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Research on the Impact of the Crowding-out Effect of Local Government Debt on Enterprise Innovation

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Abstract

This paper first introduces the current situation of local government debt in my country, and then analyzes the crowding out effect of local government debt on enterprises based on three aspects: local government debt crowding out effect, local government debt and financing constraints, and local government debt and enterprise innovation. Innovative Influence Mechanisms. The research results show that local government debt has a negative impact on the innovation behavior of enterprises, and when the internal financing constraints faced by enterprises are stronger, the negative effect of local government debt on their innovation behavior is stronger. Finally, based on the above research, this paper puts forward corresponding countermeasures and suggestions, so as to reduce the adverse impact of local government debt on enterprise innovation and promote the innovation vitality of enterprises.

Keywords

Local Government Debt; Corporate Innovation; Crowding Out Effect; Financing Constraints.

1. Introduction

Since the development of the past ten years, the scale of local government debt in China has continued to expand, and the rate of expansion has also continued to increase, which has gradually formed an important phenomenon in the sustainable and healthy development of China's economy and society. On the one hand, the country's economic and social goal of "steady growth" encourages the central government to strengthen regional infrastructure construction and promote regional economic growth, prompting local governments with limited funding sources to raise funds for construction projects by borrowing, effectively easing local government finances. The phenomenon of income shortage has promoted the growth of the national economy and the vigorous development of the economy and society; at the same time, the excessive borrowing of local governments will cause the local debt risk to become increasingly exposed, and it has begun to have a negative impact on the national economy. "The capital investment of enterprises in regional technological innovation is one of the negative effects, which is essentially detrimental to the continued efficient and high-quality growth of the local economy and society. Local government debt has squeezed the financing of private enterprises, and the effect is mainly that the government has increased the financing constraints of private enterprises, especially some small and medium-sized private enterprises with high profitability and relatively low level of financial development. The reason is that the issuance of bonds by local governments occupies limited formal loan resources, thus affecting the innovation of private enterprises through financing constraints. As China gradually shifts from the high-speed growth stage to the high-quality growth stage, technological innovation plays an increasingly critical role in the overall national strategy, and the negative impact of the huge debt financing activities of local governments on local technological innovation will inevitably become a problem. Hot topics of interest. By studying the impact mechanism of the

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Crowding-out effect of local government debt on enterprise innovation, this paper can further alleviate the social and economic consequences of the expansion of local government debt issuance, and thus propose the role of preventing enterprise debt risk, optimizing the allocation of financial service resources, and promoting enterprise innovation 's vitality.

2. The Current State of Local Government Debt

From the perspective of the scale of local government debt across the country, as shown in Figure 1, since 2015, the balance of local government debt in my country has shown a trend of continuous growth, from 14,756.8 billion yuan in 2015 to 25,661.1 billion yuan in 2020. The balance increased by 10904.3 billion yuan. Judging from the balance growth rate, except that the balance growth rate in 2015 was -4.14% compared to 2014, which was a negative growth, the balance growth rate gradually accelerated in the next few years, of which the growth rate in 2020 was as high as 20.42%. The continuous soaring of the debt will inevitably bring certain risks and hidden dangers. Therefore, it is necessary to strengthen the management of debt limit to prevent the debt risk caused by the expansion of local government debt.

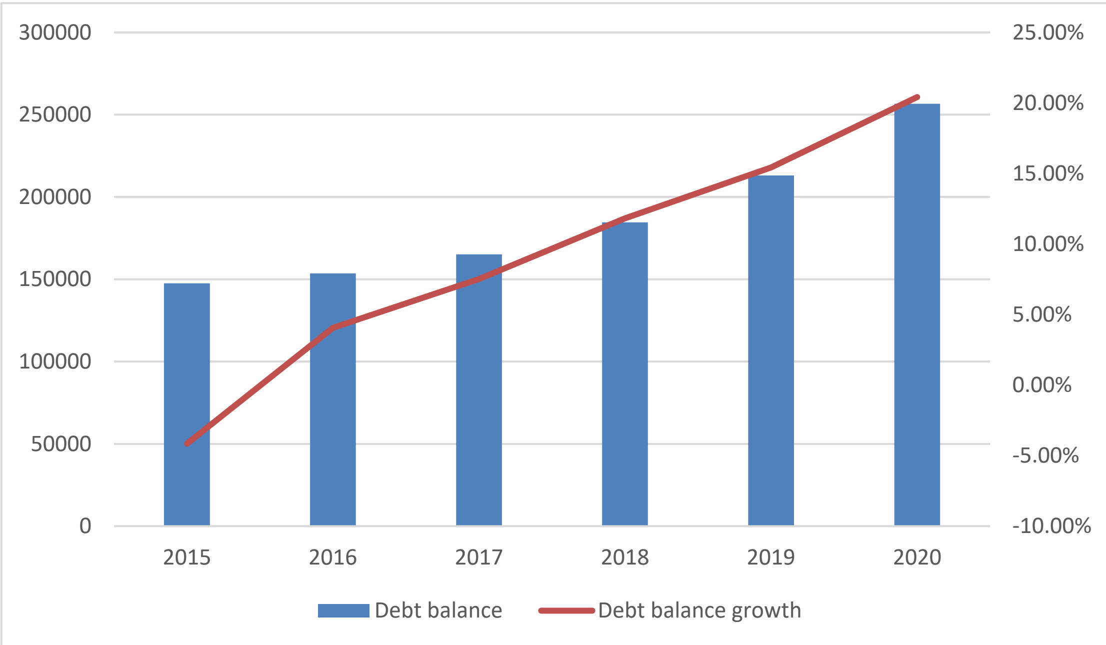

Figure 1. National government debt balance and growth rate from 2015 to 2020 (unit: 100 million yuan)

3. The Influence Mechanism of Local Government Debt on Enterprise Innovation

3.1. The Crowding-out Effect of Local Government Debt

The issuance of urban investment bonds by local governments will occupy a large amount of bank credit funds of enterprises, increase the financing costs of enterprises, and limit the use of R&D funds for small and medium-sized enterprises. In view of the "Crowding-out effect" brought by the massive issuance of bonds by local governments to the economic innovation of SMEs, under the market competition mechanism, as China's Internet financial market is still facing the status quo of regional segmentation, local commercial banks are still the most important credit funds On the supply side, under the influence of the local government's administrative restrictions and economic measures such as land mortgages, more commercial banks' main credit funds will flow to inefficient state-owned enterprises by purchasing urban

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investment bonds from local investment and financing platforms, thus making local governments. The primary financing available to businesses has been significantly reduced. At the same time, since most of the funds raised by urban investment bonds are invested in infrastructure projects with a large demand for financing funds and a long construction period, it will cause a long-term squeeze on the credit funds of commercial banks. Under the competition of the price mechanism, because the local government has an implicit guarantee role for the local financing platform, and the safety factor is also high, traditional credit financial institutions such as local commercial banks are more inclined to issue credit to the local government and local financing platforms, or Is the acquisition of bonds issued by it. In order to obtain credit funds from commercial banks, general companies need to increase their yields. As a result, the growth of local government debt has pushed up the cost of SMEs' debt financing, reduced the availability of SMEs' foreign investment funds, and resulted in a decrease in SMEs' innovation capital investment.

From an investor's point of view, the increased pressure on local governments to issue bonds has led to investors' conservative behavior, which in turn affects the company's ability to enhance sustainable operations. In recent years, in order to promote the development of regional urbanization, local governments have continued to expand the scale of borrowing, especially the use of urban investment bonds issued by local government investment platforms to raise project construction financing, resulting in a continuous accumulation of local government bonds. Debt repayment pressure on local finance is also increasing. Under these circumstances, investors generally expect local governments to pay higher taxes in the future, and thus have the opportunity to reduce capital investment in the construction of the area. At the same time, the increasing number of bonds issued by local governments may also lead to an imbalance in the regional macro economy, which will further reduce investors' risk appetite, thereby reducing investment in projects with long investment cycles and high risks. More inclined to invest in projects with shorter investment cycle and lower risk. The technological innovation and development of small and medium-sized enterprises usually require the investment of enterprises with a long investment period structure. The investment behavior of small investors in these "short-term profits" will not only greatly reduce the quality of regional economic development, but also affect the local small and medium-sized enterprises in China. The improvement of the continuous innovation ability of enterprises has the inhibitory effect.

3.2. Local Government Debt and Financing Constraints

Financing constraints are the key factor hindering SMEs' innovation capital investment. Financing constraint theory points out that due to the incompleteness of the financing market, SMEs are limited in their availability of financing, and it is difficult to achieve the optimal predicted financing target. The factors that inhibit the technological innovation activities of small and medium-sized enterprises more obviously are mainly reflected in: (1) Whether it is to provide research talent salary, purchase supporting facilities, etc. for internal research and cooperative development, or use external procurement or mergers and other means to obtain External development results, small and medium-sized enterprises to carry out technological innovation activities require huge investment. (2) Technological innovation creates high operational risks, because the life cycle of R&D innovative products is usually long and the failure rate is high, and there is a high degree of uncertainty in the output process of technological innovation, which is often impossible in a short period of time. Realize huge gains. (3) Compared with fixed asset investment, innovative financing of SMEs is more likely to be affected by financing market constraints. On the one hand, compared with fixed asset investment, the intangible assets of innovative projects are less pledgeable, making commercial banks and other investment institutions reluctant to provide credit for innovative projects; on the other hand, due to the high professionalism of innovative activities and the confidentiality

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of information The information is relatively asymmetrical between external investors and innovative companies, and the willingness of external financing providers to invest is also insufficient. (4) Although technological innovation activities develop smoothly, due to the public goods characteristics of intellectual property and technology, companies often cannot exclusively enjoy all the profits of technological innovation achievements, which often leads to market failure. In this way, the greater the investment constraints, the lower the cost of research activities of the company, and the reduction of research output.

3.3. Local Government Debt and Corporate Innovation

Local governments' increased investment in public welfare such as infrastructure construction leads to excessive debt, which can curb the innovative activities of small and medium-sized enterprises. First, the financial market Crowding-out effect of excessive investment in infrastructure construction exceeds the product market scale effect, thereby squeezing out corporate development investment. Building a sound infrastructure is beneficial for enterprises to reduce transportation costs, increase product market size, and increase the return to scale of enterprises, thereby enhancing the enthusiasm of enterprises for investment and development, that is, product market scale effect. As infrastructure investment increases the market's return rate, and the increase in investment cost makes the company prefer "short-term and fast" infrastructure projects and abandon innovative development projects with longer investment returns, that is, the market crowding out effect. In the short term, the Crowding-out effect of the company's infrastructure investment still dominates, but this squeezes the company's development investment. Second, economic volatility is accelerated by excess capacity due to excessive corporate financing. Excessive investment and repeated construction will not only weaken the company's profitability and consume huge resources, but also lead to severe operational shocks, aggravate the external operating environment, increase the difficulty of the company's assessment of new innovation projects, and weaken the company's enthusiasm for development investment. Finally, using a large amount of local financial debt for urban infrastructure construction will inevitably lead to a substantial increase in the demand for high-input industries such as cement and steel closely related to infrastructure, and further solidify the development model of debt-financing-driven economic growth, which is not conducive to the government's innovation-driven strategy implementation. The local government infrastructure investment affects the R&D investment of enterprises in a short or long time, which directly affects the local innovation activities. In the short term, investment in local government infrastructure squeezes corporate R&D investment, thereby curbing the development of local innovation activities. This is the direct effect. Although infrastructure construction financing uses the financial market to squeeze enterprises' R&D investment in the short term, in the long run, with the expansion of infrastructure construction financing stock, enterprises can increase the investment income of enterprise research by increasing the market size of products, thereby promoting investment in corporate research. The key is to promote the development and investment of enterprises through the expansion of the enterprise product market, especially to promote the small and medium-sized enterprises in the relatively active local innovation activities to increase the development investment, and generate new enterprise development input and output, which is an indirect effect.

4. Suggestions

4.1. Reasonably Control the Scale of Local Government Debt

First of all, dialectically examine the impact of local government debt on regional innovation and development, and grasp the scale of local government debt within a reasonable range. Local government debt itself is not absolutely beneficial or harmful, but the key lies in whether the

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management of local debt scale is reasonable. Maximize the role of the scale of local government debt in promoting local innovation and development. Second, implement cap management on local government bond issuance to avoid excessive borrowing. The growing scale of local fiscal debt may affect local innovation and is not conducive to local sustainable development. Therefore, local governments should strengthen the management of local debts. Under the current local debt management framework, strictly regulate the debt financing behavior of local governments, and strengthen supervision of local governments or provinces with large scale of debt issuance to avoid local government debts. Accumulate too quickly.

4.2. Regionalized Management of Local Government Debt

For local government debt management, regional differences should be fully considered, and "one size fits all" behavior should be avoided. Because there are distinct regional differences in the economic and social development of various parts of our country, the impact of the scale of local government debt on the development of innovative economy also differs from region to region. When my country introduces policies and measures for managing the scale of regional foreign debt, it is necessary to formulate and implement regionally targeted management measures according to the actual conditions of the country, and scientifically and rationally guide the governments of all regions to use local government debts scientifically and rationally, so as to promote local governments. sustainable and healthy economic development. Establish and improve government debt management systems at all levels, and increase the transparency of local government debt. According to the analysis of the information disclosure status of the debts of local government departments, the statistical caliber of the debts of various government departments in China is not uniform at present, and the information disclosure is not comprehensive enough. my country needs to establish and improve the debt management system of local government departments as soon as possible, enhance the transparency and monitorability of local financial budgets, improve the monitoring and early warning system for local finance, prevent and curb the risk problems caused by the continuous expansion of government debts, and create an innovation-driven approach. Development provides financial security.

4.3. Establish a Normalized Mechanism for Debt Information Disclosure

With the continuous improvement of the local government bond issuance system, comprehensive financial statements such as cash flow statements and income statements, statistical bulletins of previous years, local financial budget and final accounts reports, audit reports, etc. should also be gradually disclosed and their timeliness and authenticity should be guaranteed. . In addition, my country can also consider establishing a national unified local government bond information system to record all relevant information of local government bonds into the system for investors to query in real time. There should be no technical obstacles at present. A monthly debt information reporting system can also be established. All units using bond funds submit relevant information to the financial department at the same level every month, and the financial department will then summarize and report it to the provincial finance department according to the prescribed caliber. Establish a mechanism for regular reconciliation and information sharing among various departments and institutions to ensure the completeness, timeliness and accuracy of relevant bond information.

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