The Driving Force of Tax for Land Operational Right Trade

------ Evidence-based perspective of economics

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Abstract: In October 9-12, 2008 The Third Plenary Session of 17th CPC Central Committee made a decision of land operational right trade, but as a result of China's rural per capita Land is extremely scattered, and the current value of the land is relatively low, so the mechanism will not be activated on the existence of the problem of insufficient motivation, this evidence-based article build a model system to start in the lead moderate rise in prices of agricultural products at the same time, thereby promoting the land prices, further to promote the circulation value, and pave the way for the ultimate goal of and operational right trade.

Key Words: land operational right; trade; tax; floating tax system

On October 9th 2008 to 12th, The Third Plenary Session historic published and adopted the ‘CPC Central Committee on rural reform and development of a number of major issues.’ The paper notes that, according to law and the principle of voluntary compensation, farmers are allowed to subcontract, lease, exchange, transfer, stock transfer and other forms of claiming cooperation rights to land contractual management and the development of various forms in appropriate scale.

If conditions permit, the local governments can develop professional large family farms with the scale of farmer cooperatives and other business entities. The rights of Transferring land contractual management shall not change the nature of collective land and the land use, especially the interests of farmers. 1

It is not difficult to see from the file that the reasons of Chinese Communist Party allowing the rights of Transferring land contractual management, is based on the following objectives:

(A) To achieve large-scale operation

Since China began to implement the two-tier management system, the right to land contractual management has contributed tremendous power to the country's economic development. However, with the arrival of the 30th anniversary of reform and opening up, this decentralized structure of the rural contract (the current national rural average per capita arable land is 2.16 acres per family; the dispersion is great.) cannot adapt to our present stage of economic development. Achieving large-scale operation is the only way.

(B)To improve farmers' income

As the "lifeblood" of farmers, the land, due to the effects of decentralized management, increasingly unable to provide basic social security for farmers (China's rural medical security system is still under construction). Therefore, increasing the income of farmers is one of the goals our government's efforts.

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1 CPC Central Committee on Rural Reform and Development of a Number of Major Issues
(C) The effect of flow

Not only the transaction can improve farmers’ incomes and promote land distribution, but also can contribute to the prosperity of China's economy as China's economic development would also help.

However, for our country to achieve this goal, there will be many obstacles; the main driving force is the problem. Now advocated, the right to transfer land contract and management actually provides a good game, hoping to generate wealth from this game, but the current problem is that there is no driving force to make it into the game, in other words is that the benefits arising from the transaction is too small. For rural population, per capita arable land is only 2.16 acres. On the other hand, the rural population does not rely on the land as before close. According to "China Statistical Yearbook 2011", The 1990 rural household per capita net income 686.31 yuan include 344.59 yuan in income in agriculture, but by 2010 rural per capita net income 5919.01 yuan is only 1723.49 yuan from agricultural income. According to Coase’s first theorem (Coase theorem 1) “as long as the transaction cost is zero, the initial configuration for the legitimate rights of allocation of resources is irrelevant”, so long as the trading community area is clear, the allocation of resources can be effective. However, the fact is that, in China, the transaction costs are enormous, both sides need to transfer land ownership negotiations, assessment, and if no such costs exceed its benefits, then the second in the Coase’s second Theorem (Coase theorem 2) It seems that when transaction costs are not zero (TC> 0) when the social and economic goods cannot be through no-cost transactions to optimize change, according to the "China Statistical Yearbook 2011" data, we can easily conclude that transaction costs is in fact a huge obstacle, because China's current per capita cultivated land showed scattered, and the phenomenon is not high value farmland. So that farmers will not be conscious of the start of the transfer of land contract and management rights.

Of course, the law should serve to minimize the transaction costs of this social role. But, according to China's current situation, it has very low transaction costs. Such as the creation, in 2006, of the “West Village” in Shandong Tengzhou trading center of the land transfer transactions of land transfer procedure: firstly, an application by the roll-out households duration, indicating the reasons for land transfer; secondly, the village land transfer service stations reported Town land transfer service center to review compliance with the law of its circulation, do not meet the required explanation; Finally, the Town Center land transfer signing of the Organization of the transfer contract, visa, archive management. Unlike the farmers before the land idling land and demanding private transactions between farmers, in the process of land transfer, when the government has also become an intermediary in order to force the Government's credibility, legal contracts binding to both eat a reassurance to the past to avoid the land transfer contract non-standard, default rate, more complications and other issues. Unified management of all contracts filed. In peak of two transactions periods (June, October), Town land transfer service center services farmers by signing contracts for the transfer by mobilizing teams into the villages or concentrating the process in the trading hall. It is noteworthy that the whole process is free from the West Gang financial burden.

Therefore, it is easy to see the value of goods to improve the transfer priority, so that on the

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3 Shandong the Tengzhou Xi Gang land transfer as the sale of vegetables , China Agricultural Information Network, http://www.db-nw.com/jjzx/View.aspx?id=49731
one hand relatively lower transaction costs can increase the flow of goods and value-added emphasis. Therefore, with the absence of a trigger mechanism, the land transfer is likely to have negative effects:

(A) As soon as lifting the ban on land transfer, land will lose value, and rural per capita share of land will scatter severely, due to the low value, which will promote the value of economic goods to retain those who do not care for this, or to encourage them to sell their land contract and management rights. This will inevitably lead to rapid loss of arable land, a large number of farmers from the land, which is by the local farmers’ own interests and the interests of the decision.

(B) Even if the government concentrates land, the farmers will not be interested. Because the value does not cause low economic goods trade increased in increments, but the loss of land to farmers lose protection.

(C) If, under this analysis, farmers lost their land, and without given funds to support the completion of rural social security, farmers will be pushed to the brink of danger.

Therefore, there is a good incentive to encourage people to adopt a positive and serious attitude towards the transfer system. Thereby, based on this, I envision a start to tax the right to transfer land contract and management models.
2 the principle of Kaldor Hicks efficiency (Kaldor-Hicks efficiency), that is, if a person's circumstances change and changed for the better, so he was able to compensate for the loss of another person and there is a surplus, then the overall effectiveness of the improved. A system will cause any damage to a particular group, it is inevitable, so the absolute Pareto improvement is almost non-existent, then we build and run the model, it is necessary in line with this principle, as long as the income greater than the cost to run.

3 The principle of proportionality as an important principle of administrative law, this system has important practical significance. At the operational level, when faced with a variety of alternatives, to choose the minimum cost, maximum benefit from the program implementation.

First, the tax as a driving force

I think the reason why the current land transfer has many problems, mainly for failure to achieve the transfer of power to promote the land, in the final analysis should be to design a food consumption tax, such as fuel tax like the kind of tax. After China's consumption tax reform on January 1, 1994, some people think that the consumption tax is the additional goods tax will cause price increases, in fact, this is a misunderstanding. According to the tax system design, the collection of excise tax is imposed the original product tax or value-added products, first to value-added tax, these products have the original tax burden decreased greatly, in order not to fall due to tax revenue caused by reduction needs to be part of the tax burden fall by another levy a consumption tax to be filled. Therefore, a consumption tax is the conversion of old and new tax revenue, although consumer goods consumption tax or charge VAT, but basically to maintain the pre-reform tax levels.

However, the author of this food consumption tax designed to achieve the modest rise in food prices, not to achieve value-added tax and product tax before the conversion, and adoption of a floating rate, conducive to the country for implementation of the regulation, the tax system as the country's important control means, the operation of the economy played a huge role in combating the negative effects. In the present case, the land issue at stake the livelihood of our lifeblood and economy. And now is facing a serious global economic crisis, it must be flexible and prudent attitude to deal with.

(A) The object of taxation

It Should be our country's food security (i.e. cereals, beans and potato) which are the object of taxation, as these varieties of grain will hold our national interests and national interests have a huge impact, so it is necessary for such regulation of economic goods, but should not completely given the "invisible hand" of adjustment.

(B) Taxpayer

According to microeconomic point of view, the object should be left to tax changes in variables are not flexible on the market that one. Although no matter who will have tax added to the same effect, but in general point to make the object of taxation for the tax because such party will not withdraw from the market, if the tax base lost to the peasants, then They will leave
the market, so this tax will have an enormous negative effect, and the purpose is lost.\(^5\) Therefore, the tax burden should be borne by the consumers.

(C) The tax variable

Land, especially farmland, is related to our people's livelihood, so we can do nothing but be cautious. Because as tax would produce a certain negative effect, as this is a good system cannot be avoided, such as speculation in land issues, such as food prices beyond the affordable level of residents. The provisions floating kind of taxes limits the negative effects.

(D) The tax purpose

Under this regime, as part of tax revenue received by farmers for subsidies, so in fact the government's power to allocate resources, to stimulate production. Now China's rural cooperative medical insurance, general practice, but whether it is capital or relative risk of lack of response, with these funds, the rural medical insurance can be quickly established so that farmers no worries.

(E) Tax breaks

Tax relief, because the modest rise in food prices will inevitably result in low-income urban families of the burden, we must take full account, in accordance with the principle of proportionality, so that the negative effects to a minimum.

In addition, the purpose of this tax benefit farmers, the farmers in the purchase of food, it should enjoy tax exemption.

As shown below, in tax cases, the buyer's purchase price from a tax point rose to pre-P2 P1 point, and sellers to get the price point down to P3 from P2 point, then, tax revenue is B and D area and the region, this part will be subsidized health insurance to farmers and rural construction, because of this, consumers of the consumer surplus (consumer surplus) is the buyer's willingness to pay minus the actual buyer payment amount the consumer surplus measure of the buyers feel that their access to additional benefits) is A, while the producers get the producer surplus (producer surplus (producer surplus) is the sale of a seller of goods or services price minus the seller's cost) will be B + D + F, of course, to spend what the tax costs T, then producer surplus becomes a B + D + FT, though, through the icon, we will find a loss of C region and E region, but as an expense, it will bring more benefits to our community, a small Oliver. Wendell. Holmes (Oliver Wendell Holmes Jr.) once said that "taxation is We pay for the cost of civilized society. "In fact, the greater the elasticity of supply and demand, the greater the deadweight loss of taxation, but because of alternative food items are so few, almost no elastic, the deadweight loss of taxation (Deadweight loss), also known as Death Triangle, that due to monopoly pricing (monopoly pricing), government tax and other factors of producers and consumers that are not part of the limit distribution of resources were not the best is controllable.

\(^5\) N. Gregory Mankiw, Principles of Economics, South-Western, Division of Thomson Learning2011
Second, the prices of agricultural products

Elasticity is a measure of demand or supply of a determinant of their degree of response indicators. If a product's demand response to price changes much, it means that the product demand is elastic, otherwise there is no flexibility. Food as the people's livelihood at stake, as a necessity is almost no flexibility. But this does not mean that we can limit the tax increase food prices. Since the consumption tax on food, which inevitably lead to rising prices of agricultural products, but in fact, because the world prices of agricultural products in East Asia is relatively low in areas of China in world food prices depression. May 2008, the international market, the price of 1 kg of rice more than 6 million, over the same period in the domestic market has generally hovered around 1.50 yuan per kilogram, that only the international market price of 1 / 4; addition to rice, the domestic flour cost about 5800 yuan / ton, the international market price close to 7,000 yuan / ton, a difference of about 20%. Although the 2008 national standards for the minimum purchase price of wheat, but wheat production costs than the average increase of 220 yuan in 2007. If you take into account the labor costs of farmers, farmers producing wheat in fact at a loss. It can be said that the current price of Chinese food is definitely not only significantly lower than the international wheat price, even smaller than the 1996 price level. Therefore, China's grain prices have more upside. The reason why I want to take a floating rate, is to avoid exceeding the tolerance level of the general public, the prices of agricultural products,
mainly to the general public in the economic and psychological tolerance range, the price to do a pull, this part of the funds transferred to the rural areas, the formation of consumption. And due to the current stage in the economic crisis, so the increased prices of agricultural products, will boost consumer spending, stimulating domestic demand. And this will also strengthen China’s food security, threaten food security because the main problem is the illegal cultivation of other crops and into construction land.

According to economics, ‘rent’ theory, the prices of agricultural products does not necessarily lead to earnings pressure, because we all know, every industry has its own "rent, only the prices more than" rent ", possible loss of revenue pressure, so we have to rely on low-rent, and a relatively minor industry sectors to develop revenue.

Third, land prices rise

China’s land use system is the premise of adhering to the socialist public ownership of land, the implementation of land ownership and use rights of the separation of ownership. Therefore, China’s land price is mainly the land use right price. Based on land use right transfer, transfer the premise of land users obtains land use rights and the corresponding period of the purchase price of land revenue. Therefore, the Chinese meaning of the price of land private ownership of land is different from country to implement: First, it is to obtain a certain period to pay the cost of land use right, rather than the price of land ownership. Second, the land use right price is a certain period of rent income capitalization, the price of land ownership is indefinite rent income capitalization. In theory, the price of land use rights of land ownership should generally be lower than the price; long-term land use rights, the price is higher than the short term land use rights. Third, longer-term land use, according to the law, up to 70 years, also during use and transfer, lease, mortgage and other rights, and similar to the title. Therefore, land evaluation principles, methods and procedures similar to private ownership with the state.  

The right to land contractual management of construction land under the land is different from the value, especially by the Third Plenary Session of the triple constraints of the land by more impairment of the value of the land, so this requires us to this land itself to explore the efficacy of the growth of its value.

Consider the game from the individual to predict behavior and actual behavior, and to study their optimization strategy game theory view, As the prices of agricultural products, and China land prices are based on the life of the land use right as a measure of income point, this will inevitably lead to land prices, which farmers and the government has become a game of weight, because a piece of land by the revenue generated by higher than before, farmers will be for the common good spontaneous unity of land protection because of high land prices, land contract and management rights will be more attention, people are more such a system, theory of institutional change is an important element of the new institutional economics. Their representative is the North, he stressed, of course, technological innovation for economic growth into the energy, but people without institutional innovation and institutional change of the impulse, and through a series of systems (including property rights, the legal system, etc.) to

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6 Kathleen P. Bell, Kevin J. Boyle, Jonathan Rubin, The Economics of Rural Land-use Change, Ashgate Publishing Limited2006  
7 Morton D. Davis, Game Theory: A Nontechnical Introduction, Dover Publications Inc1997
build the technology consolidate the results of innovation, then the human society, long-term economic growth and social development is not envisaged. Therefore, increased land acquisition costs, then as a "rational economic man" of this earth's people will pay more attention to contract management and defend their rights, this negates to some extent can the role of illegal land acquisition. At present, per capita arable land area of 1.38 acres, approximately 40% of the world average. Affected by drought, steep slopes, barren, floods, salinity and other factors, the quality is relatively poor in low-yielding fields account for about 2 / 3. Desertification, soil degradation, "three wastes" pollution problem is serious. As industrialization and urbanization accelerates, arable land will continue to decline should reserve land resources become increasingly scarce farming, grain sown area of future expansion space is extremely limited. Most importantly, as land prices, increases the relative scarcity of land and the relative usefulness, the status of goods in the economy will therefore increase, so, during the land transfer and they will efforts to increase system security, economic interests, because people often show high levels of goods greater attention.

Fourth, the rising enthusiasm for growing grain and the transfer starts

On the other hand, due to rising food prices, farmers' enthusiasm for growing grain will rise, as a rational economic man, the farmers must be increased investment in agricultural products, increase production efficiency in the use of large machinery for planting, they will be more efficient, it will inevitably lead to concentration of land resources, more efficient way to allocate resources, so land transfer is initiated. In fact, according to "China Statistical Yearbook 2008" that the 1990 rural household per capita net income of 686.31 yuan from 344.59 yuan in income in agriculture, but by 2007, rural per-capita net income of 4140.36 RMB 1303.76 yuan, only income derived from agriculture, which shows farmers the extent of land attachment is weakening year by year, partly because the production efficiency, on the other hand, we have to admit that because of existing the right to land contractual management structure cannot adapt to the structure of the financial needs of farmers, mainly because:

(A) The identity of restrictions on land transfer

"Rural Land Contract Law" Article 55, paragraph 2: "land contract land contract to the program as well as collective units or individuals other than the contractor, shall be subject to the collective village meetings 2 / 3 or more members or 2 / 3 of villager representatives agreed. Visible, non-members of the transferee of the collective economic organizations of collective land contract and management rights as an exception has been strictly limited. But the identity of the transferee of the main limitations caused by transfer of the right of land contract closed, so that the land contract rights cannot be freely transferred in accordance with the market approach, the rational allocation of land resources to create obstacles.

(B) Restrictions on land transfer conditions

From the transfer of land contract and management rights in terms of the current rural land contracting and management right transfer is a prerequisite for the transfer must be approved by the consent of contract, farmers in compliance with the law of the case should have

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8 Prof John Groenewegen, Dr Antoon Spithoven, Dr Annette Van den Berg, Institutional Economics: An Introduction, Palgrave Macmillan2010
autonomy, this is consistent with the principle of autonomy of private law, in order to promote rural economic development open.

(C) Limitations on the value of the land to achieve

Rural land contracting rights as a property right, should have the appropriate financing function, but the farmers have the right to land contractual management is an imperfect property rights, resulting in land revenue is incomplete, unclear, difficult to form land financing market, inhibit the function of land value guarantees, limits the right to contract land value maximization goals.

But by the enthusiasm of grain increased, thus ensuring our food security, of course, the purpose of this is just the natural result of the farmers to get rich only, but the economics of the assumption that man is a rational pursuit of wealth maximization, of course, from Austrian perspective, this might not really a rational reason, but I think that's rational, but in any case, so from that rational people to act.\(^\text{10}\) Thus, in order to pursue the maximization of personal wealth, only by focusing on land, or land to expand their shares as shares of income, this way, the land contract and management rights of the holders and operators on the separation of Of course, I do not deny the right to land contractual management will be completely sold out, but, according to economics, "rational economic man" assumption, the farmers do very little probability of such a decision. So, it means the division of labor productivity growth, and the relations of production progress, in other words, productivity increases, both the business side and the contracting parties have the right to receive the benefits, because the one hand, production has been more fully utilized, another isolated group of living labor, or investors. In fact, this model is in parts of China have been explored, such as: Tianchang actively promote the transfer of land, the farmers on a voluntary basis, to take cooperative + farmers, corporate farmers, etc., so that the relative concentration of land and greatly reduced food production costs, improve land productivity benefits. Past five years, the rate of production of high quality food Tianchang gradually increased production to a new level for one year, total production from 59 million tons in 2003 to this year’s 710,000 tonnes of grain farmers' income per capita from 2003 to 1800 yuan to 2,500 yuan in 2008.

Fifth, the negative effects analysis

For the design of this system, more or less will have some negative effects, but this negative effect can be generated if offset by positive effects, and there is a surplus, then, such a system there is a rational enforceable. Now I will make a negative effect on this one analysis:

(A) While the price of agricultural products would cause prices of other products, but because farmers have more wealth, which started in rural areas of China's spending power under the "China Statistical Yearbook 2008", from 1990 to 2007, mainly in rural areas consumer focus on food, but dropped slightly from 58.80% 43.08%. while other farmers for consumption, especially consumption of light industrial products affected, the long-term at a low level. Therefore, the tax subsidies will increase non-food consumption, and if this starts a huge consumer market in rural areas, for ease China's economic crisis will be a great help.

(B) the ability of rural consumption also makes the increase in industrial consumption, then

\(^{10}\) Steven Horwitz, Microfoundations and Macroeconomics: An Austrian Perspective, Routledge2009
this part of the increased demand, thus alleviating the unemployment problem because China is now subject to global economic crisis, foreign exports, to some extent, missing demand, but in fact China itself is a big market, especially the rural areas, only because of the constraints of income levels, but not start. The reason why the domestic export sector in the process of receiving obstacles, mainly 30 years since reform and opening up, China has been focusing on foreign markets, and for domestic consumption groups, consumer groups, particularly in rural areas caused by lack of attention.

(C) to a certain extent, to achieve a fair redistribution because urban residents and rural residents' income is extremely unequal. According to "China's statistical database" published figures, 1-4 quarter of 2011, urban per capita disposable income of households is 27318.64 yuan, while the cash income of rural households is 8638.5 yuan. such a big income gap is not conducive to China's stability, sustainable development will also have some of the impact, so in this way to be balanced.

(D) the tax cost, because it is attached to the food on, so this cost down for the tax levy cost is the tax department to achieve its functions, designated by the State of the revenue to complete the task in enforcing the collection of financial guarantee consumption and management of human, material and financial aspects of the sum of the costs. Because the tax is directly attached to the goods on, so to avoid the taxpayer and the tax revenue because of increased transaction costs resulting from, so this from one perspective, this tax will not have much negative effect.

(E) In the short term, there will be a temporary price increases, but this is due to agricultural products is temporarily not keep up with rising food prices and raise farmers' enthusiasm for growing grain due to inertia, with the amount of money invested agricultural products increases, makes agricultural products and food production to be balanced, which makes agricultural products and lower prices.

Therefore, the above analysis, we conclude that only economic goods (economic goods) distribution, then the economy and a scarcity of goods on, useful and competitive, so the only increase in volume and value of goods in the economy large, will lead to the protection of their sense of ownership and active use of interest, so the tax system to start, and increase the prices of agricultural products rose modestly, so as to drive up land value, for our right to land contractual management to lay a good flow basis, and this system meet the needs of our existing conditions and systems designed to achieve. To ease China's current land system, such as caused by the illegal occupation of arable land, relatively low rural incomes, food security and other issues of land provides a package of solutions, and this starts a chain system, in order to pay the minimum cost to obtain Best Start initiatives. Bound for China's new rural construction and development of both equity and efficiency contribute to a philosophy.

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11 China’s 1-4 quarter of 2011 large and medium-sized urban household income and expenditure statistics, China’s statistical database
12 China’s 1-4 quarter of 2011 large and medium-sized rural household income and expenditure statistics, China’s statistical database