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STATUTORY PRIORITY AND SECURITY INTERESTS: THEORETICAL AND PRACTICAL DIMENSIONS IN CIVIL AND COMMERCIAL LAW

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Abstract: In the modern credit economy, the tension between statutory priority and consensual security interests has emerged as a focal point in both academic and practical spheres. This study aims to explore the theoretical justification of statutory priority and evaluate its impact on transaction safety and efficiency. Employing methodologies of comparative legal analysis, doctrinal analysis, and law and economics, this paper identifies specific conflicts between statutory priorities and security interests, particularly highlighting inconsistencies in the application of the *Civil Code of the People's Republic of China*. The study defines the core conflict between the "First-in-Time" rule (temporal priority) and policy-oriented statutory priorities, arguing that the uncertainty of the latter undermines the predictability of secured transactions. Theoretically, the paper contrasts contractarian theory—emphasizing party autonomy and notice filing efficiency—with communitarian justice theory, which justifies protecting vulnerable creditors, while utilizing the "Cheapest Cost Avoider" principle and monitoring cost theory as analytical tools for priority allocation from a law and economics perspective. Through a comparative analysis of the *Chinese Civil Code*, UCC Article 9 (USA), and German law, the research focuses on case studies regarding construction liens and Purchase Money Security Interests (PMSI). It empirically analyzes the hierarchy of rights involving tax liens, secured claims, and employee claims; specifically, it examines how Article 807 of the *Civil Code* disrupts the expectations of mortgagees and addresses the conflict between PMSI "super priority" and existing floating charges. Furthermore, the discussion weighs efficiency against fairness, characterizing statutory priority as a "hidden lien" that increases credit costs, and examines the impact of priority rules on the Absolute Priority Rule (APR) in bankruptcy reorganization. Finally, the study proposes a balanced hierarchy model to optimize creditor protection and advocates for a strict registration system for statutory priorities to enhance transparency, concluding with the necessity to limit the scope of statutory priorities to maintain the integrity of the secured credit system and offering suggestions for future judicial interpretations and legislative reforms.
Keywords: Statutory priority; Consensual security interests; Construction liens; Transaction security and efficiency; Chinese civil code

1 INTRODUCTION

1.1 Research Background

In the contemporary credit economy system, the tension between statutory priority and consensual security interests has become increasingly prominent. Statutory priority aims to protect the interests of specific creditors, reflecting policy orientation and considerations of social justice; however, this priority often conflicts with consensual security interests based on contractual freedom. The root of this conflict lies in the opposition between the temporal priority rule (first-in-time) and statutory priority based on policy orientation. As economic activities become more complex, the creditor-debtor relationships involved in various transactions also become increasingly intricate. In this context, the existence of statutory priority affects the stability and predictability of secured transactions. For instance, claims with statutory priority, such as tax claims and employee claims, may be satisfied prior to other secured creditors in bankruptcy proceedings, which potentially weakens the expected effect of consensual security interests and thereby affects the efficiency of the credit market [1]. In practice, the exercise of statutory priority is often accompanied by uncertainty and controversy. This uncertainty not only increases transaction costs but may also reduce the overall efficiency of the credit market. When providing credit, creditors need to assess the challenges their claims might face from statutory priorities, which significantly discounts the predictability of secured transactions. Furthermore, the existence of statutory priority reflects the protection of specific creditors by current socio-economic policies. This protection is often based on considerations of communal justice and social stability; however, during implementation, such protective measures may conflict with market efficiency principles. Finding a balance between maintaining transaction security and promoting market efficiency has become an important topic in current legal research. The current research background also includes the implementation of the *Civil Code* and the issuance of its relevant judicial interpretations. Provisions regarding statutory priority in the *Civil Code*, such as the priority of compensation for construction project prices and the super-priority of purchase money security interests (PMSI), are hot issues in both theory and practice. The implementation status of these provisions and their impact on the existing hierarchy of property rights require in-depth research to be revealed. Statistical data and case analyses show that conflicts between statutory priority and consensual security interests are common in practice [2]. This conflict involves not only the interests of creditors but also the healthy development of the credit market. Therefore, analyzing the theoretical legitimacy of statutory priority and its impact on transaction security and efficiency is of great significance for perfecting relevant legal systems and promoting stable economic development.

1.2 Problem Statement

The uncertainty of statutory priority constitutes a significant impact on the predictability of secured transactions, a phenomenon that is particularly pronounced in the current credit economy system. Specifically, the existence of statutory priority often disrupts the ranking rules of security interests based on the first-in-time principle, thereby causing a certain degree of impact on transaction security and efficiency [3]. First, statutory priority lacks transparency and predictability; it is difficult for creditors to accurately judge the sequence of satisfaction for their claims during transactions, which undoubtedly increases transaction risks and uncertainty. In secured transactions, creditors typically rely on the priority rules regarding security interests in the *Civil Code* to anticipate the likelihood of realizing their claims. However, when statutory priority intervenes, even if the security interest has been publicized through means such as registration, its priority status may be superseded by statutory priority. In such cases, the uncertainty of priority not only affects creditors' expectations but may also lead to adverse selection and moral hazard issues in the credit market. For example, there is a clear conflict of rights between claims with statutory priority—such as tax claims and employee claims—and ordinary secured claims. In bankruptcy proceedings, the realization of these statutory priorities may have a major impact on the interests of other creditors, thereby affecting the efficiency and fairness of bankruptcy property distribution. Moreover, since the *Civil Code* and relevant laws and regulations do not provide exhaustive provisions on the specific application circumstances and conditions of statutory priority, there are often divergences in the interpretation and application of statutory priority in judicial practice, further exacerbating uncertainty in secured transactions [4]. Specifically regarding the priority of compensation for construction project prices, according to Article 807 of the *Civil Code*, a contractor may enjoy priority of compensation for the project if the construction price is not paid. The implementation of this provision may have unanticipated effects on existing mortgage rights, especially regarding potential conflicts between bank mortgage rights and construction priorities. Due to the existence of this priority, the expected interests of mortgagees may be damaged, thereby affecting banks' credit placement in the construction industry. Additionally, the super-priority rule for purchase money security interests, as stated in Article 416 of the *Civil Code*, provides special protection for buyers, enabling them to be satisfied prior to other creditors under specific conditions. Although the establishment of this super-priority aims to protect the weaker party in transactions, it may also have adverse effects on existing floating charges, triggering conflicts of rights. Therefore, the uncertainty of statutory priority not only affects the efficiency of secured transactions but may also weaken transaction security and increase risks in the credit market. In the absence of clear rules and unified practice, it is difficult for creditors and debtors to form stable expectations, directly constraining the healthy development of the secured transaction market [5]. Addressing this issue, this paper will explore the theoretical legitimacy of statutory priority, analyze its impact on transaction security and efficiency, and attempt to propose corresponding suggestions for institutional improvement.

1.3 Research Significance

The significance of this research lies in the deepening and perfection of the theory of priority of property rights, as well as the provision of specific guidance for bankruptcy proceedings. First, this paper analyzes the theoretical legitimacy of statutory priority and its impact on transaction security and efficiency, which helps to enrich and improve the basic theory of priority in property law. By exploring the tension between statutory priority and consensual security interests, this paper reveals the specific points of conflict between the two, which is of great significance for understanding the internal logic and operational mechanisms of the priority system in property law [6]. Second, researching the impact of statutory priority on transaction security and efficiency helps to improve the predictability of secured transactions. In the current economic environment, the uncertainty of statutory priority may cause trading parties to have doubts about the realization of security interests, affecting the smooth progress of transactions. The findings of this paper help to clarify the application rules of priority, reduce transaction costs, and enhance transaction efficiency. Furthermore, this study has guiding significance for bankruptcy practice. In bankruptcy proceedings, the order of priority is directly related to the realization of creditors' interests. By analyzing the application of statutory priority in bankruptcy proceedings, this paper reveals inconsistencies in the application of the *Civil Code*, providing references for the improvement of bankruptcy law and judicial practice. Specifically, this study has significance in the following aspects: 1. Academic contribution to property rights priority theory: Through comparative legal analysis, legal dogmatics, and law and economics analysis, this paper explores the conflict between statutory priority and security interests, providing new research perspectives and empirical materials for priority theory. 2. Guiding significance for bankruptcy practice: This paper analyzes the application of statutory priority in bankruptcy proceedings, particularly regarding the sorting logic of tax claims, secured claims, and employee claims, providing a theoretical basis for the perfection of bankruptcy law. 3. Policy suggestions for optimizing creditor protection: This paper proposes constructing a balanced priority ranking model to optimize the protection of creditors in secured transactions. These suggestions are positive for improving relevant laws and regulations and enhancing the legitimate rights and interests of creditors. 4. Insights for law and economics analysis: This paper applies law and economics theory to explore the impact of statutory priority on credit costs, as well as the boundaries between policy intervention and market autonomy. This provides a new path of thinking for understanding economic factors and policy orientations in property law. In summary, this study is not only of significant value to property law theory and bankruptcy practice but also plays a positive role in promoting the combination of legal research and practice, and in driving the improvement and reform of relevant laws and regulations.

2 THEORETICAL FRAMEWORK

2.1 Basic Theory of Priority

The priority system is an important content of property law, with its theoretical foundation stemming from the pursuit of resource allocation efficiency and fairness and justice. Priority refers to the right of a specific creditor to be satisfied from the debtor's property in preference to other creditors under specific conditions [7]. The design of this system aims to safeguard the interests of specific creditors while also reflecting society's inclination to protect the rights and interests of different subjects. From the perspective of contract theory, the establishment of priority embodies the principle of autonomy of will, meaning that parties to a contract can set priority clauses according to their own wishes. In addition, the introduction of the registration and publicity system aims to improve the transparency of priority, reduce transaction costs, and promote efficient resource allocation. The establishment of priority requires balancing the relationship between autonomy of will and publicity efficiency, respecting the parties' expressions of intent while ensuring transaction security. Community and social justice theories explain the legitimacy of priority from another angle. This theory holds that the priority system should protect the interests of vulnerable creditors to achieve social justice. For example, laws often endow priority to livelihood claims such as employee wages and medical expenses to safeguard basic social living order and public interest. This protection reflects society's care and support for vulnerable groups. From the perspective of law and economics analysis, the monitoring cost theory and the "cheapest cost avoider" principle provide economic explanations for the allocation of priority. Monitoring cost theory suggests that priority can reduce creditors' costs of monitoring debtors, increasing the likelihood of realizing claims. The "cheapest cost avoider" principle emphasizes that priority should be granted to the creditor who can prevent losses at the lowest cost, thereby achieving optimal allocation of social resources. In the specific application of priority, tax claims, secured claims, and employee claims are usually granted different degrees of priority status. As national fiscal revenue, the priority of tax claims reflects the needs of public interest and state power. Secured claims ensure the safety of the debt through mortgages, pledges, etc., with their priority lying in direct control over the collateral. Employee claims relate to the basic livelihood of workers, and their priority reflects the protection of workers' rights and interests. However, the setting of priority may also trigger conflicts of rights. For instance, disputes over priority ranking may arise between the priority of compensation for construction project prices and bank mortgage rights. In such cases, the application of priority rules needs to comprehensively consider the interests of all parties to ensure fairness and reasonableness [8-9]. In conclusion, the basic theory of priority integrates multiple dimensions such as contract theory, community and social justice theory, and law and economics analysis. These theories provide a rich theoretical foundation for the construction of the priority system and help guide the setting and application of priority in practice. On this basis, future institutional improvements should further clarify the scope and conditions of priority and optimize the hierarchy of rights to achieve a balance between efficiency and fairness.

2.2 Law and Economics Perspective

From the perspective of law and economics analysis, the configuration of priority is closely related to efficiency issues. The monitoring cost theory and the "cheapest cost avoider" principle provide important analytical tools for understanding and resolving the conflict between statutory priority and consensual security interests. Monitoring cost theory posits that in credit transactions, the cost of monitoring and enforcing contracts is a key factor affecting transaction efficiency. When monitoring costs are too high, transaction efficiency decreases, which in turn affects the overall operation of the economy. In the allocation of priority, the existence of statutory priority is often based on specific public policy considerations, such as protecting workers' rights and interests or promoting the development of vulnerable groups. However, the establishment of such priority may lead to increased monitoring costs for creditors because creditors need to invest more resources to predict and guard against statutory priorities that other creditors may obtain. For example, the statutory priority of tax claims and employee claims may affect the expectations of other creditors, increasing their costs of monitoring the debtor. The "cheapest cost avoider" principle refers to the idea that in the event of a conflict of rights, priority should be granted to the party capable of avoiding the conflict at the lowest cost. The application of this principle in priority allocation implies that the costs and capabilities of various creditors in preventing losses should be considered. For instance, in the conflict between the priority of compensation for construction project prices and mortgage rights, if builders can reduce costs through effective management during the construction process, they might be regarded as the cheapest cost avoiders. Conversely, if banks can more effectively control risks during the loan approval and supervision process, then banks might become the more appropriate holders of priority. The following is an analysis of the application of these two theories in priority allocation, as shown in Figure 1: First, monitoring cost theory reveals the impact of statutory priority on transaction security and efficiency. The existence of statutory priority may lead to increased transaction costs because potential creditors need to take into account the uncertainty brought by these priorities. This uncertainty not only increases the cost of credit but may also suppress the supply of credit, affecting overall economic development. For example, if a company knows its loan might be threatened by the statutory priority of tax claims, it might choose not to borrow or demand a higher interest rate to compensate for the risk. Second, the application of the "cheapest cost avoider" principle in priority allocation helps improve resource allocation efficiency. By granting priority to the party that can avoid losses at the lowest cost, overall social losses can be reduced. For instance, in the conflict between a floating charge and a purchase money security interest (PMSI), if the floating charge holder can reduce default risk through effective risk management and monitoring, they should receive priority. Conversely, if the PMSI holder can control risk more effectively, they should be endowed with priority. However, the allocation of statutory priority is not entirely based on efficiency considerations. In certain cases, based on considerations of social justice and fairness, statutory priority may be granted to certain creditors even if it might lead to efficiency losses. For example, to protect the rights and interests of workers, priority might be granted to employee claims, even if this might increase the monitoring costs for other creditors. In empirical analysis, we can see the different effects of statutory priority allocation. For example, German law adopts a relatively strict registration and publicity system when dealing with the priority of tax claims and employee claims, effectively reducing monitoring costs. In the United States, Article 9 of the *Uniform Commercial Code* reduces the uncertainty of priority conflicts by clearly stipulating the order of priority. In summary, the law and economics analysis perspective offers an effective framework for us to understand and resolve the conflict between statutory priority and consensual security interests. By considering monitoring costs and the cheapest cost avoider principle, we can more reasonably configure priority, improve transaction security and efficiency, and simultaneously balance considerations of social justice and fairness.

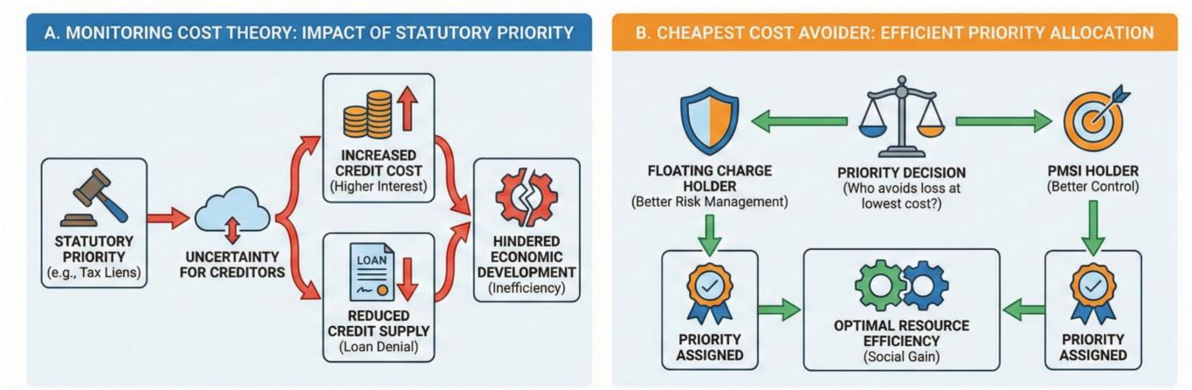

Figure 1 A Law and Economics Framework for Priority Allocation: Monitoring Costs and the Cheapest Cost Avoider Principle

3 RESEARCH METHODOLOGY

3.1 Comparative Analysis Method

The comparative analysis method is an important means for researching the differences in priority systems across different legal frameworks and the efficacy of their application. This paper will adopt the comparative analysis method to conduct an in-depth analysis and comparison of relevant rules in China's *Civil Code*, Article 9 of the *Uniform Commercial Code* (UCC) of the United States, and relevant systems in German law, aiming to reveal the conflict between statutory priority and consensual security interests and the paths to their resolution. First, from the perspective of China's *Civil Code*, the code provides for statutory priority in the section on security interests; however, compared to consensual security interests, its rules are relatively principle-based and lack specific operational guidelines. For example, there is a certain degree of ambiguity in the scope of application of priority, the determination of ranking, and the resolution of rights conflicts. Specifically, the super-priority rule introduced in Article 416 of the *Civil Code*, while aiming to protect the interests of specific creditors, may lead to the weakening of existing security interests in actual operation, affecting transaction security. In contrast, Article 9 of the US *Uniform Commercial Code* provides more explicit regulations on the creation of security interests, priority ranking, and the resolution of rights conflicts. The core of UCC Article 9 lies in the application of the "cheapest cost avoider" principle, which holds that priority should be granted to the party capable of avoiding loss at the lowest cost. This concept is reflected in the allocation of priority; for instance, regarding the priority ranking between floating charges and fixed charges, UCC Article 9 clearly stipulates the priority status of floating charges, thereby reducing transaction costs and improving the efficiency of the credit market. The German Civil Code regulates statutory priority in considerable detail, aiming to protect the interests of vulnerable creditors. For example, the construction worker's priority stipulated in German law guarantees the priority status of construction workers in the payment of construction funds. This institutional arrangement reflects the protection of vulnerable groups while also maintaining transaction security. Further comparison reveals that regarding the scope of application of priority, China's *Civil Code* is relatively similar to German law, as both emphasize the protection of specific creditors. However, regarding the determination of priority ranking, German law ensures the transparency of rights through a strict registration and publicity system, whereas the regulations in China's *Civil Code* in this regard are relatively loose. At the case law level, US judicial practice has conducted extensive exploration into the application of UCC Article 9, forming a relatively mature system of case law. For instance, regarding the priority ranking of floating charges, US courts have clarified the priority status of floating charges through case law, providing clear expectations for market participants. In China, however, the adjudication of relevant cases is often limited by the principle-based provisions of the *Civil Code*, leading to increased uncertainty in judicial judgments. Through comprehensive comparative analysis, it can be found that the conflict between statutory priority and consensual security interests manifests differently and has different resolution paths in different legal systems, as shown in Table 1. When constructing a balanced priority ranking model, we should draw on the advantages of various legal systems, combine them with China's actual situation, establish a strict registration and publicity system to improve rights transparency, and simultaneously balance efficiency and fairness to optimize creditor protection. Furthermore, it is necessary to continuously accumulate experience in judicial practice to form a guiding case law system, providing a solid legal foundation for the enhancement of transaction security and efficiency.

Table 1 Comparison of Core Dimensions of Priority Systems in China, the US, and Germany

Dimension	Chinese Civil Code	U.S. Uniform Commercial Code, Article 9	German Law
Theoretical Basis	Principle-oriented; emphasizes protection of specific creditors	"Lowest cost avoider" principle; emphasizes efficiency and transaction cost reduction	Communitarian and social justice theory; focuses on protecting vulnerable creditors
Concept of Priority	Introduces "super-priority" (Art. 416), which may weaken existing security interests	Clear priority of floating charges; enhances transactional predictability	Emphasizes protection of disadvantaged groups (e.g., construction workers' privilege)
Regulatory Specificity	Relatively principle-based; lacks detailed operational guidance	Clear, operational rules with detailed priority orders and conflict resolution mechanisms	Detailed provisions; emphasizes transparency and publicity of rights
Scope of Priority Rights	Emphasizes protection of specific creditors	Broadly applicable to various security interests; focuses on market efficiency	Prioritizes protection of specific vulnerable groups (e.g., laborers, construction workers)
Priority Ranking Mechanism	Relatively flexible; some ambiguity remains	Clear ranking through registration and publicity rules; priority of floating charges is explicit	Strict registration and publicity system ensures transparency of rights
Conflict Resolution	Lacks specific guidance; leads to uncertainty in practice	Well-defined rules and case law provide predictable solutions	Relies on detailed statutory provisions and publicity systems to minimize conflicts
Case Law & Judicial Development	Limited by principle-based provisions; judicial outcomes often uncertain	Mature case law system; rich judicial practice provides market certainty	Relies on codified clarity; judicial decisions are relatively stable
Typical Institutional Examples	"Super-priority" under Art. 416	Priority rules for floating charges	Construction workers' privilege
Institutional Emphasis	Balances protection of specific creditors and transaction security, though practice may lean toward the former	Improves credit market efficiency and reduces transaction costs	Upholds social justice and protects vulnerable groups, while maintaining transactional security

3.2 Case Study Method

The case study method occupies a pivotal position in legal research; particularly in analyzing the conflict between statutory priority and security interests, this method affords deep insights within specific contexts. The specific application of the case study method is outlined as follows: when conducting case studies, criteria for case selection must first be established. Regarding case selection for the priority of compensation for construction project prices, attention should be focused on whether the legal relationships in the case are complex, whether the application of law is controversial, and whether the case possesses typicality and representativeness. Such cases typically involve multiple links, including construction contracts, payment of construction funds, and the exercise of priority rights, which are crucial for understanding the practical impact of statutory priority. For the selection of cases related to Purchase Money Security Interests (PMSI), the criteria must similarly emphasize the typicality of the case, the complexity of the legal issues, and the universality of the case in legal practice. As a special form of security, the super-priority characteristic of

PMSI places it in a dominant position during conflicts of rights; therefore, selected cases should reflect the specific application of this characteristic in practice and the potential problems arising therefrom. The first aspect of the case study involves analyzing cases concerning the priority of compensation for construction project prices. Taking Article 807 of the *Civil Code* as an example, this provision stipulates the priority of compensation for construction project prices, which may impact the expectations of mortgagees in practice. Specifically, if the mortgagee is unaware, the priority of compensation for construction project prices may constitute a challenge to the mortgage right. In judicial adjudication, conflicts between bank mortgage rights and construction priorities are frequently observed; their handling methods and outcomes provide an empirical basis for understanding the tension between priority rights and security interests. The second aspect of the case study involves analyzing cases related to purchase money security interests. Taking Article 416 of the *Civil Code* as an example, this provision introduces the super-priority rule, granting PMSI a priority status in conflicts of rights. In actual operation, the conflict of rights and coordination between PMSI and existing floating charges have become a focal point. The resolution of such conflicts involves not only the issue of priority ranking but also the trade-off between transaction security and efficiency. Through case studies, specific points of conflict between statutory priority and security interests can be identified. During the application of the *Civil Code*, inconsistencies regarding the ranking and validity of priority rights exist, which are intuitively reflected in these cases. For instance, in cases involving the priority of compensation for construction project prices, the exercise of priority may adversely affect existing mortgage rights, while in PMSI cases, the existence of super-priority may pose a threat to the interests of other creditors. In summary, the case study method provides an empirical basis for analyzing the tension between statutory priority and security interests. Through in-depth analysis of specific cases, one can not only identify specific conflict scenarios but also provide a practical foundation for theoretical analysis and policy recommendations. The application of this method contributes to the perfection of the theory of priority of property rights and offers guidance for priority issues in the practice of bankruptcy proceedings.

4 EMPIRICAL AND NORMATIVE ANALYSIS

4.1 System of Right Priority in Practice

In practice, the construction and operation of the system of right priority is a vital component of property law, involving not only the protection of private rights but also serving as a stabilizer of the socio-economic order. This paper will analyze the status quo and problems of the system of right priority in practice through an empirical examination of statutory ranking and the stratified structure of rights. First, the analysis of statutory ranking reveals the sorting logic of tax claims, secured claims, and employee claims. According to the *Civil Code* and relevant laws and regulations, tax claims generally occupy a priority position, reflecting the principle of taxation by law and ensuring the stability of national financial resources. Secondly, secured claims typically take precedence over unsecured claims due to the specificity of the collateral. Employee claims enjoy a special status in bankruptcy law, aiming to safeguard the basic rights and interests of workers and reflecting society's protection of vulnerable groups. There is certain controversy in practice regarding the priority between tax claims and secured claims. On one hand, the priority of tax claims ensures the preferential protection of national interests; on the other hand, however, overemphasizing the priority of tax claims may affect the realization of secured claims, thereby impacting the stability of the credit market. For instance, in bankruptcy proceedings, the high priority of tax claims may lead to damage to the interests of secured creditors, thereby reducing confidence in the credit market. The priority of employee claims similarly faces challenges in practice. Although both the *Civil Code* and the *Enterprise Bankruptcy Law* clarify the priority status of employee claims, in actual operation, due to limited enterprise assets, the priority of employee claims is often difficult to fully guarantee. Furthermore, the priority of employee claims may also conflict with other types of claims, such as the priority of compensation for construction project prices. Empirical examination of the stratified structure of rights indicates that the system of right priority is not static in practice but is dynamically adjusted alongside economic development and legal changes. For example, in conflict scenarios involving the priority of compensation for construction project prices, Article 807 of the *Civil Code* has significantly impacted the expectations of mortgagees. This provision stipulates the priority of compensation for construction project prices, compelling mortgagees such as banks to reassess risks when issuing loans. In judicial adjudication, conflicts between bank mortgage rights and construction priorities are frequently observed. On one hand, as mortgagees, banks hope to ensure the priority of their claims; on the other hand, the priority of compensation for construction project prices aims to safeguard the rights and interests of the construction party. In judicial practice, such conflicts often require balancing the interests of all parties to ensure fairness and efficiency. Regarding the super-priority of purchase money security interests, Article 416 of the *Civil Code* introduces the super-priority rule, aiming to safeguard transaction security. However, the conflict of rights and coordination between super-priority and existing floating charges have emerged as new issues. In practice, the existence of super-priority may affect the interests of floating charge holders, thereby impacting the stability of the credit market. In summary, the system of right priority in practice not only reflects the legal protection of various claims but also exposes the difficulties of ranking conflicts and coordination. These conflicts involve not only the priority levels of different types of claims but also relate to the stability of the credit market and transaction security, as shown in Figure 2. Therefore, constructing a balanced priority ranking model and optimizing creditor protection are important tasks in current legal practice.

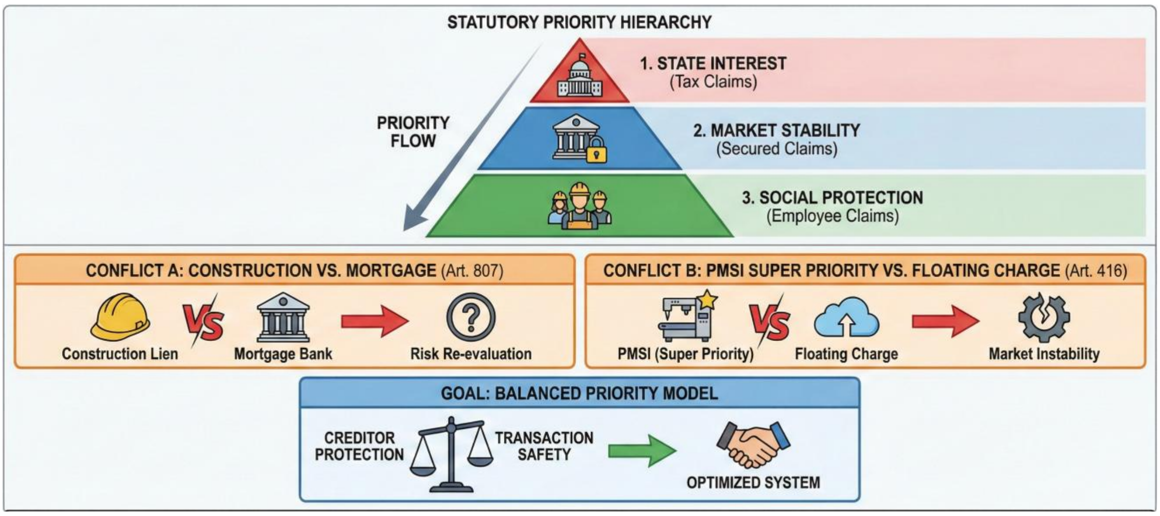

Figure 2 Priority Rights Hierarchy In Practice: Conflicts & Balancing

4.2 Conflict Scenario Analysis: Priority of Compensation for Construction Project Prices

The provision for the priority of compensation for construction project prices in Article 807 of the *Civil Code* aims to safeguard the labor remuneration of construction workers and the legitimate rights and interests of material suppliers; however, in actual operation, this provision conflicts with the interests of mortgagees, affecting their expected interests. The following analysis will cover the legal impact of this provision, the status quo of judicial adjudication, and conflict resolution solutions. First, from the perspective of legal impact, the establishment of the priority of compensation for construction project prices means that for mortgagees, the realization of their mortgage rights may be restricted. According to Article 807 of the *Civil Code*, the priority of compensation for construction project prices takes precedence over mortgage rights, which undoubtedly impacts the expectations of mortgagees. From the mortgagee's perspective, the mortgage right established in accordance with statutory procedures should enjoy a priority status for satisfaction; however, the existence of the priority for construction project prices compromises the mortgagee's interests. Specifically in judicial adjudication , the status quo of the conflict between bank mortgage rights and construction priorities manifests as follows: on one hand, banks typically use mortgage rights as a means to guarantee the realization of claims during the lending process, but in actual execution, if a priority of compensation for construction project prices exists, the realization of the bank's mortgage right will be restricted. On the other hand, courts often need to balance the interests of mortgagees and holders of construction project price priority when handling such cases, which increases the difficulty of judicial adjudication. In conflict scenarios, the following case is representative: a bank held a mortgage right against a real estate development company, which fell into bankruptcy due to a break in the capital chain [10-11]. During the bankruptcy liquidation process, it was discovered that the company still owed a large amount of construction project funds to a construction company. According to Article 807 of the *Civil Code*, the construction company enjoyed priority of compensation, which severely affected the realization of the bank's mortgage right. Regarding such conflicts, the following aspects of solutions are available for exploration: 1. Clarify the scope of application for the priority of compensation for construction project prices. For non-residential construction projects, consideration could be given to limiting the application of priority compensation to safeguard the interests of mortgagees; 2. Optimize the mortgage establishment procedure. During the establishment of mortgage rights, strengthen the review of the mortgaged property to ensure that the mortgagee can fully understand the actual situation of the property, thereby reducing the risk of realizing the mortgage right; 3. Establish a coordination mechanism between mortgage rights and priority compensation rights. Establish a negotiation mechanism between mortgagees and priority right holders to resolve disputes through negotiation, mediation, etc., to achieve a balance of interests between both parties; 4. Strengthen the registration and publicity system. For the priority of compensation for construction project prices, registration and publicity should be strengthened to improve the transparency of rights, enabling mortgagees to understand relevant information in a timely manner and reduce transaction risks. In addition, attention must be paid to the following issues: 1. The issue of the time limit for priority compensation. The time limit for the priority of compensation for construction project prices should be clearly stipulated to avoid indefinite suspension, which affects the interests of mortgagees; 2. The method of realizing priority compensation. When realizing priority compensation, it must be ensured that the legitimate rights and interests of mortgagees are not harmed; for example, methods such as auction or sale can be adopted to realize the priority right. In summary, in scenarios where the priority of compensation for construction project prices conflicts with mortgage rights, measures should be taken from legislative, judicial, and administrative aspects to balance the interests of mortgagees and priority right holders, safeguarding the stable operation of China's secured credit system.

4.3 Conflict Scenario Analysis: Super-Priority of Purchase Money Security Interest (PMSI)

Article 416 of the *Civil Code* grants super-priority to the Purchase Money Security Interest (PMSI). The introduction of this rule aims to protect the interests of sellers in transactions, especially when the seller provides financing. However, the establishment of super-priority has also triggered conflicts with existing security interests such as floating charges, which will be analyzed in detail below. First, the core of the super-priority rule lies in the fact that when a seller retains ownership of the movables sold or enjoys a claim for the price against the buyer, if the buyer sets a floating charge on the said movables, the seller's price claim has priority over the mortgage right within the super-priority period (i.e., within six months before the establishment of the mortgage right). The setting of this rule undoubtedly strengthens the seller's position in the transaction and guarantees the realization of their claim, but it also impacts the interests of existing mortgagees. On one hand, the establishment of the super-priority rule helps reduce the risk for sellers when providing financing, promoting transaction security and efficiency. In the context of a highly developed credit economy, sellers often need to provide certain financing support to buyers to complete transactions. The existence of super-priority enables sellers to obtain satisfaction prior to other creditors when facing buyer default or bankruptcy, thereby reducing seller risk and improving transaction predictability. On the other hand, the implementation of the super-priority rule may also trigger conflicts of rights with existing floating charges . As a flexible security method, a floating charge allows the debtor to set their existing and future property as collateral to safeguard the creditor's interests. However, under the super-priority rule, the seller's price claim takes precedence over the floating charge, which may lead to damage to the floating charge holder's interests. Specifically, the following conflict situations are worth noting: 1. Conflict between the establishment time of the floating charge and the super-priority period. If a floating charge is established on movables for which the seller retains ownership, and the establishment time falls within the super-priority period (i.e., within six months before the establishment of the mortgage right), the seller's price claim will take precedence over the floating charge. This may result in the floating charge holder's interests not being fully guaranteed; 2. Conflict between the floating charge and super-priority in the order of realization. In the event of the buyer's bankruptcy, the floating charge holder may not be able to obtain satisfaction before the realization of super-priority, thereby affecting the realization of their claim; 3. Conflict between the floating charge and super-priority regarding the scope of rights. The scope of application for super-priority is limited to movables, while the scope for floating charges includes both movables and immovables. In cases involving cross-category assets, coordinating the priority order of the two becomes a difficult problem. Regarding the above conflicts, the following suggestions are for reference: Clarify the rules regarding the order of realization for floating charges and super-priority to ensure that the interests of all parties are treated fairly. For example, it could be stipulated that under specific circumstances, the floating charge holder may obtain satisfaction prior to the super-priority holder; Establish and perfect the registration system to improve the transparency of rights. Through registration and publicity, enable all parties to fully understand their respective rights status during the transaction process, reducing transaction risks; Strengthen the supervision of sellers and buyers to prevent the abuse of super-priority rules. For example, the proportion of financing provided by the seller can be limited to avoid an excessive inclination towards the seller's interests. In summary, the establishment of the super-priority rule aims to balance transaction security and efficiency, but in practice, it may trigger conflicts with existing floating charge rights. By clarifying rules, perfecting systems, and strengthening supervision, these conflicts can be alleviated to a certain extent, achieving a balance of interests among all parties. On this basis, it is necessary to further explore how to balance social fairness and justice while safeguarding transaction security and efficiency.

5 DISCUSSION

5.1 Trade-off between Efficiency and Fairness

In exploring the trade-off between efficiency and fairness, the existence of statutory priority and its impact has become a core topic. As a right that can be automatically generated without a contractual agreement, statutory priority aims to safeguard the interests of certain specific creditors, especially vulnerable groups within the socio-economic structure. However, the implementation of this system has produced a series of impacts on the efficiency and fairness of the credit market, as shown in Figure 3.

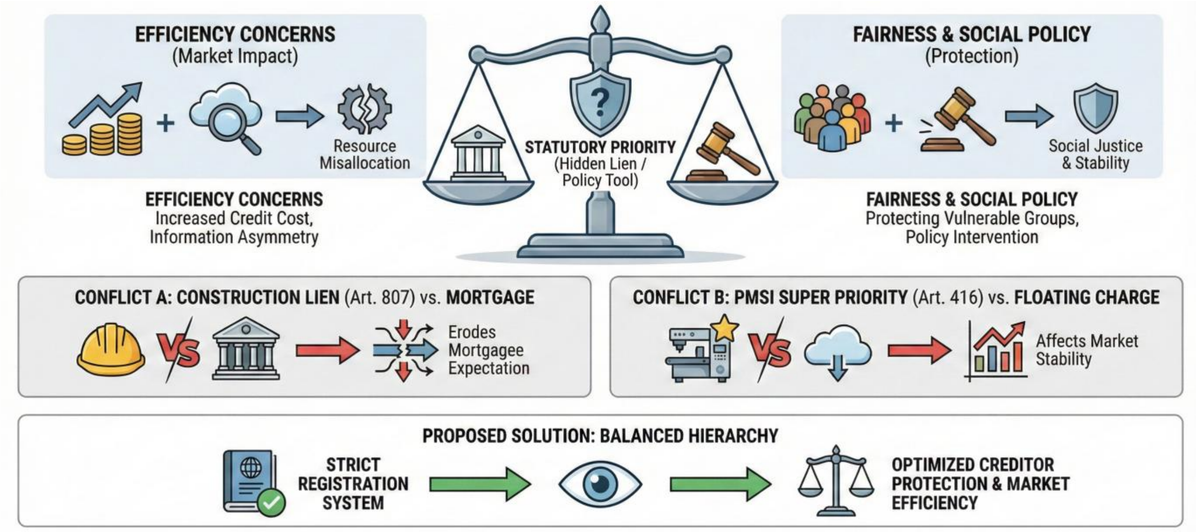

Figure 3 The Efficiency-Fairness Trade-off In Statutory Priority Regimes

In terms of efficiency, the existence of statutory priority may lead to an increase in credit costs. Since the granting of priority often lacks transparency, creditors find it difficult to accurately assess the risks and returns of their claims during transactions. This uncertainty increases information asymmetry in the credit market and raises monitoring costs. According to monitoring cost theory, when monitoring costs are too high, creditors may raise interest rates to compensate for risk or reduce credit supply, thereby lowering the overall efficiency of the market. Furthermore, statutory priority may also impact the market by affecting the efficiency of resource allocation. When a subset of creditors receives excessive protection due to statutory priority, the interests of other creditors are correspondingly damaged, which may lead to the transfer of resources from areas of high utilization efficiency to areas of low efficiency. In such cases, the market cannot allocate resources based on economic efficiency principles, thereby affecting overall economic growth and development. Regarding fairness, the establishment of statutory priority is often based on specific policy considerations, such as protecting workers' rights and interests or promoting the development of specific industries. These policy-oriented priorities are conducive to maintaining social justice and community stability. However, while this protection improves the fair treatment of certain creditors, it may also cause unfairness to other creditors. For example, in bankruptcy proceedings, the statutory priority of secured creditors and employee creditors may weaken the interests of unsecured creditors, which to a certain extent violates the spirit of contract. Clarifying the boundary between policy intervention and market autonomy has become a key issue. On one hand, policy intervention through statutory priority ensures the basic rights and interests of socially vulnerable groups and maintains social stability; on the other hand, excessive intervention may distort market mechanisms and damage market efficiency. Therefore, when establishing statutory priority, the relationship between policy objectives and market efficiency must be balanced. Specifically regarding China's *Civil Code*, the ranking of tax claims, secured claims, and employee claims reflects a legislative orientation of balancing efficiency and fairness. However, this ranking system also exposes some problems in practice. For instance, Article 807 of the *Civil Code* grants priority of compensation for construction project prices, which to a certain extent safeguards the rights and interests of construction enterprises but also impacts the expectations of mortgagees. In judicial adjudication, frequent conflict cases between bank mortgage rights and construction priorities reflect the impact of priority rules on the absolute priority rule in bankruptcy proceedings. Regarding the super-priority of purchase money security interests (PMSI), Article 416 of the *Civil Code* introduces the super-priority rule, aiming to protect bona fide third parties in transactions. However, the conflict of rights and coordination between super-priority and existing floating charges has also become a focal point in the trade-off between efficiency and fairness. The super-priority of PMSI may weaken the validity of existing mortgage rights and affect the stability of the credit market. In summary, while statutory priority improves social fairness, it may also impact market efficiency. To optimize creditor protection and maintain the stability of the secured credit system, it is recommended to establish a strict registration and publicity system for statutory priority to enhance rights transparency, reduce information asymmetry, and thereby lower credit costs. At the same time, the scope and conditions of priority should be prudently set to ensure a balance between policy intervention and market autonomy. In future legislative reforms, consideration should be given to further clarifying the application rules of priority to enhance predictability in bankruptcy proceedings and promote the harmonious unity of fairness and efficiency.

5.2 Predictability in Bankruptcy Proceedings

In bankruptcy proceedings, predictability is a key factor in ensuring the stability of the relationship between creditors and debtors. The uncertainty of priority rules in the distribution of bankruptcy property poses a challenge to the efficiency and fairness of bankruptcy proceedings. The following discusses predictability in bankruptcy proceedings. The impact of priority rules on the absolute priority rule in bankruptcy reorganization manifests at multiple levels. First, the existence of statutory priority may undermine the implementation of the absolute priority rule in bankruptcy law.

The absolute priority rule aims to ensure that during the bankruptcy distribution process, certain creditors are repaid in priority according to a set order. However, when statutory priority intervenes, this order may be broken, leading to some creditors receiving repayment exceeding their statutory share, while others may face unfair treatment. In the distribution of bankruptcy property, the consideration of predictability is crucial. On one hand, the ambiguity of priority rules increases the uncertainty for creditors in predicting their returns. For example, if the sorting logic of tax claims, secured claims, and employee claims in bankruptcy distribution lacks clear legal provisions, it will be difficult for creditors to assess their status in bankruptcy proceedings. This uncertainty not only affects creditors' decisions but may also impact the debtor's reorganization plan. Specifically, the issue of predictability of statutory priority in bankruptcy proceedings is reflected in the following aspects: First, the ambiguity of priority rules may lead to reduced efficiency in handling bankruptcy cases. In the absence of clear rules, courts need to spend more time determining the attribution of priority, which increases the complexity and cost of bankruptcy proceedings. This not only burdens creditors but may also have a negative impact on the debtor's chances of reorganization. Second, the uncertainty of priority affects investment decisions in bankruptcy reorganization. Potential investors may hesitate to participate in reorganization plans due to concerns about the uncertainty of priority. This uncertainty reduces the success rate of reorganization plans, thereby affecting the debtor's recovery. For example, according to Article 807 of the *Civil Code*, the priority of compensation for construction project prices may impact the expectations of mortgagees. In judicial adjudication, the conflict between bank mortgage rights and construction priorities may lead to damage to the mortgagee's interests, thereby increasing the uncertainty of bankruptcy proceedings. Furthermore, the super-priority rule introduced in Article 416 of the *Civil Code*, while aiming to protect the interests of specific creditors, may also impact existing floating charge rights. The existence of this super-priority complicates the order of bankruptcy property distribution and increases the possibility of conflicts of rights [12]. Therefore, to improve predictability in bankruptcy proceedings, the following measures are worth considering: First, a strict registration and publicity system for statutory priority should be established. By clarifying the registration and publicity procedures for priority, transparency can be increased, and creditor uncertainty reduced. Second, pathways to improve rights transparency and transaction security need to be selected. By perfecting relevant laws and regulations and clarifying the scope and conditions of priority, transaction certainty can be enhanced, thereby maintaining the stability of the secured credit system. Finally, priority rules should be refined, especially regarding their application in bankruptcy proceedings. By clarifying the application conditions and scope of priority, disputes in bankruptcy proceedings can be reduced, and the efficiency of bankruptcy distribution improved. In conclusion, predictability in bankruptcy proceedings is vital for maintaining the legitimate rights and interests of creditors and debtors. By establishing clear priority rules, the uncertainty of bankruptcy proceedings can be reduced, promoting the reorganization and recovery of debtors while safeguarding creditor interests.

5.3 Institutional Perfection and Policy Recommendations

In the current credit economy system, the existence of statutory priority plays an important role in safeguarding the interests of specific creditors; however, its conflict with consensual security interests cannot be ignored. Addressing existing problems, this paper proposes the following institutional perfection and policy recommendations aimed at optimizing rights allocation and enhancing transaction security and efficiency. First, it is recommended to establish a strict registration and publicity system for statutory priority. Since statutory priority often possesses a hidden nature that easily poses a threat to transaction security, the transparency of priority should be ensured through mandatory registration. Specifically, drawing on the experience of German law, a specialized priority registration register could be established for the unified registration management of various statutory priorities. Registration content should include the type of priority, the right holder, the debtor, the claim amount, and other information to facilitate all parties in timely understanding the status of rights [13]. Second, enhancing rights transparency is key to safeguarding transaction security. It is recommended to further strengthen the disclosure obligation of priority on the basis of registration and publicity. For example, in links such as the assignment of claims and the establishment of security, the debtor should disclose existing statutory priorities to the assignee or security holder. At the same time, corresponding legal liabilities should be set for failure to fulfill disclosure obligations to urge debtors to fulfill their duties. Furthermore, to reduce transaction costs and improve credit efficiency, the following measures are recommended: 1. Clarify the scope of application and conditions of statutory priority. For various statutory priorities stipulated in current laws, their scope of application and conditions should be clarified to avoid disputes caused by improper application of priority; 2. Optimize priority ranking rules. Based on the existing priority ranking system, priority ranking can be reasonably adjusted according to the nature and function of different types of claims. For example, higher priority can be granted to claims involving people's livelihood, such as employee claims; while for commercial claims, their priority can be appropriately adjusted according to the nature of the transaction and the degree of risk; 3. Introduce a priority concurrence resolution mechanism. When multiple priorities coexist, it is recommended to establish a priority concurrence resolution mechanism to balance the interests of all parties. Specifically, drawing on the practice of Article 9 of the US *Uniform Commercial Code*, priority can be determined through factors such as priority registration time and claim amount [14]; 4. Perfect priority rules in bankruptcy proceedings. In bankruptcy proceedings, the handling of priority is directly related to the interests of creditors. It is recommended to perfect the rules regarding priority in the current bankruptcy law to ensure that the application of priority in bankruptcy proceedings has clarity and predictability; 5. Strengthen supervision and restriction of priority. To prevent the abuse of priority, it is recommended to strengthen supervision and restriction. On one hand, a liability system for abuse of priority can be established to sanction abusive behaviors; on the other hand, the judicial review mechanism should be perfected to ensure that the application of priority complies with legal regulations. In summary, through measures such as establishing a strict registration and publicity system, enhancing rights transparency, and optimizing priority ranking rules, the conflict between statutory priority and consensual security interests can be balanced, improving transaction security and efficiency. At the same time, supervision and restriction of priority need to be strengthened to ensure reasonable application. These institutional perfections and policy recommendations have important practical significance for optimizing China's credit economy system.

6 CONCLUSION

Focusing on the tension between statutory priority and consensual security interests in the modern credit economy, this study has deeply explored the theoretical legitimacy of statutory priority and its impact on transaction security and efficiency. Through comparative legal analysis, legal dogmatics, and law and economics analysis, this paper has revealed specific points of conflict between statutory priority and security interests and, addressing inconsistencies in the application of the *Civil Code*, proposed constructing a balanced priority ranking model to optimize creditor protection. First, statutory priority has significant social value in safeguarding the interests of specific creditors, playing an important role particularly in protecting vulnerable groups and maintaining public interest. However, the uncertainty of statutory priority has a negative impact on the predictability of secured transactions, increasing transaction costs and reducing the efficiency of the credit market. This study found that the rules regarding statutory priority in the *Civil Code* contain certain ambiguities, which in practice lead to unclear rights ranking and conflicts. For example, conflicts between the priority of compensation for construction project prices and bank mortgage rights, as well as between the super-priority of purchase money security interests and existing floating charges, expose the deficiencies of current legal provisions. From a law and economics perspective, statutory priority as a "hidden guarantee" may raise credit costs and lower the overall efficiency of the financial market. Therefore, a balance point needs to be found between policy intervention and market autonomy, protecting the interests of specific creditors while also maintaining the stability and predictability of the secured credit system. In bankruptcy proceedings, the impact of priority rules on the absolute priority rule is particularly obvious. The existence of priority may affect the process of bankruptcy reorganization and reduce the certainty of bankruptcy property distribution. Therefore, establishing a strict registration and publicity system for statutory priority to enhance rights transparency is key to safeguarding transaction security. This study suggests that future judicial interpretations of the *Civil Code* and legislative reforms should consider the following aspects: 1. Clarify the scope of application and conditions of statutory priority, limiting its scope to maintain the stability of the secured credit system. 2. Strengthen the registration and publicity system for statutory priority to ensure the transparency and traceability of rights. 3. In bankruptcy proceedings, perfect priority rules to ensure the smooth progress of bankruptcy reorganization and the reasonable distribution of bankruptcy property. In conclusion, statutory priority possesses theoretical legitimacy, but in practice, it requires institutional perfection and legislative reform to balance its social value with its impact on transaction security and efficiency. Through this research, we hope to provide beneficial references and suggestions for optimizing China's theory system of property rights priority and practice in bankruptcy proceedings.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

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