

## **Abstract**

### **Paying for China's Urbanization: Challenges of Municipal Finance in the 21<sup>st</sup> Century**

Since embarking on its transition to a market economy 30 years ago, China's urban population has grown by 500 million. This urbanization has proceeded on a scale and pace unprecedented in human history. Meeting the growing demands for services (electricity, water, sewerage, roads, transportation, schools and hospitals, etc.) posed an extraordinary challenge for government.

This lecture examines the structure and evolution of public finance in Chinese cities through this historic transition and finds that the fiscal system had become extremely decentralized and permissive. The decentralized approach has been instrumental in enabling China's urbanization and growth, but it also produced some adverse outcomes, among them an unsustainable and risky dependence on land, a soft budget constraint for municipal governments, a loss of macroeconomic control, and the creation of a two-tier society where one-third of urban residents today are ineligible for many vital urban services including education and social benefits. Going forward, fixing the system of municipal finance is critical to China's transition from middle-income to high-income status, and to her long term prospects for creating humane and liveable cities, but the transition will be difficult, painful, and protracted.