Institution-monopoly rent and competition amongst China's local governments: a Marxist analytical framework

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Abstract

Purpose – As a crucial institutional form established since the Chinese economic reform, the system of competitive local governments has been shaping the characteristics of China's socialist market economy to a considerable degree.

Design/methodology/approach – This study not only adopts the view of existing studies that attribute the economic motive of local governments to rent and consider land public finance as a means through which local governments carry out strategic investment but also attempts to further develop the view within a Marxist analytical framework.

Findings – As a result, the local governments have helped to maintain an incredibly high investment rate over a considerable period of time, facilitating the continuous, rapid growth of the Chinese economy.

Originality/value – This study concludes that China's local governments function as the productive allocator and user of rent in the strategic investment based on land public finance and thereby embed themselves in the relative surplus-value production initially arising from competition amongst enterprises, forming the dual structure of relative surplus-value production unique to China's economy.

Keywords Local government competition, Class-monopoly rent, Economic role of the state, Relative surplus-value production

Paper type Research paper

Since the reform and opening-up, China has established a socialist market economy system with Chinese characteristics, which is defined by some scholars as a three-dimensional market economy. According to this theory, the agents of China's market economy is of a three-dimensional layout and consists of private enterprises, the central government and local governments. The latter two act as the entities of the market economy through various institutional means, such as central and local state-owned enterprises, relevant financial institutions, macro-control and industrial policy, etc. [1]. From the perspective of historical materialism, such view actually considers the economic role of the state and local governments as a part of economic foundation, rejects the traditional practice of

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differentiating politics from economics from an institutional perspective, and advocates that political power and political relations can be directly integrated into the foundation as long as they can function as part of the relations of production [2].

As a crucial institutional form established since the Chinese economic reform, the system of competitive local governments has been shaping the characteristics of China's socialist market economy to a considerable degree and is one of the major reasons why China's socialist market economy is distinctive from the Western market economy and even the system of developmental state [3]. Since reform and opening-up, there has been a considerable amount of research on the economic functions of local governments. A critical theoretical issue for which the solution is urgently called for is how to critically analyse and review the existing body of research based on Marxian economics to obtain a satisfactory interpretation of the role of local governments from the perspective of political economy and turn it into an organic component of the state theory of socialist political economy with Chinese characteristics.

The first part of this paper briefly discusses the four institutional pre-conditions that make the competition of local governments possible since reform and opening-up. These institutions restructure the relations of production and transform local governments into an agent with special motive and behavioural modes. In this part, it is also briefly noted that such measures as strategic investment based on land public finance, implementation of industrial policy in China's multi-layered industrial policy system and acting as Schumpeterian entrepreneurs are some typical economic behaviours of China's local governments. The second part briefly reviews the existing theories of the competition amongst China's local governments and affirms the ideological school represented by works of Shi Zhengfu and later works of Steven Ng-Sheong Cheung. The main achievements of this school include the attribution of the economic motives of local governments to the acquisition of rent and demonstration of land public finance as the strategic investment by local governments using through rents. The third part attempts to further develop the analytical approach of Shi Zhengfu and Steven Ng-Sheong Cheung based on a Marxist framework, for which we introduce David Harvey's concept of class-monopoly rent and apply it to the analysis of land public finance, i.e. China's local governments' investment in the built environment as defined by Harvey. The fourth part further analyses the local governments' productive utilisation of rent and proposes that since reform and opening-up and, more importantly, China joining of the World Trade Organization (WTO), the local governments have played a role of the productive allocator and user of rent in the strategic investment based on land public finance and thus became embedded in the relative surplus-value production initially arising from the competition amongst enterprises, forming the dual structure of the relative surplus-value production which is characteristic of China's economy. As a result, the local governments have helped to maintain an incredibly high investment rate over a considerable period, facilitating the continuous, rapid growth of the Chinese economy. Also in this part, we reviewed Marx's theory of rent, critically analysed relevant theories including those proposed in *Capital*, and implemented a preliminary discussion regarding the relationship between the productive utilisation of rent and the economic role of the state. The last part of this paper is the conclusion.

1. Institutional pre-conditions which make the competition amongst China's local governments possible

The changes in the relations between the central government and local governments over the past 40 years since reform and opening-up not only altered the interrelation of the central and local governments in terms of surplus-value but also gave the local governments greater economic autonomy so that they can function as the accelerator of productivity. In the process of transforming the local governments into entities directly involved in the socialist market economy, four institutions played critical and fundamental roles directly involved in the socialist market economy, namely, the fiscal decentralisation from the central to local governments, administrative decentralisation from the central government to local governments, urban land system reform and urban housing system reform.

Since the 1980s, a significant aspect of economic reform has been the adjustment of central-local government fiscal relations. The system of unified revenues and expenditures adopted throughout the planned economy period was abandoned, and systems that allow moderate budget allocation based on contribution and more decentralised fiscal responsibility systems were subsequently introduced, which greatly motivated the local governments and boosted the economy. However, the shortcomings of these reform measures, demonstrated by a sharp decline in the ratio of central fiscal revenue to GDP, began to emerge during the 1990s. Wang Shaoguang and Hu An'gang argued in their work *A Study of China State Capacity* published in the 1990s that when the state capacity was measured by the central tax revenue's share of GDP, from the 1980s to the beginning of the 1990s, China's state capacity had dropped dramatically to as low as that of the Yugoslavia before its breakup (around 20%) [4]. Such decline in the state capacity greatly hindered the country from exercising macro-control, overcoming market separation, and maintaining the unification of political instructions and governmental orders.

In 1994, the tax-sharing reform initiated by the central government completely replaced the fiscal responsibility system adopted in the 1980s, reversing the continuous decline of the state capacity after reform and opening-up. Although the tax-sharing reform strengthened the control of the central government over sources of tax revenue, the bottom line of decentralisation reform was not to be changed. There was a trend in the reform known as the central-local government administrative decentralisation which encompassed the devolution of miscellaneous powers, such as projects review and approval, investment decision-making and financial management, to the local governments.

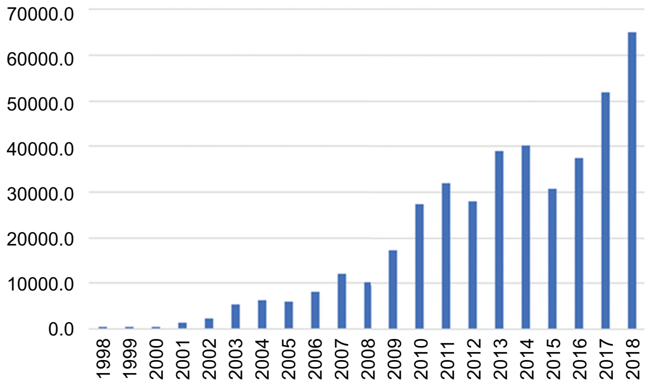
Generally, administrative decentralisation refers to the process where the superior government devolves specific power of economic management to the lower-level governments so that the lower-level governments can manage and decide the local economic affairs, such as investment decision-making, land management and financial management. This idea can be widely seen in many aspects; for example, the establishment of special economic zones and opening of coastal cities implemented as early as in the beginning of reform and opening-up, and the reclassification of counties into cities, establishment of counties directly under provincial administration and expansion of fiscal powers of counties implemented in the late 1990s. In practice, the central-local government administrative decentralisation is realised through two means (Chen, 1995b) – one involves the superior government transferring a part or all of the relevant administrative powers to the lower-level government while its administrative level remains unchanged. The governments to which such powers are devolved are from different levels, and the areas governed by such lower-level governments are often given distinctive naming (e.g. "economic zone", "open coastal city" and "economic and technological development zone") to show their unique features and the expected policy effects resulting from such the power devolvement. The second means is to upgrade the administrative level, i.e. more administrative powers are granted to the local governments by promoting their administrative level, while the area being governed remains unchanged. In practice, such reform mainly consists of setting up sub-provincial cities, reclassification of counties into cities and establishment of counties directly under provincial administration.

The urban land system and housing system reform in China are the other two institutional pre-conditions for the formation of the competition amongst local governments. Under the fiscal responsibility system widely implemented in the 1980s, the local governments had both financial and administrative powers. After the implementation of the tax-sharing system, the central government took back public finance-related powers [5] but granted more administrative powers to local governments. Such structural inconsistency eventually led to a new way of acquiring and using economic surplus, typically characterised by the rise of land public finance. Land public finance is a new institutional form, the prerequisite of which include urban land system reform and housing system reform. The urban land system reform was basically synchronised with the economic reform. The national urban planning meeting held in 1980 officially proposed implementing comprehensive development of urban construction land and levying the land use fee. In 1987, Shenzhen, Shanghai and other big cities started to pilot the reform of paid use of state-owned land. December of that year witnessed the first land auction in Shenzhen Special Economic Zone, which signified the start of piloting of marketisation of the land use right (Wang, 2019). In 1988, according to the modified Constitution of China, the granting and transfer of land use rights was made legal given that certain fixed time limits are imposed on such granting or transfer. In 1990, the State Council enacted the *Interim Regulations of the People's Republic of China Concerning the Granting and Transfer of the Right to the Use of the State-owned Land in the Urban Areas*, affirming the paid use of the state-owned land system through administrative regulations carried out nationwide. Since then, the land use fee became an essential source of the local off-budget income. In the context of financial and administrative decentralisation reform, the central government also realised that the local governments' public finance-related powers needed to be aligned with their administrative powers. The land grant fee (tudi churangjin) is the fee paid in exchange for the paid grant of land use rights of state-owned lands; from 1989 to 1994, the proportion of land grant fee prescribed to be handed over by the local governments to the central government was cranked down from 40% to zero (Lou, 2019). Based on Land Administration Law of the People's Republic of China implemented in 1999, local governments were, for the first time, granted the power to use the arable land for industrial and urban construction purposes such that they can raise revenue from the transfer of land use rights. As a result of these institutional arrangements, the local governments became the only supplier of the primary market of urban land and are granted the power to obtain the land grant fees through temporarily granting land use rights by means of bidding, auction or listing processes.

With the development of market economy and the accelerated industrialisation and urbanisation, the explosive growth of manufacturing, business services and real estate needed huge area of lands, resulting in the exponential growth of land value, of which a substantial proportion goes to the local governments through land grant fee and taxes. Figure 1 shows the growth of the land grant fee in China over the past 20 years. From 1998 to 2018, China's land grant fee revenue skyrocketed from 50.77bn yuan to 6480.1bn yuan, increasing by 126 times in theory.

It is worth noting that the Constitution of China provides that urban lands are owned by the state, which reflects a critical aspect of the ownership system that distinguishes the Chinese market economy from the Western market economy as well as one of the most significant pillars of the socialist market economy with Chinese characteristics. However, the state ownership of urban land does not exclude the commercialisation (or even capitalisation) of land to a certain extent, especially after the institutionalisation of bid invitation, auction or listing for sale of commercial land and land mortgage in the *Land Administration Law of the People's Republic of China*, which marks the recognition of such commercialisation and capitalisation in the form of law. Meanwhile, local governments became the factual personification of the agent of state-owned land ownership. The formation of the land market in China in the late 1990s and the contemporary formation of the labour market (1996–2000) laid an institutional foundation for China's establishment of a real market economy and its joining of the WTO [6].

During the land reform, the urban housing system also underwent a marketisation reform. As early as April 1980, Deng Xiaoping pointed out unequivocally that housing reform entails commercialisation. Under the guidance of this philosophy of reformation, in June 1980, the



Source(s): Due to changes of statistical standard, the data between 1998 and 2000 are the "nationwide land supply revenue data" from the *China Land and Resources Almanac* (Ministry of Land and Resources of the People's Republic of China, 2000a, 2001a, b). The data between 2001 and 2009 are the "total of transaction prices for granting of state-owned construction land" data from *China Land and Resources Statistical Yearbook 2010* (Ministry of Land and Resources of the People's Republic of China, 2011). The data between 2010 and 2018 are the "revenue of land grant fee for state-owned land use rights" from Finance Yearbook of China (Zhongguo caizheng nianjian bianji weiyuanhui [Editorial Committee of Finance Yearbook of China], 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019)

Figure 1. China's land grant fee revenue from 1998 to 2018 (in hundred million RMB)

Central Committee of the Communist Party of China and State Council of the People's Republic of China officially announced that the ban on private construction, purchase and ownership of properties were lifted [7]. In 1988, the State Council of the People's Republic of China enacted the *Implementation Plan for Housing Reform in Stages and Batches in Cities and Towns*, clarifying that the current physical distribution of housing was to be gradually transformed to monetary distribution, house residents are allowed to acquire the ownership or the use right of the residence by commodity exchange, and that the practices of socialised, specialised and enterprise-based operation of real estate businesses were to be promoted (China Business Law Society, 1989). In fact, the reform lifted the ban on real estate finance and the real estate industry, initiating the process of housing commercialisation. In 1994, the State Council issued the *Decision on Deepening Urban Housing Reform*, instructing that the physical benefit distribution of housing should be transformed into monetary wage distribution based on labour, which meant that more public residences were to be turned into commercial residences by sale (Li *et al.*, 2018). In July 1998, the *Circular of the State Council on Promoting the Continuous and Healthy Development of the Real Estate Markets* issued by the State Council of the People's Republic of China stipulated that the physical distribution of housing would be entirely ceased and replaced by monetary distribution of housing from the second half of the same year onwards (Division of Housing and Real Estate Industry of the Ministry of Housing and Rural-Urban Development of the People's Republic of China and China Real Estate Association, 2006). The reform pushed forward the rapid development of China's real estate companies and real estate market. China's sales of commodity houses of real estate developers kept growing from 11.01bn yuan in 1987 to 13.37013tn yuan in 2017; the market value of commodity houses increased from 1628.18bn yuan in 1991 to 146.84179tn yuan in 2017, with the total value of commodity house market to GDP ratio rising from 74% in 2004 to 177.5% in 2017 (Li *et al.*, 2018).

Since reform and opening-up, the adjusted vertical financial relations and administrative relations between the central and local governments, along with the land reform and housing system reform, transformed the local governments into an agent of the market economy with unique economic motive and behavioural modes and promoted the horizontal competition amongst local governments and the networks between the local governments and enterprises [8]. As the headquarters of regional economic development, a local government may demonstrate multiple behavioural modes to develop regional economy, such as implementing industrial policies by strategic investment based on land public finance, promulgating industrial policies and playing the role of a Schumpeterian entrepreneur. These economic behaviours of local governments are interrelated and sometimes hard to distinguish. As we will present an in-depth analysis of the local governments' investment based on land public finance in the following part, only the local governments' role in China's multilayered industrial policy system will be briefly reviewed in this section.

The Chinese industrial policies must be reviewed together with central-local government relations and the competition amongst local governments, which is decided by multiple factors. China is a large country in terms of its population, land and economy, making it unlikely for China to adopt the industrial policies that developmental states in East Asia like Japan, Korea adopts, where the central government intervenes the industrial development by controlling the economic management departments. Instead, China adopts a multilayered industrial policy system (also known as a two-level model when local governments are considered as a whole), where the central government acts as the policymaker and the local governments as the implementers. When the central government makes and promotes industrial polices, the local governments follow suit. These two layers of industrial policies are mutually interactive, which eventually determines the effectiveness of industrial policies in practice (Qu, 2018).

More importantly, as a socialist country under the leadership of the Communist Party, China adheres to the basic socialist economic system, which entails the formulation of economic development plans and planning for industrial development direction as inherent components of the Chinese economy. Additionally, China is seeking progress as a developing country, which also dictates the importance of formulating industrial policies and implementing economic plans on a central government level. Since the foundation of new China, the central government has introduced a range of industrial policies and measures, including policies giving priority to the development of heavy industry, developing and implementing the five-year plans, carrying out the "Three-line Construction" aimed at altering the coastal and mainland economic layout, and such policies gradually formed after reform and opening-up as systematic industrial structure policies, industrial layout policies and industrial organisation policies [9]. The industrial policies, combined with policies for exchange rate adjustment, easy credit, tax preference, R&D subsidies, project contracting-out, provide clear guidance for the industrial development of China's national economy.

With the development of socialist market economy since reform and opening-up and the emergence of competitive local governments, crucial new changes have occurred to the industrial policy system in China. As local governments gain more autonomy as the economic entities, local governments at various levels began to carry out industrial policies by various means to seek development. In the two-layered or multilayered policy systems, the local selection and execution of industrial policies may either be consistent, or inconsistent, or even contradictory, with the central or higher-level governments. The degree of consistency or inconsistency depends on the consistency between the development direction advocated by the central industrial policies and a specific local government's development intention, competitive advantages and industrial foundation. If the consistency is high, the local government will follow the industrial policies advocated by the central government; if the consistency is low, the local government will not stick rigidly to the central governments' policies and instead, seek independent industrial policies. Take the development of China's domestic household automotive industry during the 1990s. In the mid-1990s, Anhui-based Chery Automobile Co., Ltd. emerged as a pioneer in China's domestic-branded automobile. Before that, the household vehicle industry in China was dominated by foreign-owned brands such as Santana, Jetta and Fukang, resulting in automotive prices being extortionately high. In 1997, the provincial government of Anhui and the municipal government of Wuhu invested and established Chery Automobile as a local state-owned enterprise – yet this was not even allowed by the official industrial policies in China. By adopting certain policy flexibility and non-official institutions, the local government acquired the Original Entrusted Manufacturer (OEM) qualification after the programme's commencement. After a while of development, Chery Automobile gained the official approval of relevant national departments to develop as an independent brand (Lu and Feng, 2005). As Chery Automobile and other independent brands entered the market, the economical cars' prices dropped nationwide as a result, which significantly boosted the development of China's automotive industry and accelerated popularisation of modern automobiles in China. During the subsequent years, domestic-branded household automobiles accounted for around 40% of the domestic market. This is a noteworthy case which still lacks adequate theoretical analysis from an economic perspective. A lot of scholars influenced by neoclassical economics believe that in the market economy, government intervention inevitably causes price distortion and render the market incapable of allocating resources properly. But this is an impractical doctrine that still has a lingering effect in some theories against neoclassical economics. During the development of China's household automotive industry, the local government managed to set the prices on the right track instead of distorting it [10]. Were the prices in the market dominated by Santana and Jetta without the emergence of Chery Automobile correct? In fact, that was an oligarchic market with the abnormally high price. It was after the entry of a group of automobile companies of local brands represented by Chery Automobile that the competition of China's household automotive industry was made fair, with the price becoming truly reasonable and consumers gaining more benefits. Today, China's household automotive industry is one of the world's most competitive markets, where a great number of state-owned enterprises, private enterprises and joint ventures are competing and contributing together to its prosperity and development. In other countries with a lack of a similar industrial policy system, the household automotive industry has always been highly oligarchic and much less competitive than that of China. Most regrettably, economists' paid attention to the case of China's household automotive industry remains wanting and sometimes the insightful lessons one can learn from the history of this case is even deliberately ignored. When a state-owned enterprise of such a typical sector of great significance for national economic development can prosper in competition and even enhance the industry's competitiveness, those biases against the positive effects of state-owned enterprises should be re-examined. The view that governmental behaviours can only lead to distortion of prices and state-owned enterprises' hostility to competition is merely an obstinate myth claimed by market fundamentalists disregarding reality.

In the case of Chery Automobile, the local government was both the implementer of industrial policies and the Schumpeterian entrepreneurs. Before 2004, China's automotive industry policies were guided by the principle of Market for Technology. Only Sino-foreign joint ventures were allowed to manufacture automobiles. In 1997, Chery Automobile, the said company invested by the governments of Anhui Province and Wuhu City, and Geely Automobile, a private domestic brand based in Zhejiang, disrupted the national industrial policies with their own successes as the representatives of independent automotive brands in China. In 2004, the new *Chinese Automotive Industry Development Policy* issued by the National Development and Reform Commission correctified the regulations and showed clear support for the domestic automotive brands. Scholars summarised this policy change as "Local Experiment–Central Selection and Adoption", which embodied the core advantage of the multilayered industrial policy system (Qu, 2009).

2. Existing theories of the competition amongst China's local governments: a critical summary

The roles of China's local governments fully indicates that they are the behavioural agent in the market economy, but recognition of this fact requires a response to the following question: What kind of theory should be proposed to explain the behavioural and motive models of the local governments? Some existing theories have answered the question from different angles, early theories include the theory of fiscal federalism, and later theories include the tournament theory for the competition amongst the local governments. These theories contribute to explaining the economic role that the local governments play to various degrees. Take fiscal federalism for example. It tries to explain why it is easy to carry out a decentralisation reform in China but challenging in the Soviet Union. However, it has an obvious shortcoming, which lies in the narrow range of its interpretation of the local governments' economic behavioural and motive models. Here are a few excerpts from Mr Qian Yingyi's works (Qianand Weingast, 2008):

> Most importantly, the market-preserving federalism introduces competition among local governments, generating some important economic effects.
>
> First, the competition among local governments will motivate the local governments to create a good environment which draws factors of production, such as capital and labour force. Typical measures include protecting the ownership of factor owners, building infrastructure, providing aids with market entry . . . The competition among different regions stimulates the local governments to spare no effort to provide the best local public goods and protect the interest of factor owners.
>
> Second, the hard budget constraints mean the local government can go broke, forcing them to act prudently in finance. The hard budget constraints restrict the local governments' provision of financial aids for failing enterprises and meanwhile restricts the governments' financial behaviours to the service expenditures that are beneficial to the local economic development, such as infrastructure and residence, so as to create a good environment for the attraction of production factors.

Clearly, according to the above quotes, the roles of the local governments are confined within the framework conceivable to the new institutional economics, that is, the provision of public goods, including protection for property rights and infrastructure.

Compared with fiscal federalism, the tournament theory is the more influential theory regarding local governments over the last 20 years. The theory emphasises GDP's importance to the officials' promotion. However, when it comes to how they boost the growth of GDP, the theory is almost the same as the fiscal federalism theory. The tournament theory also reduces the local governments to individuals and thinks of the local government officials' behavioural and motive models as that of the government, which is a methodological individualist approach [11].

We believe that fiscal federalism and tournament theory cannot fully explain the behaviours and motives of China's local governments. There are two major drawbacks in the two theories. First, when they are used to explain the behaviours of local governments, the governments' roles are confined to defining property rights and supervising the performance of contracts, largely within the range of reduction of transaction costs. Therefore, these theories can be considered the application and development of the new institutional economics or new political economy in China. In terms of new institutional economics, an "inclusive" government, which is conducive to economic growth, is a small government resembling Adam Smith's "night-watchman state". However, in practice, the economic role of China's local governments is much greater than is acknowledged by this kind of theory. In the case of China's automotive industry, the local governments acted as the Schumpeterian entrepreneur rather than supervise the performance of contracts or defining property rights.

Second, when it comes to interpreting the economic motives of local governments, the fiscal federalism attributes it to the tax maximisation, which is far from enough to explain local governments' motives [12]. From the perspective of methodology, a government that only pursues tax maximisation is no different from the night-watchman state. Hypothetically, the local government only pursues taxation, which implicitly assumes the government is a libertarian minimal government. This is a theoretical preconception utterly inconsistent with the reality of China's economy. The tournament theory attributes local governments' motives (some officials' motives in reality) to the maximisation of GDP. This hypothesis is robust under some circumstances, but it comes with problems: first, the motives of local governments must be elaborated otherwise if they are acknowledged as an agent of the market economy, given that GDP does not translate into the local governments' actual disposable income [13]. Second, a great number of studies on the tournament theory have been done to test the relationship between officials' promotion and economic growth, which are more of politics rather than economics. Moreover, the tendency of restoring the government's behaviours and motive models to some officials' behavioural and motive models contained in such studies reflects the profound influence of methodological individualism.

As a contrast, the local government competition theories of Steven Ng-Sheong Cheung and Shi Zhengfu are introduced. According to Steven Ng-Sheong Cheung, when it comes to interpreting the local governments' behavioural and motive models, the view which attributes them to fiscal taxation maximisation or GDP maximisation must be abandoned. He argues that after the implementation of tax-sharing system, the value-added tax (VAT) gained by the local government at the tax rate of 17% should be regarded as a rent rather than a tax. He produced two reasons for that. First, investors are required to pay VAT as long as they use land and property for production; second, enterprises are required to pay the tax regardless of profits. Steven Ng-Sheong Cheung's analysis is only confined to VAT and exclusive of other local government revenues; however, this perspective can be easily generalised for understanding local governments' behaviours. On the one hand, we can borrow from Steven Ng-Sheong Cheung's insight to consider the local government revenues (not confined to and nor dominated by VAT) as land rent; on the other hand, as local governments subsidise the production costs of enterprises with a part of such rent, it leads to the problem of local governments' productive utilisation and allocation of such rent (Cheung, 2012). Interestingly, once the problem is brought up, Steven Ng-Sheong Cheung parted ways with the new institutional economics which he once believed in. For new institutionalists like Douglass C. North, economic growth and government's pursuit of rent are a paradox [14]. Following the tradition, Chinese scholars fully supportive of the new institutionalism, such as Zhou Qiren, regard the rent that governments acquire (e.g. land grant fees) as the institutional cost or transaction cost, with the latter merely having adverse effects on economic growth [15]. By contrast, Steven Ng-Sheong Cheung attributes Chinese local governments' behavioural motives to acquiring rents and thinks of this phenomenon as a driver of economic growth, which is an insight completely different from new institutional economics and fundamentally distinctive from the views of such scholars as Zhou Qiren.

Regrettably, Steven Ng-Sheong Cheung's view is still wanting in terms of demonstration thereof and attention from academia. Therefore, it remains a not ill-developed theory. Apart from a lack of exploration and elaboration of the rent theory and its relationship with economic growth, a more significant reason is that the potency of neoliberal economics restricts people's imagination. In the second half of this paper, we will clarify the characteristics of the rent gained by the local governments and make a further explanation regarding the relationship between rent and accumulation with Marxian economics.

3. Institution-monopoly rent and China's local governments' investment in the built environment

In *Supernormal Growth: China's Economy Between the Years 1979–2049*, Shi Zhengfu accepted Steven Ng-Sheong Cheung's above-mentioned view, noting that "|reconsidering the government's property in the socialist market economy is revolutionary (Shi, 2013, p. 38)." Shi Zhengfu attempted to further enrich Steven Ng-Sheong Cheung's opinion and put forward the following ideas. First, the function of land public finance is to subsidise the loss from granting of industrial land use rights at low prices and various costs incurred by investment promotion with the rent gained from the commercial housing market and tax revenue. As a result, the investment is stimulated to hit a record high which other countries can hardly reach, creating the supernormal growth of the Chinese economy [16]. Second, the local governments' costs for draining investment can be regarded as an investment. He argued, "The expenditures for stimulating investment by the local governments generate an ever-growing value creation and sharing process, which will eventually return to government finance in such ways as tax growth, value-added equity and land appreciation. In this sense, the fiscal expenditures for stimulating investment of local governments should be considered as an investment for prospective earnings in the future (Shi, 2013, p. 55)." It is an incredibly profound insight to define land public finance as local governments' unique investment strategy and investment activity.

However, when local governments' economic behaviours are considered as investment behaviours, two kinds of different investment behaviours need to be identified. Urban lands in China can be generally divided into industrial and commercial purpose lands. These two types of land are different in that they serve different of economic nature. The former is regarded as a condition of production (or productive factor) and the latter as a financial asset. A land used as a financial asset is similar to stocks and bonds in that it is a form of fictitious capital. What Shi Zhengfu refers to as expenditures for stimulating investment only denotes the investment of industrial land (for such works as installing utility infrastructure, levelling ground and building factories). Nevertheless, in the market of lands which are considered financial assets, local governments are also engaged in activities such as investment and co-ordination of investment affairs. Therefore, the local governments' investment behaviours should be interpreted from the above two dimensions. We can borrow the terms coined by Harvey to summarise the local government's investment behaviours as an investment in the "built environment" within its administrative jurisdiction [17]. Harvey's concept of built environment includes all the material structures embedded into the land and for the purpose of production, circulation, exchange and consumption.

The income that local governments gain through investing in the built environment is of the nature of rent, mostly land rent. Since reform and opening-up, a common theory tendency has been to consider differential rent as the major form of rent of urban land based on the Ricardian and Marxian theories of rent (Chen, 1995a; Yang, 1993). This approach can be used to explain many phenomena but leaves out a few things as well. First, the differential rent theory is based on the assumption that land is a factor or pre-condition of production. When land is regarded as a financial asset, another theory is needed to explain the formation of urban land rent. Second, according to the differential rent theory, the utilisation of land explains the formation of land rent and the value of land. With various monopoly factors, land rent and land value also decide how the land is used. Actually, it is unlikely to use differential rent theory alone to explain the development of urbanisation since reform and opening-up. In the 1970s, the Western Marxists were also faced with similar problems when the prices of land and residence went up rapidly and the real estate market was evidently demonstrating its financial nature. For the sake of analysing the situation, a typical solution is to consider rent as monopoly rent, a trend adopted by many researchers including David Harvey as a remarkable geographer as well as a world-renowned Marxian economist. We believe Harvey's theory of urbanisation and class-monopoly rent can be used to explain to a considerable extent the nature of rent obtained by China's local governments through investing in the built environment [18].

Harvey's class-monopoly rent refers to the monopoly rent generated in a specific institutional environment. To understand the concept, a few points need to be clarified. First, the word "class" as in "class-monopoly rent" does not carry the specific connotation typically used in political economy. To put it in Harvey's terms, a class refers to a group of individuals who find themselves sharing common interests and whose interest conflict with those of other groups concerning the rent payment. Harvey considers his definition of class here as a "sub-class" under the traditional concept of class.

Second, class-monopoly rent is premised on "class monopoly" or "class monopoly power". The simplest definition of Harvey's "Class monopoly" is where "a class of producers (or consumers) who have power over a class of consumers (or producers in a situation of structured scarcity (Harvey and Chatterjee, 1974, p. 32)." Harvey noted that Marx also mentioned the concept of class monopoly. For example, in Volume III of *Capital*, Marx argues that, regardless of commodity, "If the demand for this particular kind of commodity is greater than the supply, one buyer outbids another — within certain limits — and so raises the price of the commodity for all of them above the market-value, while on the other hand the sellers unite in trying to sell at a high market-price", but "If one side has the advantage, all belonging to it gain. It is as though they exerted their *common monopoly*" [19]. In the eyes of Harvey, likewise, when a land or property owner rent or sell urban land or residence, other land or property owners can benefit too, which forms a common class monopoly amongst land or property owners. Class-monopoly rent so defined is different from the monopoly rent based on pure, natural monopoly; the latter can be referred to as individual monopoly rent because its formation is based on special natural conditions which are hard to replicate. In the context of class-monopoly rent, such rent will be derived so long as similar institutional environment exists. We find it fair enough to call such monopoly rent as institution-monopoly rent.

Third, the realisation of class-monopoly rent depends on an institutional structure with hierarchical characteristics. At the top of the hierarchical structure are the state and financial capital. According to Harvey's summary, the institution and policies advocated by the state and financial capital aim at three basic objectives: first, to maintain a stable relationship between construction, economic growth and new household formation; second, to make sure the stability of economic growth and flatten the periodical economic waves by using construction industry and housing sector as Keynesian regulator; third, to ensure the domestic peace and stability by supplying residence and adjusting the distribution of social welfare. The functions the government performs in the real estate market is crucial. For instance, governments in the US adopt direct intervention (i.e. government's engagement in housing production) and indirect intervention. The latter is a more common form in the US, which includes the governments' provision of aid to financial institutions, real estate developers and constructors boost their development by reducing or exempting taxes, guaranteeing profits and eliminating risks. Also, the governments restrict or constrain the operation of the real estate market in various institutional ways, of which the most important one is planned control over the urban region division and land utilisation. Last but not least, the government can also change the external environment of residence and impact its value by providing public services, public facilities and road traffic.

Harvey used the concept of class-monopoly rent (or institution-monopoly rent) to explain the urbanisation in the development of the modern capitalist economy. He concluded that urbanisation would inevitably facilitate the development of urban land rent. In his early works, Harvey compared the significance of differential rent and monopoly land rent in different stages of capitalism. He believed that in the 19th century, the traffic system of the emerging commercial and industrial cities represented by Chicago and the producibility of the cities themselves meant that differential rent might dominate this stage. It also meant that the utilisation of land decided the scale of rent. In the phase of monopoly capitalism, monopoly rent carried greater significance in the metropolitan centres (as well as in commercial and administrative centres represented by London in the 19th century). The phenomenon indicates that rent would become a part of the costs of enterprises and thereby decide the use of land [20].

Harvey analysed the meaning of urbanisation and class-monopoly rent within a Marxist framework. First, he supported the view of the Monopoly Capital School. He argued that the core conflict of modern capitalism was the conflict between the surplus growth and the difficulty in absorbing the surplus. In this context, the dependence on urbanisation and real estate sector was regarded as the fundamental feature of capital accumulation in the stage of monopoly capitalism. He wrote, "Through a system of debt-financed highways and infrastructural transformations, through suburbanisation and the total re-engineering (using new construction technologies pioneered during the war) not just of the city but of the whole metropolitan region, he [i.e. Robert Moses, the designer behind the urbanisation of New York] defined a way to absorb the capital and labour surpluses profitably. This process of suburbanisation, when taken nationwide through the geographical expansion of capitalist development into the American south and west, played a crucial role in the stabilisation of not only the US economy but also US-centred global capitalism after the war (Harvey, 2011, p. 165)."

Second, Harvey argued that capital accumulation's dependence on urbanisation and the real estate sector was reflected not only by the consideration of these sectors as normally operating sectors where capital accumulation happens but also by using urbanisation as the new space for accommodating inherent conflict of capital accumulation, making it the secondary circuit utterly different from the primary circuit of capital. The division of the primary and secondary circuit was made by Henri Lefebvre, a French Marxist philosopher. The primary circuit corresponds to the circulation or accumulation of capital in the industrial sectors, while the secondary circuit corresponds to the circulation of capital in the production of the built environment. Lefebvre was the first one to come up with the view that capital's transfer from the primary to the secondary circuit was the structural feature of modern capitalism. He argued that a change occurred to modern capitalism: "the proportion of global surplus-value formed and realised in industry declines while the proportion realised in speculation, construction and real estate development grows". In other words, the secondary circuit of capital has replaced the primary circuit of capital (Cited in Harvey, 1985, pp. 62). Harvey's contribution is that he further pointed out that the structural pre-condition for the switching of capital accumulation from the primary circuit to the secondary circuit is the general formation of class-monopoly rent in the secondary circuit. Hence, the cause for the switch of capital accumulation to the secondary circuit comes from two aspects, namely, the excessive accumulation within the primary circuit and the formation of rents within the secondary circuit. In fact, if Harvey and Lefebvre's definition of the secondary circuit is generalised by not just considering as the circuit throughout the production in connection with the built environment but also including the circuit of all the fictitious capital, it will turn out that Harvey has actually raised an analytical framework for explaining the financialisation of contemporary capitalism.

While applying Harvey's theory to the Chinese economy, it should be noted that the function of institution-monopoly rent (hereinafter referred to as "institution-monopoly rent") is to promote the switching of capital accumulation towards the secondary circuit, which results in financialisation. In this sense, institution-monopoly rent is non-productive in two aspects to Harvey: in terms of source, institution-monopoly rent is non-productive, because the rent is realised by value transfer in the financial asset market; in terms of usage, institution-monopoly rent is also non-productive, because it re-enters the secondary circuit and further develops financialisation. If the rent gained by China's local governments is considered as institution-monopoly rent, then it is partly consistent with class-monopoly rent in developed capitalist economies which Harvey studies; nonetheless, there is a significant distinction between them as well. They are consistent in that both are formed in a non-productive way in the financial asset market; however, in the developed capitalist economies, institution-monopoly rent is used in a non-productive way while China's local governments are, in most cases, the productive user and allocator of such rent over the past decades. However, the recent pursuit of institution-monopoly rent facilitated the financialisation of the Chinese economy, resulting in the non-productive nature of local governments' behaviours to a certain degree. Hence, when we divide the local governments' behaviours by such change, Harvey's previous analytical framework will prove suitable for the second phase but not for the first phase.

The revenues that China's local governments gain by investing in the built environment are of the nature of institution-monopoly rent to a considerable degree. The land grant fee of commercial land, which is a typical form of such revenues, mainly consists of the institution-monopoly rent, although it also includes certain differential urban land rent (in the case of commercial land). The so-called "land financing" refers to the formation of local government's debts based on the prospective growth of land grant fee and is essentially based on the growth of institution-monopoly rent.

Similar to Harvey's opinion, the institution-monopoly rent of China's real estate market is also created by the specific systems and policy arrangement of the government and financial institutions. Tao *et al.* (2009, p. 27) elaborated on the formation of land grant fee as follows. "The practices adopted by local governments in granting land use rights of industrial lands and commercial lands are significantly different from each other. As to commercial land, local governments establish land reserve centres to monopolise the primary market in the cities and maximise the revenues from granting of land use rights by restricting the supply of the commercial lands and granting land use rights in such means as bid invitation, auction or listing for sale, while the granting of the land use rights of industrial lands is mostly done by agreed arrangements . . . In order to horizontally recover the loss caused by agreed granting of land use rights of industrial lands, some local governments are forced to grant more land use rights of commercial lands." As a result, "The industrial land market becomes a 'nationwide buyer's market' due to investment competition while the commercial land market becomes a 'region-wide seller's market'. Since local governments have the power to grant the land use rights at higher prices by bid invitation, auction or listing for sale and impose the high land price on the local consumers of service sectors, local governments will regulate and control the scale of land supply as well as increase the revenues of granting the land use rights of commercial lands by establishing 'land reserve centres'" [21]. In reality, apart from these initiatives, local governments also design various supporting systems like School Distinct Housing System to strengthen the "absolute space" nature of commercial lands, that is, to combine the inherent exclusiveness of space, a physical property, with the institutional property, so as to create scarcity and raise institution-monopoly rent [22]. Figure 2 shows the transaction price variation of different kinds of land in China. The increased price scissors between the curves of "commercial and service land", "residential land" and "industrial land" represent the growth of the disposable rent of local governments, especially the institution-monopoly rent.

Notably, as the central and local governments are landowners and tax collectors, certain forms of taxes are often difficult to differentiate from land rent. For example, land use tax can

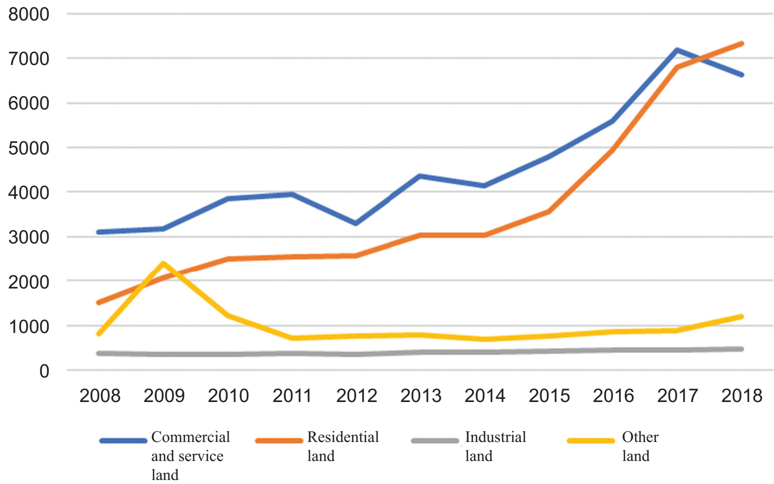


Figure 2. Transaction prices by four types of land in Chinese cities (Unit: RMB/m^2)

Source(s): Wind Economic Database, https://www.wind.com.cn/newsite/edb.html

be regarded as a representation of urban absolute rent [23]. As mentioned above, Steven Ng-Sheong Cheung thinks of the VAT as rent; however, he did not define the nature of such rent. For Steven Ng-Sheong Cheung, VAT is only associated with the production and sales carried out by enterprises using lands but irrelevant to whether profitable or not. From the perspective of Marxist economics, it seems VAT in this sense can be interpreted as an urban absolute rent. In a socialist market economy, the state is the only owner of land, and absolute land rent is directly derived from such ownership of state-owned land. Local governments only charge small amounts of fees for the granting of industrial land use rights and such fees can sometimes add up to a negative amount. Through collecting VAT, central and local governments gain a part of the absolute rent by means of taxation [24]. In addition, before the reform replacing business tax with a VAT was fully implemented in 2016, the service sectors were required to pay business tax rather than VAT. According to the observation of Tao *et al.* (2009), the business tax will be greatly increased within a short period after real estate construction and sales. It means that such tax is also related to the investment in the built environment, which is, in a sense, a deduction from institution-monopoly rent.

4. Productive utilisation of rent and dual structure of relative surplus-value production

The issue of concern herein is not to explain how local governments gain institution-monopoly rent but to understand the formation and utilisation of institution-monopoly rent within the context of local governments' investment strategies and investment activities. Here arise the theoretical issues of the relationship between the productive utilisation/allocation of rent and economic growth. In order to understand the relationship within a Marxist analytical framework, this paper includes a brief discussion of the position of Marxist theory of ground-rent in the entire theoretical system of *Capital*.

It is generally understood that, in the theoretical framework of *Capital*, ground-rent is conceived as an organic component of the general law of the capitalist mode of production; it is the application and completion of the general law of movement of capitalist economy, especially the law of equalisation of general rate of profit. However, in reality, whether the ground-rent theory is generally interpretable remains uncertain. The premises upon which

Marx and Ricardo's theories of rent are founded, i.e. three classes in the capitalist agricultural sectors (landowners, tenant farmers and agricultural workers), is not a general phenomenon but the outcome of the development of specific historical institutions. These classes were formed in the 16th century and had almost disappeared at the end of the 19th century. As pointed out by Harvey, as capitalism develops, land gradually turns from a condition of production into sheer financial asset, thereby eliminated the special landowner class distinctive from the capitalist class. From this perspective, there is actually an asymmetry in the theoretical framework of *Capital* – there is a theory of rent based on historical institutions that exist in this theoretical framework concerned with the general law of capitalist mode of production, but they are of different levels of theoretical abstraction. In the investigation of the general laws of the capitalist mode of production, Marx was a pioneer in constructing a reference system for explaining the dynamic efficiency of the market economy by proposing the theory of relative surplus-value production in Volume I of *Capital*. One of the authors of this paper has illustrated the theory's significance as the reference theory and its applicability to the socialist market economy with Chinese characteristics. Based on this reference theory, Marx also investigated the cause of the market's dysfunction through the decline of the rate of profit and crisis theory. The concept of rent is not present in Marx's general theory of relative surplus-value production and accumulation. If the ground-rent theory is regarded as an analysis of historical institution, then in Marx's theoretical framework, the issue regarding the relationship between such analysis of historical institution and the above-mentioned general theory, especially the reference theory needs to be addressed. This relationship can be generally expressed as the relation between the formation/utilisation of rent and relative surplus-value production/capital accumulation. Marx sees differential rent as a "false social value" because in terms of its source, the excess profit, which constitutes differential rent, comes from the value transfer outside agricultural sectors, and it ultimately results in lowered general profit margin in industrial sectors. In this sense, rent is an encumbrance to capital accumulation [25]. It seems Marx never further discussed the use of such rent. Marx tends to hypothesise that landowners were a sheer non-productive class. However, with the modern economic history of Britain as an example, the landowner class in the 18th century and 19th century was not a sheer non-productive class considering that they also made use of the productivity of rent to a certain degree, such as investing in the built environment (roads, canals, mines, urbanisation and railways), facilitating the Industrial Revolution and subsequent economic development in the 18th century. Such functions of the British aristocratic landlords are somewhat similar to those of so-called developmental states. Perkins (2002, pp. 60–61) comments: "Their [aristocratic landlords'] most positive economic contribution was in the sphere of the 'preconditions' of industrialism, in agriculture, mining, transport, and town-building, which in later industrial revolutions had so often to be provided by the State or not at all."

There are a number of different theories regarding the relation between the formation/use of rent and capital accumulation in the modern Marxist literature, which are summarised and compared in Table 1. For example, in the book *Late Capitalism*, Ernest Mandel reviewed the relation between the technological rent and technological progress of monopoly enterprises. Second International theorists (e.g. Stefan Bauer), modern attachment theorists and unequal exchange theorists analysed the formation mechanism and influence of what is called imperialist rent based on the economic relation between underdeveloped countries and imperialist countries. Former Soviet Union scholar Preobrazhensky suggests that the country could earn rent from a non-socialist economy by pricing, tax and credit system so as to give great impetus to the socialist primitive accumulation of capital [26]. The kind of rent mainly from circulation and re-allocation also contains the nature of institution-monopoly rent, and it also has the nature of non-productivity, although it was used in a productive way.

Marx did not consider the possibility of productive use of rent when putting forward other land-rent theories, and therefore neither did he discuss such use of rent and its general

Table 1.
Productive/non-productive sources and proposes of rent: comparison of different theories

	Productive purpose	Non-productive purpose	
Productive source (Value creation in the production process)	Mandel: Technological Rents of Monopoly Enterprises and Technological Advance of Late Capitalism		From the Second International's theories to modern attachment theory: The plunder combined with the super-economic means and unequal exchange in international trade cause imperialist rent and hinders the growth of underdeveloped countries
Non-productive source (Value transfer)	Preobrazhensky: Use of rents generated by price, tax and credit system for socialist primitive accumulation of capital	Harvey: Class-monopoly rent, as a driver, draws surplus capital into the secondary circuit to boost the development of financialisation New institutionalism: The transaction cost as rent hinders economic growth	

economic theory, especially its relation with the relative surplus-value production theory. When analysing the economic behaviours of China's local governments, such relation must be taken into account. To be specific, the productive use of rent needs to be combined with the relative surplus-value production model. The idea that a socialist state can act as the productive allocator and user of rent was derived from Preobrazhensky's theory. Preobrazhensky pointed out that accumulation in this way can be much faster than accumulation based on the surplus products produced by the state. Such views are methodologically instructive for understanding the relation between the investment activities and economic growth of China's local governments [27]. However, although Preobrazhensky noticed the issue of the state's productive use of rent, but his analysis was only confined within the perspective of planned economy, which is rather different from the contexts we are in today. Moreover, although China's local governments are also the productive user of rent, the major source of rent is the appreciation of land as financial asset during industrialisation and urbanisation rather than the transfer of product value in circulation and re-allocation described by Preobrazhensky.

In the context of the socialist market economy, the review on the function of rent must refer to the reference theory explaining the market economy – relative surplus-value production theory. Marx's relative surplus-value production theory is the reference framework for understanding technological progress and economic growth since the industrial revolution. With a bit of modification on the theory, that is, the removal of capitalist productive relations, it can be applied to the socialist market economy. In other words, it can be used to explain the Chinese economic growth since reform and opening-up. During the development of the Chinese economy over the past 40 years, the competition amongst local governments co-exists with the competition amongst productive enterprises, and the former kind of competition contains a more prominent significance [28]. The two kinds of competition are mutually stimulative, which create the *dual structure of relative surplus-value production* unique to China's economy (Meng, 2019). This dual structure of relative surplus-value production contains several meanings: first, it is an outcome of the combination of the Marxist relative surplus-value production model and a particular institutional form (model of competitive local governments) – or, to put it another way, the competition amongst local governments is embedded into relative surplus-value production as an institutional form. The representation of the dual structure is a dual investment subject. As one of the investment subjects, China's local governments make a direct or indirect investment in the built environment and bring in the enterprise investment and value creation process. It not only boosts the development of industrialisation and urbanisation but also stimulates the substantial appreciation of land as a financial asset and gains institution-monopoly rent therefrom.

Second, as the productive user and allocator of institution-monopoly rent, China's local governments subsidise the efficient and innovative enterprises in various ways such as offering low land prices in the process of investment invitation. In this case, rent actually becomes the monopoly profit or additional profit of relevant enterprises, [29] which further encourages the innovation and productive investment of enterprises and thus results in the super high investment rate and growth rate of the Chinese economy. Meanwhile, some local governments also invest the rent directly in the local state-owned enterprises (take a look back on the case of Chery Automobile), thus directly partaking in the process of industrialisation and innovation [30].

Third, the dual structure of relative surplus-value production explains the essence of land public finance. Regarding the term "land public finance", the word "finance" should be interpreted as a kind of economic relation rather than the superstructure [31]. Land public finance involves expenditures and revenues. In terms of expenditure, local governments invest in the built environment attached to the land and integrate with the relative surplus-value production process, pushing forward the development of industrialisation and urbanisation; in terms of revenue, local governments draw the savings of the whole society to the real estate market and transform them into institution-monopoly rents based on the appreciation of land as a financial asset. In this sense, land public finance becomes a motivation system formed by the savings of the whole society. Some researchers argue that land public finance includes financial aspects, or even land public finance is land financing because the local governments not only sell the land use right but also take the future growth of the land value as mortgage to gain credit (Zhao, 2014). From the perspective of financing, this view is correct. However, it should not be ignored that there is a medium between the growth of land value and credit creation. The key is how to interpret the working process of the medium. We believe that the process is actually that local governments integrate with the relative surplus-value production by investing in the built environment, thus resulting in the rapid development of industrialisation and urbanisation as well as the growth of rent and land price [32].

It should be pointed out that some researchers one-sidedly emphasise the negative effect of the competition amongst China's local governments during their research and refer to it as "race to the bottom", featuring attracting enterprise investment even at the cost of the environment and labour standard (Tao *et al.*, 2009). Supposing the environmental issue is left aside, from the perspective of Marxist economics, putting forward this problem means that we should consider the proportions of the absolute surplus-value production and relative surplus-value production throughout the growth of the Chinese economy. In other words, we should identify which type of surplus-value production is the principal aspect of the contradiction, according to dialectics. This question is worth deepening discussing. We cannot further illustrate it in this paper, but it is fine to raise the following points: first, the proposition that "race to the bottom" maintains an essential foothold in the Chinese economic growth one-sidedly emphasises the "adverse rent-seeking" relation between local governments and enterprises (Gengand Chen, 2015), omitting the importance of competition amongst enterprises in the market competition within the dual structure of relative surplus-value production. Second, besides attracting the enterprises at the low-end of the value chain, local governments also increase the enterprises' added value to upgrade the industrial structure for sustainably developing strategic investment with the focus of land public finance, playing a significant role in facilitating the local economic development. Third, according to the empirical research under Marxism's guidance, relative surplus-value production is the major driver of China's economic growth since the mid-1990s (Luo and Li, 2014).

In general, China's local governments have been the productive allocator and user of rent over the past four decades, investing in the built environment within their jurisdiction to integrate with the competition amongst enterprises, thus boosting industrialisation, urbanisation and economic growth. Meanwhile, it should be noted that this development model also generates some inherent contradictions in practice. First, the rents governed by the local governments are based on land public finance and land financing and further the inflation of real estate market prices. The continuous inflation of the real estate market prices and the institution-monopoly rents may finally cause the outcome pointed out by Harvey, that is, drawing capital into the virtual capital circuit (a.k.a. the secondary circuit), thereby pushing forward the financialisation of the Chinese economy. In this case, as large amounts of rents are not used for productive investment and innovation, the relative surplus-value production system will be wrecked. Second, in reality, such phenomena are relevant to the periodicity of the physical economy. With the gradual market saturation of the existing products and the development of excess production capacity, the dormant capital requires new accumulation channels. As the technological revolution cannot fully take in the surplus capital, the growth of production rate and income tends to decline, so it will be hard to support credit or the expansion of the local governments' debts, which leads to the risk of financial crises. Last but not least, the real estate market is pertinent to the modes of labour force reproduction – when the real estate market price keeps increasing and reaches a certain degree, the labour force reproduction will be deeply affected, and the cost of wages will go up continuously, thereby squeezing the profits in almost all the industries on the supply side. Over the global economic history, the event of *Corn Laws* in the UK may be a good example to elaborate the above view further. Due to the restriction of Corn Laws on the import of food and grain, the price of the domestic produce in the UK tended to increase, which caused the money wage growth, thus squeezing the profits of the industrial bourgeoisie. As such, the local government competition model represented by land public finance becomes the target of national macro-level control and further deepening reform. The central-local government fiscal-economic relations remain to be further reshaped. On the one hand, local governments should stop over-depending on land public finance and land financing and explore new disposable rent sources; on the other hand, local governments shall maintain the position as the inherent entity of the socialist market economy and continue to contribute to boosting the Chinese economic development.

5. Conclusion

The central-local government fiscal-economic relations are an organic component of overall economic relations in China, a socialist power. The adjustment of central-local government fiscal-economic relations since reform and opening-up is a reform of productive relations in a Marxist sense because the evolution of tax-sharing, administrative decentralisation and land system not only involves the vertical change of surplus appropriating relations but also directly shapes a new economic entity, that is, the competitive local governments. China's local governments are the inherent economic entity of the socialist market economy with unique economic motives and behavioural models, playing a crucial role in Chinese economic development.

The economic behaviours of competitive local governments manifest the essential feature of China's socialist market economy with Chinese characteristics – the political power and political relationship undertake the function of productive relationship and thus merge into the foundation as a part of it. How to further conceptualise and theorise this essential feature in an economic sense is an important task to build up the modern Chinese socialist political economy. As is pointed out in this paper, some existing theories about the competition amongst local governments like fiscal federalism and some theories with the GDP tournament as the framework relatively leave out this essential feature. These theories, to a greater or less degree, follow the presupposition of liberal economics and treat politics and economy as two distinctive institutional fields rather than considering their differences as functional variations in a specific institution. In this case, although these theories also contribute to explaining the behaviours and motive models of local governments to some extent, they fail to provide a comprehensive enough explanation for the economic role of local governments in the socialist market economy.

This part gives a critical review of the theories about the competition amongst local governments, and thanks to the relevant insights, we come up with a Marxist analytical framework to explain the competition amongst China's local governments. The fundamental feature of this analytical framework is to combine the historical institutional factor – competitive local governments with the general theories of Marxist economics, especially the relative surplus-value production theory. First of all, Marx's relative surplus-value production theory is a reference theory to explain the dynamic efficiency of the modern market economy. Over the past four decades, China's local governments, as the productive user and allocator of rent, form a dual structure of relative surplus-value production, which is a characteristic of China's economy, by embedding relative surplus-value production, thus resulting in the rarely seen rapid economic growth.

The above function of China's local governments is realised by investment in the built environment. And the source of investment comes from rent in different forms, especially institution-monopoly rent. It is worth noting that as the productive user and allocator of rent, China's local governments are established based on a series of institutions like state ownership of the urban land. In other words, if the competitive local government is one of the typical institutional forms that have arisen over the four decades' reform, such an institutional form is formed by the combination with other institutional reforms on the premise of state ownership of the urban land. The institutional evolution logic fully embodies the feature of "socialism" of the reform and China's socialist market economy. Engels (1995) once pointed out that "the abolition of property in land is not the abolition of ground rent but its transfer, if in a modified form, to society. The actual seizure of all the instruments of labour by the working people, therefore, does not at all preclude the retention of rent relations." The economic practices of China's local governments since reform and opening-up manifest mutually contradictory aspects, but on the whole, the practices vividly interpret and develop the above arguments of the representative scholars.

Notes

1. Shi (2013) proposed the insight that China's socialist market economy was three-dimensional.
2. Economy and politics are not distinguished by institution but the institutional function, which is systematically elaborated by Meng (2016), one of the authors of the current study.
3. Su and Tao (2015) have elaborated on the particularity of the Chinese market economy brought by the system of competitive local governments and its distinctions from that of developmental states like Japan and Korean.
4. See the work by Wang and Hu (1993). The introduction of the fiscal responsibility system was intended to learn from the methods and experience of household responsibility system in rural agricultural production, but the reform towards responsibility systems was latter abused – it was even extensively implemented in the fields of finance, credit, foreign trade, foreign exchange and investment. Lou (2019) observed that "the implementation of all these variations of responsibility systems impeded the formation of a unified national market and was counterproductive to the adjustment of China's industrial structure and policies. Additionally, it also led to such serious consequences as the off-budget capital expansion, rise of land public finance, and weakening of central government's fiscal role."
5. To be specific, the 1994 tax-sharing reform reclassified various taxes' attribution to the central or local governments. The central taxes consisted of eight taxes, including consumption tax, customs duties, consumption and value-added taxes collected by customs under authorisation, and central

corporate income tax; the local taxes consisted of 18 taxes, including business tax, local enterprise income tax and personal income tax; the shared taxes included such taxes as VAT and securities exchange tax. As VAT was the largest and most stable tax after the tax reform accounting for 43.7% of the overall tax revenue and 75% of that of turnover taxes. After all the factors are considered, it was determined that VAT be shared between the central and local governments, with the shares of central and local governments being 75 and 25%, respectively.

6. According to Polanyi (2010), the emergence of the three fictitious commodities – labour, land and money – signifies the formation of market economy. Likewise, Marx also proposed similar ideas in *Capital* by emphasising land reform and labour commodification's crucial role in building modern market economy.

7. Fangchan tongxun zazhishe [Office of Real Estate Communications] (1982), *Guojia fangdichan zhengce wenjian xuanbian: 1948–1981 [Selected Documents of National Real Estate Industry Policies: 1948–1981],* Fangchan tongxun zazhishe [Office of Real Estate Communications], Tianjin.

8. Such networks refer, in an economic sense, to the organic market relations formed based on non-price relationship. Generally, power, trust and loyalty are the institutional conditions that constitute such market operation.

9. Industrial structure policies include the leading industry selection policies represented by Made in China 2025, strategic industry support policies represented by the Development Plan of National Emerging Strategic Industries, declining industry withdrawal policies represented by "overcapacity cut" policies, infant industry protection policies represented by new energy automotive industry policies. Industrial layout policies consist of the marco-level Belt and Road Initiative as well as the meso-level strategies such as Yangtze River Economic Belt, Coordinated Development of the Beijing-Tianjin-Hebei Region and Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area. Industrial organisation policies include monopoly-prohibiting and competition-strengthening policies.

10. The theory of developmental state as elaborated in *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* by Wade *et al.* (1994) is an example of such influence. In the book, Wade used the neoclassical theory as a reference to measure the roles the government plays in its intervention of the market.

11. According to Zhou (2018, p. 130), compared with the presumed encouragement to local officials by financial and tax incentives, "The promotion incentive for local officials in the tournament is more sustainable and fundamental than the incentives brought by financial and administrative decentralization. As political participants, officials care about administrative promotion and career prospects the most rather than the local fiscal revenue."

12. Tao *et al.* (2009, p. 27) have criticised some opinions of fiscal federalism, but regarding interpreting the behavioural motives, they hold a position resembling fiscal federalism.

13. Tao *et al.* (2009, p. 29) have elaborately criticised tournament theory.

14. This is referred to as the "North Paradox" in China, named after the conflict described by North (1994, pp. 24–25).

15. See the study by Zhou (2017, p. 868). Yang (1998) tried to modify the framework of new institutionalism to analyse China's local governments' interdependency on the pursuit of rent and economic growth, but his analysis only emphasised that enterprises' profit growth was the source of government rent without mentioning how local governments used the rent in a productive sense and allocated it as Steven Ng-Sheong Cheung did; (Yang (1998), p. 8) also made a broad and less analytical definition of rent, i.e. the promotion of position, stability of power, domination over resources and grey income.

16. Shao *et al.* (2018, p. 59) commented as follows regarding the local governments' acts of lowering the prices of industrial lands and subsidising it with land grant fees: "Given that business tax and grant fees of the commercial land are completely retained by the local government, as long as the discounted present value of the future VAT brought by the attracted investment, and the discounted present value of the business tax generated indirectly following the boom in the local

service industry, and land grant fees resulting therefrom exceed the cost of land expropriation and the construction of supporting infrastructure, it will be worthwhile for the local government to further lower the price of the industrial land." Tao *et al.* (2009, p. 27) further detailed such local government strategies.

17. Scholars who view local government's behaviours as the mere provision of public services have restricted themselves within the paradigm of liberal state theories. An empirical research regarding this issue by Fan (2015) demonstrated how land public finance reflects the investment incentives of the local government rather than the mere provision of public services.

18. See the literature review by Meng and Gong (2014) on Harvey's relevant theories. As socialist market economy develops, some Chinese researchers represented by Chen (1995b) came to realise that the monopoly rent based on the monopoly of special urban areas is the main form of urban land rent.

19. See Marx (1974, p. 217). The boldfaced text in the quote is so highlighted by the authors of this paper.

20. Harvey (1973, p. 188) pointed out that a paradox arising out of such phenomenon is that some of the most unproductive activities in society were found on lands which were supposedly of the greatest marginal productivity by virtue of its optimal location. Here was how Harvey explained the paradox: Land and property rent in central locations did not arise out of the land's marginal productivity; rather, the enterprises or institutions situated in the urban centre happened to be at the top of the social hierarchy and could gain enough profits to pay for monopoly rents.

21. See Tao *et al.* (2009, pp. 27–28). Local governments' restriction on commercial lands can be seen in the distribution of supply of state-owned construction lands for different purposes. From 2003 to 2017, the land supply was mainly distributed in such fields as industry, mining, warehousing and infrastructure, where land supply was realised through non-market means, agreed low pricing and free allocation total percentage; their percentage rose from 59 to 81%. During the same period, the percentage of the commercial land granted in the forms of bid invitation, auction or listing for sale dropped from 41 to 19%. See China Land and Resources Statistical Yearbook (of all previous years) (Cited in Shao *et al.*, 2018, pp. 56–57).

22. "Absolute space" is a term used by Harvey (1973).

23. Chen (1993, pp. 27–28) was a pioneer in arguing that urban absolute rent in a socialist system also included absolute rent, i.e. the land rent directly generated by land ownership. He suggested that the absolute rent of productive sectors in the cities is an advance deduction from profit, and only based on such condition can the law of average rate of profit come into play.

24. Notably, Steven Ng-Sheong Cheung's consideration of VAT as rent carries both a general and a special implication. Its general implication is the attribution of the behavioural motives of local governments to the possession and allocation of rent; the special implication is the consideration of VAT as rent. The latter aspect remains debatable, but it cannot negate the general implication of such perspective.

25. Marx is not alone in regarding rent as an institutional hindrance to capital accumulation – David Ricardo held a similar view. Ricardo argues that differential rent will keep growing as the land fertility declines and the land of inferior quality is included in arable land, which increases the price of land products, thus forcing the money wages to go up and squeezing profit margin.

26. See Preobrazhensky (1984). Preobrazhensky did not use the concept of rent but ambiguously referred to them as surplus products, but the system of transfer of surplus products is, in fact, the formation mechanism of rent.

27. Chinese scholar Chen (1993) also became aware of the significance of the socialist urban land rent being used by the state. Regarding absolute rent, he wrote: "there is no inherent relation between absolute rent and exploitation but a cooperative relationship between the state, enterprises and laborers . . . The rent is handed over to the government that represents the society which invest it on the cause of socialist construction and taken it into the re-allocation of national income."

28. Yang (1998) proposed that "On the premise of pushing forward market-oriented reform through administrative delegation, market competition is first represented as the competition among local governments, and then as the competition among enterprises."
29. Some researchers consider enterprises' initiative of gaining the additional profit as a way of adverse rent-seeking, which means an enterprise of rent setting versus multiple rent-seeking governments. It is against the neoliberal economic view that the government is regarded as the only one rent-setter (Gengand Chen, 2015).
30. Harvey made an analogy with the competitions amongst cities and competition amongst enterprises and analysed the competition amongst cities from the perspective of absolute and relative surplus-value production. He proposed that the productive progress achieved by improving the urban infrastructure is conducive to facilitating relative surplus-value production (Harvey, 1985, pp. 213–214). Besides, he also gave a preliminary analysis of the dual structure of surplus value production. Harvey also mentioned another kind of competition amongst cities, whose essence was to provide a good consumption environment to stimulate reputation consumption so as to gain surplus value from the revenue cycle. (Harvey, 1985, pp. 215–216)
31. At the end of the 1950s and the beginning of the 1960s, the old generation of economists once argued whether finance was economic foundation or superstructure and came up with two main opinions. One was that finance could only be economic foundation in the socialist economy and the other was that finance had dual attributes, one of which belonged to foundation and the other belonged to superstructure. Furthermore, according to the latter opinion, we should judge whether a certain type of finance belongs to foundation or superstructure according to whether the fiscal expenditure is used for productive purpose. Amongst these discussions, whether or in what sense finance belongs to the foundation is a question derived from the question that whether the state has a function of organising economic activities. See Deng (1962). The authors consent on the idea that whether a financial relation belongs to economic foundation or superstructure should be based on its specific function.
32. Different local governments have different abilities of attracting investment. As such, some weaker ones may not be able to pay for debts by institution-monopoly rent, which leads to the debt crisis of local governments. See studies by Gong *et al.* (2011), and Fan and Mo (2014).

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