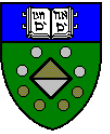


# **Rise of the State in China:** *a financial perspective*

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Yale School of Management

May 1, 2012



# Today's Agenda

- The re-rising of the state --- recent trends
- Implications for economic growth model and legal development

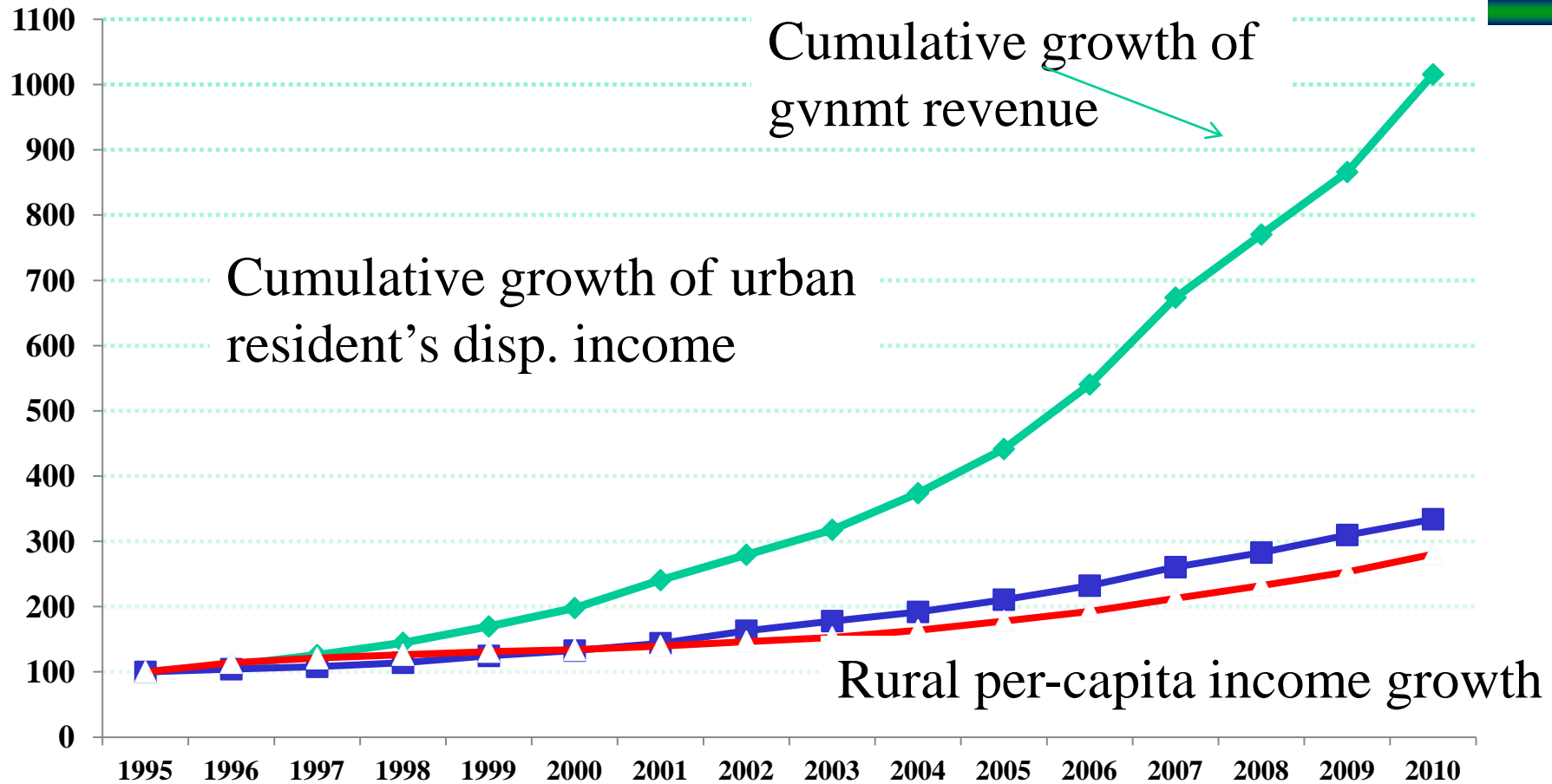


# Government size in comparison

- In 1766, the Qing government revenue was about 49 million taels of silver, equal to annual income of 2.05 million Beijing residents.
- In 2010, U.S. Federal & local government revenue = \$3.9 trillion, equal to 104 million Americans' disposable income.



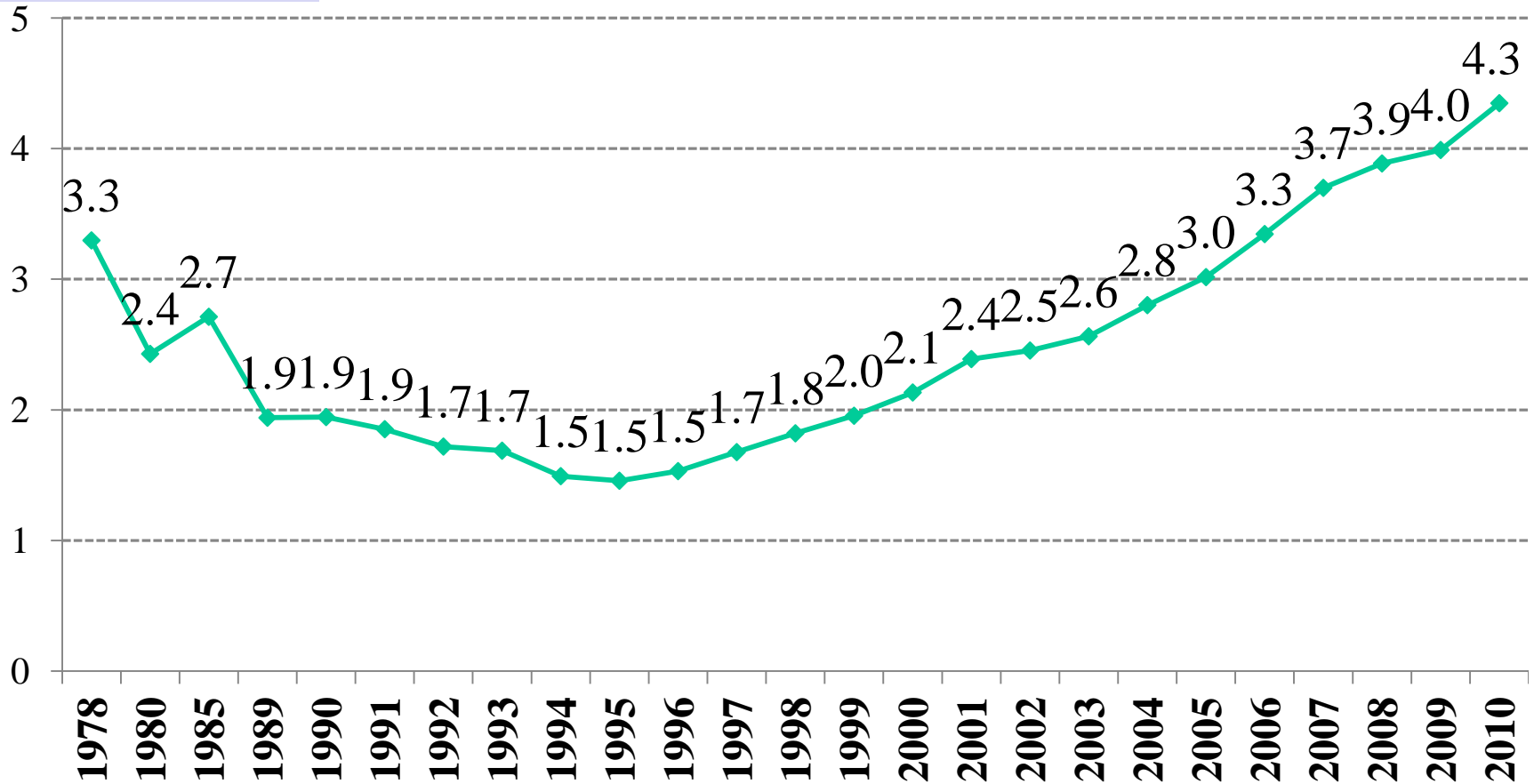
# Government revenue, urban vs rural per-capita disposable income





# Government revenue as multiples of urban residents' per-capita disposable income

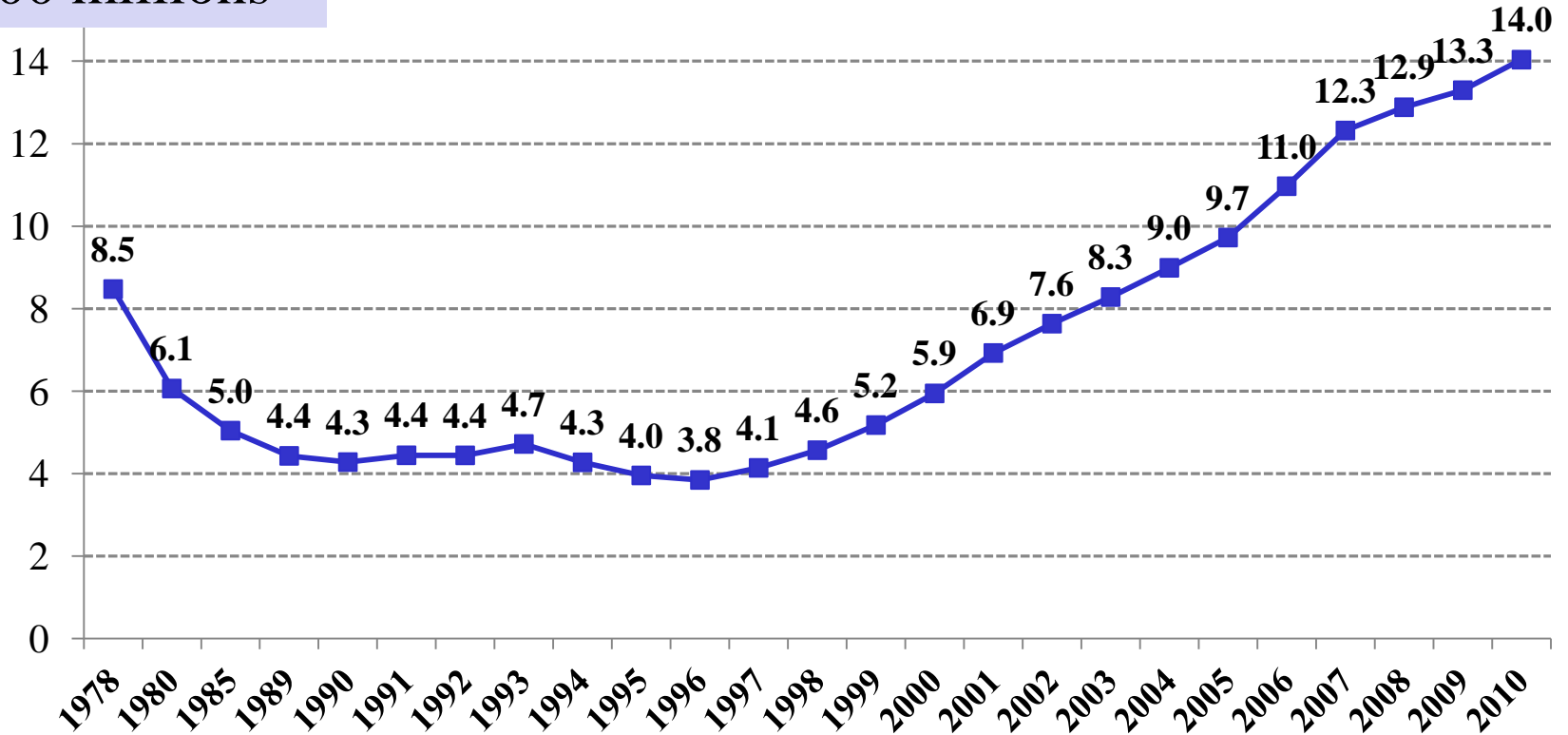
100 millions



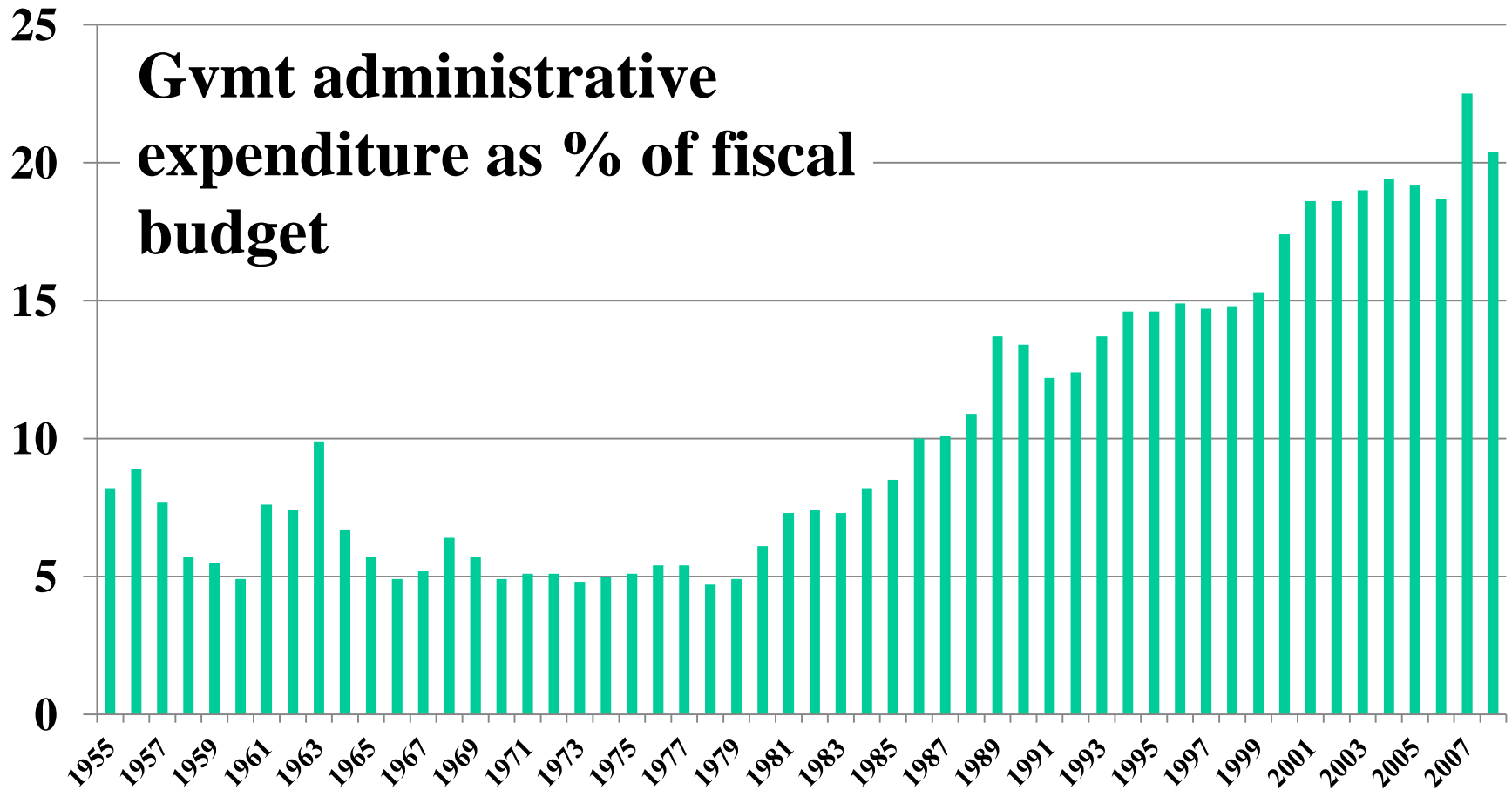


# Government revenue as multiples of rural residents' per-capita disposable income

100 millions

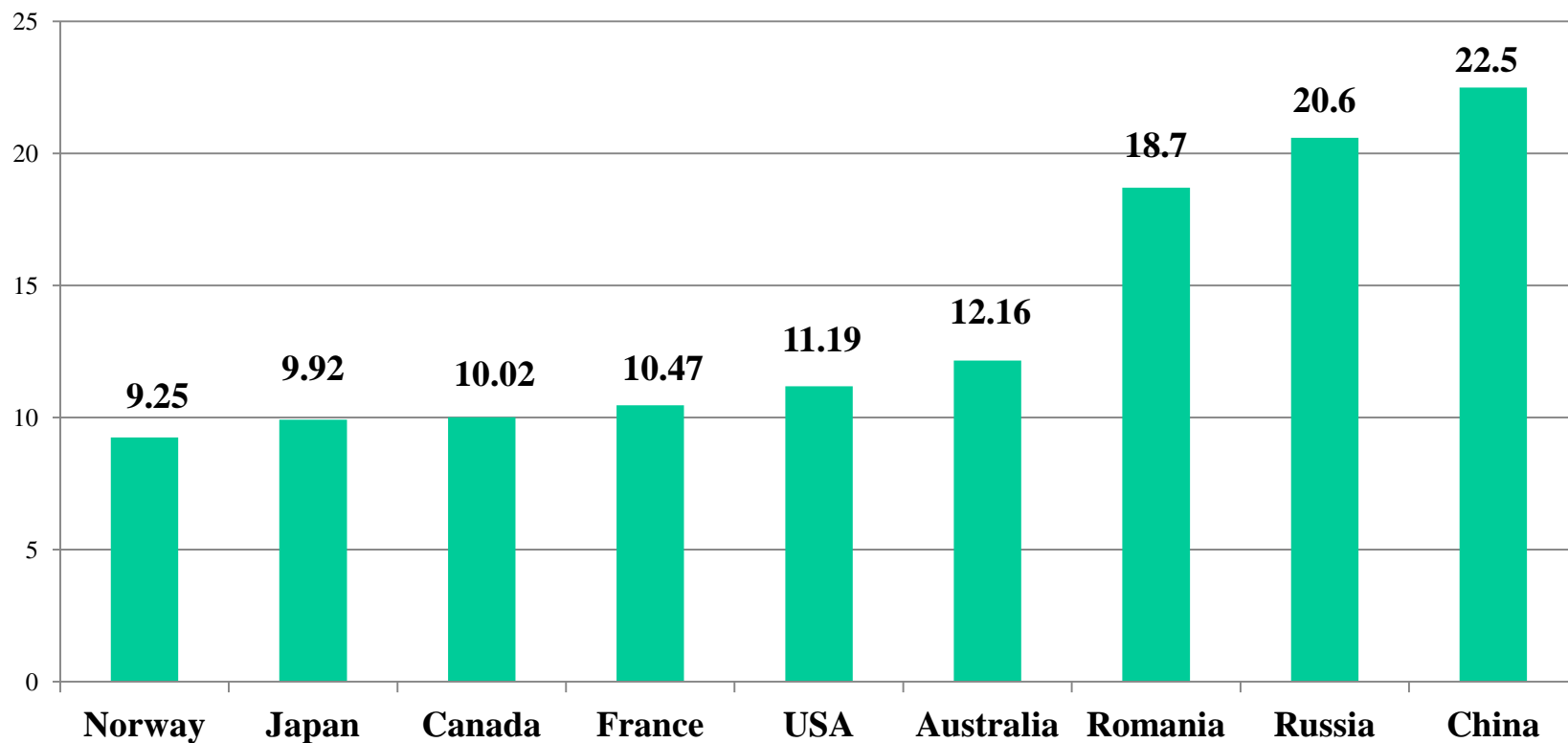


# Fiscal expansion means more state power



Data source: 杨宇立、钟志文 《国内国际行政支出实证比较》, 2010. Table 1-35.<sup>7</sup>

# Comparison with Other Countries: Administrative Expenditure as % of Fiscal Budget



Data source: 杨宇立、钟志文 《国内国际行政支出实证比较》，2010. *Table 1-35*.<sup>8</sup>





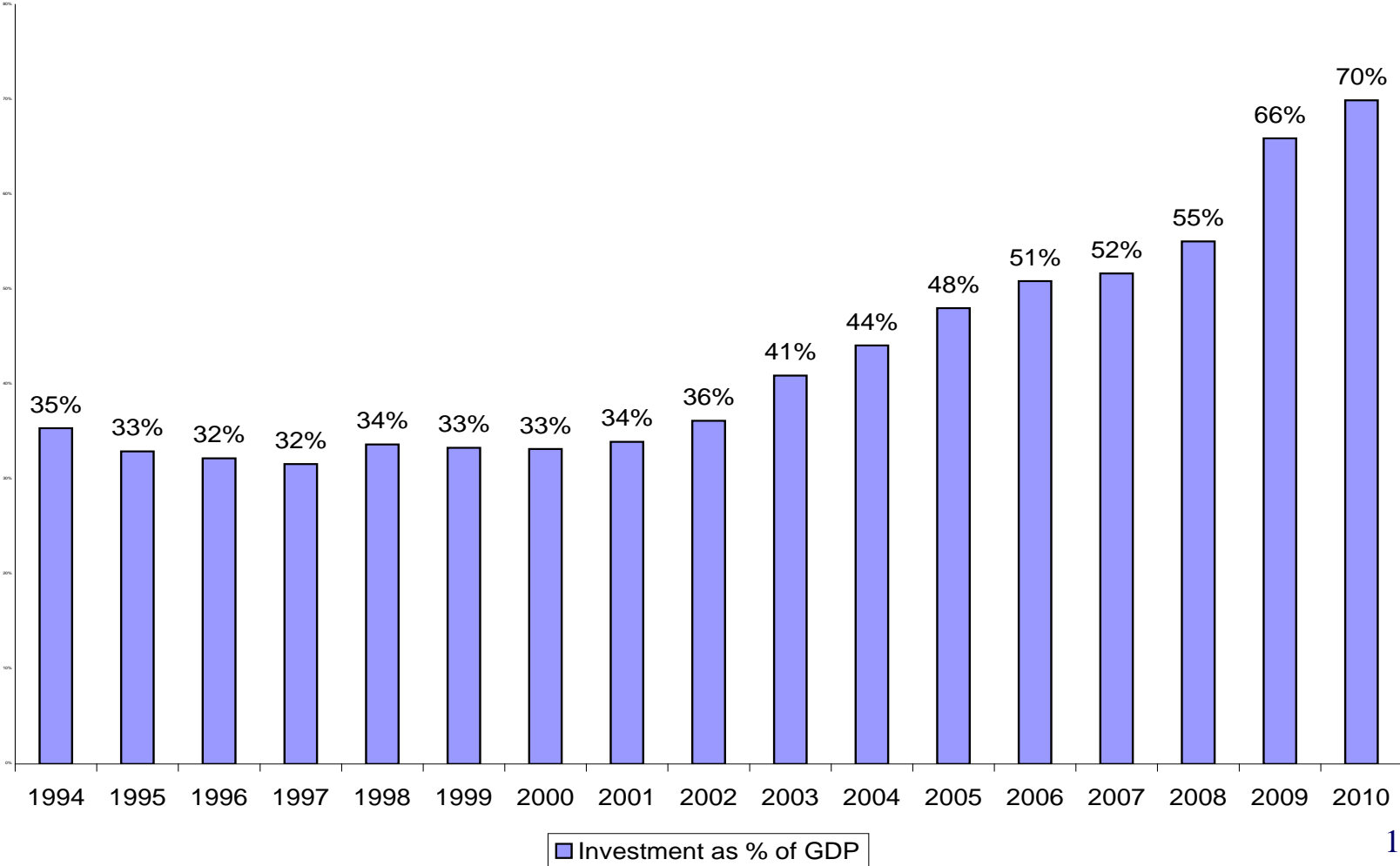
# Government expenditure structure

- In 2007, expenditure on public health, social security and unemployment benefits = RMB 600 billion, =15% of total budget, = 2.4% of GDP, = RMB 461 per capita (3% of urban residents' disposable income)
- In the U.S., Federal expenditure on same items = \$1.5 trillion, =61% of Federal Budget, =11.5% of GDP, =\$5000 per capita (18% per-capita disposable income)

# Consequences of government as investor/consumer

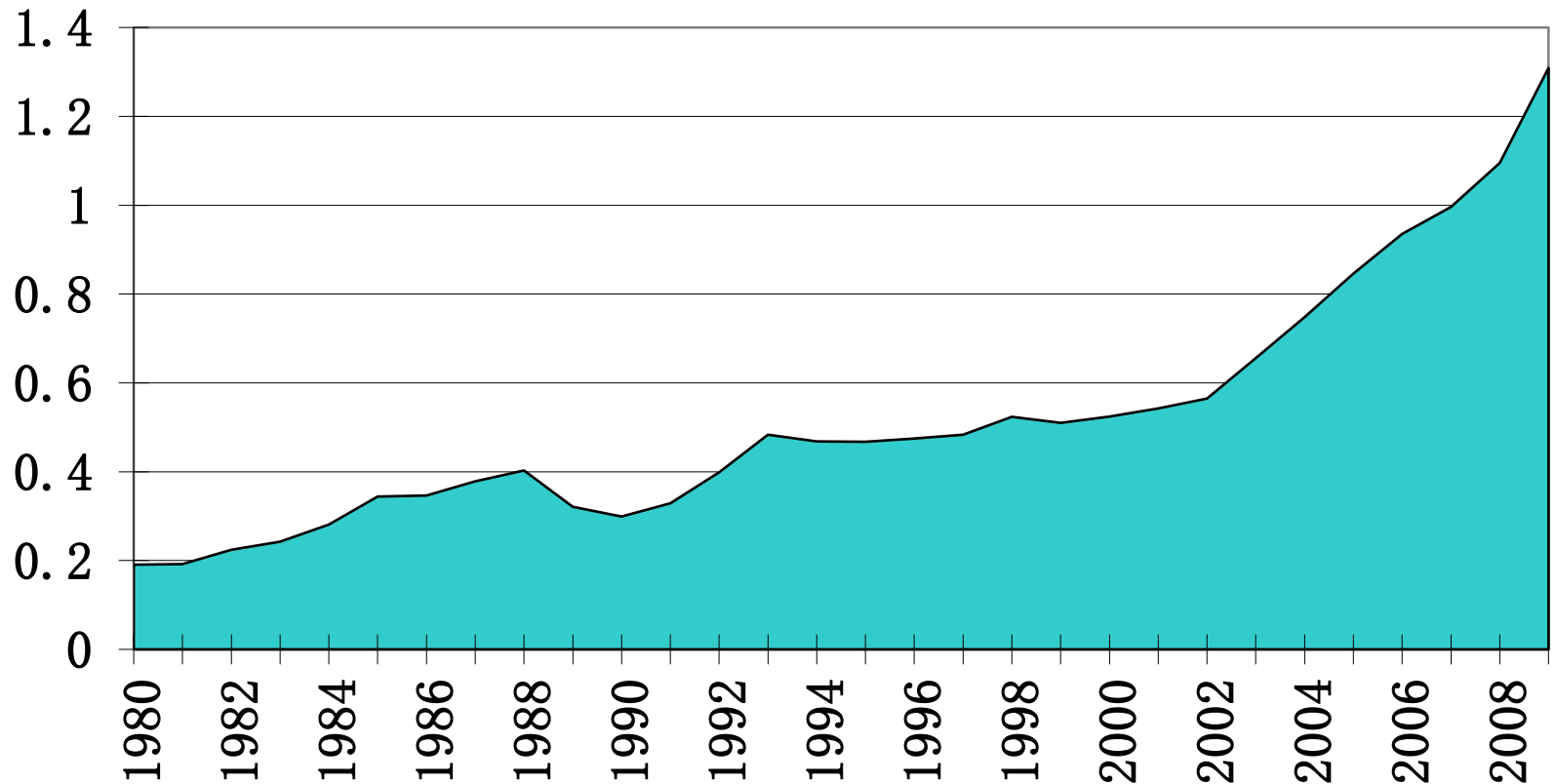
- Economic growth driven more by investments, and less by consumption
- Hence, more by exports and less by domestic demand
- More by resources-intensive and energy-intensive industries, and less by the service sector

# Fixed investment as % of GDP



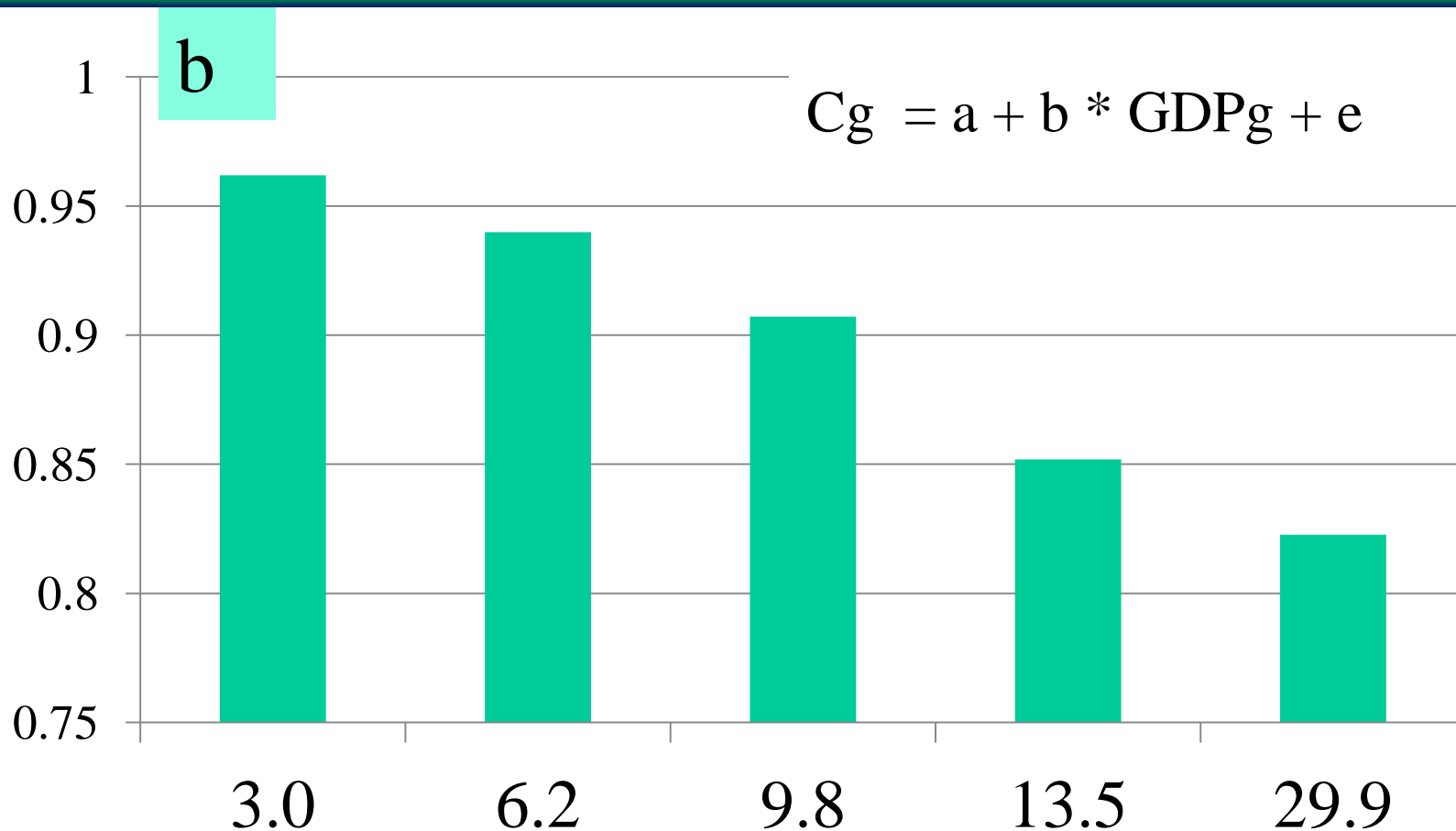
# Fixed investment divided by disposable annual per-capita income

(in billions)



# Household consumption elasticity in GDP : how does it relate to SOE share?

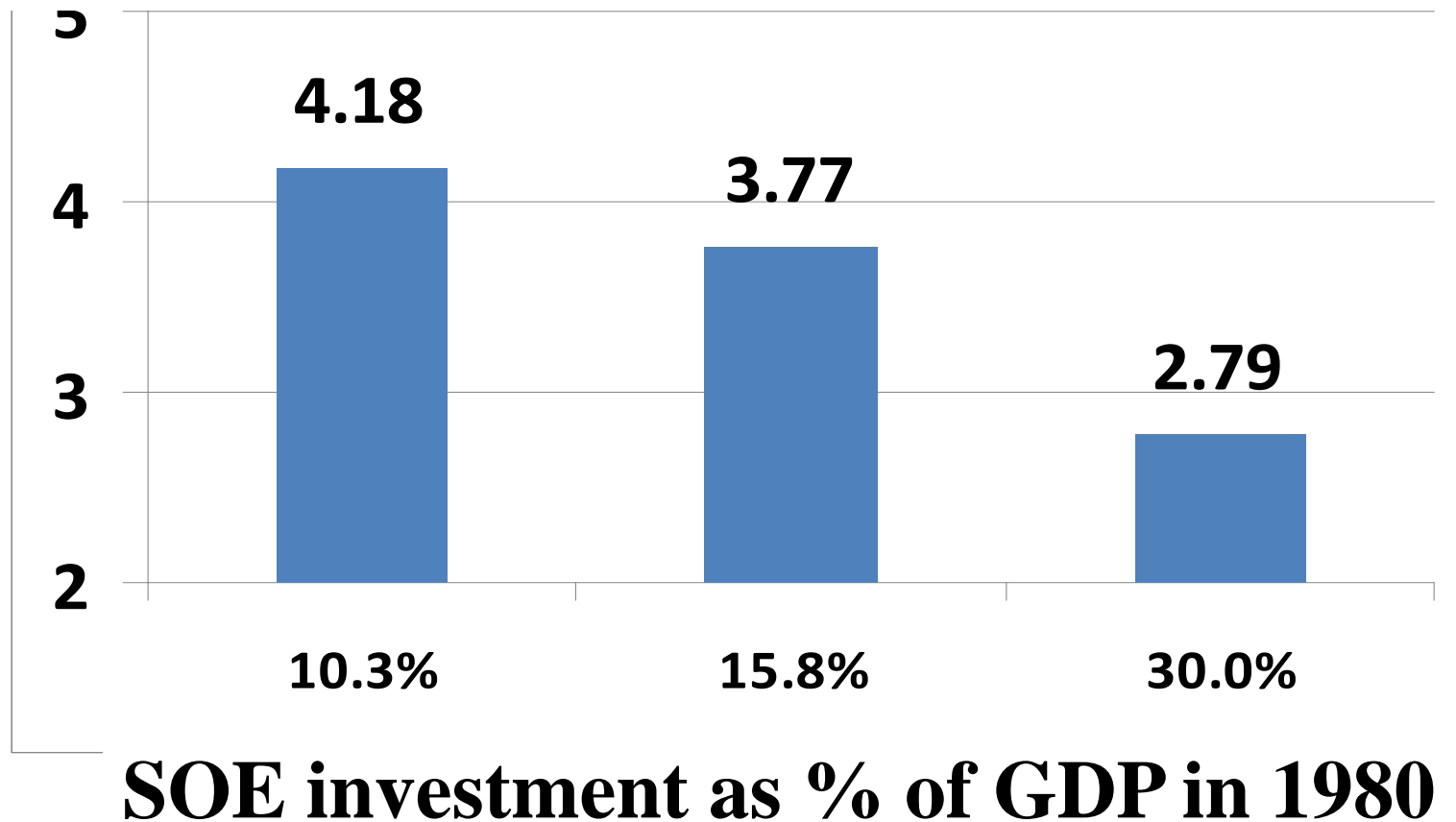
*70 countries from 1980 --2003*



Quintiles based on SOE share in GDP as of 1980

# State owning and spending too much: detrimental to rule of law

Rule of law ratings in 1995, for three groups each with 21 countries.



# China's long tradition: state as grabbing hand, via state-owned lenders and traders

Years	Government Loans	Private Loans
	Legal Limit	Legal Limit
600-650	84%	72%
650-728	84%	72%
728-960	60%	48%
960-1260	60%	48-60%
1260-1368		36%

Data: Yang (1952), Homer and Stylla (1996)



# Other Remarks

- Crowding out private firms in industries where SOEs are present
- Privatizing state-owned assets and limiting taxation power as the way to go