Research on the Impact on the Local Economy from the Perspective of Welfare Economics by the Collusion of Grassroots Governments, Interest Groups and Bank Branches*

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ABSTRACT-China's economic development is disconnected, not only between local governments, but also the local and the central government. Because of the performance appraisal and the status quo of political power structure, grassroots governments and local interest groups must be closely connected, and at the same time, they also form an alliance with the local bank branches that did not belong to any of the above branches, forming a trilateral conspiratorial economic development model. This model has far-reaching and perilous impacts on local economic development.

1 INTRODUCTION

In his book "China's Local Economic Development Model", Fan Hengsen argues that the local economic development model is a high degree of generalization of the characteristics of the local economic development and its internal mechanism. Economic development in real life is often not a pure development model, but an intersection of several development models. This book mainly studies three types of local economic development models: government-driven, capital-driven and innovation-driven. Mr. Fan's local economic development model is questionable. The author believes that China's local economy is based on conspiracy-based operation model featuring the collusion of "government + interest group + bank branches". The three laws of welfare economics dictate that the four parties involved are under peril despite that it seems like "the three parties reap benefits while the public are subject to benefit infringement". Why so?

1.1. Intrinsic impulses of three parties' conspiracy

It is undoubtedly correct that the development stage we are in requires economic strength. However, paths diverge in how to strengthen it. In addition, the GDP-centric theory of political assessment has led almost all indicators to be concealed by the rate of economic growth. If a region's economic growth is robust and the growth rate is fast, the region must be "under the world's spotlight", the local officials will be regarded as strong ability by the top leaders, and they will be valued. In our political ecology, the promotion model is: higher-level government (especially the top leader) + local economic

development speed. It has coerced the impulse of local economic growth of the grass-roots government, that is, in any case, as long as the rate of economic growth during the term of office is fast, sufficient political capital will definitely be saved in the political promotion. The investment of impulsive development model has never stopped, especially after the financial crisis broke out, and it has revived even more violently. The local and central fiscal taxation system cannot guarantee the investment needs of the grass-roots government. Although in March of this year, the repeated emphasis on the twelfth five-year start and the cycle of general election will induce local investment impulse, the effort is far from enough. It is not that they do not recognize it, but that they are unwilling to tell the course they have practiced. Otherwise, it is equivalent to them exposing their "ugly behavior", which is impossible. We are studying this problem and found that no one in China has studied the proportion of local investment. As for Jonathan Anderson, "the proportion of (Chinese) investment in GDP is much higher than that in the middle of 1990s when bubble economy appeared in China, and in fact it far exceeded the highest level that any major country reached in the past 100 years. According to an experienced international economist, if any country puts 50% resources into fixed asset investment, and if the growth rate of investment demand reaches more than three times the domestic GDP growth rate, then the collapse of prosperity and even the outbreak of crisis will be imminent." Whether it will happen is not yet fully predictable, but there is a kind of phenomenon that must be faced squarely, that is, the analysis of grassroots governments, of course, including every level of local government. Where do their investment funds come from? The answer is: (1) Finance and tax accumulation income, this part originally

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intended to cover the balanced development of all industries and areas in the region, in fact, it has been made into a monopoly model, almost all large-scale investments are put in those industries that can contribute to local GDP, but its self-contribution rate cannot complete this task, and at the same time it is facing investment in urban infrastructure construction, basic investment on education, medical pension, etc.. How to solve it? Who can help local governments complete these essential things? It involves two other conspiracy subjects-interest groups and bank branches. (2) Interest groups. Recognizing the needs of the government, they allege to serve the local economic development, cater to the needs of grass-roots governments, can provide funds and related resources for local development, and sometimes even induce the government to carry out policy planning in accordance with the needs of the groups. It has formed a harmonious pattern of response, because the internal impulse of profit making it has been seeking cooperation with the government, and it is getting government protection in terms of monopolizing resources, restricting industries, and access thresholds. These protections provide them with stable profit, and it is actually in line with the inherent needs of local governments' economy investments. Local governments do not have sufficient funds to invest, and they must rely on the economic strength of these interest groups to complete the goal of economic growth, as is described by the mass as "Birds of a Feather" Can they stick together to achieve the goals of the local government? Does the interest group have so much energy? The answer is no. How to solve the problem? It involves another conspiracy subject. (3) Bank branches. They have played a lot of positive roles in local economic development in recent years, but they seem to show a weak trend, but they are not like what Zhou Jiangang¹ said that they have lost their right to speak, and become bank branches and sub-branches of provinces and municipalities and the local government's "point loan" vault? I don't think so. On one hand, bank branches are performing and maintaining financial stability and undertaking related businesses, on the other hand, using marketization as a means, they begin to carry out large-scale profit-making activities, proactively adapted to the needs of local economic construction, proactively conspired with local governments, and carried out relevant government guarantee operations in a timely manner, thereby realizing government guarantees. The market-oriented operation behavior (perhaps secretly, pressure, etc.), that is, the realization of the economic behavior of local governments, and the ability to seek benefits for the Bank, it is the inevitable necessity of both.

1.2. Tripartite Conspiracy Paths

It is true that according to the analysis of the above thinking, it seems that the government is the controller of the three, and the other two are passive partners. In fact, it is not. This involves the path of the conspiracy of the three, that is, how to let the three team up and then realize their respective goals? Xx city needs a lot of

financial resources for local economic construction, and its financial capacity is limited². In order to ensure a certain height of economic growth, the government must find ways to raise funds for investment. To raise funds, they must not boldly increase taxes or implement new taxes. This is the red line. They must not break through it but raise enough funds for local "economic growth points", so they can only rely on "private capital". Of course, the largest section of private capital are some interest groups and banking sections, those individual power is far from enough. Therefore, the city passed the authorization or call for bids (regardless of its authenticity) for urban construction. For example, bidding for land sales, various enterprises (referring to interest groups) actively bid for it, but the hidden rule is that no matter who wins the bid, it will inevitably involve a lot of money when operating the project. Attachment conditions shall be borne regardless of the scope of the bidding, otherwise the possibility of winning the bid is very small. The successful bidder in this plot is required to undertake the surrounding environmental greening projects (no connection to the plot) and the costs are borne by the company itself without any subsidies from the government. If the bidder cannot promise the goal, it will not win the bid, and face a lot of trouble. Therefore, the company must bear the unexpected public construction burden of the bidding project, and it must also bear the profits and losses. The government's compensation is that you can get this piece of cake, but how to make cakes and sell cakes are what the company should consider, the government can only provide policy convenience. This can initially achieve impulse fund raising for the government's economic growth point. However, it does not necessarily ensure that the enterprise can have enough funds to finish the business according to the government's requirements, what should it do? At this time, the bank branches will appear:(1)The bank's profit impulse, as a regulator and supervisor of the market economy, the bank branches have the responsibility and ability to serve local economic development, but it is paid. They are also improving the economic welfare of the branches' staff according to the rules of the market to meet their economic needs. (2)The pressure of local governments and interest groups, especially the government, through the pressure, on the one hand, it can ensure that banks make loans to the government, on the other hand, they must also make loans for the construction funds of interest groups, otherwise any winning project cannot successfully completed and the local economic growth point will be ruined. This is unacceptable to local governments, especially local leaders. So it is difficult for local bank branches to withstand this pressure, and they will provide a lot of quality loans to both¹. Even if the banking industry is a vertical management system, but local intervention in bank branches is much greater than the substantive impact of their superiors. As the "21st Century Business Herald" once stated on the topic "the local financing platform loan inventory was strongly rebounded by local governments", after the conspiracy of the three interest communities is formed, no problem can

occur in any link or be disturbed by other factors, so that the bank loan to the local government and interest groups can be smoothly realized.² Credit guaranteed by local governments is relatively secure, so banks are relatively willing to do it. In addition, banks bring large amounts of funds to enterprises (this is a special enterprise that is linked to the grassroots government) (Stakeholders, they are the expression of interest groups), these companies can invest as much as they want, even if it is an additional requirement of the local government, it is also readily accepted, and meets the government's requirements. Naturally, the benefits are realized through transfers and other methods, and it is high returns, because after meeting the investment needs of local governments, there will naturally be corresponding policies to provide convenient conditions for these companies to make cakes and sell cakes, so as to achieve a win-win situation for the three.

1.3. the source of the risk of "three benefit and one lose"

Then, the problem naturally emerged. Since the three are a win-win situation, who is the victim? The answer is clear, the people. Why is this so sure about this conclusion? With the short-term effect as the research perspective, and take real estate as an example, the conclusion is inevitable. When a real estate group gets a piece of land, it will inevitably need a lot of funds to develop it. These groups' own funds are very limited, and they basically carry out arbitrage loans. For their own interests and cater to local development (or Relieving pressure), the bank branches will provide these groups with a lot of high-quality credit with more favorable preferential policies. With these credit funds, the group can invest in accordance with the formal and informal rules of tendering and promote the formation of local economic growth points. The groups are actively lobbying the government to implement fiscal and tax policies that are beneficial to its own interests. For example, the sale price of commercial housing. Once it is approved by the Price Bureau as conforming to the policy. As a result, the price of commercial housing has risen steadily. The so-called price verification has become a chicken rib. There is a saying "a contractor who are engaging for many years in the construction industry announced to reporters a detailed account of a project he contracted: the general contracting of construction in Panyu. The plot is about 11,893 square meters of commercial housing, and the contract delivery price is 8.08 million yuan, so the average building price per square meter is 679 yuan, and the actual construction cost of the contractor is 572 yuan per square meter."⁴ in fact, this statement is unscientific. I am not defending the interests of real estate. Because the hidden rules costs behind the developer are added to the house price, so as you can imagine, the contribution to urban development funds can only be recovered through this channel and realize the purpose of profit. As a community of interests, the path is created through the interest groups, which are as a carrier in accordance with the market's "regular" and

"collect" a large amount of wealth from the people to serve local construction. Under the background that the government has authorized interest groups to contribute a large amount of funds to urban construction, and make the bank branches provide the interest groups with up-front investment ability in the form of credit, and then allocated all costs to the "necessities" required by the various people. Many people's wealth has been turned into a reserve for local development and the stimulus for interest groups and bank branches. In the short term, it has achieved a situation of co-prosperity among the three and damage to the people. What is the medium and long-term effect of this approach? Is this model necessarily a negative effect? Or is there any negative effect?(1)The disparity between the rich and the poor is difficult to flatten. Many experts and scholars have discussed the issue of the disparity between the rich and the poor from multiple perspectives and have given a good explanation. However, the issue of investigating the gap between the rich and the poor from this perspective has not been found, which generally makes them confused. Based on our experience of working at the grassroots level, this economic operation mode is the culprit, because the public only need one house. As Yao Jingyuan said: "Some people now think that if someone buys a house, then the price is reasonable. In fact, when young people buy a house, most of them are funded by both parents and grandparents. This three generations payment method distorts the price system of the real estate market, which is equivalent to 'public consumption'."⁵ However, he did not notice that the "predatory" search of the public by the grassroots government's 'public consumption' was one of the root causes. This approach not only failed to iron out the disparity between the rich and the poor, but also played the opposite role, The eradication of poverty has been the dream of humanity since ancient times, and is the basic right of people of all countries to pursue a happy life. Since the end of the Second World War, eradicating poverty has always been an important task facing developing countries (XiJinPing)³;(2) Potential social instability. It is difficult to iron the disparity of wealth if it is only the survival of the market economy, the emotional impact on the people is not so great. But the gambling result of this kind of strong three parties and the weak one party will greatly affect this instability. The short-term is tolerable, but it does not mean that it is recognized, the suppressed state of mass incidents is not an ideal situation and requires close attention;(3)Wealth of the nation and weakness of the people. The shouting of scholars such as Chen Zhiwu, Liu Yuanchun, Zheng Yongnian, and Sheng Dalin is not without reason. This reason cannot explain the cause and effect of things. If our research results are recognized, we do not know what the public will think about this because this model of economic management is an immoral thing for society.

1.4. Social Trends and Damage to the Four Parties Concerned

Just after discussing the short-term effects, there must be long-term effects in the business model of this local

economy. Assuming this model continues, what are the long-term static results? Where will the economy go?(1)The economy stagnates. The poor and the weak are not an inexhaustible source of resources. Once their wealth cannot sustain the need for local economic expansion, the capital chain for economic growth will break and the local economy will appear a huge capital black hole, according to the local fiscal deficit is 1.7 trillion, I think they underestimated or didn't understand how big the gap in the local capital chain was. They don't understand this economic business model accurately and didn't realize its Harmfulness. This 1.7 trillion is just the surface debt of the grass-roots government, which is relatively small compared to the input of economic growth points, and it accurately plays the role of an initial investment under the role of a multiplier. If broken, you can imagine the specific trend of the economy;(2)Group events erupt intensively. Of course, I am not arbitrarily speaking, nor alarmist. According to the assumption of static conditions, once the people's depressed emotions erupt, group events may be one after another, forming a wave-shaped momentum. Controlling at that time is even more difficult. At present, sporadic group events are just a microcosm. We don't want to see similar events happen, which is also a reminder of studying this model;(3) Lewis turning point appears in society. Ba Shusong, Cai Yan, Cao Jianhai, Zhou Haijiang and other scholars have debated this issue in public, and on April 27, 2011, the Beijing Evening News titled "Lewis Turning Point is Really Coming". The above discussions discussed the difficulties of this century from the perspective of labor shortage. I intend to extend it to the field of economic management. If the public wealth is compared to the labor force of peasant workers, is the use of local governments similar to the results of the use of peasant workers' dividends by enterprises? Then where does this terrible turning point appear? If it does appear, can we afford it?(4)The local operation mode is reshuffled. This result is what many researchers want to see now, because this operation mode is unsustainable. It is at the expense of the people's interests, and there are many fatal weaknesses. At the critical point, these weaknesses will be amplified indefinitely and forced to reshuffle. It is better to carry out the transformation now in advance to prevent the mode traps from being passively adapted temporarily. The long-term operation will inevitably bring the damage situation of the four parties.

1.5. Model Advantages and Potential Dangers

Doesn't this model have any advantages? All of them are disadvantages? It is necessary to look at the duality of this model in two ways and dynamically. The advantages are:(1)Concentrate on advantageous resources and develop rapidly. According to Rostow's theory, when the economy is in the take-off stage and before (i.e., the stage before it matures), investment needs to increase significantly. Make fast-growing industries base on high investment and high investment, promote the growth of several regions, and gradually completed the transition

from agricultural-intensive to labor-intensive. At this stage, strong investment impulse and investment demand are inevitable. This model can only emerge in a collectivist society. The rapid economic development at a certain stage, especially in the context of the financial crisis, shows the strong "fundraising" advantage, ensuring the rapid development of China's economy with minimal impact;(2)Quickly create wealth for society. There is no doubt that China has developed at an alarming rate in the past three decades, but in recent years it has shifted from government-driven, capital-driven and innovation-driven to another unusual model. The rise may be caused by the depletion of capital-driven and innovation-driven deficiencies. The government-driven strengthening has been strengthened to a government-centered link. With the urging of political performance, all the impulse responsible for economic growth makes use of this model can quickly create a lot of social wealth for society in the short term. This is its advantage and it has been proven that it is a task that cannot be completed by a single person or a collective of people;(3)Avoiding external risk shocks. Although the external economic shock waves such as the Thai financial turmoil, the U.S. subprime mortgage crisis, and the European debt crisis are very strong, their impact on China is much smaller than other countries. Some explain from the perspective that China is a major manufacturing country, not a major financial country, some explain from the troika theory of consumption, investment and export, they are both reasonable,' More importantly, at present, global trade frictions are increasing and the "uncertainty risks" of financial markets are increasing'⁴. But is Greece a major financial country? Does its degree of financialization is higher than China? Exports fall, why can invest go up? In addition to large-scale lending, can we consider the remaining energy as a benefit of this operation mode? It can pool all resources in the region to cope with external shocks, which can be seen as a great advantage. However, the above advantage theory can only be positioned at a specific stage and cannot be treated in the long run because it has 3 potential risks:(1)Distortion of development model. No matter what country's economic development model is inquired, there is no similar situation. Just as one group of economists believe that the miracle of China's economic growth indicates that China has established a new model different from the "Anglo-Saxon" in Europe and America. The main feature is that the government, especially local governments, play an important role in economic activities, which can fully mobilize resources (focusing on major events) and do efficient decision-making. Another group believes that the so-called miracle of China's economic growth is a product dominated by "developmentist governments", and this has the same characteristics as the "East Asian Model" that appeared in the 1960s and 1970s. However, economic research and practice have proved that this model is not sustainable, and it will cause waste of resources, structural imbalances, lack of public goods, social injustice and corruption⁵.(2)High development costs. China's economic development is a high-speed,

high-cost co-existence development model. The marginal cost has become higher and higher over time. In the absence of financial risks, it has been equal to the marginal benefits and can no longer continued to advance. Although the financial crisis has eased this contradiction, it does not mean that its marginal cost has been reduced below the marginal benefit, and the opportunity cost of social equilibrium, social psychology, popular recognition, and disparity between the rich and the poor is a larger one. They are indeed ignored, and it is a terrible phenomenon; (3)Development lacks sustainability. Undoubtedly, the sustainability of development is centered on the balanced development of society, and there can be no long-term imbalances. It is especially applicable to pay attention to the relationship between the country is rich and the people is strong. It cannot appear that the country is rich, but the people is weak. Or the stage of development will be broken, and then disrupts the rhythm of development and loses the opportunity for development, which needs to be taken seriously.

2 CONCLUSION

In short, according to this idea, we have reached the point where we must adjust. We must adapt dynamically and proactively. We cannot kill the goose that lays the golden eggs for immediate benefits. To achieve this goal, the most fundamental part is to start from the core of the development impulse. That is, to overcome the irrational social thinking of the grass-roots government and return it to normal ecological rationality, so as not to bring the results we do not want to see.

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