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JEL Codes: G3, H2, K4, P2

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Stake-holder Firms and the Reform of Local Public Finance in China

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Abstract

Since 1978 China has developed strongly using a particular form of capitalism which has relied upon close relations between private enterprise and the state and the continuing presence of state-owned enterprise, both centrally and at local levels. This model has been criticised as being responsible for the rapid rise of debt since 2010 and the slow-down of growth more recently. Using examples taken from Guangdong Province in south China I illustrate the workings of this system and highlight the challenges to adapting it to support China's growth ambitions for the coming decades.

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In this short paper I consider a large question: is China's brand of capitalism capable of meeting the challenges of China's development strategy over the coming 10 to 20 years. This question is at the nexus of three issues that have preoccupied observers of China's economy and politics. These are (1) the enormous growth since 2010 of debt issued by the non-financial enterprise sector, (2) the fact that after three decades of extremely rapid GDP growth built upon private enterprise there has more recently been growth in numbers of state-owned enterprises (SOE's), and (3) the fact that the hand of the state remains visible across a wide range of private firms both big and small.

I will argue that in examining the causes of these three apparently disparate policy concerns there is a common factor at work. This is the continuing responsibility of local government authorities not only for the provision of public goods and services but also in finding the resources to pay for them. This has led to a variety of solutions that give profit-seeking enterprises, with or without explicit state ownership, an obligation to actively support the public good. There is no single model for local governments to follow. Rather a wide variety of solutions to this problem have been found that vary according to local conditions, historical circumstances, and, perhaps, local culture. In my view there may be variety of motives behind private enterprises' willingness to participate in these arrangements. Certainly, one reason may be an awareness that the firm's commercial prosperity may depend upon favourable decisions taken by local authorities. Another might be a more general notion of enlightened self-interest in cooperating with authorities' efforts to promote a common good. I think that basic altruism – a sense of obligation "to give something back to

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society"—may equally be at play. It may be hard to disentangle these motives, and, in some ways, it may not be necessary to do so, if the arrangements work well. But experience shows that they do not always work well. There are well known examples of localities in China that have been saddled with inefficient, loss-making enterprises and sub-standard public services.

A number of analysts who have examined the three policy issues identified here have indeed suggested that policy actions would be required to avoid either a financial crisis or a prolonged growth slow-down that would leave incomes stagnating and a still-large rural population trapped in near-poverty and insecurity. The risks posed by very rapid growth of debt after 2010 was signalled by the OECD (2013). An analysis by the IMF (2016) noted that as of 2015 China's enterprise debt to GDP ratio stood at 160% which compared to some of the most highly developed, most heavily banked economies in the world and was more than double the norm among China's middle-income peers as judged by GDP per capita. Analyses by Chinese scholars traced the origins of this debt growth to the policy of fiscal stimulus the Chinese authorities adopted in 2008 to counter-act the effects of the Global Financial Crisis (Bai, Hsieh and Song, 2016) and also to the emergence of Chinese shadow banking (Chen He and Liu, 2015). Chinese authorities responded to these developments with a variety of measures starting in 2014 aimed at containing the growth of debt (Wong, 2018). In my own analyses of China's deleveraging policy, I argue that much of the growth of debt can be traced to financing of infrastructure investments which carry public benefits as part of China's urbanisation strategy (Anderson and Lu, 2018, Anderson, 2020). I further show that at the time the policy was announced investors viewed the debt of both private firms and state-owned enterprises as carrying implicit state guarantees. Subsequently between 2016 and 2018 it became increasingly clear that guarantees would be restricted to heritage infrastructure issues of state-owned entities, and this was reflected in the pricing of debt (see, Anderson, 2020). I argue that this policy in fact goes beyond just making the debt burden sustainable. Rather it represents a major local public finance reform in that it authorises public borrowing at the provincial level through new municipal bonds. However, this reform remains incomplete because it does not directly deal with the inter-governmental coordination needed to guide the allocation of funds to lower level government entities (tier-3, municipalities, and tier-4, counties and districts) nor does it resolve how to restructure or close the so-called local government funding vehicles (Anderson and Lu, 2018). As will be discussed below these are the firms sponsored by local governments so as to contravene the limits on local government borrowing that were introduced the major fiscal reforms of 1994 (see also, Wong, 2018).

During the last 40 years of rapid, market-based growth official discussions of China's economic development have consistently maintained that China is constructing socialism with Chinese characteristics. Even after the first wave of reforms of the state sector which saw the number of industrial SOE's drop from 127,600 in 1996 to 61,300 in 1999 (Lardy, 2014) central authorities reaffirmed their commitment to state ownership and the 5-years plans that set investment priorities. However, analysts have had a hard time in establishing an evidence-based case that would justify this. Zhu (2012) surveys attempts in the growth accounting literature to assess the factors contributing to China's high growth rates. He finds that between 1978 and 1998 productivity growth was much higher in the non-state sector than in the state sector.

Subsequently, following the reforms put in place in the late 1990's, there was a significant increase in state sector productivity. However overall, by far the largest contributor to growth was labour mobility– specifically, the movement of a large part of the labour force out of the agriculture sector (and to a lesser extent the state sector) into the non-state sector engaged in non-agriculture activities where the *level* of productivity was much higher than in the state sector.

In a somewhat similar vein Lardy (2014, 2019) has characterised the role of the state in promoting growth as allowing an emerging and dynamic private sector to progressively *displace* SOE's. Initially, this relied on experimentation with market forms of enterprise in Special Economic Zones and then later by laying down institutional architecture through reforms to accounting, company and bankruptcy law, and financial market development. However, he worries that more recently the state has been less accommodating to further private sector led growth. A key problem in his view is the dominance of state ownership in banking. He argues that this tends to crowd-out private sector investment by consistently funding low productivity SOE's. A possible counter-argument to this view is that even in capitalist market economies, firms often cannot obtain external finance (bank loans or security issues) because of imperfect information. As a consequence, most investments are financed through retained earnings by profitable companies. To assess this argument, Chen, Jiang, Ljungqvist, Lu and Zhou (2015) study the allocation of free cash flows within a sample of Chinese groups from 2004 to 2013. They find that privately owned groups tend to move resources from subsidiaries with low investment returns to those with high returns. For state-owned groups the opposite is true – profitable subsidiaries are used to prop-up unprofitable ones.

It should be noted that these analyses implicitly assume that the *purpose* of Chinese firms, both private and state-owned, is the maximisation of investor returns. They do not take seriously the idea that the interests of a broader group of stakeholders may also be served. Nor do they consider that some firms may actually be pursuing some form of public good provision or may be engaged in mitigating some public bad. In contrast Dani Rodrik has argued that much of China's success in rapid growth and poverty reduction is attributable to being able to balance-off public and private interests.

> *If one-half of China's economic miracle reflects its turn to markets after the late 1970's, the other half is the result of active government policies that protected old economic structures– such as state enterprises– while new industries were spawned through a wide array of industrial policies. (Rodrik, 2020)*

He suggests that some of China's industrial policies have been directed at producing ``learning spillovers, technological externalities and other broad social benefits." These arguments are directed mainly at the Chinese enterprises that operate at the national scale. Examples are major SOE's in sectors such as petroleum exploration, extraction and refining (SINOPEC and CNPC) or in telecommunications (China Mobile and China Telecom). However, large scale private companies arguably owe some of their success to finding commercial opportunities that are in harmony with China's development strategy. Lin and Shen (2018) have argued that the strategy of supporting state enterprises in key sectors did indeed help to maintain a steady path of growth, something that many countries of Eastern Europe which adopted rapid market liberalisation and mass privatisation were unable to achieve. However, in their view the large SOE's now have achieved an organisational capital that will allow them to compete nationally and even globally without public support. They argue that privileged access to credits at state-owned banks and other remnants of financial repression should be withdrawn in the next phase of China's development.

Industrial policies have not been restricted to very large-scale firms. Rather, inevitably in China many policies are delegated to or initiated by local authorities. A useful overview the relation between central and local powers in all spheres is given by Xu (2011) who describes China as a ``regionally decentralized authoritarian'' system. While Beijing has very strong powers to intervene in local implementation of policies if it so chooses, in practice there are limits to its capacity to do so. This creates scope for local variations in the application of policies. In the area of industrial policy, this means that for activities where there are potentially large economies of scale, large firms (either state-owned or private) will be monitored and, possibly, regulated by organs of the central government. For economic activities with regional impact comparable responsibilities will be assumed at the level of the province or large municipality. Similarly, county level officials will bear some responsibility for the contributions to economic health and living conditions at the local level. This has led to close relations between public authorities and private business at every level of the Chinese system.

Regional authorities are responsible not only for the organisation of public activities but also in finding the resources to support them. This principle was imbedded in the Chinese system early in the market reform era with the first experiments with Special Economic Zones. Ezra Vogel describes the background to the creation of the Shenzhen SEZ, which sets out the basic principle of regional autonomy. In a meeting with Xi Zhongxun and other Guangdong province officials Deng Xiaoping reportedly stated that the party centre ``...has no money. So we will give you a policy that allows you to charge ahead and cut through your own difficult road.'' (Vogel, 2011, p. 398). This gave the Guangdong authorities the freedom both to seek funding from overseas Chinese for new investments in the SEZ and also to sponsor enterprises that provide public services needed to support the incoming investments and also to support the growing population.

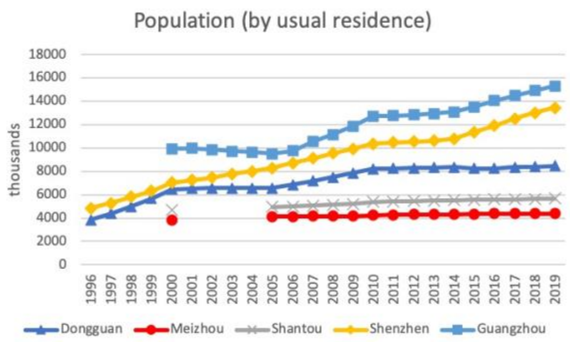
This principle of decentralisation and self-reliance is deeply imbedded in the Chinese system. It has given rise to a model of mixed public-private provision that exists with local variations throughout China. In order to illustrate the operation of this system I will take some examples from the sphere of public health and infrastructure and transportation. The inclusion of infrastructure is natural for two reasons. First, the period of very rapid growth in China since 2000 coincided with an enormous burst of infrastructure investment. It has been calculated that between 2000 and 2008 China built more superhighways than the entire interstate highway system built in the US between the 1920's and 2000. This has had the effect of rapidly transforming many formerly backward rural communities and linking them to the modern economy. (See, Hessler, 2010 for an absorbing first-hand account). There is evidence that infrastructure investments can improve productivity both through direct agglomeration economies – for example, linking a rural factory to urban markets– and indirect agglomeration economies–through sharing a similar labour pool or knowledge spillovers (see Wan and Zhang, 2018). But agglomeration economies can exist in the provision of public goods as well, with public health being an example.

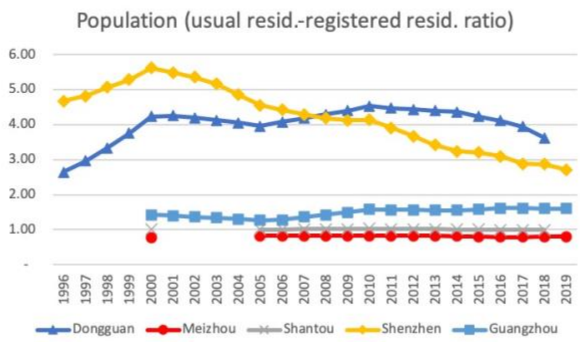
The second reason to discuss infrastructure is that, as mentioned above, it is principally infrastructure investment at the heart of concerns about the growth of Chinese enterprise debt. This has given rise to the steps to reform local public finance that are still incomplete.

In order to make the discussion concrete I will focus on examples taken from five localities in Guangdong Province, a part of China where I have visited often over the last 30 years including extended visits in the last 5 years. These include Guangzhou, the long-standing provincial capital, and Shenzhen, the immediate neighbour of Hong Kong and the initial SEZ as described above. I include two other areas designated at SEZ's at about the same time as Shenzhen. These are Dongguan, a large district adjacent to both Shenzhen and Guangzhou, and Shantou, a coastal port about 400 km. east of Guangzhou. Finally, I include Meizhou a historic city and district in the steep hills inland from Shantou. It was one of the homelands of the Hakka Diaspora found worldwide.

Figure 1 presents information about the evolution of the population in these five localities in a way that gives some insights into Chinese urbanisation patterns in the market reform era. The left panel of Figure 1 reports the total number of people ``normally resident'' in each city. The right-hand panel reports the ratio of the number of persons ``normally resident'' in the locale to the number of persons resident in that locale on the basis of their household registration. Under China's household registration system, generally known as the ``Hukou'' system, upon birth a child is registered in the locale where his or her parents are registered residents. This gives them rights to benefits as provided in that locale, but, at the same time, it imposes restrictions on an individual's ability to change locale for reasons of work, study or residence. In particular, in the market reform era since 1978, there have been restrictions on migration from rural districts to urban districts. Nevertheless, as certain locales began to prosper many people left the rural areas to seek job opportunities in cities. Once in a job they would find housing under informal arrangements or in dormitories provided by their workplace. While this practice was tolerated, the workers did not have the same rights as registered residents. As numbers of numbers such `temporary' workers grew in some areas, local authorities began to collect statistics on numbers of people normally residing in the locality.

Figure 1





Thus, for example in 1996 by usual residence Shenzhen had a population of 4.8 million. At the same time, it had a usual resident/ household resident ratio of 4.67 implying a registered resident population of 1.03 million. This was a reflection of the enormous influx of new-comers to Shenzhen in the first 16 years of its development as a SEZ. Subsequently, Shenzhen's usual resident population grew strongly so that by 2019 it had a population of more than 13 million. Between 1996 and 2000 the usual/registered ratio rose steadily reflecting a continuing predominance of new workers engaged on a temporary basis. Subsequently, the usual/registered ratio fell steadily and stood was less than 3 in 2019. This tells us that many of the recent arrivals in Shenzhen have been based on employments that qualified people for registered residence status and allowed them to have their families settle in Shenzhen as well. These dry numbers suggest something about the stunningly fast transformation of Shenzhen from being an underdeveloped rural community to a boom-town living off light manufacturing, and then later to emerge as a world-class tech centre.

Figure 11shows that Dongguan, Shenzhen's neighbour to the north and also an SEZ, experienced an even sharper increase in population between 1996 and 2000, dominated by an influx of temporary workers. Between 2000 and 2005 the usually resident population remained stable. This period saw the closure of many factories that had lost competitive advantage to other areas of China or abroad. Subsequently, in a process of industrial renewal with a changing mix of products, the population has slowly grown, but it is still dominated by workers with temporary status.

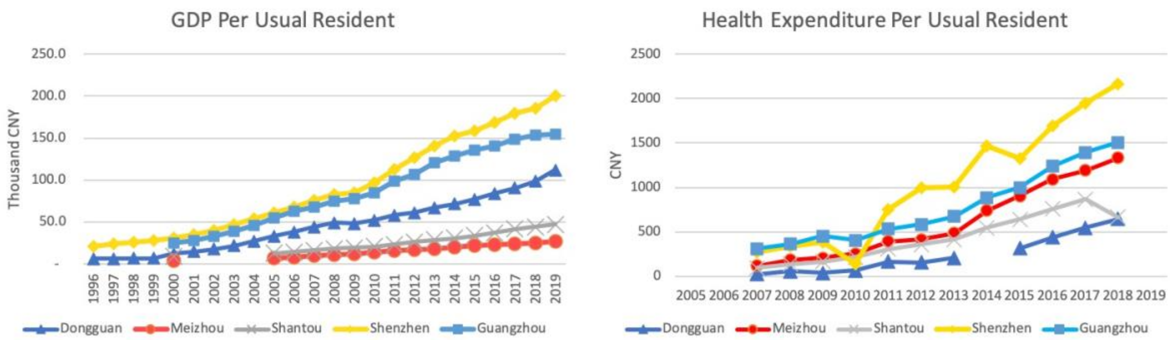
In Guangzhou the resident population rose strongly from 9.9 million in 2000 to 15.3 million in 2019. Over the same period, the ratio of resident population to registered population rose modestly from 1.42 to 1.6. This reflects the fact that as the capital of the province it has been able to benefit the from the rapid development of the surrounding region, including Dongguan, Shenzhen, and also Foshan, Zhuhai and other localities on the west side of the Pearl River delta.

From Figure1we see as well that Shantou and Meizhou have not seen anything like the rapid population growth of Shenzhen, Dongguan or even Guangzhou. Shantou grew from a resident population of 5 million in 2005 to 5.7 million in 2019. Over the same period Meizhou went from 4.1 million to 4.8 million. During this time their ratios of normally residents to registered residents were static in the neighbourhood of 1.0. This suggests a process of gradual evolution rather than radical change, even for Shantou, despite its nearly 4 decades of experience as a SEZ.

These population growth patterns seem quite understandable if one takes into account how the localities are connected. Shenzhen and Dongguan long have had sea access to Hong Kong, Macao and internationally and also internally throughout the Pearl River Delta.   At the beginning of the market reform era there was already a railroad link between Guangzhou and Hong Kong (Kowloon) that had stops in Shenzhen and Dongguan. Thus, with the introduction of the SEZ's there was already a skeletal transportation network and a great many possible and relatively cheap extensions of that network that could produce a wide variety of agglomeration economies. In contrast, Meizhou and Shantou were hampered by poor transport links either to the Pearl River delta in the west or Xiamen and Zhejiang Province to the east. These transport links have improved only gradually. In 1996 there was no direct train from Guangzhou to Shantou. By 2008 direct train service was in place with an overnight train ride taking 7 hours. The Shenzhen-Shantou high speed rail link came in 2013 and has reduced travel time to about 2 hours. The Guangzhou-Shantou high speed line is still under construction. Once completed it will reduce travel time to about 90 minutes.

Figure 2 gives some additional insight into social and economic development in these five cities. The left panel gives the GDP in the locality per usual resident of the locality. By this measure, the burgeoning prosperity of Shenzhen stands out. In 2000, twenty years after it took to its ``own difficult road" as set out by Deng Xiaoping, it had more than equalled Guangzhou, long the most prosperous city in the south of mainland China. By 2019 this gap widened to 200,400 CNY (29,000 USD) per usual resident in Shenzhen versus 154,400 CNY (22,286 USD) in Guangzhou. The evolution of per capita GDP in Dongguan reveals the boom-bust-renewal pattern suggested by the population figures. In Meizhou and Shantou, this measure is consistent with the moderate increased prosperity in line with the scenario suggested by slower growth of their resident populations.

Figure 2



The right-hand panel of Figure 2 reports the total expenditure on health and family planning in public facilities in the locality per normal resident in the locality. We see that this measure of socio-economic development has tended to improve with rising GDP but not in lock-step. It is particularly interesting that, by this measure of public health provision, Meizhou attains a status close to Guangzhou, the provincial capital that boasts a large number of excellent hospitals and specialised health facilities. By comparison Shantou and, particularly, Dongguan lag behind.

I think that these patterns reflect well the consequences of China's system of regional self-reliance. Health authorities in a prefecture level city in China fund expenditures through some combination of (a) contributions from the municipal budget or higher level (provincial or national) budgets under specific programmes, (b) fees for services provided to patients paid by insurers (based on household registration, employment, or private) plus patient co-payments, and (c) from sales of medicines and other health products in shops imbedded in public facilities. Thus, the relatively high level of health expenditures in Meizhou may be the consequence of high demand for health services by the local population reflecting demographic characteristics (e.g., a relatively older population) as well as income levels. But it may as well reflect the fact that Meizhou is the main city servicing a wider region with including many rather isolated rural communities. It would be the nearest and most convenient place to seek medical assistance for any relatively complicated medical condition. Finally, since citizens are free to seek their medical assistance where they like, high demand may reflect a good reputation. Thus, there is an element of competition at work. Staff of a medical facility may seek excellence as a matter of pride. But they may also appreciate the financial benefits that a strong flow of co-payments brings. These same considerations suggest why in Figure 2 Dongguan appears to lag behind the other cities in terms of local health expenditures. It may be that some its healthcare needs are best served in nearby Guangzhou or Shenzhen. Also, the many recent arrivals without household status in Dongguan may also find it preferable (by cost, waiting time or familiarity) to seek health services when they return home to visit their families. For example, when a Meizhou native working in Dongguan worker falls ill, he may well return home for an operation where post-operative care is cheaper and where he has family members for support.

Figure 3

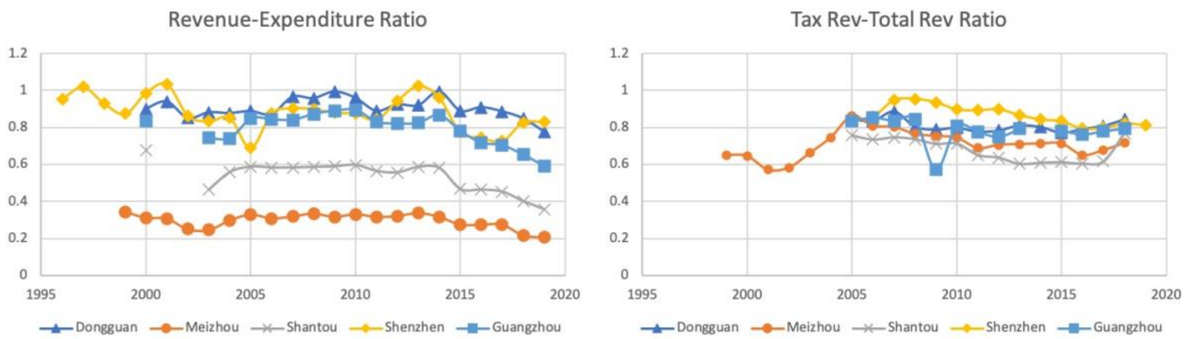


Figure 3 sheds light on the ways in which slow-growers like Meizhou and to a lesser extent Shantou stand apart from their fast-growing neighbours in the Pearl River Delta. The left panel reports the ratio of municipal public revenues to total municipal public expenditures. In 2019 this ratio stood at 0.2 in Meizhou and 0.37 in Shantou. This compares to 0.83 in Shenzhen, 0.78 in Dongguan and 0.59 in Guangzhou. In the right-hand panel, we see that the ratios of tax revenues to total municipal revenues are similar in all 5 localities. Thus, there seems to be some general structural difference which results in a higher level of local public good provision in Meizhou and Shantou. One possible explanation is that some of these services are being funded through commercial activities either generating payments earned directly by the entity providing the service (fees for health, education etc) or from subsidiaries or other branches of the same entity providing the public service.

Unfortunately, it is not easy to use publicly reported data to understand which of possible contributing factors account for the proportion of public services paid for off-budget. As discussed by Wong (2018) in China weaknesses in reporting systems result in inconsistencies across jurisdictions and over time. In particular, it is not clear that all the relevant entities are identified and are required to report in the appropriate accounting framework. This was recognised in the 2014 Budget Law that called for the introduction of a new government financial reporting system which would collect comprehensive information on government revenues including extra-budgetary and earmarked levies, land sales, remittances from SOE's and receipts from various pensions and social insurance schemes (Wong, 2018, pp. 276-277). However, progress on implementation of this has been slow. In part, this reflects the difficulty of identifying the relevant reporting entity and in classifying them correctly as either public service or commercial entity. For example, a city may sponsor many SOE's organised as a large group with many subsidiaries some of which are providing public goods and others purely commercial. It may be that profits from commercial activities are used to fund the expenditures the public service entities but that these transfers are not included in among the public revenues.

Proponents of enterprise reform in China have long embraced the principle that public and private provision should be unbundled by clearly identifying an enterprise as either commercial or public service. Furthermore, since about 2000 one of objectives or enterprise reform has been to ``securitise'' SOE's with a commercial purpose by structuring them either as limited liability companies or joint stock companies. However, this agenda has never been pushed consistently across all regions. In a comparative study of enterprise reform Lu (2018) reports that as of 2014 in Guangdong Province there was are relatively low level of securitisation among local SOE's– as of 2012 only 21% of total local SOE assets were in listed firms as compared to the target of 60% set in the 12th Five Year Plan. In her assessment many SOE's in Guangdong were sprawling conglomerates without clear core competencies.

Some insight into this issue can be gained by using information available on SOE's issuing of enterprise bonds listed on either the Shanghai or Shenzhen stock exchanges that were used to fund infrastructure projects. The Shantou Investment and Financing Group Company, a AA rated local SOE, issued in March 2014 a 1.8 billion CNY enterprise bond to fund municipal construction projects in Shantou. As reported by Wind Financial Services, it describes itself as active in financing ``investment industry, agriculture and traffic, municipal facilities, real estate industry,...import and export,...,implementation of the Municipal party committee and the city's decision-making land reserve development, ...(running) concurrently engineering advisory service, flowers cultivation, plant cultivation, technology study, development and operation.'' This seems to fit well the characterisation of lacking a clear core competency. It certainly is consistent with the view that some public good provision in Shantou may be financed through internal resource flows within this broad publicly owned group.

The case of Shenzhen Metro Group (SZMG) gives a different impression. It is a AAA rated local SOE which issued two enterprise bonds in 2013 and 2014 for a total of 8 billion CNY. It is described in Wind as a firm concentrated in ``construction, operating, development, and comprehensive utilisation of subway and light rail traffic projects." Its core activities are described on its website (in Chinese and in English) as being focussed on the construction and operation of Shenzhen's rail transit lines which had a total length of 210 kilometres in 2016. However, in addition, it undertakes a variety of commercial activities that are treated as integral to the metro developments including commercial and residential property development, advertising, and station commerce. In fact, real estate development accounts for a large share of its profits which in 2019 stood at 11.7 billion CNY as compared to revenues of 21 billion CNY from metro operations. Its financing model is that its owner, the Shenzhen Municipal Government, contributes capital mainly in the form of land use rights. Costs of development are funded by retained earnings and debt which is reimbursed largely through proceeds from commercial and residential real estate.

However, SZMG is not just a big real estate developer. It also represents the interests of Shenzhen in transportation planning and coordination activities at the provincial and national level. It cites its active involvement in targeted social services including the provision of free transit for elderly residents and the construction of 22,000 units of affordable housing. Finally, it states that ``Shenzhen Metro Group Co., Ltd. emphatically advocates and creates the enterprise culture with the core value of `mutual undertaking of responsibilities, mutual creation of values, and mutual sharing of achievements', dedicated in the creation of an learning-oriented enterprise with spirit of strict discipline and humanistic management, harmonious and balanced `iron sole'." While this mission statement uses an enthusiastic language that exceeds the current norm in the West, in fact it is reminiscent of the statements of purpose used by many of the prominent cooperative enterprises developed in the Europe in the early 20th century, some of which are still deeply imbedded in important industrial sectors such as insurance and banking.

To close off this exploration of the operations of Chinese style stakeholder firms, I now return to the question presented at the outset which I reformulate as follows: Do the local governments' struggles for resources force the reform of local SOE's? And, if so, how does this impact the provision of public versus private goods? There is some evidence that China's deleveraging policy since 2014 is indirectly placing pressures on local governments to reform their SOE's. As detailed in Anderson (2020) the main elements of this policy are (a) prohibiting local government's from making open-ended debt guarantees or from committing proceeds from future land sales for that purpose, (b) channelling general purpose local government borrowing through municipal bond issues by provinces or provincial level cities, and (c) channelling public funding for capital investment projects through partnership projects (PPP) where a local SOE joins with an outside partner (which can be a private company or another SOE) which contributes their management expertise in infrastructure plus financial capital for about 20% the project cost with the remaining 80% funded by debt, often from a domestic policy bank. Following the Directive of the State Council in 2014 setting out this programme, it became clear that the policy was being reinforced by the National Development and Reform Commission which reduced the flow of new approvals of enterprise bonds issuance which had formerly been a major funding channel for local governments' infrastructure projects. Furthermore, during 2016 and 2017 there were repeated statements from the Ministry of Finance and the State Council emphasising the limited scope of government guarantees. At the same time there were highly publicised cancellations of a number of major PPP projects plus associated disciplinary actions against local government personnel for violating PPP guidelines.

All of this has had the effect of reducing the local governments' ability to freely move resources among government departments and their associated SOE's. City and county governments must make their cases to provinces to gain access to resources, and the provinces need to convince Beijing that their allocations are coherent and effective. During 2018 and 2019 it became clear that local governments were feeling the effects of this regime when some highly indebted municipalities encountered major difficulties in rolling over infrastructure debts that were coming due.[2] More recently, in the face of the trade dispute with the US and the Covid-19 pandemic the central authorities dialled-back somewhat on the deleveraging campaign. For example, they have allowed ``special purpose" municipal bonds to be used to recapitalize local publicly owned commercial banks and have abolished a rating metric of ``local public finance quality" which penalized localities with a low proportion of total expenditures funded through local taxes. However, despite these stop-gap measures, the pressures are on local governments to confine their commercial ventures to those that contribute resources rather than drain them off and to channel these resources to public services that are effectively needed by local people.

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