

The Long Shadow of a Fiscal Stimulus

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The Four Trillion Yuan Fiscal Stimulus

- November 2008
- 11% of GDP
- Spent in 2009 and 2010

Fiscal stimulus was mostly financial liberalization for local governments

Very difficult to undo after end of stimulus

Long Run Effects of 2009 “fiscal stimulus”

The Puzzle of China

China does poorly in World Bank Doing Business Indicators

Ease of Starting a Business: 151

Same as Congo (yes this is Mobutu's Congo)

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企业盖栋楼，要交95种税费盖192个章

南京民企老总抱怨懒政之下办事难；江苏确定简政放权路线图，行政审批大幅“瘦身” 封5-7

守着银行 专偷“大户”

徐州破获特大盗抢案
4人团伙流窜9省1市
8年盗抢1200万元

封8



犯罪嫌疑人被押回徐州
图片由警方提供

南京一名医生
一天看了192个病人

封12

27岁南通小伙
任职福建龙海副市长

封17

充气时轮胎爆炸
汽修老板不幸身亡

封10

亚运会上再遭羞辱
国奥0:2不敌泰国

A10

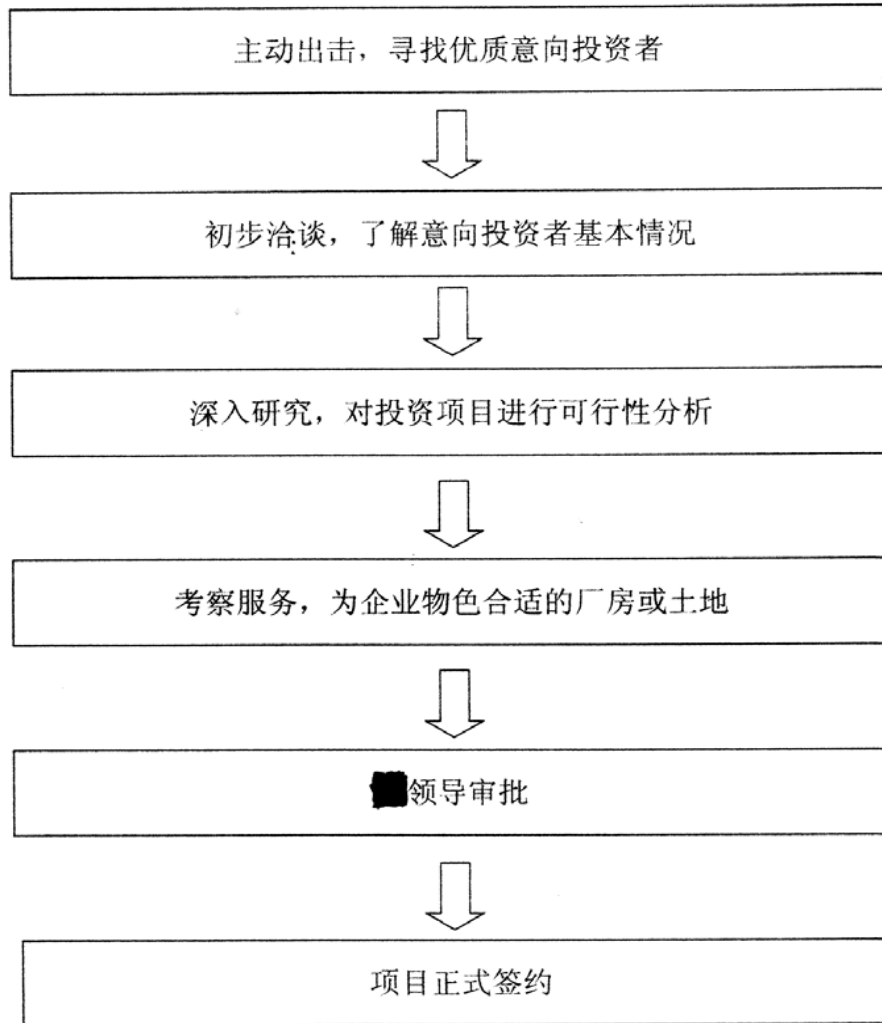
40位抗战老兵聚会
南京体彩组织专车接送

封19

"Long March" for Licenses



City in Southern China



Actively look for quality prospects

Initial discussion to learn about investor

Feasibility Analysis

Identify land and other needed services

Approval by Vice-Mayor

Sign agreement

Organization of Local Government

Party Secretary

Mayor

9 Vice-Mayors

Each Vice-Mayor assigned 20 "important" projects

Formal vs. Informal Institutions

Discretion of local officials is key informal institution

Local governments work very hard to stimulate business

But not any business

Only favored businesses

What is collateral damage to businesses outside of informal system?

Three main reforms

1994 tax sharing reform: removed control of local governments over revenues

1994 budget law (illegal to run deficits)

1998 financial centralization (“vertical management system”)

Removed political influence of local officials over loan allocation

How do you finance fiscal stimulus if you can't borrow?

Encourage local governments to set up off-balance sheet companies to borrow

“Encourage local governments to attract and to incentivize banking and financial institutions to increase their lending to the investment projects set up by the central government. This can be done by a variety of ways including increasing local fiscal subsidy to interest payment, improving rewarding mechanism for loans and establishing government investment and financing platforms compliant with regulations.” Document No. 92, CBRC, March 18, 2009.

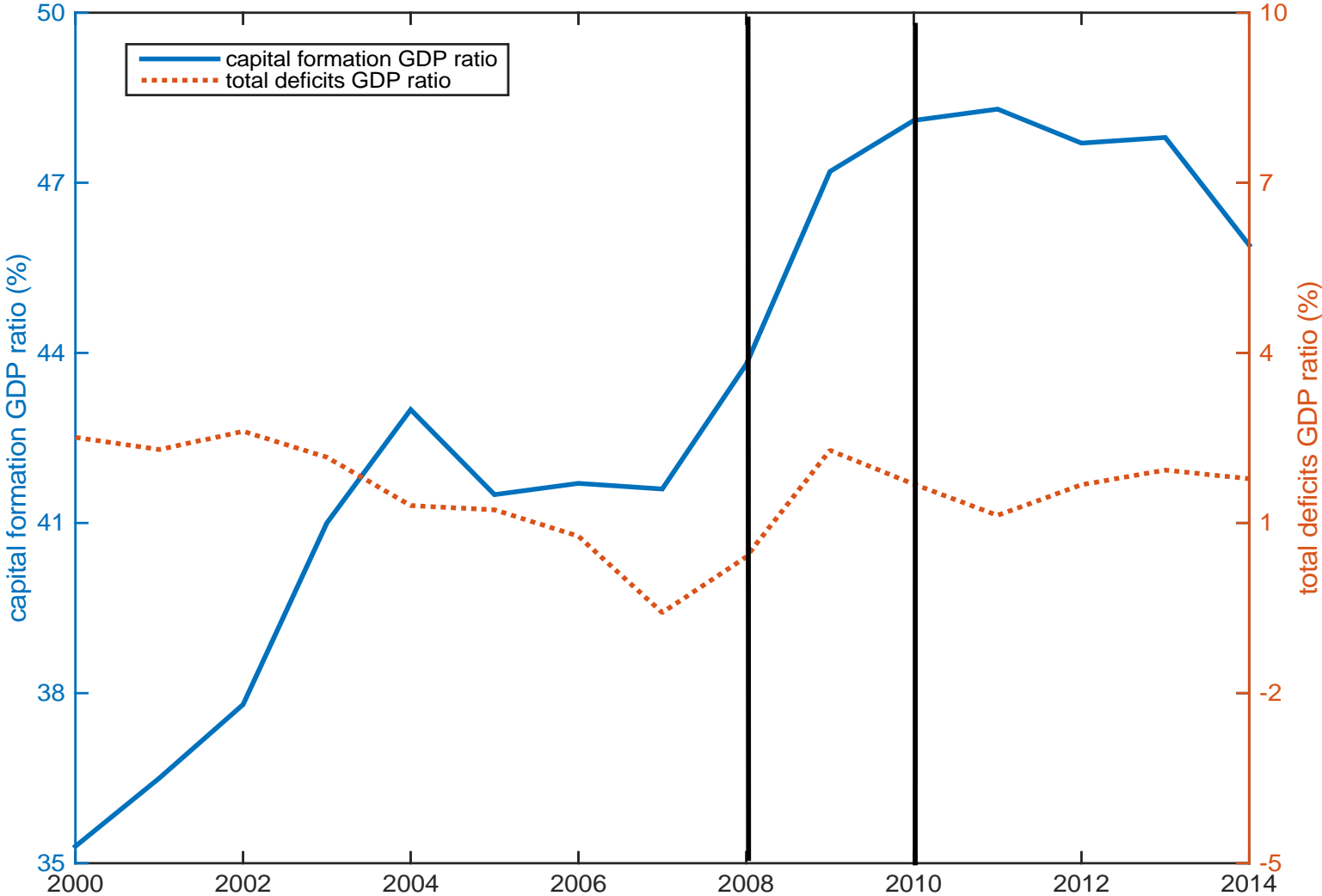
Allow local governments to fund projects through local financing vehicles

“Allow local government to finance investment projects by essentially all sources of funds, including budgetary revenue, land revenue and fund borrowed by local financing vehicles.” Document 631, Department of Construction, Ministry of Finance, 2009.

On-Budget Government Spending (trillion Yuan)

	Planned Stimulus		On Budget Increase in Spending	
			Central + Local	Local Governments
Housing Security	0.40	Housing Security	0.20	0.12
Rural Livelihood and Infrastructure	0.37	Urban and Rural Community Affairs + Agriculture, Forestry and Water Conservancy	0.20	0.20
Railway, Road, Airport, Water Conservancy and Urban Power Grids	1.50	Transportation	0.27	0.31
Health, Education and Culture	0.15	Health, Education and Culture	0.11	0.11
Environment Protection	0.21	Environment Protection	0.05	0.05
Self-Independent Innovation and Structural Adjustment	0.37		N.A.	N.A.
Post-Disaster Reconstruction	1.00	Post-Disaster Reconstruction	0.23	0.21
Total	4		1.05	1.00

Investment Rate and Budget Deficit



Publicly available data on local financing vehicles:

- WIND: Financial statements of LFVs that issue bonds

Individual data on LFVs, **total** debt

- 2011 and 2013 Audit of *all* LFVs (National Audit Office)

Only covers “Official” debt.

“Debt that government has responsibility to repay or debt the government would fulfill the responsibility of guarantee or for bailout when the debtor encounters difficulty in repayment.”

Aquatic Cube and Bird's Nest



Owned by Beijing Asset Management Company (BSAM)

Total 2015 debt (as reported in WIND): 70 billion

Also owns financial, real estate, and manufacturing companies

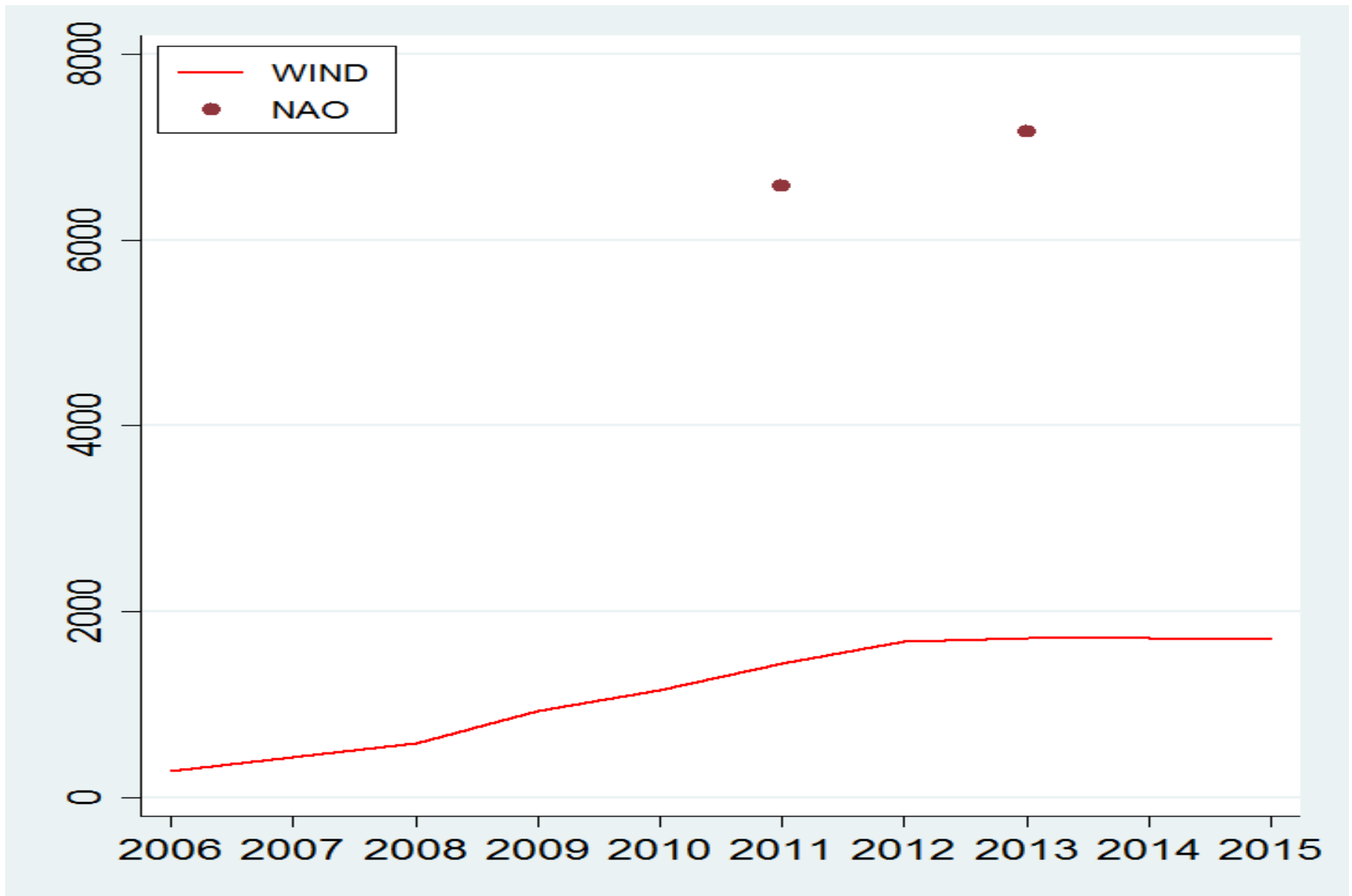
Large shareholder of Bank of Beijing and Beijing Auto Group

Beijing Auto Group owns seven car manufactures, including 50% of Beijing-Hyundai

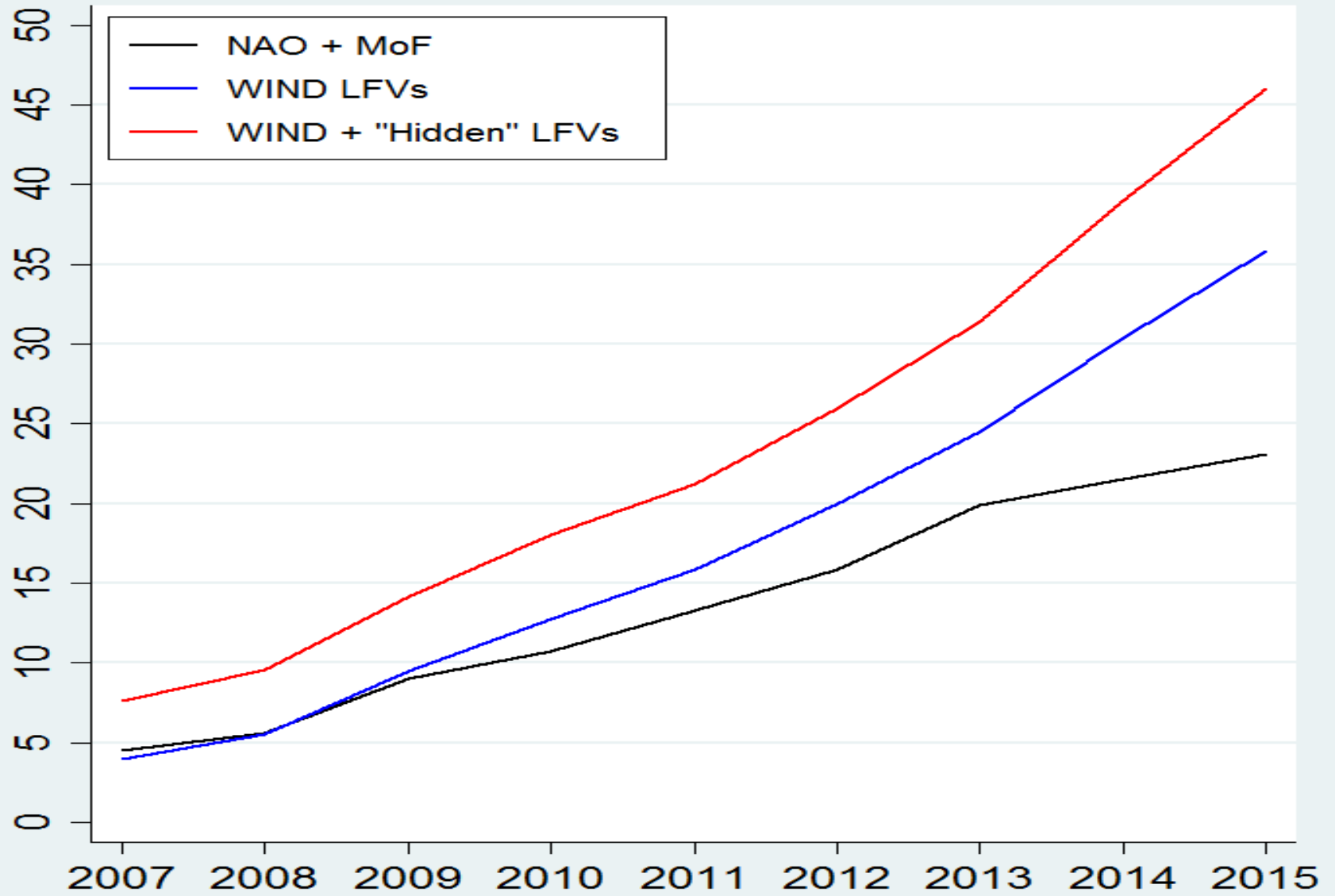
Beijing Capital Group

<http://www.bejingcapital.org/group.html>

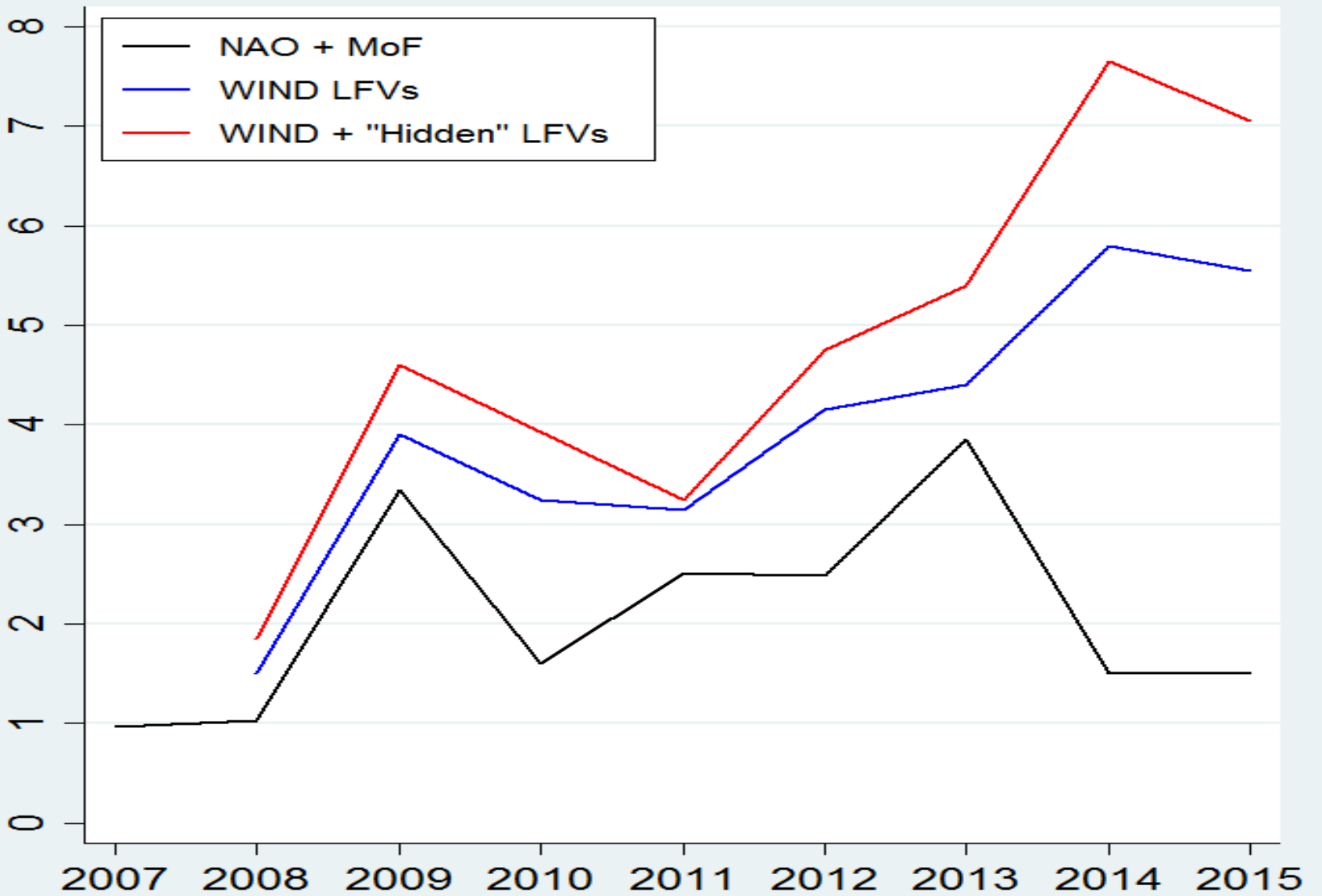
Number of Local Financing Vehicles



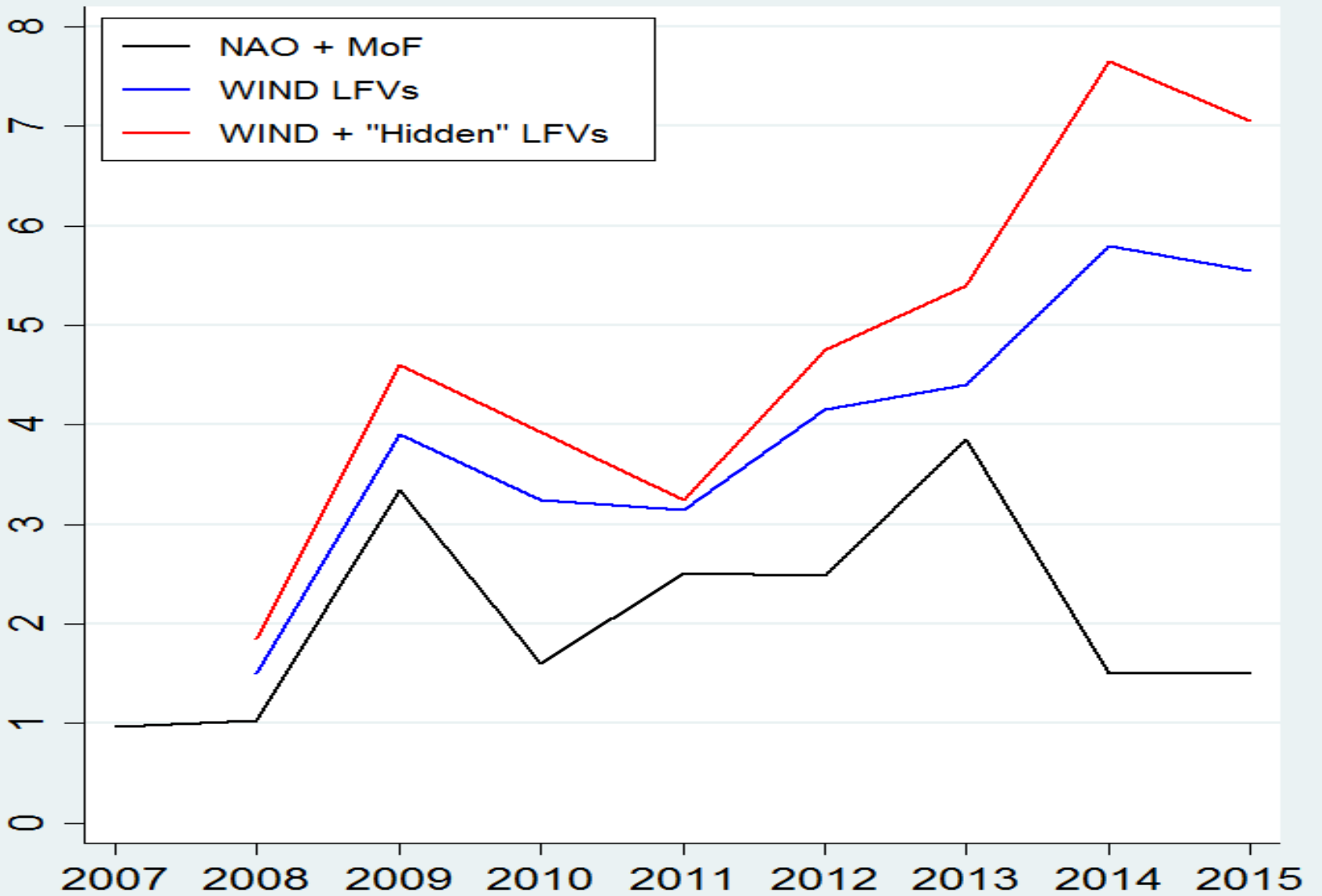
Total Debt of Local Financing Vehicles



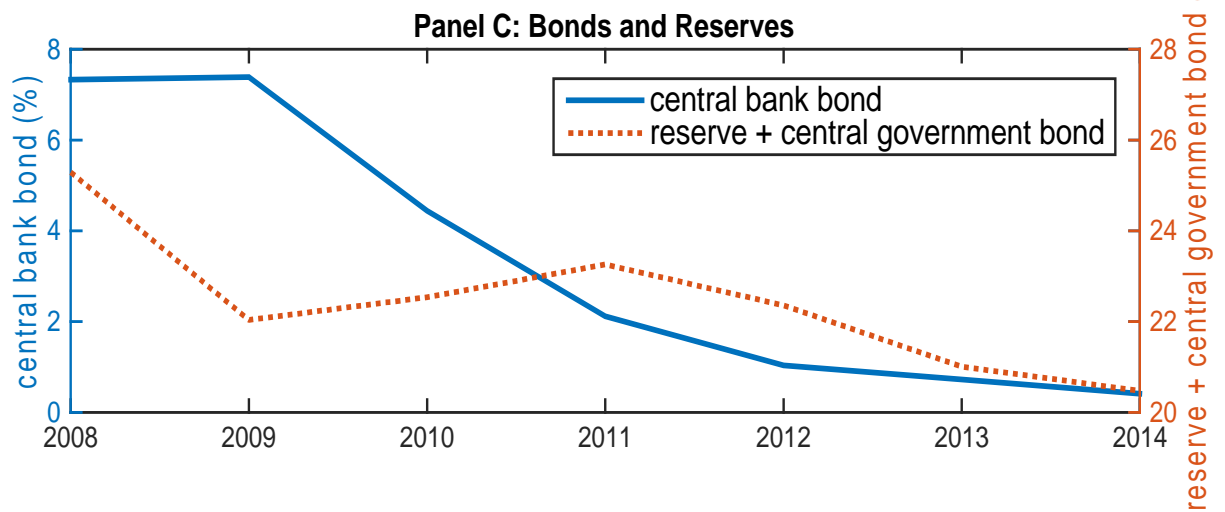
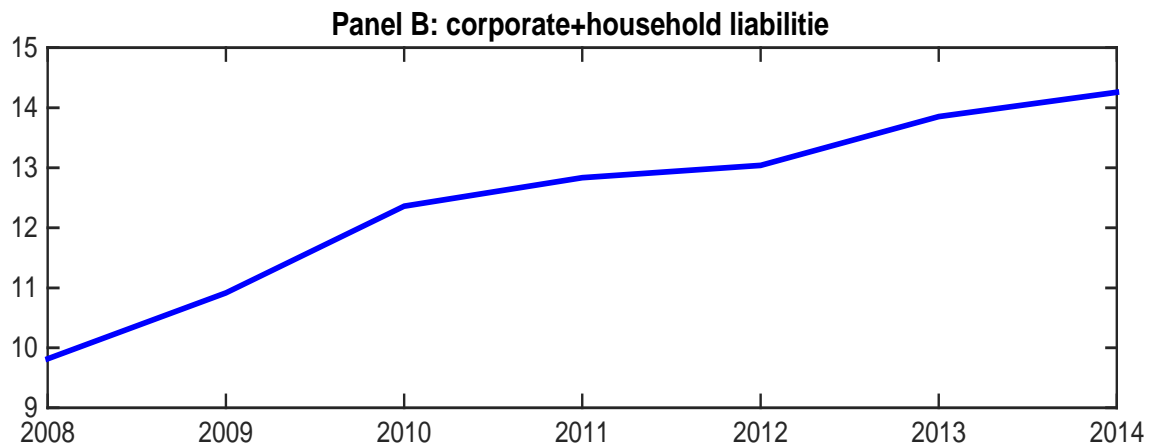
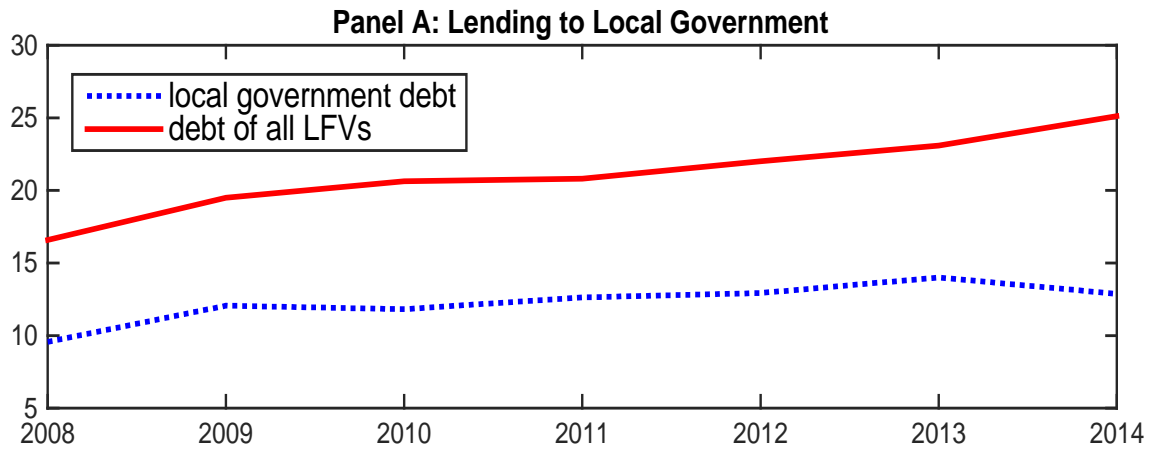
Annual Change in Local Financing Vehicle Debt



Annual Change in Local Financing Vehicle Debt



Assets of Consolidated Financial System



Medium Run Effects

- Increase in Investment Rate
- Decline in CA Surplus (from 10% of GDP in 2008 to 2-3% of GDP)

Aside: David Lipton (June 2016) praises external rebalancing but condemns increasing debt

Long Run Effects

Debt/Financial Crisis?

Reduce Private Investment? So far no

Removed constraints that makes Chinese “special deal” regime different

Chinese special deal regime starts to look more “normal”

Special deals worsen capital allocation

Standard Deviation of Y/K (Private Firms)

