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# Government's Role in Urban Construction Land Expansion

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**Abstract** Focusing on urban construction land expansion, governmental influence on expansion of urban construction land in China is analyzed from fiscal decentralization, government game and land system. Due to fiscal decentralization and coupled with GDP-based performance evaluation system, local government seeks to maximizing economic profits. Whereas, land systems such as land property, land expropriation and land transfer system, let the local governments' profit seeking behavior achieved. The conclusion is that the government's role in urban construction land expansion is mainly from local governments.

**Key words** Urban construction land, Land expansion, Local governments, Land system, China

In recent years, with the acceleration of urbanization in China, the construction land has been increasing continuously, but the area of arable land has been decreasing constantly, so the conflicts between construction land use and farmland protection are conspicuous increasingly. Chinese government has proposed to participate in macro-control by using land policy. Besides, in the academic cycle, the study on the causes of the increase of urban land has also become a hot topic. However, the existing research mainly regards that the increase of the urban land is influenced by population growth, income increase, rapid urbanization and industrialization<sup>[1–6]</sup>. The study on the government's role in urban land expansion is insufficient<sup>[7–9]</sup>. In the paper, how the government and policies influence the urban land expansion is analyzed from the aspects of fiscal decentralization, government game and land system.

## 1 Fiscal decentralization

The influences of fiscal decentralization on the expansion of urban land are reflected on three terms: fiscal decentralization plays a positive role in economic growth and the economic growth will push forward the expansion of urban construction land; land returns also exist the interest pattern distributed by the central government and local governments, the local governments rely on remising land interests as the important source of fiscal revenue; fiscal decentralization motivates and pushes the local government to seek for economic development, so as the local government to expand factor inputs including land.

**1.1 Fiscal decentralization and economic growth** Fiscal decentralization means the central government delegates the fiscal control to local governments. Comparing with the central

government, local governments at each level have the information advantages in resources allocation. Therefore, transferring fiscal power and responsibilities to local governments is helpful to improving economic efficiency. That is to say, the local governments can provide various services of public goods well to satisfy the local demands. Furthermore, the local government officers take the responsibilities of providing public goods, which indicates that they are under the tight supervision of local residents. Hence, they are motivated to display their fiscal functions to seek the maximum benefits for the masses. In addition, local governments control a large number of local enterprises and the fiscal decentralization may harden the budget constraint of local enterprises, which will increase the efficiency of local enterprises and lead to the rapid and sustainable economic growth. What's more, new round of fiscal decentralization in the process of reform can stimulate the competition among different regions. In order to attract mobile production factors, governments from various regions have to hugely invest in local public property, which is helpful to harden the budget constraint of state-owned enterprises. On the basis of the Cobb-Douglas production function, LIN Yi-fu, who applied the provincial data in the years from 1970 to 1993, proved that fiscal decentralization has positive effects on economic growth<sup>[10]</sup>. And the economic growth plays an obvious improving role in urban land expansion<sup>[1–6]</sup>.

**1.2 Decentralization of land returns** As the double identity of land owner and social administrator, the central government certainly has the rights to share the land returns. In September, 1988, the State Council of PRC issued the *Interim Regulations on Urban Land Use Tax of the People's Republic of China*, which stipulates that "fees" should be stopped but "tax" should be imposed and the taxes obtained should be shared by the central government and local finance by fifty-fifty. The local governments expect to get all the land use taxes, so they adopt various measures to curtail the actual gains of the central government. They give priority to high tax rate rather than low tax rate; enlarge the duty free areas; strengthen the rent in kind

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and never imposing land use taxes but continue to impose land use fee and so on<sup>[11]</sup>.

In order to stimulate the local government and coordinate the relations among the central government and local governments, the central government gives up a large part of the interests in terms of land returns and promises that the central finance will return the land returns to different cities by the percentage from 85% to 95%, and the return limitation is two years. However, the local governments do not satisfy with it, they still take various kinds of measures to curtail the share of the central government, for example, continuing to strengthen the rent in kind; specifying the land returns into land transfer fee, development fee, support expense and so on, and only the land transfer fee is included in the share of the central government; decreasing the land prices widely to get the political performance by scarifying land returns.

In October, 1992, the Ministry of Finance issued the *Interim Provisions on the Income from the Use of the State-owned Land in Cities and Towns*, which mainly adjusted the share of the income between the central government and local governments in terms of the compensable income of land use (land grand fee, land returns). In RMB terms, the central government has 5% of the income and the rest belongs to the local governments; in terms of foreign currency earnings, the central government and local governments get 40% and 60% of the income respectively according to the foreign exchange allowance. On January, 1st, 1999, the government launched new *Land Administration Law*, which stipulated that the compensable income of newly added construction land use should be share by the central government and local governments of three and seven tenths and the incomes should be used for cultivating farmland. The land consolidation items have been launched nationwide. The supporting funds from the central government are the compensable incomes of the newly added construction land use fees submitted by the local governments. However, from the execution of the policies, the effect of these policies seems not so good.

To sum up, at the beginning of the share of land returns, all the returns are captured by the local government. With the expansion of the returns in the whole country, the concern of the central government will be aroused. After researching, the central government will issue the policies on the share of land returns, but all of these interest-share policies have experienced the resistance of local governments, so the central government has to shrink the proportion of its share gradually. At last, the central government can only get a small sum of land returns, while the local governments occupy the major part of land returns<sup>[12]</sup>. Driven by the huge interests, the local governments are wild about selling land, and then the expansion of urban construction land is improved.

**1.3 Fiscal decentralization stimulates local governments' desire to develop local economy** Fiscal decentralization, which brings along the changes of interests, makes the local governments to be special subjects of economic interests and lets them have the behavioral tendency of seeking the utmost

interests. Besides, the current performance appraisal system takes the economic development indicators, which are dominated by GDP, fiscal revenue and so on, as the main appraisal indicators. So the utilitarian of local governments in economic behaviors is further exacerbated. As a result of the imperfect system of dividing taxes, which mainly focuses on fiscal rights and does not define the duties and responsibilities, the duties and responsibilities of the central government and local governments are not well defined, so they all try to take any opportunistic measures to realize their maximum interests. The issues of geographic discrepancies have not only failed to be solved but also expanded. The misconducts of local governments, such as local protectionism, duplication and neglect of public service and so on still have not been effectively improved, especially the low-level repeated construction caused by the local governments' over emphasis on blind competition among different regions<sup>[13]</sup>. Their behaviors have resulted in the waste of land and the unreasonable expansion of urban construction land.

## 2 The games of governments

The different goals on pursuing their interest lead to the game behaviors of governments at various levels. Driven by the interests, the central government and the local governments, the local governments, governments from different sessions and the different departments of the central government and the local governments have different standpoints and behaviors toward the expansion of urban construction land. Through analyzing the misconducts of governments on the problems of land, LI Long-hao, divided the behavior modes and causes of the governments' misconducts on issues concerning land into three layers: virous local governments (cutthroat competition among governments), the governments from the formal and the later sessions (the short-term behaviors on seeking the utmost interests in the session) and the local governments and the central government (non-cooperation games)<sup>[14]</sup>. It can be seen on Fig. 1. In addition, the different attitudes among the different departments of the central government and the local governments are one of the causes of the expansion of urban construction land.

**2.1 The game between the central government and the local governments** The essence of fiscal decentralization is the process of adjustment and reallocation of power and interests among governments. During the process, either the increase of the fiscal revenue of the first-level government is based on the losses of fiscal revenue of governments from lower level, or the increase of fiscal revenue of some local governments is based on the losses of fiscal revenue of other governments from the same level governments. Although in the end the central government and the local governments can get profits from land, the amount of the interests is different. In the changes of fiscal decentralization, the central government and the local governments lay in the state of game. In the stage of centralized bur-sary system, the local governments are rational tentatively and they force the fiscal system to shift from centralization to decen-

tralization. After the implementation of management at different grades, the local governments take various kinds of means to compete with the central government. With the development of the society, the local governments inevitably pay much attention to the local interests. As a rational government with the demands of realizing the maximum local budget, its essential target is seeking the utmost interests for its prefecture<sup>[15]</sup>. Blecher

and Shue(2005) made research in Xinji, Hebei Province and noted that the contradiction between the central government and local governments plays role in the expansion of urban construction land. Fiscal decentralization has weakened the interference of the central government in the local governments, so the choice of local governments becomes stronger and more effective<sup>[16]</sup>.

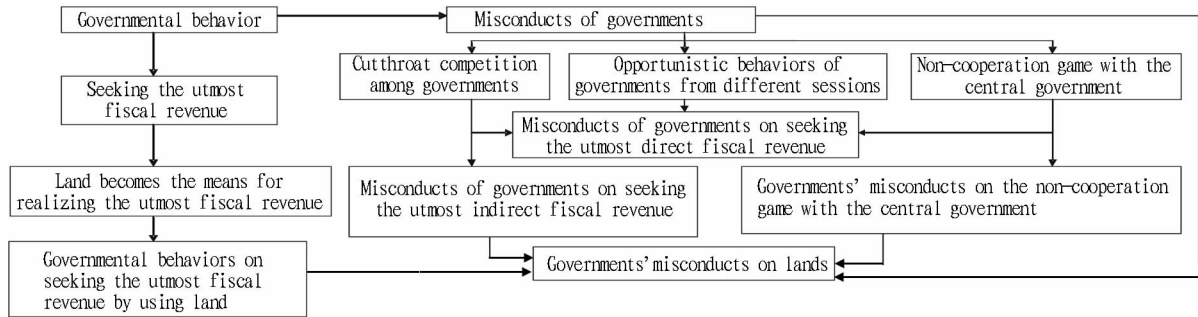


Fig. 1 The analysis framework of Chinese governments' misconducts on land

**2.2 The game among different local governments** Due to the tendency of utmost interests and the pursuit of performance, governments from different regions compete fiercely in terms of investment environment, legal system, and governmental efficiency and so on, so as to attract investment, technology and so on. Since the reform and opening up, the competition among local governments has greatly pushed forward the economic development of China, but many negative effects are raised from the inappropriate competitions. Labor forces, capitals, technology, land and some other production factors are the focuses of the competition among local governments. The local governments vie with one another to provide preferential policies for attracting investment. Relative to the land, the most direct way is selling the land at low prices. Besides, setting a large number of development zones provides the platform for attracting investment. By the end of 2003, there are altogether 3837 development zones of various levels and kinds in the whole country, among which only 232 get the approval of the State Council, accounting for 6%; 1 019 get the approval of provincial governments, accounting for 26.6%; the rest 2 586 development zones are under the provincial level, accounting for 67.4%. But by the end of 2006, development zones of various kinds have come to 6015, one time against 2003 in only 3 years<sup>[17]</sup>.

**2.3 The game of governments from different sessions** Political achievements, as an important prerequisite for government officials' promotion, become the ultimate target of the government officials in his session. So the government officials try to optimize their political achievements in his short terms by using the limited resources. Driven by this target, the local governments enthuse over the instant achievement projects. They build a large number of resources-intensive projects (majority of them are low level repeated construction) and construct infrastructures (wide road, big square), regardless of the interests of the later government. The extensive construction occupies a large number of farmland and the areas of urban construction land become larger and larger.

**2.4 The competition among different departments of the central government and local governments** Different departments, such as department of revenue collection (internal revenues and local taxation bureau), department of public spending (budget bureau, public works, transportation bureau, other public services including public health and education), department of land administration/land use management (planning bureau, land bureau) and so on have different attitudes toward the expansion of land<sup>[18]</sup>. These varied attitudes are important factors lead to the expansion of urban construction land. It can be seen on Table 1.

### 3 Land system

In making the decisions on realizing the maximum of interests, the local governments should balance the following two aspects: for one thing, the local government should transfer land without compensation by means of pact so as to attract more investment; improve the reserved fiscal revenue and the fiscal revenue for submitting to increase the local GDP; for another thing, the local governments need to expropriate the land by low prices, but selling them at high prices by the way of auction, bidding, nominal quotation and so on, so as to obtain high and disposable extra-budgetary revenue taking the land grand fee as the primary form to finance for the local urban development, infrastructure construction and other public goods and services<sup>[19]</sup>. The current land property system, land expropriation system and land transfer system allow the local governments to attract investment by low land prices and sell a large amount of farmland at high price by cheap expropriation, which lead to the sharp decrease of agricultural land but the rapid increase of construction land.

**3.1 Land property system** The Article 10 of the *Constitution* stipulates that "the land in rural and suborn areas belongs to the collection excluding the land owned by the nation stipulated by the law, besides, the housing and private farmland also belongs to the collection." In Article 10 of the *Land Manage-*

ment Law " the collectively owned land belongs to the group of villagers and the land is operated and managed by the villagers' collective economic organizations ". It can be seen that villagers' committee, township governments and rural households are all not the subjects of collective land property, thus, lead to the vacant of the subjects of rural land property.

Meanwhile, the peasants' collective land property is a strictly restricted property. The state strictly administrates the functions, transference and disposition of rural land. However, peasants' have extremely limited rights to occupy, use, operate and dispose the rural land. The ultimate right to dispose collective land is controlled by the grass-level governments. The land contracted by the members of the collection can only be reconstructed by other households, exchanged and transferred, but the share purchasing and mortgage are prohibited. To be spe-

cific, in terms of land use rights, the collective land should not be used as the peasants' will and demands but for agricultural production and rural housing; in terms of land returns, the compensation provided by the nation is far lower than the price in the market; in terms of right to dispose, our laws strictly prohibit the transference of rural collective land properties. However, if the developer wants to develop the collection-owned land, the land should be expropriated by the nation and then the land use rights can be transferred by the nation or the local governments. This policy not only fully deprives the disposition rights of the land owners, but also makes the land returns which should be possessed by the collection flow to the national treasury. Therefore, concerning the structure of the functions of land property, the rural collective land property is incomplete in terms of its functions<sup>[20]</sup>.

**Table 1 Attitude of government bureaus on urban land expansion**

Functions of Government Bureaus	Central Government	Local Municipality
Revenue collection ( Internal Revenues, local taxation bureau)	Seeks more revenue from land tax and land leasing charges, therefore supporting the increase of land leasing Asks local government to convert land use fees to land tax to be shared with the central government. Passively follows top-leaders' decision on sprawl control	Prefers more land use fees rather than land tax. Strongly supports leasing more land, although cannot say so openly. Still pushes local leaders to acquire more farmland for leasing, and against the central government's control policy
Public spending ( budget bureau, public works, transportation bureau, other public services including public health and education)	A mixed attitude on sprawl: increasing revenue for a bigger budget is welcome, but spending more on agriculture related expenditures, especially on importing food due to cultivated land losses is more serious. Debate on who should provide infrastructure within a metro area: now it is a local responsibility, but local governments ask for central subsidy since land tax is shared with the central government. As in the central government, these bureaus have to take all consequences of sprawl into consideration, which makes them relatively supportive on sprawl control policy	Supports leasing more land since spending on agricultural-related and food supply programs are less a local responsibility, while land revenue is a main revenue source for funding public projects, especially on infrastructure extension. Capital shortage in infrastructure construction due to over-expansion is a real problem, forcing bureau of public works to reduce the provision of services in new areas. Public transportation and public schools are the most needed in new areas
Land administration/land use management ( planning bureau, land bureau)	Initiates and supports sprawl control strategies, concerned about the negative consequences of sprawl. A slight difference between the planning and the land bureau; planners intend to solve the sprawl problem from the land use plan approach and argue that some expansion is needed in urbanization; land bureau wants to put land use permits under its control and supports stricter control regulations	Local planning bureaus do not support strict sprawl and enjoy power over land regulation after decentralization. Local land bureaus face a dilemma of either following local decision makers for leasing more land, or supporting the central policy of controlling sprawl more strictly. Competition exists on land use power between the two bureaus at the local level too

**3.2 Land expropriation system** The *Land Management Law* stipulates that " rural collective land property should not be remised, transferred or rented for non-agricultural construction ". The *Constitution* stipulates that out of the needs of public interests, the rural collective land can be expropriated according to the laws and certain compensations should be granted. Land expropriation becomes the sole way of transferring the rural land and the unique channel for various items to get newly added construction land. That is to say, under the current system, collection-owned land can not enter the market except the land expropriation for the state' sake. Under the three situations permitted by the current laws, the agricultural land can be transferred to construction land without the process of national land expropriation: the first one is the land used by peasants for launching enterprises, residences, infrastructure and utilities. Although they have been changed into construction land, they can reserve the rural land properties; the second one is the enterprises, which are mutual established by the rural cooperative

economic organizations and " other units, individuals by the way of stock purchasing of land use rights, joint-operation and so on ", can legally change agricultural land into non-agricultural land on the condition of obeying land use plan and passing administrative examination and approval; the third one is " the land which have been used as enterprises legally, but its land rights have been transferred as a result of bankruptcy, merger and so on ". This kind of situation is an exception to the rule that " rural collective land use rights should not be remised, transferred and rented as non-agricultural construction " .

However, the current land expropriation system is in conflict with the originally set aim of protecting farmland. Under the current land expropriation system, the compensation paid by the government' forced land-taking is far lower than the opportunity cost of the transference of agricultural land. The lower the price of governmental land-taking, the larger the area of the occupied land is<sup>[21]</sup>. The land returns obtained by remising a large amount of land will be relatively high.

**3.3 Land transfer system** As a result of defect of property right definition and the absence of market mechanism, the governments' impulse of running land is stimulated. Besides, the current land transfer system provides constitutional guarantee for the enthusiastic governments. The *Constitution* and the *Land Management Law* have clearly defined that urban land is owned by the state; the usage system with payment of state-owned land is established; the state endow the representative of state-owned land property to governments from the city and county level according to the laws. The state assigns the land property to the land users with certain conditions. The local governments have the rights to manage the land but actually the state is the master of the land. On paper, the state owns the land property, but the rights are monopolized by the local governments and the central land management departments do not have effective restriction on local governments. Excessive development and the realization of maximum interests in short terms is the inevitable choice of the local governments who work as the main body of land property and the reviewer and

manager of the land property<sup>[22]</sup>. The governments purchase farmers' land with low price by their authorities and sell the land with high price, so as to occupy high monopoly profit. At the same time, the local governments own great autonomy in the use of land returns and major part of the capitals for the construction of infrastructure come from the land transfer fee. The land transfer fee has become a major income source for governments and it is regarded as the "the second finance" and the "construction finance"<sup>[23]</sup>. PING Xin-qiao (2006) pointed out that in 2004, the local governments around the sate have expropriated 1 612. 6 km<sup>2</sup> of land, among which Guangdong Province, Shandong Province, Jiangsu Province and Hunan Province expropriated the largest areas of land. The aggregate land expropriated by the four provinces nearly equal to half of the whole country. The land returns in Jiangsu Province, Zhejiang Province and Hunan Province have achieved 325. 8 billion yuan at that year, nearly half to the aggregate incomes of selling land. The land finance is obvious in many local governments<sup>[24]</sup>.

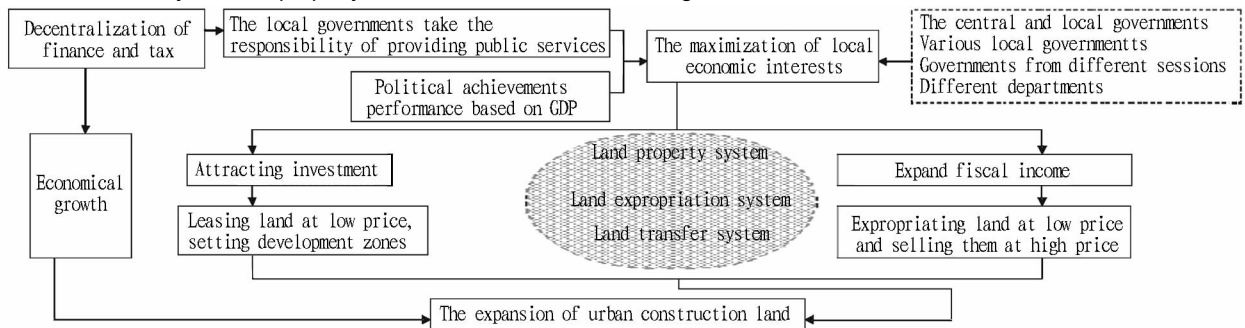


Fig.2 Governmental factors in affecting the expansion of urban construction land

## 4 Conclusions

On the basis of the above exposition, the major governmental force of the changes of urban construction land comes from the local governments. Due to the decentralization of finance and taxes of the central and local governments, the local governments also take the responsibilities of public service. However, as a result of the mismatching of the duties and economic rights and the GDP-based appraisal system, the local governments are forced to seek the maximum interests. The competition among the central government and the local governments, governments from the former and the later sessions, and multi interest subjects from different departments also exists. For one thing, the local governments attract investment, improve GDP and increase employment through selling land at low prices and establishing development zones. For another thing, the local government construct infrastructure and provide public services by purchasing land at low price and selling them at high price. But in China, the defects of land property system, land expropriation system and land transfer system have achieved the local governments' profits-seeking behaviors, which lead to the huge expansion of urban construction land. In addition, the economic growth arising from the decentralization of finance and taxes also causes the further expansion of urban construction land (Fig. 2).

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supervision. Secondly, strictly implement the land use control system; and restrict the transformation from cultivated land to construction land. Thirdly, carry out the system of compensations to cultivated land to be occupied; and increase the area and quality of cultivated land. Fourthly, strengthen the enforcement of the law of land. Government should combat the behaviors of destruction and occupation of basic farmland, and investigate the illegal occupation of farmland and the behavior against the requisition-compensation balance policy according to the law.

**4.2 Enhancing the intensity of land development and reclamation; enlarging the area of cultivated land** According to the *Land Development and Planning of Fengxian County*, land reclamation and consolidation are carried out in Fengxian County in the years 2001–2005, increasing 913.24 hectares cultivated land. And it is planned in the years 2005–2010 that there will be 12 461.07 hectares cultivated land more. And there are great potentials in the development and reclamation of land and cultivated land, and the consolidation of rural residents. At the same time, government should carry out the reserve resource management of newly-added cultivated land and the cultivated land with development potential, establish reserve institution for cultivated land, and ensure the supply and demand balance of cultivated land.

**4.3 Increasing the agricultural sci-tech input; improving the grain unit yield** Firstly, agricultural sci-tech input should be increased in order to accelerate the transformation and promotion of agricultural science and technology, to cultivate new varieties of plants and animals with high yield, high quality and multiple resistance, and to enlarge the coverage of high yield and high quality varieties. Secondly, the traditional planting behavior and mode should be changed in order to develop intercropping, to enhance multiple cropping index, and to further in-

crease unit grain yield. Thirdly, scientific research and technological innovation of cultivated land protection should be strengthened in order to develop conservation tillage, soil fertility enhancement, medium-and low-yield cropland improvement and degraded land rehabilitation. Fourthly, government should vigorously promote the adjustment of grain industrial structure and product structure, adjust the grain production into the optimum state, take the road of high yield, high quality, low consumption, and high efficiency, enhance the comprehensive capability of grain production, and realize the sustainable development of grain economy.

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(From page 48)