yuan; by the end of June in 2013, it has been raised to 178,908.66 billion yuan, which turned over 59.74 times in comparison to that of 2994.82 billion yuan in 1997. Besides, the rate of growth about it in 1998 and in 2008 reach up to 48.20% and 61.92% respectively, as shown in Figure 1.³

¹ The data comes from the national finance of sina website, “Japanese Media Making a view on the Fourth Plenary Session: China Will Control the Local Government from the Local Debt”, <http://finance.sina.com.cn/china/20141024/220020636832.shtml>.

² In the “Modern Chinese Dictionary”, institution is regarded as an operation regulation or an action principle which require everyone to abide by. New institutional economics consider that institution is the regulation aggregation and is a series of the regulation network that are composed of formal constraint and informal constraint.

³ The data mainly come from “the audit result of local government debt in China” (the 35th file in 2011) and “the audit result of governmental debt in China” (the 32nd file in 2013), which are both offered by the National Audit Administration of the PRC. Because the data is not published every year, the data in 1999, 2000, 2001, 2003, 2004, 2005, 2006 and 2011 of Figure 1 are calculated in the average, on the basis of annual increase which published by Auditing Administration.

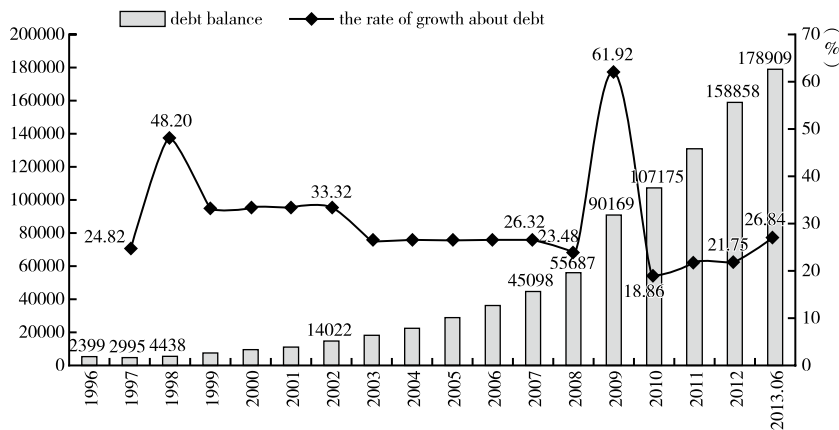


Figure 1. China's local government debt growth in 1996-2013

According to the Maastricht Treaty, the critical value of the debt is limited by the following two aspects. On the one hand, from the view of debt stock, the proportion of debt balance accounting for in GDP could not surpass 60%. On the other hand, from the increments of debt, the proportion of it accounting for in GDP could not surpass 3%. On the analysis of the local debt status in 2012, the balance proportion is 58.70% (which is equaled by 158,858.30 billion yuan / 270591.98 billion yuan¹ × 100%), which has been a close one to 60% (that means the referred critical value). At the same time, the increments proportion is 9.55% (which is equaled by 25,841.705 billion yuan² / 270591.98 billion yuan × 100%), which has been much higher than 3% (that is to say the referred critical value). Thus, it can be seen that even though the debt balance of local government is being controlled, the new debt has exceeded the warning line. If the growth of it could not be slowed down, the balance will touch even surpass the critical line at once. In fact, the risk has been so dangerous that the crisis may explode at any time.

In addition, from the debt distribution in various provinces (municipalities or autonomous regions)³ in 2012, there are many provinces exceeding the critical line (which is 60%) of the debt balance accounting for the local GDP,⁴ separately including Guizhou, Yunnan, Qinghai, Chongqing, Gansu, Shanghai, Shaanxi, Hainan, Beijing, Jilin, Tianjin and Xinjiang. In June of next year, there are seven provinces has a higher proportion of new debt accounting for the local GDP, containing Guizhou, Gansu,

¹ Referring to the research of Liu and Huang (2012), the central GDP and the local GDP are converted separately according to the proportionate relation between the local financial income and the central financial income. Otherwise, the evaluation of debt risk of local government should adopt the local GDP.

² The new debt of local government in 2012 is calculated by the average debt increment of this year which is relative to the year of 2010.

³ Tibet hasn't published the debt of itself, so this research has no idea to take consideration about this province. Moreover, Guizhou and Tianjin have not announced the debt balance of the end of 2012 so that we only adapt the backward step by step method according to the balance of June in 2013 and the average debt growth of local government in the whole country.

⁴ Except for Tibet, the local GDP in various regions is being calculated by the national GDP and the share of its own financial income to the total national financial income.

Yunnan, Xinjiang, Qinghai, Sichuan and Hubei, the values of which are all over 20%. Even Shanghai, Guangdong and Shandong are at the lower rate of the debt balance in its GDP¹, Compared with the country average level, the value of them are all over-top to the referred warning line (which is 3%). Therefore, it can result that some provinces in the western region of our country are the mainly concentration presenting a higher debt risk besides Beijing, Tianjin, Shanghai and Hainan, as shown in Figures 2 and 3.

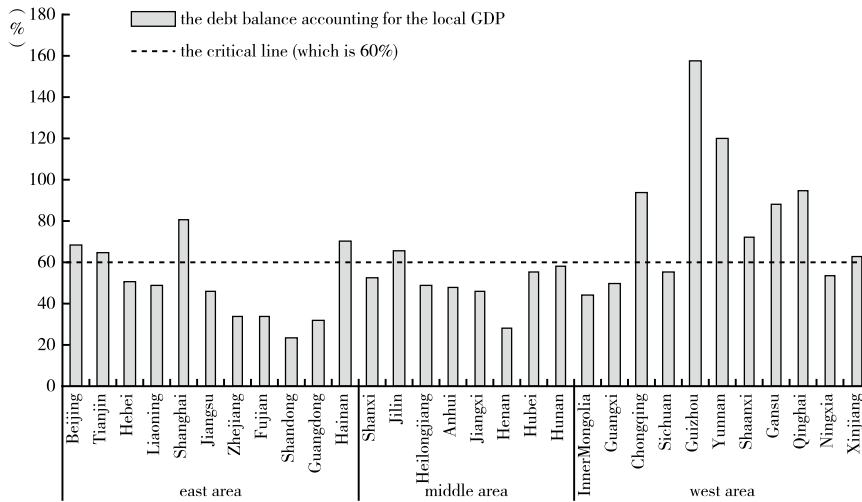


Figure 2. Distribution for the proportion of local government debt balance to local GDP

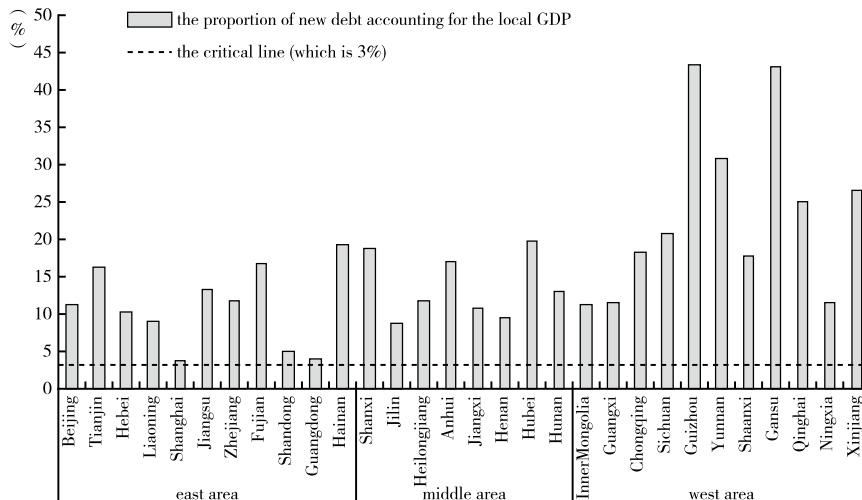


Figure 3. Distribution for the proportion of local government new debt to local GDP

¹ The new debt of local government mainly consider the growth of half a year from the end of 2012 to June of 2013, relatively, the GDP also only regard the accumulated value of the second quarter in 2013.

The core issue of local government debt risk is the long-term and sustainable negative effects of fiscal deficit which manifested as local government debt, which cannot form effective and sufficient fiscal income in the future, leads local government to be unable properly maintain the performance of government function, and ultimately makes the fiscal operation unsustainable. The above shows that the rapid growth of local government debt and debt burden ratio beyond the warning line in some areas, indicating the presence of local government debt risks. More needed to be aware, if the local government debt risk outbreak, it is absolutely not only operation difficulty in one city-county or provincial fiscal, but under the special system relationship in our country, it will also trigger systemic fiscal, financial and economic crisis through the conduction. From the perspective of lending, the expansion of local government debt comes from the soft constraint relationship in credit between local government and financial institution (Liu, 2013; Xie and Bai, 2013), and the local government debt risk will inevitably spread to the financial system. In addition, the single state structure of our country also determines the central government will become the “final paymaster” of local fiscal burden (Huang and Xu, 2011; Miao and Fu, 2015), the debt risk of local government will eventually evolve into the central fiscal risks. The study of Fu et al (2013) also elaborated the local government debt risk in China will be the possibility of the economic crisis triggered fuse. Therefore, strengthening the prevention of local government debt risk, not only is the key to run local fiscal sustainability, but also the important premise to ensure the systemic safety of fiscal and economy, however the most important key is to find the production origin of local government debt risk.

3. Analysis on the debt risk of Chinese local government: based on the relationship among “power, responsibility and interests”

The local government debt risk in China has been expressed directly the abnormal increasing behavior of local government debt. The reason causing the expansion of local government debt, most scholars have attributed it to the needs of pursuing economic development (Islam and Hasan, 2007; Research group of Jingan County branch of people’s Bank of China, 2011; Yang and Li, 2013), fiscal resource and power mismatch (Mikesell, 2002; Cai, 2011), the deletion of debt management system (Levine, 2011; Yang and Lu, 2013) and other objective conditions. But all of these studies neglected the subjective behavior selection of local government, especially in the constraint condition that debt power divorced from debt liability. Under this situation, the infinite expansion of personal interests in local government will drive the expansion of local government debt. In the evolution of local government debt in our country, incoordination of the relationship among “power, responsibility and interests” which perform in the long term, greatly create the conditions for expansion of local government debt.

3.1. The reflection of the relationship among “power, responsibility and interests” on the local government debt

“Right” means a kind of interests protected by law. In the *Modern Chinese Dictionary*,

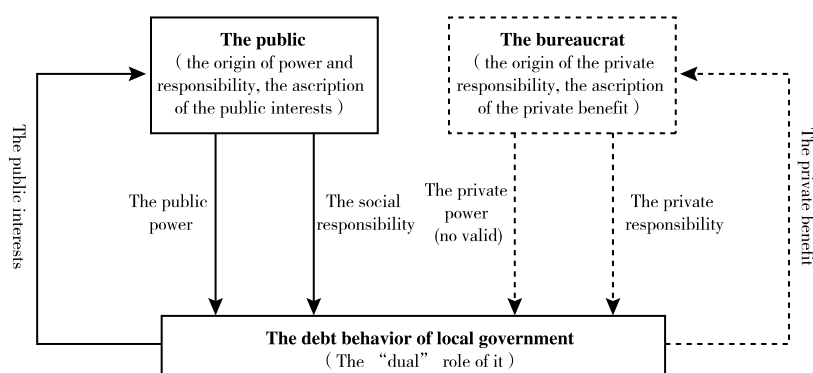


Figure 4. The logic relationship among the debt "power, responsibility and interests" of the local government

it is defined from the legal field that the power and interests both are being enjoyed by all citizens according to the law. Therefore, the right itself is combined with power and interests, which means the interests could be possessed only if the right is compared with the power, as well as, the power could be realized only when the right is on the basis of the interests. Whatever, whether the power or the rights, both of them are aiming at realizing the interests (Qi, 2001). However, in the public field, the provision of power is for achieving the public interests. Once this public power separate from, go beyond or go against the right, the none-public interests would be generated inevitably. Under this condition, there is an important logical explanation: although public right is the common power of citizens and aims at realizing the public interests, it is usually held and exercised by the government officers. However, for this reason, as being a person, the officer is also regarded as the main body of private interests. So both of the private interests and the public interests are co-existing, which may result that the public power itself that should be oriental generated from the society is in order to seek personal gain so that rise above the society in return. Generally speaking, the right of its own contains power and interests, meanwhile, it can be divided into the public right and the private right. The formal is the unification of public power and public interests, and the latter is the unification of private power and private interests. According to the hypothesis of economic man, desire of a person for the private interests is tend to endless. Under the limited condition of the private power, the realization of it could only depend on the public power, which will bring about the public interests shrink or the public power expansion.

"Responsibility" is an obligation or an assignment for maintaining the common interests. But in the field of administration, it is regarded as the commitment of punishment or blame to its own behavior. In the "Modern Chinese Dictionary", there are three meanings about responsibility. First of all, it can make someone have an ability to take on some duty or obligation; secondly, it means doing something within one's duties; thirdly, it points out that someone could not do something well so that he have to take all the blame. It can be illustrated that the responsibility should be separated into positive and negative sides. The positive responsibility plays a role of what things should be done, on the contrary, the negative responsibility displays

an obligate rule of how to be punished if do not take that of positive side (Ma and Guo, 2010). The same as the above, responsibility also can be distinguished into the private one and public one. The formal mainly represents a kind of moral obligation which belongs to the voluntary one. The generation of the latter is associated with the endowment of public power, which aims at maintaining the social public interests (Qi and Li, 2006), therefore, it could be regarded as the compulsory one.

In general, the relationship among “power, responsibility and interests” mostly includes the integration or the asymmetry of right and responsibility. The integrate relation mainly means the right and the responsibility need to adapt to each other. Otherwise, there will be appearing the unintegrated relation that would lead to the bureaucratic irresponsible behavior. So the integration of right and responsibility is the basis to protect public interests from erosion (Qi, 1988; Wang, 2000). In other words, once being endowed with some public power, these public departments have to implement their responsibility for the public interests realization. Therefore, it is proved that the public interest has become the important bridge to connect with the public power and the public responsibility. Meanwhile, the public responsibility also has another function to protect the public interests from infringement of the public power or to prevent abusing the public power to seek for the private interests. These explanations amply demonstrate that the public power and the public responsibility should be unified in the public interests. The asymmetric relation figures out the power is divorced from the responsibility. If this asymmetry becomes much more seriously, it would be harmful to the public interests, which will cause the link chain of power and responsibility much more fragile (Wei and Chen, 2005; Guo, 2009). The relationship among “power, responsibility and interests” proclaims that the unification of the public power and the public responsibility is the key influence to maintain the public interests, or else, it would be damaged by the erosion of the private interests.

The debt of local government belongs to the behavior of public policy so that exists the relevant power, responsibility and interests. They are playing different roles in the debt. The first aspect is about the debt power of local government. The optimal debt has its reasonability and object necessary, which could improve the local economy and bring about more efficiency, which means it benefit for the social development. Therefore, the public would be willing to endow the power of debt financing and debt management to the local government. In most foreign countries, local governments have the power to issue bonds, including whether borrow the debt, how much the debt would be raised, who would become the creditor and the way of debt financing. In 2014, the government has issued new Budget Law which brings a due power of debt financing to the local government. It is clearly that the debt power is produced by the motivation of the public and collective interests, which is not the private power of someone but the public power essentially. The second aspect is about the debt interests of local government. As being the category of public interests, it mainly intends to make use of the action of debt financing to increase the capital input of constructing the infrastructure and various public services, and then make contribution to promote the development and the structure of economy, improve the life level and well-being of the public and reduce the social cost of the enterprise production. Since the local officer is the subject of holding the debt power, the local debt is not only for

achieving the public interests, but also for pursuing the private benefit which displays the political achievement and rent-seeking profits. From the respective research, the political achievement of profit mainly reflects a private goal of someone to get a promotion as soon as possible, the local officer takes an action to replace “expenditure efficiency” with “debt burden” which would make the realization of the “short term and high speed” economic growth. Tan Yaling, the director of the Institute of Chinese Foreign Exchange Research, says that “the local government makes use of investment to help realize someone’s achievement rather than improve the local economy”.¹ The rent-seeking profit means some other relevant beneficial subjects have to bribe the officers for pursuing some debt power which transfers or districts from the local government and then achieve the private benefit of himself. For example, some credit preference banks always act the bribery to the power holders for fighting the benefit from a kind of loan with “low risk, stable income” from the local government. What’s more, some programmers will distribute the dividends to some power leaders in order to obtain the right of contracting public welfare program. It is obviously that the attraction of private benefit will push the public power about the local government debt separating, surpassing or even deviating from the public interests so that the original public interests would be damaged. The third aspect is about the debt responsibility of local government. Actually, the role is for restricting someone to take this public power to gain the personal profit. The social public should be the carriers to endow the responsibility to the local government, because they are the givers of public power of the local debt financing. On the positive side, the content of responsibility involves stipulating the issue of how to realize the social interests by the local debt, such as confirming the debt scale and structure, managing the debt use and efficiency, redeeming the debt and controlling the risk and so on. In contrast, from the negative side, the responsibility mainly means the local government would be punished if it goes against the social interests from the debt. In practice, this punishment mostly aims at abusing the debt’s public power to seek the personal profit, therefore, this kind of responsibility mainly restricts the local leader’s behavior. For example, this punishment includes accountability and administrative penalty to the local officers who take the debt financing blindly for pursuing the short term economic growth or accept the bribes and the distributed profit from some other related stakeholders. Actually, the responsibility restriction of the local debt behavior is a security to preserve the public interests.

From the above exposition, the debt power of local government is endowed by the social public. The purpose of that is for the realization of public interests which is brought from the local debt. For safeguarding these interests, the public is on the view of public interests to require the local government to carry out its positive responsibility of relevant debt management and the negative content about the punishment of non-undertaking the positive responsibility. After that, the contract between the local government and the public is formed, which refers to the relationship between the debt “power, responsibility and interests”. However, this contract is unstable, because the

¹ The data comes from the website of China News Service, “the investment and financing channel being suspected, a large number infrastructure being blamed for the government’s achievement”, (August 27th, 2012), <http://finance.chinanews.com/cj/2012/08-27/4134493.shtml>.

local government plays a “dual” role, which represents both of the public’s benefits and the bureaucrats’ profits. Except for the aim of public interests, there also has the private benefit to be realized by the local government’s debt. Meanwhile, comparing with the public interests, the private benefit is much easier to play the leading role.¹ As far as it is concerned, the private benefit of itself is hidden in the relationship contract among the debt “power, responsibility and interests” of the local government and the bureaucrats. Under this condition, the private power of local debt is no valid but the private responsibility needs to support service for the private interests, which means the “instruction” should be issued that the public power would be used by the officer in the local government. Once the local government begins to utilize the public power of the debt to serve for the personal profit, it is very appropriate that the social responsibility of the debt should play a part in constraint and punishment. Otherwise, if it plays no role of that, the public power would contribute to the private benefit without limit, which will cause big damage to the public interests. Finally, it would become inevitable that the debt will expand in scale and be used indiscriminately. On the contrary, if the public power of the debt could contribute to the public interests “constantly”, the private benefit hardly impact the use of the debt. Thus it shows that the social responsibility of the local debt make an important effect on the coordination between the public power, the public interests and the private interests, and then it could make efforts to regulate the behavior of the local debt and control the risk.

3.2. The imbalance reflection of the debt “power, responsibility and interests” on the local government

It can be seen from the above research of the relationship among the local debt “power, responsibility and interests” that both of the debt scale expansion and the risk formation are essentially as a result that the debt responsibility is not able to “control” the corrosion from the individual of bureaucrat. From the current situation of the local debt, it could come down to the following three reasons:

(i) Before the new Budget Law of 2014 was issued, the local government in our country was not endowed the debt power in principle. But in fact, it has carried out some debt financing behavior according to some reasonable or even unreasonable expressions. This kind of absence of power which is in name only make an excuse for itself from the truly debt responsibility and support an opportunity to satisfy the private interests. From the development history of our local debt, there were only a few borrowing behavior of the local government to be allowed by the central government. In 1950, the People’s Government in Northeast of China issued “the government bonds for the production and construction of northeast regions”. In 1958, the bonds of “constructing the local economy” was issued in various areas. From 1998

¹ Yu (2005) suggests that there is the individual rationality as well as the social rationality in the human brain. The role of the individual rationality is produced naturally and doesn’t need the education and the regulation of the institution. Besides, the social rationality plays a role of advocacy and education, that is to say, it need to be realized by the external compelling force and the public opinion. Reference on the website of law information in Peking University, http://article.chinalawinfo.com/article_print.asp?articleid=35389.

on, some national bonds started to lend on to the local governments. Since 2009, the central finance has been commissioning the local government to issue bonds. Except for these actions, other local debt financings are all beyond the legal rights. They could be restrained by some relative policies, such as that in 1985, the State Council regulated that the local government was not being allowed to issue the bond by itself. The Budget Law of 1994 pointed out clearly that the local government had no rights to issue its own bonds, and the amendment of Budget Law in 2012 finally confirmed that local government hadn't been allowed to issue its own bonds. These stimulated rules illustrated completely that if there isn't any debt right to be endowed to the local government, it is not allowed to product the debt, even more there is no reason for the local government to undertake any social responsibility of the debt for achieving the social interests. However, the fact is just on the opposite side. The local government deliberately bypasses the action of issuing bonds which is prohibited by the law. Instead of, there are a large number of debts being borrowed by way of the investment and financing platform. Taking an example of 2012, deducting 233 billion yuan of legitimate municipal bonds which are issued by Ministry of Finance, the new local debt account for over 99%,¹ which are produced under the illegitimate condition of not endowing the true power of debt financing. That means almost all local governments are beyond their legal power. It seems that the debt behavior of local government has been the established fact, which is neither approved by the legal power nor restrained by the relevant departments. From the above analysis, it could be summarized that this kind of debt behavior is hardly to be supervised and restrained (which means hardly to regulate its responsibility) because of the lack of political power. And then this status is easy to bring about the erosion from the private benefit for the power holders to the public interests, therefore, the debt scale is bound to make the expansion.

(ii) For the lack of the debt power in the local government, it brings the result that there is no reason to regulate and control the debt financing. In fact, it is not the effective method to manage the local debt as well, which will turn this essential "unregulated" behavior to "doing whatever it wants to". After that, the goal of the social interests is harder to be achieved. Actually, the debt responsibility of local government is the foundation to catch the social interests, that is to say, if there is no responsibility to be undertaken, it is out of the question to realize the social interests. However, from the practical status of our local government debt, since there is not any debt power to be given, the local government has no initiative to obligate the respective responsibility, which is according to the principal of integration of power and responsibility. Furthermore, it is even more unlikely to make the main bodies of holding power regulate the local government to undertake the debt responsibility. Actually, there have been only a few relevant management rules or methods about the local debt to be approved by the central government, such as "the People Republic of China regulation on the public bonds to construct the local economy" (which is in 1958) and "the management method of the national debt transmitting to load the local

¹ The data comes from the website of China News Service, "Ministry of Finance has been approved to issue municipal bonds as agent for 233 billion yuan in 2012" (July 30th, 2012), <http://finance.sina.com.cn/roll/20120730/200212709866.shtml>.

government” (which is in 1998). Except for the issues of those, our central government hasn’t announced any other policies to manage the local debt, which involve the local government has not been responsible for the anticipating decision, taking management and afterwards payment in the process of borrowing, using and paying the debts, needless to say the punishment to the negative debt responsibility which represents the local leaders not to implement the debt responsibility actively. The blank of the local debt responsibility will lead to the private benefit continuous to erode into the social interests, which will improve the scale expansion of the unreasonable local debt. Of course, it is difficult to complete the goal of social interests.

(iii) Since the “Fiscal Responsibility System” and “Tax Sharing System” were carried out in 1978, most of local governments have obtained the respective political interests from the economic growth. Because of this, they have the urge to make use of debts to promote the economic development. Based on it, they were all seeking for the “reasons” which own advantage for the economic progress to expand the debt scale. However, these “reasons” and the following motivation always have the private benefit guidance. Different profit guidance will concept different characteristics of the local debt financing. If making the debt financing on the basis of the private benefit, the local government could borrow a large number of debts according to the “reason” of developing the social economy, and then the leaders would gain the political achievement and rent-seeking profits among it. On the contrary, if making the debt financing on the basis of the social interests, the local government have to control the debt scale through considering the various aspects of the accompanied risk, the debt sustainability and the efficiency of utilizing debts. From the practical situation in our country, without comparing with the debt power, the local debt financing is not restricted by the responsibility, which make it difficult to guarantee the realization of the public interests and has been replaced by the private benefit in large degrees. According to the development history of the local debt, the local government had not any activities to make the debt financing. The most important reason is that, under the traditional fiscal system of state-monopolized revenue and expenditure, it is almost impossible to realize the political interests by the debt financing. On the opposite side, this behavior would place a burden on its own. While after the reform and opening-up policy, the fiscal system went into the stage of “Fiscal Responsibility System” and “Tax Sharing System”, which means the better development the more interests for the local government. In addition, with the two international economic crises, the expansionary fiscal policy had been put into effect, which made an opportunity for the debt financing and made further tide of capital raising for the local government. From the trend, it can be analyzed that, under the current fiscal system, the rapid expansion of the local debt so much of that depend on the inadequate views of the political achievement.

4. Preventing and controlling the debt risk of local government: realization of the relationship coordination among “power, responsibility and interests”

Based on the above logical research, if we want to prevent and control the debt risk of Chinese local government, one of important steps is to reach the relationship

coordination among the local debt power, responsibility and interests. What the core method is to make an effort to prevent the social interests from the corrosion of the private benefit through the debt responsibility. Especially, there are followed by three aspects, which are endowing the debt power to the local government in real time, assuring the debt responsibility of the local government reasonably, truly transforming the debt interests of the local government.

4.1. Timing selection to endow the debt power of the local government

Throughout the experience of all over the world, the local government in most of countries has owned the debt financing power which has been ruled clearly by the law and restrained by the relevant provisions. As far as the status in China, it is just because the debt power has not been given that the debt responsibility cannot be implemented in place and the social interests will be corroded seriously by the private benefit. However, why hasn't the state been made a legal regulation to allow the local government to issue bonds? Actually, it is just for selecting a suitable timing which means a period with the mature system of the local debt management. There is no harm in doing an assumption that the local government has been allowed to issue bonds. Under this assumption, the local government truly has the power to the debt financing and could issue bonds in the public way. However, it also has the respective obligation to responsible for the debt, or even it would be punished by the superior government if defaults its responsibility. This unification of the debt power and responsibility seems to control the debt risk effectively, but the necessary condition is that what kind of responsibility about the debt management should be implemented by the local government. In the long term, the management system of the local debt stays a "vacuum" situation all the time. It has been presented that, neither the management methods nor the scale and structure of the local debt are not held and control by the central and local governments, needless to say the management responsibility. Therefore, if the local government is endowed the financing power under the immature condition, it only brings the result of raising the debt risk.

Of course, without the endowment of the debt power, there would be no exploration to regulate the debt responsibility of the local government. To resolve this contradiction need to set up systematic and perfect responsibility policy which should be carried out in some pilot regions to manage the local government debt, and then extended to another areas gradually. That is to say, accompany with the debt responsibility being attached and improved in the nationwide, the power of that could be opened up step by step. In fact, from the view of issuing "the method of choosing some pilot regions to issue its own bonds", selecting Shanghai city, Zhejiang province, Guangdong province, Shenzhen city, Jiangsu province and Shandong province as the pilot regions to issue the local bonds and the taking an action by the Ministry of Finance to bring the local government debt into the budget and so on, they all reflect that the responsibility policy to manage the local debt has been building in the whole country. The new Budget Law of 2014 has stipulated that the debt power of the local government should be local opened up. As this policy being developed healthier and more perfect, the local debt power will be endowed gradually in various regions.

4.2. The mechanism design of confirming the debt responsibility of the local government

The confirmation of the debt responsibility of the local government is just for regulating the local government behavior about the debt financing, using and payment, which involve the regulation of both positive and negative responsibilities. This is either to supply the strength for the power endowment or to offer the essential guarantee for the social interests.

(i) The responsibility in the positive sense: it is to roll out supervision mechanism for the local debt. Setting up the mechanism of that is just for restricting the relevant responsibility according to different links of the debt financing. On the basis of it, the normative debt management of the local government should be succeeded. In other words, this regulation of the debt responsibility has a positive sense. Meanwhile, it mainly runs through three managing steps of the debt financing, using and payment, and the important purpose is to control the debt expansion about the new debt, valid debt and overdue debt.

First of all, aiming at the new debt expansion, it should set up a mechanism to supervise the debt financing. The expansion of the new debt is regarded as the first part of the debt risk, which is mainly produced by the irrational behavior in the process of the local government borrowing debts from some financial institutions. According to this behavior, it should design a system to restrict the debt responsibility, which mainly includes three supervisors such as the social public, the superior government and the financing platform. Among it, at the beginning, a decision-making mechanism to adjust the demand of the debt expenditure should be available. It is executed by the social public (who is one of the supervisors) that they should make their decisions about whether the debt financing of the local government can be acted. Meanwhile, being as the delegate of the social interests, the public have to evaluate the purpose of the local government to make the debt and the sequence of programs which are involved in some budget plan of debt repayment. Furthermore, based on the demand preference of the public services, a plan to design the debt scale and structure would be formed. This mechanism mainly involves three parts: the approval mechanism about departmental revenue and expenditure, the expression of interest mechanism about the expenditure preference and the evaluation mechanism about the program budget. Secondly, a decision-making mechanism about the ability of local government to carry the debt should be offered. Being as another supervisor, the superior government, from the consideration of the carrying-debt ability, could decide the debt scale and structure for the lower levels, which is in order to ensure the optimum improvement of the debt for the social economic development. This mechanism is mainly contributed by the information collection system, the debt calculation system and the leading system for decision. Last but not the least, it presents the decision-making mechanism for the local debt financing. From the debt paying ability, the financing platform (being as the third supervising body) should be given a right to adjust the scale and structure of the local debt financing, which intend to restrain the local government to repay the debt by itself. It might take actions to set up an independent financing platform

from the government, a debt decision-making system on this platform and a financing mechanism. This kind of responsibility restriction mechanism not only plays a role to satisfy the citizens' willingness with the debt expenditure to contribute the public services, but ensure the debt expenditure could make advantage for the macroeconomic operation even the possibility of repaying the debts on time.

Secondly, as for the valid debt, it should set up a mechanism to supervise the debt use. In particular, the debt risk also displays the local government use it ineffective or even excessive. It is resulted from that the local government blindly makes use of the debt captures to pursue the short-term economic growth, which has been being as an irrational behavior. According to this problem, it should be done to construct a system to restrict its responsibility. In this system, the public and the superior government are as the main restricting bodies who both standard for the public interests and the constrained power. Among this, both of the mechanism to restrict the debt use and the mechanism to supervise the debt efficiency are to be offered. From the former side, it mainly points out that the public should take the action to the internal restriction which makes effect on the debt before it being used by the local government. The goal is to require the local government to make a reasonable budget before debt financing and execute it strictly, in order to immune the adverse selection of the local government during the process of the debt use. Respectively, it involves designing a rigorous budget plan of the debt expenditure, establishing a rigorous accounting system to examine the debt, improving the bidding mechanism of the government procurement and strengthening the treasury concentrated payment system. From the latter side, it mainly considers the superior government as the other subject who makes the implementation of the external restriction responsibility. The mechanism is to be built to evaluate the debt efficiency, which plays a role to check the local government behavior of debt use since it has happened. The purpose is to supervise the local government to modify and improve its behavior about the debt expenditure. It is contributed from establishing some examined mechanisms aiming at the debt management, the planned outcome and the expenditure efficiency. From the above expression, it can be seen that this kind of responsibility restriction mechanism pursue to achieve the efficiency improvement of the debt use through the main subjects of the public and the superior government. However, the restriction from the public emphasize on the beforehand action, on the contrary, the superior government holding this restriction to the subsequent conduct.

Last but not the least, facing the expansion of the overdue debt, it should set up a mechanism to supervise the repayment. The debt risk will also be expanded if the local government could not implement the repayment responsibility, even though the above problems about the new debt and the valid debt have been solved. As for the debt repayment being delayed or defaulted, it should be with the aid of the superior government, the financing platform and the social public to establish a system to restrict the responsibility of the local government. This mechanism mainly involves three aspects. First of all, it is the mechanism to evaluate the implementation of the debt responsibility according to the paying back plan: the superior government should monitor and examine the main appointed subject with the repayment responsibility and the progress towards the paying back plan. Making the confirmation of who should repay the debt should be as the core task, which refers to establishing the approval

and evaluation system for the paying back plan and the implementation of the debt responsibility. It could be made different conclusions following as the different degrees of the repaying behavior. If there are any conditions doesn't mesh with the plan, this mechanism should be used not only for the supervision but also for the modification. Next, it is the mechanism to evaluate the credit rating of the local government from the default of debt repayment. According to the actual repayment condition, this evaluation mechanism should be built by the financing platform. This result will be an important information to be offered to the financing platform, which is used to adjust the further financing ability of the local government. What the inclusions are the credit rating evaluation mechanism of the local government being contributed by the financing platform, which depends on the evaluating standard according to the default extent, as well as the financing influence mechanism being associated with the credit rating directly. Thirdly, it is the mechanism to reserve some currency to deal with the repayment. The contribution and improvement would be under the personal supervision of the social public, which contributes to reduce the default risk to impact the fiscal normal operation. It mainly contains the decision of the capital source, the management methods and the used conditions and so on. This kind of mechanism to restrict the responsibility both urge the local government to pay back the debt on time and support the financial security to repay the local debt.

(ii) The responsibility restriction in negative sense: it is to set up a mechanism to punish some misconducts about the local debt behavior. On the positive side, the restriction focus on what should be done of the local government during these three links of borrowing, using and paying back debts. However, the local government is not a government with responsibility under the ideal condition. It can be able to bypass the above supervision mechanism successfully, and even more through some other ways to expand the debt power which intend to pursue the private benefit. Therefore, it is necessary to construct the restriction mechanism on the negative significance. That means the local government would be punished if it is not in accordance with the requirement to borrow, use and repay the debt. Well, the ultimate goal is to guarantee the control of the negative restriction to the positive one. It is worthy of noting that some violations of the local debt financing are mainly resulted by the expansion of the private benefit erode to the social interests. That is to say, this punishment is aiming at the government bureaucrat instead of the whole social group. As far as the bureaucrat, the private benefit, which is close related to the local debt, mainly involve the achievement profit and rent-seeking benefit. Meanwhile, the punishment also plays a role to prevent the social interests from the erosion of these two personal behaviors. The main process is that the superior government, the public and the platform evaluate and examine the debt behavior from different views, after that, the comprehensive report should be completed and then submitted to both of the superior organization and personnel departments and the superior discipline inspection and supervision departments. After being approved, it could become the basis to constrain the debt behavior of the local government, specifically including the two important aspects about the evaluation and identification.

On the one hand, the mechanism plays a role to evaluate the debt behavior. It is carried out by three main bodies: the superior government, the social public

and the financing platform. Among this, the superior government mainly holds on the decision mechanism of debt carrying ability about the local government, the supervision mechanism of debt using efficiency and the evaluation mechanism of implementing the debt repayment plan. The social public taking this evaluation mainly relays on the decision mechanism of the demand preference about the debt expenditure, the restriction mechanism of the debt use and the reserve mechanism of the debt repayment. The financing platform taking the evaluation focus on the decision mechanism of the debt financing about the local government and the credit rating evaluation mechanism of the debt repayment default. Whatever anyone makes use of any mechanism, the evaluated objects are all the behavior shown by the local government, including the submission and implementation.

On the other hand, the mechanism is also to identify the debt behavior of the local government. It is carried out the same main bodies as the above: the superior government, the social public and the financing platform. They need to submit the evaluation report separately to both of the superior organization and personnel departments and the superior discipline inspection and supervision departments. Afterwards, on the basis of this report, they would make identification for the local debt behavior and then carry out the relevant incentives or punishment policy. Generally speaking, the organization and personnel departments are mainly in charge of the achievement identification according to the local debt behavior, and make it as the basis to promote, transfer or remove some relative local leading cadres, which play a role to prevent the social interests from the erosion of the achievement interests of the local officers. The discipline inspection and supervision departments are mainly responsible for the legal identification to the debt behavior of the local government, and on this basis, some relevant leading cadres can be investigated for the legal responsibility, which aims at preventing the social interests from the erosion of the rent-seeking benefit.

4.3. The guide measure to transform the interest-orientation of the local debt

Transforming the interest-oriented of the local debt, the core purpose is to realize the convergence from the private benefit to the social interests, which is regarded as an endogenous precondition to guide the local government implement the debt responsibility consciously on the subjective sense. In any case, as long as the local government has the sense to reach the social interests, it is not impossible that the scale and risk of the local debt could be controlled and treated effectively.

(i) The guide measure should emphasize on the positive motivation of the private benefit. The keynote is to develop the government's officers to raise the social responsibility consciousness in the subjective way and to make the private benefit close to the social interests continuously in the positive and conscious way. As far as the debt management, it mainly require the officers to transform the goal from the maximum private benefit to the maximum social interests whatever the process of the debt financing, using and repaying. But if this transformation is to be completed from the positive side, the important measure is how to change the officers' interest idea from their thoughts. It might contains three steps: from the view of selection and appointment, on the basis of meeting the ability requirement

for work, their political awareness should be examined more strictly. As for the civilization and cultivation, some good examples should be offered for influencing the officers' behavior so that they could keep the faith consciously. In the respect of assessment and incentive, their confidence and motivation should be enhanced to uphold the social interests.

(ii) It should restrain the negative erosion of the private benefit to the social interests. The important reason why the private benefit is difficult to get close to the social interests is that there are many different interests available for achieving the private demand, such as the "political achievement" profit, rent-seeking benefit and something else. However, the unlimited private demand would bring about the unrestricted expansion of these interests. If this action could be restricted effectively, the officers will not be any opportunity to reach the private interest. Under this condition, they have no choice to consider the social demands in much more times so that the convergence would be succeeded from the private benefit to the social interests. Of course, this measure in itself is considered by the thought of "constraint" so that it should be accompanied with a perfect action system of "constraint". As far as the "political achievement" profit and the rent-seeking benefit, both of them are widely found to achieve the personal interests though producing debts. To resolve these problems, on the one side, it should aim at changing the "political achievement" idea completely, the particular methods of which include the long term economic effect generated from the debt expenditure and the responsible risk produced on later which are both regarded as the evaluating standards to examine the social interests and also brought into the scope of the political achievement assessment. On the other side, it should focus on the rent-seeking during the debt process. As for this behavior, the punishment should be taken severely. Whatever any lawbreaking activities referring to debts, the leader of local government should suffer from the severe punishment. At the same time, other officers should be on the alert against so that their perverse motives of seeking the rent profit can be perished.

(iii) This measure should eliminate the responsible transformation about the behavior to pursue the private interests. The reason of not being to implement the responsibility of debt management is that the local officers have foreseen that the debt responsibility could be transferred in various methods, such as transforming into the superior government and the next government. Therefore, to actual realize the conscious implementation on the local debt managing responsibility, it just need to make more efforts to eliminate the transferring anticipation which is in order to reach the private benefit and drive the independence of the local government on the acceptance of the debt responsibility. Particularly, the contents are as follows: for one thing, it should weaken the space transformation anticipation of the debt responsibility as for expecting the debt aid from the central government. For example, the central government should adopt some punishment measures which can be used to dismiss and punish the local officers who have not undertaken the debt responsibility, but that is what they should be doing, after that, the local government could also obtain the help from the central government. However, it must pay a high price of the administrative penalty. For another, it should weaken the time transformation anticipation as well which make the debt responsibility transfer into the next government. It needs to

clearly define the local government responsibility of the debt financing and using, to help hold it accountable. Meanwhile, this responsibility must be accompanied with the relevant officer all the time, whatever he has been transferred or even promoted.

5. Conclusions

This paper tries to resolve the unbalance relationship among the “power, responsibility and interests” of the local debt in China, which is on the view of the power endowment, the responsibility restriction and the interests transformation. The goal is to afford some lessons to control the local debt risk in our country. However, to operate the above mechanisms, it has to depend on the safeguard which is formed by the institution perfection and the policy adjustment in the macro field. In practical terms, the first one is to ensure the legal basis for the debt power and responsibility. The power is the operation start and the responsibility is the code of conduct. In case of missing the restriction to the power and responsibility, the debt will be expanded due to much harder to shake off the erosion of private benefit. Thus, the legal norm must be established for carrying the power and responsibility of the local debt, which is really the way in favor of the functional running of the debt management mechanism. The second one is to change the idea of the local officers as for the achievement assessment. As far as the debt management, to help change this idea, tries to consider some indicators of the local debt cost with spillovers into the examine system, which involve the debt efficiency and the debt risk and so on. The purpose is to make the local government has the sense of the debt responsibility while developing the economy. The third one is to guarantee the basic financing for improving the local development. Once for some factors such as the political system the local government can hardly provide the enough money, the financial gap will be more serious and the demand to the debt will become more urgent as well. The more serious about this gap, the easier to cover up the irrational and irregular behavior of the debt financing. So it needs to establish and perfect the basic financing safeguard mechanism at all levels of government, to eliminate any possibility of the local debt financing blindly. The next one is to set up a budget system to manage the local debt. From the consideration, the governments at all levels should take more emphasis on how to build a budget system meeting the requirement of the modern budget system. One of the important reasons is that only bringing the local debt into the budget management can the scale be controlled effectively and be managed regularly. In a further step, this will lead the continuous debt expansion and then make a threat to the financial, monetary and economic security in the whole country. The last one is to enhance the information disclosure mechanism of the local debt. If there are a large number of not open or non-transparent information about the local debt, it would bring about many of them being outside the statistics and keep in the invisible position. The more important is the behavior about the relevant debt power is difficult to supervise and control. As a result, it is necessary to establish a perfect mechanism to disclose the information of the local debt, which need to improve the accounting system, strength the auditing mechanism and regulate the system of statistical management and so on.

Fortunately, from the recent corresponding reform of the local government debt,

the state is actually continuous to change the abnormal relationship among the “power, responsibility and interests”. The essential purposes are focusing on intensifying the social responsibility of the local government, realizing the private benefit of the local government on the debt converging to the social interests of that and guaranteeing the normal increase of the debt. From the developing progress: at the beginning of 2011, the central government tried to select some regions as pilots to put into force an policy to allow the local government to issue the debt by itself. In fact, this action expresses that the central government has been endowing the power of issuing debts to the local government in some areas, which intend to create a policy to be available widely for managing the local government debt. It will lay the foundation for restraining the local government’s behavior from the debt responsibility in the future. On the 6th December in 2013, “the notice on the improvement to examine the political achievement for the local party and government leading bodies and other leading cadres”,¹ which has been issued by the Organization Department of the Central Committee of the CPC, put forward clearly that “the government debt is regarded as an important index to examine the political achievement,, what some problems such as ‘the new leader ignoring the old debt’ and ‘taking up the offspring resource’ are being the important reference to evaluate the leading bodies and cadres”. Meanwhile, “as for borrowing blindly to make a large of bad debts, this action must be on the record and then the officer must be given the punishment by the organization or on the party or policy discipline according to the circumstances, even referring to the departed leaders”. This measure is actually on the view of the political achievement to enhance the sense of the local government to undertake the debt responsibility. On the one hand, the irrational political achievement concept should be corrected through examination. On the other hand, the power to borrow the debt blindly should be restricted by the responsibility life tenure. In 2014, the new Budget Law has been issued, which plays a role of the debt power of the local government being endowed properly so that it makes a foundation for confirming the debt management responsibility of the local government.

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