

Abstract

Public Finance, Local Governments and the Challenges Facing China in the 21st Century

One of the dominant narratives of the early 21st Century has been “the rise” of China. During the first decade, China became the world’s second largest economy, largest exporter and manufacturer, and second largest importer while building massive amounts of infrastructure and laying the foundations of a modern welfare state. Following this decade of extraordinary growth and achievement, though, the country is suddenly seen as marred by significant fragilities – with inefficiencies, corruption, local government debt and social divisions that threaten systemic risk. This lecture explains the starring role played by local governments in both the achievements and risks, and offers a guided tour through the Chinese fiscal system and intergovernmental relations to discover how partial, incremental reform has distorted incentives and led to these detours enroute.