

On the Justification of the Land Grant System

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Abstract

The land premium system is a system derived from divesting land ownership and use rights. Land use rights belong to usufruct rights in legal nature and are the basic premise for calculating land premiums. Land premium is the total amount of land use fee within a certain period of years, and has the nature of certain land rent. China's land premium system was formed by borrowing from Hong Kong's land grant system and gradually reforming it through evolution against the background of complex economy and unreasonable land use, which has fundamentally revitalized land resources and explored the economic properties of land, with powerful social wealth effects, not only prompting China's rapid industrialization and accelerated urbanization, but also bringing about a great wealth with real estate as the important core. However, after decades of rapid development, the high property prices caused by land premiums, the increased cost of living, the increased pressure of living and the accumulation of a large amount of social wealth in the real estate industry have left hidden dangers and difficulties for future development and have become a focus of concern for the whole society.

Keywords

Land Grant System; Legality; Reasonableness.

1. The Concept of Land Premium

The academic community does not adhere to a standard unified definition of land premiums. Some scholars believe that land premiums are land use fees, while some doctrines believe that land premiums are the price of land. Such views are not sufficiently understood. Land premium is not simply the price of land, residential and commercial land projects, are using bids, auctions and other ways to grant land, these can be priced through the market, at this time the land premium is the price of land. For affordable housing and low-cost housing projects, as well as industrial park development projects, these projects often do not rely entirely on market regulation to determine the land premium, so the land premium here has the nature of a tax. Other scholars believe that the essence of land premium is the sum of the land rent that the landowner pays for the right to use the land for several years. [1]

The above-mentioned viewpoints together, land premium refers to the land owner who grants the land use right to the user and collects the entire price from the transferee in accordance with the relevant regulations, which is essentially a fee for the use of the land for a certain number of years, and at the same time has the nature of land rent accumulated for a certain number of years.

2. Legality of the Land Grant System

2.1. Public Ownership of Land as the Basis

The public ownership of land is the basis and premise of the land grant system. It is because of the land public ownership system that urban land belongs to the state, and land under the land public ownership system cannot be traded freely in the market. The land concessions divest

ownership and use rights, and the separate concessions of use rights resolve the embarrassing situation of publicly owned land. However, the realization of public ownership of land in China is a long process of transformation. The formal establishment of public ownership of land in China was made in the Constitution of 1982, which established the public ownership of land from the perspective of the supreme legislation that the state has been trying to implement for many years.

Since the founding of the country, the route of public ownership of land has undergone 33 years of continuous transformation and planning, and the amount of land in China's cities belonging to collective and private ownership has become very small. In 1982, the central government considered that the conditions were ripe for the unified implementation of public ownership of land in cities, and adopted the Constitution of the People's Republic of China promulgated: "Land in cities belongs to the state. The land in the countryside and the suburbs of the cities belongs to the collective, except for that which is provided by law to be owned by the state; the house bases and the self-reserved land and hills also belong to the collective." Since then, China has formally established the public ownership of land in the form of the highest legislation. [2] Although the 1982 Constitution formally provides that urban land is owned by the state, the state is an abstract concept and the exercise of specific rights depends on local governments at all levels, but local governments do not own land. Therefore, the transferor of land in a land transaction is the local government, which has the corresponding rights, and the transferee is a legal person, organization or individual in society that meets the legal requirements. The government is the legal administrator of land revenue and is in a monopoly position.

2.2. Economic Development Needs to be Matched with an Efficient Land Management System

The land grant system is actually a historical necessity in the midst of socio-economic development. After the socialist exploration and practical activities of the people's commune movement, it was profoundly understood that the ambitious goals of socialism were far from the national conditions and reality of China at that time. The unscientific production method of collective labor and the uncontrolled mode of public canteens led to low production efficiency, neglect of the objective laws of development, and the serious lack of investigation, research and judgment on the development of economic conditions, so that the wind of exaggeration prevailed, making the economic conditions at that time deteriorate sharply. The contradiction between the material needs of the people and the backward production efficiency and capacity gradually showed an irreconcilable situation, and it was directly recognized that the realization of the grand goal of socialism required long and hard efforts. At that time, the government's financial capacity was severely lacking and the economy was not active enough. There was a serious shortage of funds needed for the government to operate and build social infrastructure, culture, sports, education and health care, and the value of the benefits generated by the opening up of privatization in the economy alone was not enough. As an indispensable material for production and life, land has great potential value, and a good land management system is the key link to make land function in the market economy.

2.3. The Confusing Land Use System Itself Needs Urgent Innovation

For more than thirty years since the founding of the People's Republic of China, there has been no special land management law or management agency. The ownership of urban land is owned by the state, and the actual use of land is allocated by the government. Whoever uses the land is responsible for it. Rural land was collectively owned and managed, and no special land management departments were set up at all levels of government. The Land Management Law of the People's Republic of China, promulgated on June 25, 1986, had clear provisions. By 1980, with the gradual progress of reform and opening up, the market gradually regained its vitality

and land rapidly became an important asset. Obviously, the "three no's" of land for many years could not last long. By 1984, the Ministry of Agriculture was responsible for agricultural land and the Ministry of Construction was responsible for urban land. However, there were many problems that were difficult to coordinate between urban and rural areas. The Ministry of Agriculture reported to the central government and proposed the establishment of a State Council directly under the State Council, which would be dedicated to the study of land and the formulation of land management laws at the same time. [3] Since the 1980s, China's land management system has been reformed in two ways. One is the reform of the land management system, and the other is the reform of the land use system. In terms of land use rights, we should separate land use rights from land ownership; in terms of land use management, the free and open-ended use in the past should be changed to a paid and limited use, so that land can truly enter the market with its commodity attributes in full play.

3. Reasonableness of the Land Grant System

3.1. Excellence in Land Premiums

Land grant has two functions in the process of economic development: one is to regulate the use of land, adjust and improve the related industrial structure, and promote the smooth development of the economy; the second aspect is that the process of land grant allocation is the lever to regulate the market economy, and make reasonable revenue distribution to the state, land owners and users, and then regulate the market competition relationship. Land grant is considered as the locomotive of the rapid economic development, and its outstanding contribution to the construction of China's new era economy contains the following aspects.

3.1.1. Differential Supply Mechanism, Rational Allocation of Land Resources

The government's macro regulation opens the door to industries in society that need help, and local governments have a strong subjective initiative in land rights. The advantage of the distribution is that it can be appropriately tilted to the enterprises, industries and individuals in need of help, and macroscopically plays a role in regulating the economy and optimizing the allocation of resources.

Land concessions are heavily tilted in favor of industrial land to support industry as a common preferential policy to attract industrial parks and industries. Many local governments offer preferential policies for enterprises to directly waive land concessions in order to attract industrial enterprises to the local area. The government provides preferential land use policies for enterprises and low price agreements for land concessions to increase the input of land elements. In the early days, the government offered industrial land at a low price through administrative allocation and agreed concessions, and most industrial enterprises obtained the right to use the land at a price lower than the market. In this way, it is to directly reduce the cost pressure of land use for industrial enterprises, thus indirectly helping the development of industrial and private enterprises, driving the rapid development of the urban area economy and other positive effects, and also providing a good and superior atmosphere as well as conditions for talent incubation. provide a large number of stable jobs, solve employment problems, pension insurance, and the overall improvement of the city's economic level. The local government obtains a small amount of land concession revenue by selling industrial land at low prices. The increasing scale of industrial land concessions attracts industrial enterprises to produce locally and retains capital, and to a certain extent expands the scope of tax revenue, which allows local governments to obtain a large amount of fiscal revenue. The positive effects of the inclined supply policy for industrial land can be summarized in three aspects: the cost of land for enterprises is greatly reduced, product prices are competitive in the market, profit margins are objective, and enterprises are able to develop steadily and healthily; the government can attract a large number of high-quality, dynamic enterprises to help the stable

development of the urban economy; and finally, more employment opportunities are provided to the society. In short, the inclined supply of industrial land is a win-win-win situation.

The booming real estate market makes it part of the real economy, and it is also closely related to much of the real economy, and rapid real estate growth can directly or indirectly stimulate the development of the real economy. Over the past decade, China's real estate market has grown so rapidly and contributed so much to economic growth that it is indisputable that it is the engine of China's economic development. First, the industry is large in size and contributes directly and significantly to economic growth. Secondly, the industry chain is long and there are many related industries. Real estate investment and consumption have driven the development of many upstream and downstream industries.

3.1.2. Land Premiums have the Effect of Stabilizing House Prices

China's land grant system plays an important role in stabilizing property prices when compared with other countries' land systems. Land premiums are the guarantee and foundation of housing prices, and at a time when China's property prices have very little turbulence and fluctuations, the economic environment tends to be relatively stable in the long run. Land concessions have transformed into a component of this house price, becoming the cornerstone of China's support for house prices. Over the years, while the cost of construction has remained essentially constant, housing prices have risen so high that land concessions have accounted for about 70% of housing prices. It is clear that the cost of construction materials is not the decisive factor in housing prices; land premiums are the most important component of housing prices.

Throughout history, the value of property has risen in both the West and the East. the real estate bubble in Japan in the 1990s and the subprime mortgage crisis in the U.S. reflected the real estate bubble that followed the socio-economic boom, where the real estate industry was badly inflated and too leveraged, and over-reliance on the real estate market would face a financial crisis, but this precisely reflected the advantage of the Chinese land grant system in stabilizing housing prices. It can be found that the land systems in the US and Japan are relatively weak in price control compared to China. The uninformed have been singing the praises of China's real estate and comparing it to the real estate bubbles in the US and Japan. However, China's real estate market remains strong today, and the land concession system is the most important reason for creating decades of prosperity. Although high property prices come at a price, in the big picture it is actually a slow digestion process and it does not produce a bubble that leads directly to bursting and a financial crisis leading to an economic collapse, which is a major contribution of China's land grant system.

3.1.3. Land Premiums are Used for Urban Infrastructure Construction to Promote Local Economic Growth

In the early stage of land grant implementation, most of them became construction funds for local governments in line with the principle of taking from the land and using it for the people. [4] This plays an important economic pillar role for urban construction. Part of the land concession revenue was used by local governments to carry out urban infrastructure construction, or the land concession revenue was turned into a source of investment funds for local governments to carry out construction of new development zones. Such an institutional innovation as a one-time 70-year land rent has solved the problem of "where the money comes from" for urban development, providing impetus for transportation, environment, energy, education, medical care, employment, public safety, social security, land acquisition and relocation, public infrastructure construction, promoting the process of industrialization and urbanization, and creating economic value. [5] The land grant system has shifted the deployment of land use rights from unpaid to paid. One by one, land finance is integrated into the virtuous cycle of comprehensive development and coordinated promotion, so that urban

construction, urban transformation and real estate development can achieve organic and synchronous coordination. Only in this way can we give full play to the advantages of land resources, rapidly increase urban construction funds and promote urban infrastructure construction. As a result, land concession revenue has become the main source of funds for urban infrastructure construction and fixed asset investment, promoting rapid economic growth.

Land-related taxes collected by local governments have continued to increase in recent years. Due to the rather rapid development of the real estate market, the average annual growth rate of taxes directly related to land, especially land value-added tax, has exceeded 50%. At the same time, corresponding tax revenues from other taxes in China have also been increasing. This indicates that the revenue generated from land concessions not only provides a source of funding for infrastructure construction, but also enables capital to be reinvested in public infrastructure construction and promotes rapid industrial development, with corresponding tax revenues likewise increasing. Therefore, the government is conducive to increasing subsequent fiscal revenue by expanding the input of land elements. The strong fiscal strength can optimize the results of aggregate social demand and supply through different spending directions such as investment in science, education, culture and health sectors, which in turn can promote economic growth.

3.2. Defects in the Rationality of the Land Grant System

3.2.1. Climbing House Price Brings Huge Pressure of Survival

There are many positive effects and effects of land premiums in the rapid development of society and upgrading of national economy, but the problem of land premiums only going up but not down has drawn the attention of the society, and the rising property prices closely related to land premiums have caused a steep increase in the cost of living. There are probably two reasons why housing prices continue to go high: first, the demand for consumption and investment; second, the rising cost of the land element, which drives the high price of housing. The government provides land for real estate developers, collects land premiums, and directly raises land prices; the essential reason is the monopolistic nature of land use rights supply.

Real estate investment trend is hot, a large amount of money into the housing market, speculation has led to higher prices. As housing prices continue to go high housing investment value and storage value function by the market in various investors aim, compared to gold and jade, stock market and other forms of investment, real estate has a higher stability and return rate, the housing market is abnormally hot leading to rising housing prices. Real estate has the support of land concessions, there will not be a significant decline, and the market demand for real estate is still very large, which has become the real estate developers around the land to build the power and bottom line. The interaction between house prices and land prices has led to a rise in both house prices and land prices. Land premiums guarantee the rise of house prices, and house prices in turn boost the rise of land prices, forming a certain linkage cycle between the two.

In stark contrast to housing prices, the general public in Chinese society has not been able to significantly improve their earning power, and the economic downturn has exacerbated the weakening of consumption power in the context of China's slowing economic growth, increasing the pressure to purchase a home and pay back loans. Since 2010, China's GDP growth has basically been on a year-on-year downward trend, rebounding only slightly in 2017, though it returned to a downward trend in 2018, growing only 6.6% for the year, the lowest since 1991. Data show that China's economic growth rate was 9.5% in 2011, 7.9% in 2012, 7.3% in 2014, 6.9% in 2015 and 6.1% in 2019. It is clear to see that China's economic growth is gradually slowing down, and the impact on individuals is multifaceted, with the most direct impact being on income. With the slowdown in economic growth, companies may become less effective and

therefore individuals will have less income. At the same time, companies will also fight economic pressure and reduce costs by laying off employees, which means that job opportunities may decrease and instead unemployment opportunities may increase, and once unemployed it means that they may lose their source of income completely.

Rising housing prices have also brought development difficulties to the commercial and real economy. According to statistics, the current rent of physical storefronts has accounted for 30% of the total cost of physical stores, but even with such a high percentage, rent still increases at an annual rate of 20%, the growth rate surprisingly reached twice the average sales. And the chain reaction caused by this phenomenon is a significant increase in the cost of processing and production and the operation of the real economy, lower profit margins, entrepreneurship and employment rates are clearly downward trend. The high price of land formed by the high price of housing is not conducive to the development of store-dependent industries, the survival and development of the physical stores, resulting in the inability to form good business conditions and environment, the economy naturally followed by depression.

3.2.2. Land Concessions Account for too Large a Proportion of Public Revenue, and the Government is Heavily Dependent on

Government revenues are derived to a large extent from land concessions. According to statistics, in 2016, 14 provinces and municipalities directly under the central government nationwide, the amount of land concessions accounted for more than 30% of fiscal revenue, accounting for 56% of 25 provinces and municipalities. Six of these provinces and municipalities accounted for more than 50% with land concessions. It is obvious that the vast majority of provinces and municipalities directly under the Central Government have a relatively large proportion of land concessions in their fiscal revenues. Among the 23 provinces and municipalities under the direct administration of the data, a total of 17 provinces and municipalities directly under the central government have a proportion of land concessions to debt of more than 30%, accounting for 74% of the total proportion. It is evident that the dependence of government debt repayment on land concession revenue is very high for both provincial and municipal governments. In 2017, concessions from various types of land transactions in 300 cities nationwide totaled 4.1 trillion yuan, up 39.3% year-on-year. Among them, 3.4 trillion yuan was granted for residential land, up 46.7% year-on-year. Compared with the national fiscal revenue of 23 trillion yuan, the proportion of land concessions reached 17.8%, which has to be said to be significant for fiscal revenue. [6]

The government plays the role of monopolist in the whole process of land transfer. The Constitution and the relevant provisions of the Land Management Law stipulate that only state-owned land can be traded in the market, and the ownership system of land in China presents a dualistic structure under the constitutional statute. Without the government's approval, collective land is not legal to be put on the market, and the rights acquired by other entities and the proceeds from the land are illegal. The government is the only seller in the primary land market, selling and granting the right to use the land mainly through agreements and auction.

It is clear from the above that any individual, unit or organization using land for development or construction must apply to the local government or relevant departments, and can only obtain the right to use the land through application in accordance with the law. The approval procedures and conditions are controlled by the government, which is the controller and monopolist of the land market. If the amount of land that can be put on the market is assumed to be a reservoir, then the government holds the inlet and controls the outlet with one hand. Taken together, the obvious land resources are monopolized by the government, which enjoys a dual pricing power, acquiring land from farmers at a low price and then granting land use rights to the market at a high price. The monopoly of land ownership directly determines that

the land market is an imperfectly competitive market, and rather than land being traded in the market, it is better to think of the government as allocating it to the market.

Although the government's monopoly on land supply is controversial, it is also precisely the incomplete market model that plays an important role in the process of land resource allocation, allowing for a balanced distribution of land elements among the various sectors in society, ensuring both a well-functioning market and a balanced use of land resources.

4. Conclusion

The land grant system is based on the public ownership of land and distinguishes the ownership and use of land, which does not destroy the public ownership of land, but at the same time realizes the market value of land and revitalizes land resources, thus helping China's economy to start. However, with the continuous development of society and economy, the shortcomings of the current land grant system are gradually revealed. Any system should be combined with the development and background of the times, and it is necessary to actively seek the path of optimization and reform for the defects of the land grant system.

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