

# Research on the Performance Form and Breakthrough Path of Current Interest Solidification in China

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## ABSTRACT

The main obstacle of deepening reform in the new era is the solidification of interests, so breaking through the solidification of interests has become the key to the success of deepening reform. At present, the solidification of interests in China is mainly manifested in the following aspects: the solidification of interests caused by the internalization of profit of state-owned enterprises, and the rigidity and corruption in state-owned enterprises, the solidification of interests caused by the subordination of collective land property rights to state-owned land property rights, the solidification of interests caused by the too-big-to-fail real estate market and the tendency of stratum solidification caused by intergenerational transmission of income gap between urban and rural areas and strata. To break through the solidification of interests, it is necessary to carry out Kaldor improvement so that some groups can make a concession to improve the overall welfare of society. This paper gives the exploratory path of breaking through the solidification of interests, such as realizing the universal sharing of state-owned capital gains through legislation, breaking the solidification of interests of land system by realizing the equality of property rights between collective land and state-owned land, breaking through the interest solidification of the real estate market by incorporating the ratio of house price to income into the performance evaluation index of local governments, and restraining the tendency of stratum solidification by improving social mobility.

**Keywords:** *interest solidification, too-big-to-fail, stratum solidification, Kaldor improvement*

## 1. INTRODUCTION

Most of the reform measures in China's history ended in failure. The key is that it is difficult to break through the barriers of vested interests. The various reform measures introduced were blocked by vested interests, which ultimately led to the death of the reform. Reform, in essence, is institutional reform, which has the same meaning as reform. Since the reform and opening up, China's reform has achieved great success, but reform is always on the way. In the process of deepening reform in the new era, breaking through the barriers of vested interests has become the key to the success of further deepening reform. In the new era, China's reform has been transformed from incremental reform to stock reform, from bottom-up reform to top-level design, and from breaking through ideological constraints to breaking through the solidification of interests. It is undoubtedly of great practical significance to clarify the manifestation of China's solidification of interests and explore the path of breakthrough. At

present, China's interest solidification is mainly manifested in four aspects: state-owned enterprises' interest solidification, land system's interest solidification, real estate market's interest solidification and stratum's interest solidification tendency. Breaking through the interest solidification in these key areas is conducive to China's in-depth reform and the construction of a harmonious society of common prosperity. The key to break through benefit solidification lies in Kaldor improvement to make some groups give up benefits to promote the overall social welfare, while it is more difficult to touch the interests than the soul. Based on the analysis of the manifestation of benefit solidification, this paper makes a beneficial exploration on the path to break through benefit solidification.

## 2. THE INTERESTS OF STATE-OWNED ENTERPRISES ARE SOLIDIFIED

State-owned enterprises are owned by the whole

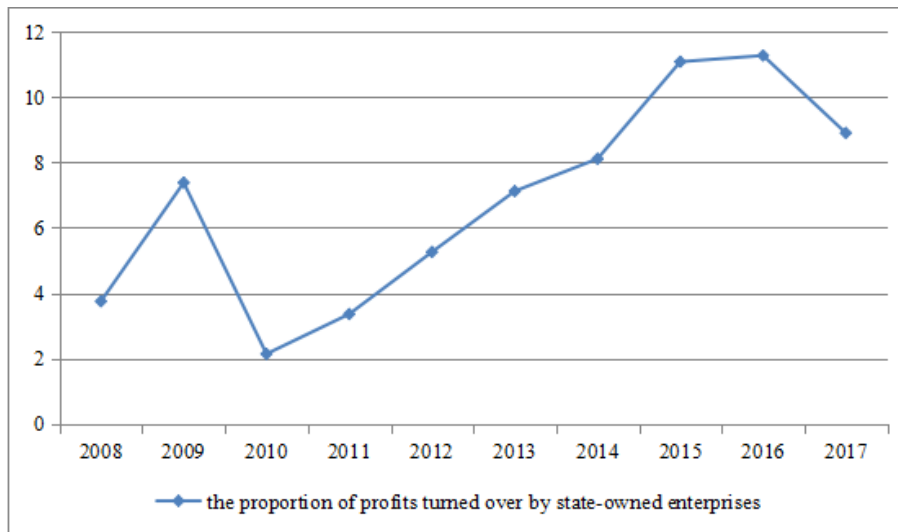
people, so state-owned capital gains should be Shared by all people. However, the distribution of state-owned capital gains currently faces the tendency of interest consolidation, which is mainly manifested in the following aspects: too small proportion of state-owned enterprises' profits turned over, too high agency cost of state-owned enterprises, rigidity of state-owned enterprises and corruption of state-owned enterprises. Breaking through these benefits solidification plays an important role in realizing the universal sharing of state-owned capital gains and promoting the deepening of reform.

**2.1 The Proportion of Profits Turned Over by State-owned Enterprises is Too Small**

Since the 1990s, state-owned enterprises have encountered difficulties in their operation. In order to help the reform of state-owned enterprises and support their development, state-owned enterprises stopped turning over profits to the government from 1994 until the Release of the Opinions of the State Council on The Trial Implementation of the State Capital Operation

Budget in 2007, which lasted for 13 years. Since entering the new century, especially the management of state-owned enterprises to improve state-owned enterprises, state-owned enterprises profit ratio still continues in the low post, you can see in figure 1, the state-owned enterprises profit ratio since 2008 although the overall rise, but there are fluctuations, and continue to remain low, only 2015, 2016 two years more than 10%, 11.08% and 11.27%, respectively, and the third plenary session of the eighteenth determine the payout rate reached 30% by 2020 goals. It is worth noting that most of the profits turned over by state-owned enterprises are returned to state-owned enterprises, and the proportion of return was over 70% from 2010 to 2017. Thus, state-owned capital gains are stranded in the state-owned enterprises, state-owned capital gains with internalization tendency, that is disproportionate with the universal properties of state-owned enterprises, in order to realize the national common prosperity should be breaking this the internalization of state-owned capital gains, increase the profits of state-owned enterprises pay scale, and will not be refunded, realize the share of state-owned capital gains.

**Table 1.** Proportion of profits turned over by state-owned enterprises from 2008 to 2017 (unit: %)



DATA SOURCE: YUDONG QI, RENZHI ZHANG [9]

**2.2 The Agency Cost of State-owned Enterprises is Too High**

There is a dual principal-agent system in China's state-owned enterprises, in which the whole people entrusts the government to act as the agent of state-owned capital, while the government entrusts state-owned enterprises to act as the agent of state-owned capital. The biggest problem of the principal-agent system is that it is prone to moral hazard due to information asymmetry. In the process of acting for state-owned capital, the agency cost is often too high

in order to maximize its own welfare. Xinqiao Ping found that the agency cost of state-owned enterprises in China was so high that their efficiency was only 30%-40% of the potential efficiency, resulting in serious efficiency losses.<sup>[8]</sup> The agency cost of state-owned enterprises is mainly manifested as high welfare allowance, high in-service consumption and high management expense ratio. In terms of high welfare subsidies, the average salary of employees in state-owned enterprises was more than 1.5 times that of private enterprises from 2010 to 2017, according to the National Bureau of Statistics. In terms of high in-service

consumption, according to the inspection results of 55 central enterprises with housekeeper by the 18th Central Committee released by the Central Commission for Discipline Inspection and the State Supervisory Commission, these central enterprises generally have the phenomena of high in-service consumption, such as chaotic management of official vehicles, luxurious office rooms and excessively high construction standards of their hotels, nursing homes and training centers. In terms of the high management expense ratio, Xin Lu, Yanping Ding and Ling Tang calculated that the management expense ratio of state-owned enterprises was much higher than the average level of private enterprises, nearly four times higher than the latter, leading to the low efficiency of state-owned enterprises.<sup>[5]</sup> Thus it can be seen that the excessive agency cost is mainly transformed into the welfare of employees in state-owned enterprises, which is another manifestation of the solidification of interests of state-owned capital, different from the internalization of profits in state-owned enterprises.

### ***2.3 Rigidity of State-owned Enterprises***

Yudong Qi and Renzhi Zhang pointed out that the rigidity of state-owned enterprises is reflected in the fact that enterprises can only live forever, executives can only go up, employees can only go in, and incomes can only increase and not decrease.<sup>[9]</sup> In terms of enterprises, a large number of zombie enterprises are still subsidized by the government and have not gone bankrupt. In terms of senior management, the "top dogs" of state-owned enterprises are mainly administrative appointments without public recruitment. In terms of employees, the employment system is generally for life, and the lack of exit mechanism leads to the low work enthusiasm of employees. In terms of income, the income of employees of state-owned enterprises is generally only increased, and there is a tendency of equalitarianism. These rigid performances are mainly due to the fact that state-owned enterprises are favored and protected by the government, lack of market competition, lack of survival of the fittest mechanism, and thus lead to a very comfortable life and lack of efficiency from enterprises to executives to employees. Under the condition of fierce market competition outside the system, the distribution system which lacks competition but enjoys high welfare treatment inside the system is undoubtedly unreasonable. Rigidity of state-owned enterprises but also in the state-owned enterprise will often appear inbreeding, State-owned enterprise executives spouses, children and relatives are often placed in the important position in state-owned enterprises, and form a community of grab the state-owned capital, as reflected by the 18th session of the central patrol state: some executives for spouses, children and relatives provide convenience is engaged in the related transactions, using the relationship between the inbreeding network

established a parasitic family benefit community to devour the state-owned assets. Family-owned state-owned enterprises must be firmly checked in order to safeguard the ownership of state-owned capital and the common interests of the whole people.

### ***2.4 Corruption in State-owned Enterprises***

If the state-owned enterprises pay too little profit, the agency cost is too high, and the existence of rigid interest solidification phenomenon are institutional loopholes, then the corruption of state-owned enterprises is illegal. Human nature is greedy. On the basis of enjoying the welfare brought by the institutional loopholes, these benefit solidified groups attempt to further break the legal boundary to grab the state-owned assets and expand the existing welfare, which shows their greed is very serious. Baogui Xue and Liancheng He believe that some senior executives of state-owned enterprises take advantage of their state capital agency power to grab profits by lowering the sale price of state-owned assets or raising the price of purchased products, which causes a small number of people to gain and the public welfare to suffer, thus leading to income inequality.<sup>[14]</sup> In reality, the corruption of state-owned enterprises form varied, from the eighteenth session of the central state, main show is two kinds: one kind is rely on what eat what, eat an inside to pick outside, through the relatives or specific participant associated company to undertake a large number of business start-up or with specific profits in the private sector interests alliance; On the other hand, some soe executives use their monopoly on resource allocation to seek rents in project bidding, material procurement and investment mergers and acquisitions. In a word, the target of corruption is to hunt down and devour state capital, and the level of corruption is extremely rampant. According to the inspection of 55 medium-sized and central enterprises conducted by the 18th inspection group central committee, up to November 24, 2015, 64 cadres at all levels of middle and central enterprises have been investigated and investigated.

## **3. THE INTERESTS OF THE LAND SYSTEM SOLIDIFIED**

According to the property of ownership, China's land resources are mainly divided into urban state-owned land and rural collective land, among which there are benefits solidification, mainly manifested as: peasants' non-agricultural value-added income accounts for less, and bear the huge cost of industrialization and urbanization; State-owned land monopolizes the supply of construction land, which makes local governments gain monopoly profits by selling land use rights. Farmers' land and property rights are restricted and their property income is less; The allocation of land resources in urban areas is capital oriented, so the cost

of industrialization and urbanization is borne by urban residents, especially the latter.

### ***3.1 Farmers Bear the Huge Costs of Industrialization and Urbanization***

One of the important reasons for the rapid urbanization in China is the low cost of expropriation of rural collective land and the huge cost of urbanization borne by farmers who cannot fully enjoy the value-added benefits of non-agricultural land. In the collection of rural collective land compensation, the "land management law" regulation, the sum total of land compensation fees and resettlement fees shall not exceed the average annual output value of the land expropriation in the first three years of 30 times, to set a ceiling on rural collective land compensation fees, and the expropriation of land non-agriculture after its value will increase hundreds of thousands of times, this means that the value of the rural collective land is undervalued, farmers cannot fully enjoy the appreciation income of land, and because the loss of production data and to the survival of in the uncertainty of life state, bear the huge cost of urbanization. As premier Jiabao Wen on December 27, 2011, the central rural work conference pointed out that sacrifice can no longer rely on farmers' land property rights to reduce the cost of industrialization and urbanization, promote economic growth, to promote the reform of rural collective land expropriation system, fully guarantee the farmers' land property rights, allocate land non-agriculturalization and urbanization of value-added benefits, to raise farmers in the land value-added income allocation proportion. To promote urbanization by damaging the welfare of farmers and making them bear huge costs is a manifestation of solidified interests, which will further widen the income gap between urban and rural areas and is not conducive to the construction of common prosperity and harmonious society.

### ***3.2 Supply of Land Used for Construction by State-owned Land Monopoly***

"Land management law" the regulation in our country, no unit or individual to use construction land must use state-owned land in accordance with the law, the establishment of township enterprises, villagers build houses, and except for construction of rural public facilities and public welfare undertakings, which means that the monopoly of state-owned land right to use construction land market, the rural collective land into construction land market to trade. The monopoly of state-owned land on the supply of construction land enables local governments to obtain monopoly profits by selling the right to use state-owned land. Such monopoly profits are generally reflected in the land transfer revenue, which is huge and accounts for more than 40% of the local government's fiscal revenue in a

large number of cities. However, rural collective land cannot enter the market directly because it is crowded out from the construction land market, which makes its owners unable to share the value-added income of construction land in the process of urbanization in China. Pointed out that the third plenary session of 18 to establish a unified urban and rural construction land market, under the condition of conform to the planning and use control, operating construction implementation of the rural collective land and state-owned land equivalent in the market, with the same price, right but in practice, because of the institutional change will break the monopoly of state-owned land for construction land supply, threatening its monopoly profits, reduce local government land transfer income, and the institutional change of propulsion. To break the monopoly of state-owned land to construction land supply, in turn, interests curing for monopoly profits, share the achievements of China's urbanization makes the collective land owners, the key is to emancipate the mind, to recognize the collective land property right and property right of state-owned land is equal, timely modify the land administration law, Carl much improvement, implementation of collective land ownership of state-owned land owners of possible.

### ***3.3 The Various Land and Property Rights of Peasants are Restricted***

The property right of rural collective land is incomplete, which is mainly reflected in the following aspects: First, the property right of collective land is subordinate to the property right of state-owned land, and only expropriated can it enter the construction land market; Second, rural homestead can only flow within the village, urban residents can not buy rural homestead, and the mortgage, guarantee and transfer of housing on homestead has not been lifted. The former is conducive to the low-cost expropriation of rural collective land and the reduction of the cost of urbanization, while the latter is mainly to prevent the occurrence of land concentration similar to ancient times, so that farmers have no fixed homes. The former actually reduces the welfare of farmers, while the latter aims to increase the welfare of farmers, which is logically contradictory. In order to protect the farmers' welfare and limit its should have the land property rights, such as the land of the free trade, housing mortgage, guarantee and the transfer of rights, etc., block of the elements of the land market, is completely underestimated the rational farmers' initiative, should remember is the reform of our country is from the countryside, farmer friend not a lack of dare to dare to try initiative. Limited the rural collective land in all kinds of power between the urban and rural elements can not flow freely, and often show the one-way flow of rural to urban, leading to the farmers' property income is less, the income gap between urban and rural areas is difficult to heal, under the condition of

the farmers' income less, huge potential of rural consumption market is difficult to develop and achieve common prosperity for the urban and rural areas face challenges.

### ***3.4 Capital-biased Policies for Land Allocation***

In general, the allocation of land resources by local governments takes a high proportion of industrial land, while the proportion of residential land is low. By lowering the price of industrial land to attract investment, and by raising the price of residential land to obtain a huge amount of land transfer income, the land transfer income is used to carry out infrastructure construction and promote urbanization. Higher residential land prices will push up property prices, making the cost of industrialization and urbanization borne by urban residents, and in the case of the boom in speculative housing demand, this cost is mainly borne by young people who entered the housing market later. By the above analysis we can see that the government land allocation policy is the capital of bias model, by holding down the price of industrial land, push up residential land prices, promotes the development of manufacturing and real estate industry, is not conducive to urban residents, especially after the welfare of the inhabitants in the market, make the latter with farmers bear the cost of industrialization and urbanization. Xiaolu Wang study found that the local government monopoly under the condition of construction land supply, for improve the performance and increasing the income of land transfer, local government construction of development zone, high-tech industrial park, excessive promote real estate development, caused the waste of land resources, according to their estimates, between 1990 and 2016, China's urban population grew by 172%, while city area is increased by 322%, the city covers an area of expansion far faster than urban population growth, rapid drops in the urban population density, From 13,600 people per square kilometer in 1990 to 8,800 in 2016.<sup>[12]</sup>

### **3. THE REAL ESTATE MARKET INTEREST SOLIDIFICATION**

Real estate and infrastructure are the traditional driving forces for China's economic growth. The interest consolidation of the real estate market is mainly reflected in the following aspects: the real estate industry's driving effect on economic growth and the residents' investment preference for real estate make the real estate industry too big to fail. The prosperity of the real estate market leads to the interest differentiation, some groups' interests increase, some groups' interests suffer; The real estate economy is not sustainable and is not conducive to the construction of an innovation-driven economy. It is necessary to break through the interest consolidation and reduce the path

dependence of China's economy on the real estate industry.

### ***4.1 The Real Estate Market is Too Big to Fail***

So-called big but not is refers to, a row is really enough to affect the economy as a whole, its volatility will affect the stability of the economic government in order to maintain economic stability in the industry are in a recession or collapse the assistance, make the crisis triggered group no damage from the crisis, it will benefit, and the public interests is damaged. In 2008 America's subprime crisis existed the phenomenon of too big to fail, Sanders believes that the greedy Wall Street put others trillions of assets in high-risk derivatives, trigger the subprime crisis, and the Wall Street financial institutions are too huge and associated with the economic aspects of the connection, once the collapse, the American economy and even the global economy will be down, in order to avoid economic collapse, the federal reserve's bailout of Wall Street financial institutions.<sup>[1]</sup> Stiglitz, a lot of help Wall Street bank executives instead have the opportunity to a record loss for them to enjoy huge bonuses, dividends continuously, the rescue urged Banks to become more reckless, because Banks know when they appear problem, will be rescue, moral hazard is serious, but in a crisis is pay tax mass groups.<sup>[4]</sup> In China's real estate market also exists the phenomenon of too big to fail, for a long time, infrastructure and real estate is pulling the two power of economic growth in China, the huge real estate pull function on the upstream and downstream industries, fluctuations in the real estate industry will affect the stability of the economy, the investment real estate to unrael the strongest of residents in our country and real estate in our country residents' asset allocation proportion is the largest, reached more than 70%, therefore, the real estate bubble burst will lead to economic fluctuations, and leads to the residents' property. Given this characteristic of the real estate industry, all stakeholders in the real estate industry believe that the government will not allow the real estate bubble to burst and will rescue the government when there is a crisis. Therefore, they expect that the housing price will only rise but not fall, which leads to a bigger bubble in the real estate industry.

### ***4.2 Differentiation of Interests in the Real Estate Market***

The prosperity of the real estate market has led to the divergence of interests, with some groups' interests increasing and some groups' interests suffering. This is mainly reflected in the following aspects: First, local governments and real estate enterprises have realized the integration of interests. Soaring house prices pushed up land prices, the local government got huge land sales, according to Fan Yang, Zhoulai Lu, the proportion of

land transfer income of local fiscal revenues in between 40% and 50%, land transfer income become an important source of local fiscal revenue<sup>[17]</sup>, and as Xiaoliang Chen pointed out that the rise in land prices can also make the local government for more land mortgage, in order to "project, the high investment".<sup>[2]</sup> Soaring housing prices promote the boom of the real estate industry, which in turn drives the rapid growth of local economy. Under the condition that GDP is the main evaluation index for officials' promotion, local governments will let housing prices rise. The soaring housing price also makes real estate enterprises profitable. According to the estimation of Xiaojie Shen, the profit margin of China's real estate industry is as high as 30%-40%, far higher than the national average profit margin of 9%-12%, which belongs to the profiting industry.<sup>[10]</sup> Second, the peasant class has been divided. Due to the existence of differential rent, residents in urban villages get huge compensation in the house demolition because they are close to the city center, while rural residents far away from the city cannot enjoy the spillover effect brought by high housing prices. Third, the civil class has diverged. The soaring housing price has triggered speculative demand for real estate. Those who enter the market first enjoy the benefits of high housing price, while those who enter the market later have to bear the costs of high housing price. There has been a wealth transfer from those who enter the market later to those who enter the market first, with the former becoming beneficiaries while the latter becoming the beneficiaries. The interest differentiation of the real estate market leads to the dispute on the collection of real estate tax, the beneficiary mainly delays the collection, while the interest impaired advocates the collection as soon as possible, and there is an interest game between the two sides.

#### ***4.3 It is Difficult to Sustain the Realignment of the Economy***

Too big to fail in the housing market and real estate in our country residents' asset allocation proportion biggest makes the real estate economy in our country, the economic interests of real estate with curing, but the economy of the real estate economic model is unsustainable, mainly displays in the following aspects: one is that high house prices make our residents increased leverage, the debt risk. According to Zhexi Liu, Yanbin Chen, in 2016 began a new round of rising prices, obviously increase the leverage of residents in our country that two years from 2016 to 2017 residents sector leverage ratio is increased by 9.6%, if the residents of the ratio of debt to disposable income approach to measuring leverage, by the end of 2017, the department of our country residents leverage ratio as high as 110.9%, significantly higher than that of most emerging economies.<sup>[7]</sup> Second, high housing prices have produced a crowding out effect on household

consumption. In recent years, the soaring housing price has led to a rapid decline in both the total retail sales of consumer goods and the growth rate of per capita consumer expenditure in China. Consumption is the premise to meet the ever-growing material and cultural needs of residents, and the decline in consumption growth is not conducive to the development of livelihood undertakings. Third, high housing prices lead to inequality in property ownership, which in turn exacerbates wealth inequality. Soaring house prices have fuelled speculative demand for housing, leading to a concentration of property among a small group of first movers, and exacerbating wealth inequality. Fourth, high housing prices have a crowding out effect on the real economy. The soaring housing price centralizes various factors of production to the real estate industry, crowding out the real economy, increasing the operating cost of the real economy, and making China's economy path dependent on the real estate industry, which is not conducive to the construction of an innovative economy and the realization of high-quality development. On the basis of breaking through the solidification of interests, reducing the dependence of China's economy on the real estate industry has become an urgent matter of deepening the reform.

### **5. THE TENDENCY OF STRATIFICATION**

The influence of father's income on children's income is generally measured by the intergenerational income elasticity. According to the calculation of Meijin Wang and Zhongda Li, the intergenerational income elasticity in China is as high as 0.830,<sup>[11]</sup> indicating that China has a high intergenerational income pass-through. Baogui Xue, Liancheng He pointed out that parent capital income through human capital, social capital and wealth three mechanisms influence offspring income,<sup>[13]</sup> the income gap between the parent through these three mechanisms can lead to the intergenerational transmission of income gap, while the intergenerational transmission of income gap mainly displays for the intergenerational transmission of income gap between urban and rural areas and stratum the intergenerational transmission of income gap, income gap between the intergenerational transmission of curing, easy to cause class against moderate income group is expanding.

#### ***5.1 Intergenerational Transmission of Urban-rural Income Gap***

According to 2011 data of China Household Finance Survey by Southwestern University of Finance and Economics, 12.4% of Urban residents have bachelor's degree or above, while only 2.8% of rural residents have bachelor's degree. There is a huge gap between urban and rural residents in terms of human capital. In terms of social capital, party members account for 17.3 percent of urban residents and 6.4 percent of rural residents, a

gap of nearly 11 percentage points. In terms of wealth capital, the market value of the per-household housing of urban residents is 4 times that of rural residents, and the compensation for land expropriation per household of urban residents is 2.65 times that of rural residents. The former accounts for 12.3% of households with stock account opening, while the latter accounts for only 1.5%, a huge difference. Under the effect of various inter-generational income transmission mechanisms of capital, the inter-generational transmission of urban-rural income gap will result in the typical phenomenon of "second generation of farmers". The children of rural residents are likely to become the next generation of migrant workers or continue to work in rural areas. According to the "China's rural left-behind children, urban and rural migrant children research report" released by the All-China Women's Federation in 2013, China has 61,025,500 rural left-behind children, due to the lack of supervision, tired of school, dropout situation is serious, indicating their future human capital level worrying. According to Madison survey of 2009 college graduates employment situation in our country, because of the difference of social capital, enterprise management the children of the university entrance exam grade point average is lower than the children of migrant workers (561 and 576, respectively), but the former graduated from the second half of the average monthly salary is obviously higher than the latter (2704 yuan and 2223 yuan respectively), family social capital influence the employment of their children. According to Xun Zhang and Jianguo Xu, the rate of return on capital in China is as high as 15%, which is much higher than the average economic growth rate of 10%.<sup>[18]</sup> Therefore, China has the tendency of wealth accumulation, which is mainly concentrated in urban areas, and the initial wealth gap between urban and rural residents' children is wide.

### ***5.2 Intergenerational Transmission of the Income Gap between Different Classes***

Class intergenerational transmission of income gap also has three kinds of human capital, social capital and wealth capital mechanism, the mechanism of human capital aspect: first, the differences between high and low income households human capital investment of their children, such as Yumei Guo, Yanbin Chen pointed out that high income groups have the ability to pay high school district room, school selection fee, make their children into the key middle school,<sup>[3]</sup> while low-income children enjoy due to inability to pay these costs less than high quality education, and thus lead to the differences in the levels of human capital. Secondly, the differences in the leisure time of the children of high and low income classes lead to the differences in the supervision time of their children, which in turn leads to the differences in the level of human capital of their children. In terms of social capital mechanism: First,

there are differences in social relationship networks between high and low income groups, resulting in differences in employment and entrepreneurship opportunities for their children. Children of high income groups are more likely to get high-income jobs and have more employment and entrepreneurship resources, while children of low income groups do not have such advantages. Second, the high and low income groups career the intergenerational transmission of intergenerational transfer can lead to a class, such as Xing Zhou, Peng Zhang, farmers children continue farming the intergenerational transmission of index as high as 3.98, engaged in senior management probability is very low, engaged in senior management and senior management personnel children continue the intergenerational transmission of index as high as 1.67.<sup>[19]</sup> In wealth capital mechanism aspects: under the condition of our country has not yet been tax, paternal wealth inequality through the intergenerational transfer cause children have initial differences in wealth, and lead to different classes the intergenerational transmission of income gap, according to Yu Xie etc., in 2014 the top 1% of households have property in China accounted for 29.7% of national total property,<sup>[16]</sup> in the case of wealth accumulation, inherit wealth easier than trying to work to get rich, between high and low income groups children exist unfair competition starting point.

### ***5.3 The Intergenerational Transmission of Income Gap Easily Leads to Class Solidification***

The intergenerational transmission of income gap leads to the tendency of class solidification in China. According to the calculations of Xing Zhou and Peng Zhang,, from 2009 to 2011, there was strong intergenerational transmission in all classes in China, and the probability of children and their parents being in the same class was greater than the probability of upward or downward mobility.<sup>[19]</sup> Stratum solidification restrains stratum mobility, which is not conducive to the expansion of China's middle-income group and the construction of an "olive" society. According to the estimation of Shi Li and Ximing Yue et al. (2017), in 2013, the population proportion of poor and low-income groups in China was 80.87%, that of middle-income group was 18.66%, and that of high-income group was only 0.47%. It can be seen that China's income class structure presents a typical "pyramid" type.<sup>[6]</sup> The transition from "pyramid" to "olive" requires the upward mobility of low-income groups, but the current tendency to solidify classes inhibits this mobility. Class solidification is a manifestation of interest solidification, which is not conducive to common prosperity and consumption-driven economy. In order to realize the integrated development between urban and rural areas, it is necessary to restrain the tendency of stratum solidification, promote the citizenization of migrant

workers, and implement the strategy of rural revitalization, so that the peasant stratum can realize the horizontal flow or the vertical flow between generations through hard work. To build a consumption-driven economy, we also need to promote upward mobility of the low-income group, expand the middle-income group, and fully tap the huge potential of the domestic consumer market. In a word, China should maintain strong social mobility, curb the tendency of class solidification, so that the majority of rural residents and low-income residents can achieve upward mobility through hard work and share the great achievements of reform and opening up.

## **6. THE PATH EXPLORATION OF BREAKING THROUGH INTEREST SOLIDIFICATION**

### ***6.1 State Capital Gains Will be Shared by All***

State-owned capital is owned by the whole people, and its benefits should be shared by the whole people. In order to realize the sharing of state-owned capital gains by the whole people, we should start from the following aspects: First, increase the proportion of state capital gains turned over. As a representative of the National People's Congress should do to perform the duties of a good owner, clear background of state-owned assets, needs the regular report on the situation of the management of state-owned assets of the State Council, and through the form of legislation, the third plenary session of the 18 determined by 2020 the proportion of public finance of turn over to the state capital increase to thirty percent of the target forced implementation, make universal can really enjoy the welfare state capital. Second, reduce the agency cost of state-owned enterprises. We will improve the modern enterprise management system of soes, optimize the principal-agent system, strengthen the design of the system for supervision of the management of soes, reduce their high welfare allowances, on-the-job consumption and administrative expenses, and improve their operating efficiency. Third, improve the market competitiveness of state-owned enterprises and reduce their rigidity. Current our country is a socialist market economic system, all the market main body should be fair to participate in market competition, the government needs to reduce the bias and subsidies to state-owned enterprises, make it a real market main body, and the fair competition of private enterprises, reduce the administrative appointment "head" of state-owned enterprises, establish employee exit mechanism, reduce the income distribution of egalitarianism, prevent inbreeding and family-based of state-owned enterprises. Fourth, crack down on corruption in state-owned enterprises. In the 18th session of the central government to the state patrol effect is obvious, in order to curb the corruption of state-owned enterprises, consolidate the

achievements of the corruption of state-owned enterprises, the central patrol to regularization, institutionalization, time to master the new form of corruption, a new dynamic, the corruption has zero tolerance policy, prevent loss of state-owned assets, safeguard the national wealth.

### ***6.2 Break Through the Consolidation of Interests Through Deepening the Reform of the Land System***

At present, our country the status quo of land system is the collective land property rights from the state-owned land property rights, the urban land resource allocation has a tendency to capital to type, these has given rise to the interests of the curing system design, in order to break through the interests of the land system need to optimize the design of the land system, curing concrete has the following points: first, increase farmers in the proportion of non-agricultural land value-added income distribution. For a long time, the cost of the rural land expropriation is low, fueled by rapid industrialization, the urbanization of our country, the farmers bear the huge cost of industrialization, urbanization, with the improvement of China's economic strength, is now the time to make farmers share the achievements of reform and opening up, the need to raise farmers in the proportion of non-agricultural land value-added income distribution. Second, make collective construction land equal to enter the market, realize the diversification of construction land supply. For a long time, the supply of monopoly of state-owned land for construction land, obtain monopoly profits, and the rural collective land owners unable to share the profits, to break the block of both interest groups, gradually promote the progress of equality of collective construction land entering the market, exploring the use of collective construction land development constantly moving forward on the basis of public housing, timely modify the land administration law, realization of collective land property rights with equal property right status to state-owned land. Third, protect farmers' land and property rights and increase their property income. Is equal to emancipate the mind, to realize property rights, farmers friend dare to rush to dare to try there is no lack of initiative, to protect farmers in all kinds of land property rights, such as freedom of exchange of homestead, rural housing mortgage, guarantee and the right to transfer and so on, to achieve the free movement of all kinds of factors of production between the urban and rural, avoid one-way flow of production elements from countryside to city, increase the farmers' property income, narrowing the income gap between urban and rural areas. Fourth, the allocation of urban land resources tends to the people's livelihood. For a long time, China's urban land resources tended to be allocated to industrial land, but the lack of residential land leads to the use of residential land price



to subsidize the price of industrial land, the high price of real estate, and the reduction of residents' welfare. Since a better life for the residents is the goal of the CPC Central Committee, local governments should resolutely follow this directive to allocate land resources toward residential use, stabilize housing prices, and increase residents' welfare.

### **6.3 Break the Interest Solidification of the Real Estate Market**

At present, China's real estate market is too big to fail, with the tendency of economic realization-oriented, and with the interest solidification, in order to break the interest solidification of the real estate market, we need to take the following important measures: First, cultivate new economic growth momentum and reduce the dependence of China's economy on the real estate industry. If we rely too much on the real estate industry, it will be too big to fail, and the government will have to cover the cost of the real estate industry, which in turn will cause moral hazard and further stimulate the bubble. After all, "Housing is for living in, not for speculation". Housing is not the whole picture of people's livelihood. Industries such as old-age care, medical care and education pay more attention to people's well-being. Second, the interests of local governments and real estate enterprises should be broken. For a long time, the central government's assessment indicators for local governments are mainly GDP-oriented. Under this assessment system, local governments have benefited a lot from the property boom and often have no power to curb the housing boom. In the new era, we should no longer regard GDP as a hero, and pay more attention to people's well-being. The assessment of local governments should be guided by the residents' happiness index, and the control of housing price to income ratio should be included in the assessment as an important indicator, so as to meet the people's needs for a better life. Thirdly, the property tax should be levied as soon as possible to curb the inequality between the excessively rapid rise of housing price and the property ownership. The collection of property tax has a Kaldor improvement effect, which can curb the speculative demand for housing, reduce the inequality of property holding, and thus increase the overall social welfare. However, it will damage the interests of a part of the group, so it will face the heavy resistance of the group, resulting in the delay of the introduction of property tax. Since the collection of real estate tax can increase the overall social welfare, the government needs to break through the barriers of interest solidification and introduce the real estate tax as soon as possible.

### **6.4 The Tendency of Restraining Class Solidification Through Intergenerational Income Flow**

The appropriate income gap of the class is not terrible, on the contrary, it is conducive to the formation of a competitive pattern of chasing each other. The key is to have strong social mobility, so that the children of the low-income class can achieve upward mobility through hard work. In order to promote the intergenerational income flow, we need to start from the following aspects: first, in terms of human capital, realize the balanced allocation of educational resources. Since the low-income class has less social capital and wealth capital, human capital is an important way for their children to move up. Only by realizing balanced allocation of educational resources and giving children of the low-income class equal access to education can they change their fate and achieve upward mobility through knowledge. Second, we should establish a fair social competition mechanism for social capital. High-income groups have strong social capital, so their children have competitive advantages in employment and entrepreneurship. In order to promote intergenerational income flow, the role of social capital in employment and entrepreneurship should be reduced. The establishment of a fair talent selection mechanism, the talent of the selection of ability and light relationship; Establish a fair incentive mechanism, regardless of seniority, and take their own contributions as the main indicators of promotion and income distribution; And let market rather than power play a decisive role in resource allocation. Third, change the capital-oriented tax policy and reduce the intergenerational transmission of wealth capital. At present, China's capital elements are no longer scarce, and it is no longer necessary to implement capital-biased policies. It is necessary to increase the tax proportion of capital income in the personal income tax structure, reduce the tax proportion of labor income, and advocate getting rich through labor. Property taxes, such as property tax and inheritance tax, should be levied to reduce the intergenerational transmission of wealth capital and avoid excessive disparity in the starting point of competition. By changing the capital-oriented tax policy, the intergenerational transmission of wealth capital can be reduced, so that the children of the low-income class can realize upward mobility through hard work.

## **7. CONCLUSION**

The issue of China's interest solidification involves many aspects. The solidification of the interests of state-owned enterprises, the solidification of the land system, the solidification of the real estate market, and the tendency of class solidification are the main manifestations of the current solidification of interests in China. The problem of solidification of interests will

seriously affect the process of deepening reform in the new era. Therefore, China must speed up breaking through the barriers of solidification of interests. The key to solving the problem of solidification of interests lies in the improvement of Kaldor, so that some groups can give in to improve the overall welfare of society. The specific paths include: realizing the universal sharing of state-owned capital gains, breaking the real estate market's interest solidification, and curbing the tendency of class solidification through intergenerational income flows.

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