Land Institutions and Chinese Political Economy

Land Institutions and Chinese Political Economy: Institutional Complementarities and Macroeconomic Management

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Abstract:
A rich body of literature examines the politics of economic management and economic intervention in advanced industrial democracies. While all governments have monetary and fiscal tools, such as the manipulation of interest rates, exchange rates, and government spending, at their disposal to manage and smooth business cycles, they employ these tools in different ways for political reasons. This paper argues that the Chinese Communist Party (CCP) has used the land supply as a key instrument of macroeconomic regulation. The article draws on local and central documents to track, first, how, during the 1990s, land became the CCP’s central means of macroeconomic management and, second, demonstrate the use of land as an economic policy tool. In particular, the article analyzes key episodes of macroeconomic policymaking to show the causal logic at work. In each instance, the CCP relied on manipulation of the national land supply and local land access to either stimulate economic growth or rein in an overheating economy. China’s land institutions ones that share “complementarities” with fiscal and financial institutions and benefit powerful political actors while imposing costs on marginal ones.

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I. Comparative Politics of Economic Management

A rich body of literature examines the politics of economic management and intervention in advanced industrial democracies. In general, this literature takes as explananda the policies that various states adopt to manage economic trends and address economic problems. Whether these scholars emphasize the importance of institutions, ideas, or the interests of economic power-holders, they are attentive to the need for states to manage economic problems as well as social conflict. Primarily for political reasons, different countries adopt different tools—such as Keynesian fiscal management, voluntary wage restraint, monetarist interventions, and so forth—to meet their goals of reducing inflation, achieving full employment, or addressing slow growth.

In authoritarian countries and in developing democracies, governments must also adopt strategies to manage macroeconomic cycles and contain social conflict. These developing countries, however, tend to face different or additional constraints, such as the wishes of external actors like the IMF or World Bank, and have different tools at their disposal, such as extensive networks of state-owned enterprises or public assets in countries with histories of state planning. This article addresses the theoretical issue of the politics of macro-economic management during economic transitions by examining reform era China.

After the Chinese Communist Party (CCP) abandoned the use of microeconomic controls, such as prices and investment controls and central planning, it instead sought to adopt strategies of “macromanagement” (宏观调控) to generate growth but also prevent overheating; in short, to manage business and inflation cycles. Scholars have long argued that inflation cycles pose significant threats to reformed communism (or market
socialism), since pressure for investment is pervasive (to maintain employment and prop up public firms) but limits on that investment are few. Indeed, in its first fifteen years of market socialism, China experienced at least three major inflation cycles, driven by state sector investment and decentralization. (See Figure 1).

Figure 1: Inflation Cycles, 1978 – 2010

Source: Bank of China via CEIC

Scholars have advanced two main explanations for how the CCP manages macroeconomic cycles in the reform era. Yasheng Huang (1996) proposed that the CCP was able to have economic decentralization without crippling inflation because of the party’s internal discipline; local officials are restrained from overinvestment by political directives that rein them in. However, Huang’s model, however, cannot explain the 1993 cycle—during which inflation topped 20%—followed by the recentralization of finance in 1994 (see below). If CCP discipline was strong enough to overcome local investment hunger,
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why do we see massive inflation followed by recentralization? Victor Shih (2008) explains inflation cycles in terms of political factions: inflation spikes and austerity measures are evidence of waxing and waning influences of “generalist” and “technocratic” factions respectively. Generalists permit expansionary investment to distribute goods to local supporters, and technocrats rearticulate central control to rein it in. Yet in the post-recentralization period, as Figure 1 shows, the cycles seem to end and inflation hovers steadily under 7% between 1995 and 2010.

The accounts of both Huang and Shih may explain macroeconomic management between 1978 and 1994, but they ignore a major source of local resources and investment for the fifteen years that follow: land. In this article, I argue that land has been a primary tool of macroeconomic management—stimulating growth and managing business cycles—since the discovery of land as a capital source in the early 1990s. The specific institutional characteristics of land governance in China — decentralized public ownership with hierarchical land management — have taken shape over a process of experimentation, crisis, and contingency that has placed land at the center of Chinese political economy.

I make two arguments: First, CCP leaders intentionally reorganized fiscal, financial, and land institutions to put land at the center of local government finances in the mid-1990s. This argument is in contrast to much of the current literature on land politics, which imagines local government dependence on land revenues as an unforeseen consequence of various fiscal reforms. Second, since the late 1990s, the CCP has used the land supply as a primary tool of macroeconomic expansion and contraction. Rather than seeing the center as passively reacting to land hungry local officials, I argue that local
officials are acting as agents of the center: pursuing land development when pushed to so do by central authorities concerned about managing economic growth.

By drawing on theoretical insights from literatures on varieties of capitalism and institutional evolution, this article puts Chinese political economy into comparative perspective in highlighting the centrality of land control. Doing so addresses two empirical puzzles related to Chinese political economy. The first puzzle regards the origins of the China’s unique land institutions, a question that has received very little scholarly attention relative to the vast attention given the effects of these institutions.

The second puzzle is why the CCP has maintained, and even strengthened, its distinct land institutions despite the many political problems they generate. As nearly every piece of scholarship on land, property rights, or rural politics notes, land conflict has become the number one source of state-society conflict in China, accounting for some 65% of rural “mass incidents” of protest. In addition, local government use of land development for revenue generation — “land fiscalization” — has driven urban sprawl, drastically reduced China’s land for agricultural cultivation, and generated widespread local government debt. I argue that the CCP has strengthened these institutions despite their adverse effects because they share “institutional complementarities” with China’s fiscal and financial institutions and benefit a of group powerful political actors (local governments, the central government, public sector firms, real estate developers, and urbanites) while imposing high costs on politically marginal groups (peasants, small-scale private sector).

The next section focuses on the first argument: that the CCP intentionally adopted policies to put land at the center of economic management. I then explain how land was
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used as a tool of economic expansion and contraction in direct and indirect ways, and then narrates the relationship between land and macroeconomic cycles over the 2000s with attention to key episodes of economic expansion and contraction. My goal is not to address the relationship between land and economic performance, but rather to show the ways in which the CCP has used land as a policy tool. The final section concludes with a discussion of what this perspective reveals about central-local relations and prospects for institutional change in China.

II. Bringing Land to the Center of Economic Policy: 1988-1994 Re-examined

Despite the privatization of capital and labor in China in the process of reforms that began in 1978, land remains publicly owned (by the “state” in urban areas and by the “collective” in rural areas). Although land ownership has remained public, a series of dramatic reforms to land use since the 1980s have established markets in land and real estate. A great deal of scholarly and popular attention has been directed at the “fiscalization of land” (土地财政), by which land “sales” (sales of long term use rights) have become a primary source of revenue for local governments. The institutional arrangements that produce fiscalization — decentralized land ownership with hierarchical land management — were adopted after a series of reforms that first commodified land, separating use and ownership. This early experience with commodification between 1986 and 1994, overlooked in the secondary literature focused on the more contemporary drama of land expropriation, culminated in the center’s decision to assign land ownership rights to local governments.
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As reforms proceeded in rural and urban China in the 1980s, increased mobility put pressure on all urban environments to expand, both to accommodate returnees from the countryside after the end of the Cultural Revolution as well as to relieve neighborhoods suffering from low to no investment for years. Yet unlike in rural China, where agricultural surpluses were sufficient to fund rural industrialization, urban China lacked capital to invest in urban construction and expansion. During the Maoist period, land in urban areas was treated as a state-controlled input to production and distributed essentially for free to firms and institutions.¹¹ The vast majority of urban land was controlled by state-owned enterprises who enjoyed land use privileges essentially free of charge, leaving city governments to face the dual problems of inefficient land use and a lack of stable funds to invest in infrastructure.

It was not obvious that the CCP would separate land ownership and use rights and attempt to generate capital from land leasing. Zhao Ziyang, the Premier from 1980 to 1987 and General Secretary of the CCP from 1987 until his purge during the Tiananmen protests in 1989, writes in his memoir: “It was perhaps 1985 or 1986 when I talked to Huo Yingdong [a Hong Kong tycoon better known as Henry Fok] and mentioned that we didn’t have funds for urban development. He asked me, ‘If you have land, how can you not have money?’ I thought this was a strange comment. Having land was one issue; a lack of funds was another. What did the two have to do with one another?’”¹²

The generation of land markets proceeded through experimentation, first with land use fees—not lease fees, but rather small fees levied on land users based on the long-term impact of land use—and later with leasing long-term land use rights in exchange for capital.¹³ The Land Law of 1986, drafted and promulgated in reaction to illegal farmland
transfers, conservatively reified the lack of markets in land: “No individual or organization may seize, sell or buy, rent or otherwise illegally transfer land.” A mere two years later, a 1988 revision added a sentence: “Land use rights may be transferred according to law.” In the intervening two years, reformers in the CCP had succeeded in executing two experimental land-leasing programs, one in Shenzhen in 1987 and another in Shanghai. The Shanghai lease, which took place on August 8, 1988, a date chosen for its auspiciousness, was the first time that a foreign business took independent control over a plot of Chinese land since the revolution.

After 1992, real estate took off nationwide. The period from 1992 through the middle of 1994 is described by officials local and national, scholars, and the media as a “real estate craze” (房地热) and a “bubble” (泡沫). Real estate investment went from essentially zero in 1985 to 5 trillion RMB in 1992, or 20% of fixed asset investment; there were 117 development zones nationally at the end of 1991, and 1,993 by the end of 1992. Even more revealingly, the numbers of registered real estate development companies went from 5,128 in 1991 to 13,566 in 1992.

The frenzy of real estate investment was not coming from local governments alone. Universities, hospitals, enterprises, government departments of all levels and devoted to all tasks established real estate arms, staked claim to “state” land, and tried their luck in developing commercial real estate. Official speeches and documents refer to an “enclosure craze” (圈地热), in which various work units and land occupants parceled out land for development and sale, and “speculative winds” (炒卖风), in which work units invested substantial capital in property speculation. At the time, the majority of land use was determined by administrative allocation (划拨), by which “the state” (typically the
local government but sometimes provincial or central agencies) would assign land use rights to enterprises or institutions free of charge. After land was “assigned” to an institutional user, the user could then allow the land to enter the real estate market and thereby “make money through land” (以土生财).20

A 1992 investigative report from Xinhua revealed changes in land prices that alarmed central authorities. In addition to uncovering the sale of central urban land at incredibly low prices in cities like Xiamen and Shenzhen, the report also concluded that commercial housing prices had risen on average 5.5 times in the larger cities, a rate far faster than that of wages. Central authorities, concerned about a bubble and fearful of social instability and a housing crisis, concluded that the real estate sector needed discipline. As the central government began to contract the discretionary flow of lending in the second half of 1993—part of a “macroadjustment” in response to fears about property oversupply and overinvestment—empty residential and office buildings peppered the urban landscape in major cities as all kinds of firms and institutions struggled to repay debt they had taken on toward real estate investments. Reports that cadres, nurses, university professors and so forth were going unpaid as a result of their employers’ forays into real estate alarmed central officials, and vast tracks of land went undeveloped, even in major urban centers such as Dalian, Guangzhou, Shenzhen, and Xiamen.21

Lessons from the Bubble

In coming to understand the growth potential of real estate, early CCP experiences in land markets also revealed real estate’s potential to threaten economic stability. As a leading academic and finance policy-maker said in an introductory speech
to conference reflecting on the bubble, “The lesson is very clear: abnormalities and overdevelopment of the real estate industry can create an economic bubble and false prosperity, with extremely serious consequences.”

How CCP policy-makers understood the causes of “abnormalities and overdevelopment” had consequences for which institutional arrangements they would adopt to prevent them in the future. Official speeches and reports reveal that primary blame was attributed to the role of decentralized finance and low barriers to entry in the sector in creating conditions for overinvestment. The conclusion was that the state had to limit who could get involved in the business of real estate at which stages of property development. Policy-makers also drew conclusions about regulating the supply of land for development. Again because real estate is a particular sector for which overheating has inevitable effects on the entire economy and on the structure of the urban built environment, leaving land development entirely to markets, they reasoned, creates distortions and endangers the functionality of urban plans for infrastructure, land use, transportation, and so forth.

The policy solution would be dramatic: to unite the power to lease land with the power to create urban plans, and therefore to designate urban governments as the only legal owners of land. The Minister of Construction, in a speech reflecting on lessons from the bubble, said: “State-owned land use can be transferred for compensation, the goal being to attract domestic and international capital for construction…Beginning now, the government will strengthen regulation-building in the real estate market, establishing rule of law.” And, crucially, “From now on, the Chinese government will monopolize land supply to strengthen economic and land planning. When urban land is transferred,
the government will control the macro supply of land.” In essence, the structure of land politics in contemporary China—in which local governments claim exclusive rights of ownership over land and generate revenue directly from land leasing—emerged in these policy clarifications in response to the real estate bubble of the early 1990s.

The decision to designate municipal governments to “represent the state” (代表国家) as landowners was born of the perceived need to designate a coordinating actor but also of the realization of how much local governments stood to gain. Of course, the power of real estate to generate government revenue through taxes (one-time taxes on real estate exchanges or value-added taxes on real estate) was evident even before the bubble, when cities in the southeast, such as Shenzhen and Guangzhou, saw real estate contributing about 10 percent of annual government revenue through taxes. But if municipal governments were the designated owners of state land, they would access the revenue generated from the sale of land-use rights as well as the taxes, providing local governments with a significant new source of income. In the words of one high-level official in the Ministry of Construction, “Land development and the real estate industry will serve as a secondary source of finance for the cities.”

The push to expand the paid transfer of land-use rights for development was expected to quadruple the tax revenue generated from real estate and land development, and land transfer revenue (the capital generated from local governments selling land-use rights, preferably through open land auctions, see Figure 4) would generate much more. Whereas real estate taxes constituted from 5 to 10 percent of local government revenue in Guangzhou and Shenzhen, the inclusion of land-use fees would increase the figure to 15–18 percent A National Bureau of Statistics (NBS) report lauded the
economic and revenue-generating promise of the sector under government control: “After several years, when virgin land becomes mature land, through real estate markets we can preserve value, add value, and in this way add to the wealth of the country. …China has 25,000 square kilometers of state-owned urban land. …This is an indispensable condition for economic and social development and the first great source of national wealth.”

For local governments, land went “overnight from a ‘cold’ asset to ‘hot’ capital.”

**Fiscal and Financial Centralization**

In the aftermath of the real estate bubble of 1992-1994, China’s fiscal and financial institutions were reorganized so as to increase central control over resources and investment. First, in 1994, the system of fiscal distribution—the arrangements that governed the sharing of tax revenue between the central government in Beijing and local governments at the provincial, municipal, and county levels—was radically reorganized, as shown in Figure 2. The central government’s share of fiscal revenues had declined steadily since the early 1980s, both relative to the local government’s share and to GDP. By 1991, central revenue was only 19.4 percent of GDP, down from 26.8 percent in 1985. After the 1994 recentralization, local governments’ share of fiscal revenue declined to less than fifty percent, without an accompanying recentralization of the expenditure burden.
The 1993 inflation cycle, driven primarily by investments in real estate through a decentralized financial system, provided an unprecedented opportunity for Zhu Rongji and others who desired more central control over monetary policy. Over the course of the mid to late 1990s, Zhu capitalized on this momentum and the crisis to essentially eliminate local financial discretion and bring major financial institutions, including the Big Four, under the administrative control of the central party-state.\textsuperscript{30}

Municipal and provincial governments thereby lost access to the two principal tools of revenue generation and growth promotion—fiscal revenues and bank credit—as they gained ownership and control over land. The outcome of these institutional rearrangements is well-known; throughout the first decade of the 2000s, local governments increasingly relied on land leasing revenues to meet basic budgetary
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expenditures and as the sole source of revenue they could manipulate. **Table 1** shows the progress of this “land fiscalization” (土地财政); by 2010, the revenue that county and municipal governments generated though land development nearly equaled that generated through planned, tax-based revenue sources.\(^{31}\)

**Table 1**: Local Budgetary, Extra-Budgetary, Tax, and Land Revenues, 1990 - 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Local Budgetary Revenues</th>
<th>Local Extra-Budgetary Revenues</th>
<th>Local Tax Revenues</th>
<th>Land Lease Revenues</th>
<th>Land Revenues: Local Budgetary Revenues</th>
<th>Land Revenues: Local Tax Revenues</th>
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<tr>
<td></td>
<td>RMB mns</td>
<td>RMB mns</td>
<td>RMB mns</td>
<td>%</td>
<td>RMB mns</td>
<td>%</td>
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<td>157,921</td>
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<td>1995</td>
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<td>208,893</td>
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<td>568,886</td>
<td>62,490</td>
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<td>10.98</td>
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<td>2001</td>
<td>780,330</td>
<td>395,300</td>
<td>696,276</td>
<td>131,810</td>
<td>16.89</td>
<td>18.93</td>
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<td>2002</td>
<td>851,500</td>
<td>403,900</td>
<td>740,616</td>
<td>245,430</td>
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<td>841,327</td>
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<td>3,270,149</td>
<td>2,939,700</td>
<td>72.38</td>
<td>89.89</td>
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**Source**: China Ministry of Land Resources Yearbooks (中国国土资源年检), various years. Budgetary and extra-budgetary revenues from Ministry of Finance, via CEIC.

Scholars have criticized those working in a variety of institutionalist traditions for the tendency to “work backwards from extant institutional arrangements” in explaining how and why those arrangements were adopted in the first place.\(^{32}\) As Thelen and others have pointed out, the more specific tendency to see institutions as ways to capture the gains of cooperation leads scholars to imagine that they were adopted initially in order to
generate the beneficial outcomes that they do. The result is a perspective on institutional evolution that is “too sanguine and neglectful of the coercive elements that underlie political institutions.”

Despite the clear centrality of land to Chinese political economy and the volume of research on land as a site of state-society conflict, little research has offered an account of how and why these institutions have evolved to take the form they have. Instead, the field has adopted the flip side of the “sociological functionalism” that Thelen and others describe: because of the clearly adverse effects that decentralized land ownership and fiscal recentralization have had on state-society conflict, urban sprawl, food security and so forth, these institutional arrangements must be unintentional stumbling blocks en route to a more efficient, rational, and market-based system. In essence, these are transitory arrangements whose negative effects have been surprising and undesirable to the CCP policymakers who work within them. This view is emboldened by what are interpreted as constant attempts on the part of the central government in Beijing to rein in land grabs, for example the 2004 moratorium on declaring new development zones and the 2006 establishment of a “red line” of 120 million hectares of agricultural land, both of which I discuss below.

But if we are to take seriously Pierson’s exhortation that we “go back and look” at the actual circumstances under which institutional arrangements were selected, we find in the episode of the 1992 real estate bubble the reasons for adopting decentralized public land ownership and hierarchical management, and in two ways the actual story belies the narrative of land finance as unintended outcome of reforms. First, local governments were designated as land owners precisely so that they and they exclusively could benefit
from land lease revenues at the same time that tax revenues were recentralized. Second, these institutional arrangements are not inadvertent stopgaps en route to liberalization, but rather were adopted intentionally as a period of liberalization in real estate markets was reversed. The problem of real estate markets between 1988 and 1994 was determined to be low barriers to entry and markets without coordinators; decentralized public ownership with hierarchical management was the solution.  

The commitment to decentralized ownership that emerged in the mid-1990s was strengthened repeatedly over the next decade and a half, as the MLR issued periodic clarifications that local governments must monopolize the land markets and therefore have exclusive claim to lease revenues. For example, in reflecting on the 2004 moratorium on development zones, a high level MLR official referred to the 1993 decision to have the local state “monopolize the first level of the urban construction market” warning: “If the government doesn’t strictly control the amount of land entering the market for construction, it not only affects the money available for urban construction but also does damage to peasant interests.” As local governments zealously used that ownership to generate revenues, the institutions of hierarchical management were concomitantly strengthened, sharpening Beijing’s ability to use land as an economic and development policy tool.

**III. Land and Control: 1995-2012**

Clearly, land sales became local governments’ primary source of discretionary income over the 1990s and 2000s. But local governments were not pursuing land development completely independently of central policy. Instead, the MLR deployed its
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hierarchical control over land for development as a tool of macroeconomic expansion and contraction.

In 2004, the MLR in Beijing began setting quotas of land for urban construction, allocating each province an amount of land for urban built-up areas and restricting how much agricultural land they may convert. These quotas are decided jointly with the National Development and Reform Commission (NDRC), China’s economic planning and management agency. Provincial governments, then, negotiate with municipal governments, who in turn negotiate with county and township governments, over the allocation of land for development. In 2006, the center further strengthened what it called the “strictest” system for managing land, including a “red line” of 120 million hectares of arable land (180 million mu, 十八亿) which is, they argue, the base line necessary for food security. Local governments throughout China are constrained by the quotas, and acknowledge the red line to be a “buzzword” or “sacred number.” As Xiao points out, local governments have little control over how much land they may develop for urban construction, but they control where that land is developed.

Land conflict gained substantial scholarly attention beginning in 2004, during a period of contraction when the MLR indeed was attempting to limit land conversion and institutionalize hierarchical control. When one expands the period of study to both before 2004 and after 2008, however, hierarchical land control worked differently as central authorities sought to expand economic investment and demand. This section reviews how land is used as an economic policy tool and analyzes several episodes during which it was indeed deployed in this way.
Mechanisms of Land Control as Macro-economic Management

Changes in the land supply work directly and indirectly to expand or contract output in at least three ways. First, and most obviously, land development directly boosts GDP through investment and economic activity surrounding real estate investment. As many government reports and five-year plans note, increasing land for urban construction means greater purchases of durable goods, greater employment in construction, and so forth, bringing along aggregate demand. As early as the early 1990s, the National Bureau of Statistics even estimated a fiscal multiplier: for every yuan invested in real estate development, GDP would grow by 1.34 yuan.

Second, expanding the supply of land for development is an indirect fiscal stimulus to local governments. Because local governments cannot issue their own debt or levy their own taxes, they have little discretion over finances except for revenues they generate via land sales. Beijing uses the supply of land and quotas available to local governments as a proxy for fiscal expansion and contraction, in addition to direct fiscal transfers. Most specifically, we see this mechanism in how land for construction in the form of quotas is distributed sub-nationally in pursuit of regional development goals. Beginning with the campaign to “Open the West” and continuing with “Rise of the Center” and “Revitalization of the Northeast”, the central government has promoted growth and investment in regions left behind by the economic boom along the east coast. A critical source of resource redistribution to these regions has been increased land for development, allowing more direct investment in regional development and also...
generating greater revenues for local governments to invest in infrastructure and public services.\textsuperscript{43}

Third, changes in the land supply and land quotas work through the financial system as indirect forms of monetary stimulus. Local governments cannot directly borrow from banks, but do so indirectly through Local Government Financing Vehicles (LGFV, 投资平台).\textsuperscript{44} These semi-private, semi-public investment vehicles borrow with the implicit backing of local governments and use land as collateral. Increasing the supply of land, therefore, increases the collateral available to local governments (as well as developers and firms) and therefore the volume of loans issued by banks. Since 2010, after the 2008-2009 stimulus laid bare the extent of LGFV activity and revealed the potential for a local debt problem, Beijing has attempted to survey the extent of the problem and restrain the growth of these vehicles and their balance sheets.\textsuperscript{45} But for the period between the mid-1990s and the late 2000s, these investment platforms essentially turned land into capital for local governments through the financial system.

In emphasizing the role of the distribution of land quotas, I do not mean to argue that the use of land in macroeconomic management is entirely mechanistic or even primarily mechanistic. Like other arenas of policy implementation, political signaling from Beijing is paramount in coordinating individual decisions and setting the tone for lower-level bureaucrats. Shih finds that interest rates and other monetary instruments make “minor noises” compared to the “loud bangs” of political signals conveyed in speeches and documents from the center in their impact on credit expansion, and the same may be said of land supply.\textsuperscript{46} Lower level officials frequently describe the atmosphere as “tight” (紧— as they did in 2007) or “open” (开放, in 2009-2010) for land development, or they
make reference to the policy environment when they describe the sensitivity of the issue or explain their choices regarding land development. Although data on quotas as they are assigned throughout the administrative hierarchy are not publicly available, speeches and policy documents from the MLR and NDRC are, and I draw on these materials below to examine episodes during which land supply was mobilized in macroeconomic management.

**Land Supply and the Macro-Economy**

After the inflation cycle of the early 1990s, central authorities began to focus on macro-economic adjustment and management from above under the leadership of Zhu Rongji. As a 1997 planning report stated, “In the past three years… the country encountered a situation of overly fast investment and consumption, disorder in finance, high inflation and several other problems. Now we have begun to focus on macro-adjustment.” Between 1995 and 1999, as the Ministry of Land Resources (MLR) was taking shape and policymakers were institutionalizing new methods of land control, the policy environment was “stern” (严峻), as central authorities admonished local governments for overusing and misusing land and implemented “freezing measures” (冻结措施) on new development zones.

In the late 1990s, however, in the wake of the Asian financial crisis and in the process of large-scale ownership reforms and layoffs in the state sector, central authorities expanded the supply of land for development to stimulate domestic demand. Zhou Yongkang, inaugural Minister of Land, said in December 1999: “We must assist in expanding domestic demand. Next year, the country will continue to implement an active
fiscal policy, expanding infrastructure construction. The MLR should take an active role in planning and approving land transfers to support these efforts.”

In 1998, a massive push for privatization of housing and expansion of land transfers removed the heavy burdens of facilities maintenance from ailing enterprises, provided subsidized housing for many soon-to-be laid-off workers, aiming to lift aggregate demand during a period of economic slowdown. As is clear in Figure 4, the vast jump in land transfers in 1998 was assigned land, transferred without paid lease fees, since land was reassigned from many state-owned enterprises to new housing owners or developers. This would be the last time urban governments were encouraged to transfer land without collecting lease fees.

![Figure 3: GDP growth and Real Estate investment growth](image)

**Source:** MLR and National Bureau of Statistics, via CEIC. Both measures nominal.
Around 2000 and 2001, when GDP growth began to slow following the burst of the .com bubble, central officials recommitted to expanding domestic demand. As the 10th Five Year Plan (FYP) took shape, so did the land supply, alongside fiscal and monetary policy, as a “tool” (手段) of promoting growth.\(^5\) Specifically, the 10th FYP aimed to promote urbanization, both urban construction and increased migration, as a means of growth and “economic adjustment.” A high level MLR official remarked in a speech at the 2001 national land management work conference that land is a special mechanism that has a three-fold use to adjust the industrial, regional, and urban-rural composition of economic development, and that the MLR will use its control over land supply and its prerogative to approve land use plans to encourage urban construction while simultaneously protecting arable land.\(^5\)
Several national level documents heavily encouraged the paid transfer of land, strictly limiting the administrative allocation of land without compensation to very few uses.\textsuperscript{54} Compensated land use was billed as a way of introducing market mechanisms into land management (to meet the spirit of WTO accession requirements and achieve “socialism with market characteristics”) while not relinquishing government power to protect sensitive land resources. Official speeches exhorted local governments to pursue paid transfer of land resources by citing the vast amounts of capital they could generate. The land minister’s speech at a national land work conference in 2001 is worth quoting at length:

By 2000 the country had collected 435 billion RMB in land lease fees…In order to implement the urbanization strategy of the 10\textsuperscript{th} FYP…we should reform and perfect land use institutions, adjust the organization of land use, mobilize land reserves into circulation, and mobilize land for urban construction while protecting arable land and peasant rights. We should also enthusiastically promote compensated land use, giving full play to the market’s role in allocating land resources, making clear the value of land, generating capital for urban development and making use of the role of land resources in encouraging urbanization.\textsuperscript{55}

At the same time, the MLR took up the task of hierarchically managing the macro-supply of land. While officials sang the praises of land leasing in benefitting local governments, they were equally worried about the “unlimited demand for economic
development,\textsuperscript{56} and therefore sought to monopolize and “streamline the flow” of construction land and controlling the total volume of land available for development.\textsuperscript{57} Local governments could maintain the base levels of arable land by replacing or reclaiming land as arable land, a policy called “occupy and compensate” (\textsuperscript{占一补一}).\textsuperscript{58} Since the late 1990s, local governments all over China have succeeded at innovating ways to maximize land for development while also maintaining their assigned quotas. Some of these innovations are institutional, such as transferring development rights among jurisdictions to preserve quotas at higher (e.g., municipal or provincial) levels, establishing elaborate systems in which rural residents may trade their land certificates and land rights for urban citizenship and selling those land certificates in government-sponsored markets.\textsuperscript{59} Other innovations are less transparent and involve potential abuses to farmers, such as the “village redevelopment” projects that consolidated villagers into high-rise housing developments, frequently displacing them from their farms in the process, to maximize the amount of transferrable land.\textsuperscript{60}

The expansionary period that began in 1999 and intensified in 2001 ended in 2003-2004. The MLR work report for 2003 states that while 2001-2003 was a period of “approving many development zones” and expanding land markets, 2004 would be a year of “cleaning up” and rectification.\textsuperscript{61} The most notable of the measures adopted to curb land development was the moratorium on new development zones or expansion of existing development zones issued in July 2003.\textsuperscript{62} By March 2004, the MLR reported that it had reduced the number of zones from 6,015 to 2,252 in less than a year.\textsuperscript{63} As Figure 4 shows, land lease revenues and land areas leased (and assigned) indeed fell between 2003
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and 2005. This period of relatively strict land supply control would last until the global financial crisis in 2008.

It is relatively easy to understand how expanding the supply of land available for urban construction can stimulate economic growth, but during this period central authorities honed their thinking on how restricting land supply can aid with macroeconomic stabilization during periods of overheating. MLR Party Secretary Sun Wensheng said to a national work conference in 2005: “Especially in the last two years, land supply has played an important role in economic growth and management.” He and other MLR officials talk plainly about how land supply and land management “participate in macro adjustment and control” and “land management is a way of ensuring macroeconomic stability.” MLR officials emphasized land use plans, which are drawn up at every level of the administrative hierarchy and approved by the MLR, as well as the “macro-supply” of land at the national level as ways to control land use and participate in macroeconomic control.

In 2006, after a series of central “Number One Documents” emphasized protecting arable land for food security, the MLR strengthened the “world’s strictest land management institutions” by introducing a “red line” of 1.8 billion mu of arable land. The quotas and the “red line” are clearly a product of central concern over food security and dwindling farmland, a concern well documented in state documents and secondary literature. But, in the minds of central officials, the hierarchical quota system also constituted a more precise technology to link land and macroeconomic management. MLR Vice Secretary Li Yuan said at the end of 2005,
Since 2004 when we began rectification in the land market and to actively participate in macro-control, we have achieved remarkable results. This year we are in accordance with the requirements of the State Council to further enhance the awareness of the importance of macro-control…and play an important role in smooth and fast economic development.  

Officials refer to land quotas and land management as “sluice gates” (闸门); like gates on canal locks, land quotas can be manipulated to make sure the overall volume of both land for cultivation and economic investment stays steady.  

The introduction of the quotas also occurred exactly as local government fiscal resources were reduced yet again; the CCP announced in 2004 and implemented in 2006 the elimination of the millennia-old agricultural tax, a response to decades of rural unrest over peasant tax and fee burdens. The elimination of a critical source of local tax revenue clearly would make local governments even more dependent on land revenues, making quotas important tools of constraint for higher-level bureaucrats. These concurrent fiscal and land changes exemplify institutional complementarities, as further local fiscal deprivation generated increasing returns to public ownership and hierarchical management of land.  

The use of land as a macroeconomic policy tool is clearest when examining the Chinese response to the financial crisis of 2008. When the financial crisis that began in the US caused a sharp drop in demand for Chinese exports, the Hu-Wen administration moved quickly to stimulate the Chinese economy. Beijing announced a 4 trillion RMB stimulus, only 1.2 trillion of which would come directly from the central government; the rest would come through local government investments, the financing for which came
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from banks (lending with land as collateral) and from land sales. Nominal interests rates fell only slightly between November 2008 and March 2009, while total loan volume grew over 15%.

The real impetus for economic expansion and credit extension was the political directive that banks lend to firms (primarily SOEs) and local governments as well as the expansion of the land supply. MLR Party Secretary Xu Shaoshi said in the MLR work report for 2009 that, “In crisis there is opportunity; use land development to bring along domestic demand.” The report implored MLR officials to appropriately add land for urban construction, approve projects quickly, and activate land reserves and land banks to put more land into circulation. While 2007-2008 was remembered as a period of “sorting out” for land management, the global financial crisis required the expansion of construction to “bring along domestic demand,” while also protecting the supply of arable land through quotas, the red line, and innovative programs to manage adding construction land without subtracting arable land.

The results of this unprecedented activity in land development and construction are well-known; cities of all size in many regions engaged in infrastructure development projects and the creation of “new urban areas.” Investment as a share of GDP climbed to nearly 50% as banks and local governments overwhelmingly responded to the stimulus. One OECD report “conservatively” estimates that by year end 2010, the stimulus had grown to 9.5 trillion RMB, or 27% of GDP. The experience with the stimulus also revealed the limits of controlling the macro-economy and local governments through the land supply; clearly, the stimulus ballooned well beyond the intentions of Beijing, as did the balance sheets of local government financing vehicles.
and local governments more generally. Just as land control was a macro policy tool adopted in the midst of crisis after the bubble of 1993, CCP leaders between 2012 and 2014 have similarly found themselves in search of new mechanisms of management in the aftermath of yet another crisis.

IV. Conclusions

At levels of government throughout the administrative hierarchy, land-use plans (规划) have played a role similar to that of the economic plan (计划) during the era of the command economy. Land-use plans signal where investments are likely to be politically supported and to be accompanied by infrastructure investment; they allocate resources to sectors and regions based on changing political and development objectives; and they establish the strategic intentions and goals for various time frames. Land-use planning does not, to be sure, allow the state to exert the same micro-control over output, prices, and consumption as economic plans did, but it does exemplify the state’s effort to direct markets rather than allowing markets alone to allocate resources and coordinate economic activity. Land-use plans and changes in land supply have been exemplary coordinating and signaling devices that various economic actors rely on to make individual decisions, and therefore indispensable institutions of macro-economic management.

Secondary literature on economic management and land politics in China, however, has failed to present a complete understanding of how these institutions fit together. For the most part, land politics in China is imagined as a form of a principal-agent problem: the central government in Beijing (represented by the MLR) supposedly
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desperately wants to rein in local government land grabs and local governments who, motivated by the need for revenues, cannot stop themselves from expropriating land from farmers. This model of politics as a central-local relations problem has deep intellectual roots in the China field and finds common expression among citizens and officials in China. In many spheres of policy implementation, common sayings like, “The mountains are high and the emperor is far away” or “The center has measures; we have counter-measures” are invoked by practitioners and scholars alike to describe a familiar policy implementation process. Beijing makes rules; local officials find creative ways of subverting those rules or redirecting their interpretation in their own interests.

This narrative as applied to land politics has been convenient for the central government in Beijing and persuasive at the grassroots in China. Take, for example, the village of Wukan in Guangdong Province, where in December of 2011 protests over a land grab culminated in a siege of the village that lasted ten days, ending only when provincial leaders acknowledged corruption and promised fair redistribution of land. Although western media headlines indicated that the protests may herald challenges to CCP rule, banners held by protesters appealed to the central government in Beijing: “The people of Wukan humbly beseech the Center...” Protests over land politics have conformed to a more general pattern of “cellularization” in China, by which local grievances are successfully contained within local jurisdictions, no matter how systemic the grievances may be.

The view of land control put forward in this article suggests a different perspective on the central-local relations of land politics in China. If the CCP uses the supply of construction land—in the aggregate and in the distribution of quotas for land
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for development—as a tool of macroeconomic management, the center is far from a hapless principal with attenuated control over its agents. Instead, the center purposefully stokes land development—and, by necessary extension, land expropriations—by allotting local governments more land to use for construction. The dislocations and discontent that accompany expropriations are inevitabilities of the strategy, and quite convenient ones for Beijing.

By retaining state ownership over land and control over how much land gets converted, the CCP has control over the pace and geographical distribution of urbanization: a resource for political stability that other rapidly developing countries can but dream of. Along with institutions of migration control (hukou), land institutions—public ownership combined with hierarchical control over supply—have allowed China to benefit economically from urbanization, urban construction, and the growth in real estate without being vulnerable to the political effects of massive urban agglomeration. Decentralized land ownership and hierarchical land management have allowed local governments to expropriate land from rural residents at low prices and lease it at higher prices. Real estate developers, urban household savers, and banks benefit from high real estate investment and high prices for land and housing, and industrial firms benefit from local government ownership of land to receive land at depressed prices. The main distributional losers of China’s land institutions—farmers and private sector businesses who have been shut out of China’s financial institutions because of a lack of interest rate liberalization—are too politically diffuse and marginal to mount effective efforts at institutional change.
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The strategy, to be sure, has not been a perfect one. Albeit “cellularized” for now, central authorities are increasingly alarmed by social and political conflict resulting from land expropriations as well as a number of phenomena—dwindling agricultural land, urban sprawl, mal-investment, corruption, “ghost cities,” and so forth—related to the relentless pursuit of land development. Clearly, local government dependence on land and land revenue is not sustainable indefinitely. This fact and China’s experience after the global financial crisis have prodded the CCP to search for a new strategy for economic development and new ways of managing macroeconomic demand. Specifically, there has emerged a consensus that, if China is to continue to grow, even at a “new normal” of less than 7%, it must rely on internal demand, likely by fostering urbanization and the growth of a secure, consuming urban middle class. 86 In terms of institutional change, China’s pivot from land-as-macro-tool seems a classic example of endogeneous institutional change, whereby institutional arrangements themselves “cultivate the seeds of their own demise.” 87

We should not, however, assume that this shifting strategy means the end of public ownership over land. Liu Shouying, the foremost authority on land in China and an author of the DRC report, explains that public ownership is integral to the ruling party, to the meaning of “socialism with Chinese characteristics,” and to the fundamental character of China’s economic institutions: “These conditions fundamentally decide which choices are available and which choices are unavailable in the process of land reform.” 88 We may expect institutional reforms within public ownership, but not the complete abandonment of public ownership. On the contrary, continued hierarchical management of the land supply will become even more important as the CCP seeks to
manage a massive urbanization process while maintaining political stability. Perhaps the CCP has found the limit the use of land as a tool of macroeconomic management, but its utility as a tool of political management is far from exhausted.


5 Shih 2008.
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6 Huang’s account ends at the beginning of liberalization in land markets (indeed a footnote on the first page of his book indicates that he will ignore land because it is a recent market and “relatively small”). Huang p. 1. Shih is focused exclusively on banks.


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16 National Bureau of Statistics, via CEIC.
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Speech by Zhang Yuanrui, director of the Real-Estate Office of the Ministry of
Construction, at the Meeting of the Coastal Cities Housing Association on Several


Quoted in in Zhongguo fangdichan redian datexie, ed Cheng Hu and Zhang Lu, 208–9.

Hou Jie in Cheng and Zhang, ed. 1993: 19.

Wong, Christine, Christopher John Heady, Wing Thye Woo and Asian Development
(Hong Kong ; New York: Published for the Asian Development Bank by Oxford

Huang 1996: preface; Shih 2008; Sebastian Heilmann, "Regulatory Innovation by
Leninist Means: Communist Party Supervision in China's Financial Industry," The China

Public finance in China is broken into “within plan” and “out of plan” (extrabudgetary)
categories; “within plan” (budgetary) includes revenues generated through regularly
scheduled taxes and fees, while “extrabudgetary” indicates revenues generated through
innovative or entrepreneurial local government activities, including most land-related
revenues.


Thelen, Kathleen. How Institutions Evolve : The Political Economy of Skills in
Germany, Britain, the United States, and Japan. (New York: Cambridge University
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36 This finding accords with those of Yasheng Huang, who argues that many policies in the 1980s and early 1990s were “directionally liberal” but were reversed in the 1990s during the “advance of the state and retreat of the market” (国进民退). Huang speculated that the Tiananmen uprisings precipitated the reversal, but, at least in the arena of land and real estate, it was direct economic experiences instead. Huang, Yasheng. Capitalism with Chinese Characteristics: Entrepreneurship and the State. (New York: Cambridge University Press, 2008).

37 Li Yuan, then Vice Party Secretary of the MLR, in a speech entitled “中国城市化进程中的征地制度改革.” Li referenced the “loss of control” in the Hainan real estate market in the early 1990s, and remarked that peasants were selling their own land for incredibly low prices, which requires that the state intervene to coordinate markets. MLR 2006 Yearbook, pp. 4-6.

38 Yuan Xiao. “Making Land Fly: The Institutionalization of China’s Land Quota Markets and its Implications for Urbanization, Property Rights, and Intergovernmental
Negotiation.” PhD Thesis in the Department of Urban Studies and Planning. MIT 2014. I am grateful to Yuan Xiao for sharing her work and insights with me.

Xiao 2015; p. 52. The language of the “world’s strictest” system for land management was present as early as 1999. See speeches by Zhou Yongkang, inaugural Minister of Land and Resources, February 3, 1999 and December 3, 1999. MLR Yearbook 2000 p. 33 and p. 58.


MLR officials in Dalian and Heilongjiang described the “tight” environment in 2007. Conversely, in 2009 and again in 2012, those same officials took me to see new land developments and explained the openness of the environment and the good conditions for land development. Interviews in 2007, 2009, and 2012.
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48 “中国经济工作会议在京召开确定 1997 年工作总体要求和主要任务


49 Speeches by Zhu Rongji (February 27, 1995) and Zou Jiahua (Minister of Construction, August 3, 1995) to agricultural and land work conferences, for example, both exhort local governments to exercise restraint and control macro-supply of land. Printed in MLR 1996 yearbook, p. 5–8; Zhou Yongkang, the inaugural Minister of Land and Resources, described the atmosphere of the mid-to-late 1990s as “stern.” Speech at MLR teleconference, February 3, 1999. “同心同德，奋发图强，开创国土资源管理工作新局面，” in MLR 2000 Yearbook, p. 33.

50 December 3, 1999 speech at MLR work teleconference, in MLR 2000 Yearbook p. 58.


Specifically, 2001 Documents 11 (关于加强国有土地资产管理的通知, Memorandum on strengthening management of state-owned land) and 15 (关于整顿和规范市场经济秩序的决定, Decision on rectifying and strengthening the market economic order).


Lu Xinshe. “我国现代化建设中资源问题的若干考虑” (Some considerations on the problem of land resources in the midst of national modernization), MLR 2000 yearbook, p. 15.


“Land certificate exchanges” are a policy component of the bundle of social, economic, and political reforms propagandized as the “Chongqing model” before Bo Xilai’s fall from prominence in 2012. Su Wei, Yang Fan, and Liu Shiwen, Chongqing moshi (The Chongqing Model) (Beijing: Zhongguo jingji chubanshe, 2010): chapter 6.
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2003 Document 70, “国务院办公厅关于清理整顿各类开发区加强建设用地管理的同志.”


Number One Documents are the most important statements of policy focus issued by the center each year. Every #1 Document since 2004 has focused on agriculture, land, and the rural sector. See Kristen Looney 2015.

Xu Shaoshi, MLR Party Secretary and Chief Land Inspector, in a work report at MLR national work conference. January 15, 2009. “坚定信心，迎难而上，全力足进经济平衡较快发展” (Restoring confidence, recent troubles, and efforts to


71 Nominal rates for loans greater than 6 months fell from 4.59 to 3.24%. Data from People’s Bank of China via CEIC. Accessed October 2015.

72 Xu Shaoshi. MLR 2010 Yearbook p. 4.

73 “2009 年国土资源部重大活动转述：保增长，报红线行动转述“国家土地总督察办公室” (Brief report on the major events of the Ministry of Land in 2009: Activities to protect growth and protect the red line”). MLR 2010 Yearbook: p. 86.


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77 See Scharpf 1991, p. 10 for this definition.


