OSTROM WORKSHOP **RESEARCH SERIES**

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“Land Finance and Land Development Quota in China: A Game Theory Model of the Interaction between Central and Local Governments”

Wednesday, December 4, 2019

12:00–1:00 PM • Ostrom Workshop, 513 N. Park

Chinese local governments accumulate a large amount of capital by expropriating collectively owned land with low compensation and selling them as state owned land at market prices. Local governments then invest this profit to provide infrastructures, industrial parks, and public services. This paper investigates the political, legal, fiscal, and administrative institutions that have created and sustained this land finance practice.

The central government benefits from the economic growth and public revenue generated from local governments’ land finance behavior. However, the central government controls the amount of land that can be sold by local governments. This paper offers three explanations of this conflict of interests drawing upon social costs, monopoly, and information theories.

Based on the transaction costs and the divergence of social costs between local and central governments, this paper develops a game theory model to predict the conditions under which local governments obey or challenge the central government’s control. This paper concludes the debate over the economic efficiency of land finance practice.

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Lu Zhou is a Ph.D. candidate from the University of Hong Kong. Her research project is to identify and test how land finance, urbanization and economic growth have reinforced each other in China from 1980s to 2010s. She identifies and links action situations, socioeconomic and political conditions, and outcomes to understand policy making and development. She develops hypotheses about the causes and outcomes of the institutions using game theory models and empirically tests them.

Presentations are open to the public (see our website for papers). You are welcome to bring your lunch. For questions, contact Allison Sturgeon (sturgeon@iu.edu; 812/855–3151).