



Political trust, risk preferences, and policy support: A study of land-dispossessed villagers in China

Meina Cai ^{a,*}, Pengfei Liu ^b, Hui Wang ^c

^a University of Connecticut, 365 Fairfield Way, Unit 1024, Storrs, CT 06269-1024, United States

^b Department of Environmental and Natural Resource Economics, University of Rhode Island, 1 Greenhouse Road, Kingston, RI 02881, United States

^c School of Public Affairs, Zhejiang University, 164 Mengminwei Hall, 866 Yuhangtang Road, Hangzhou, Zhejiang 310058, China

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ABSTRACT

This paper examines how political trust across local government levels and risk preferences impact individual support to land-taking compensation policies in China. Land expropriation becomes a touchstone for protests and conflict during China's urbanization, driving local governments to diversify land-taking compensation from the traditional one-time lump-sum cash payment to multiple payments, notably, in the form of monthly pension payments and yearly dividends. We found that political trust in the county-level government positively correlates with individual support to pension payments; political distrust in the village collective induces villagers to favor the one-time payment to yearly dividends. Both risk-averse and risk-seeking individuals prefer the one-time cash payment to yearly dividends. The findings are developed using two choice experiments embedded in an original survey: we elicit individual policy support by asking villagers to state their preferences over hypothetical alternative compensation policies; we elicit risk preferences using a lottery-choice experiment with varying probability of winning real monetary rewards. The findings highlight the multi-level local government structure under decentralization and offer insight into to what extent the government efforts in innovative compensation policies are effective at quelling rural anger.

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1. Introduction

Political trust is considered fundamentally important for political participation, public opinion, and citizen compliance.¹ Citizens are more willing to voluntarily comply with or even support government demands and regulations when they perceive the government to be trustworthy (Levi, 1997; Tyler, 2006). In contrast, political distrust stimulates negative evaluation of government institutions and reduces public support for government action (Chanley, Rudolph, & Rahn, 2000; Hetherington, 1998). Much scholarly attention in this body of literature has been paid to political trust in the federal or national government (Chanley et al., 2000; Hetherington & Globetti, 2002; Hetherington, 1998; Miller, 1974a, 1974b). The increasing recognition of the importance of local government has inspired many scholars to turn their attention to political trust in the local government and comparison of trust in the national and

local governments (Baldassare, 1985; Fitzgerald & Jennifer, 2016; Jennings, 1998; Pharr, 1997; Tang & Huhe, 2016). These studies consistently find that citizens distinguish between their trust in the national and local governments. For example, in China where local governments have a wide range of policy responsibilities, citizens trust the national government more than local governments (Cui, Tao, Warner, & Yang, 2015; Li, 2004; O'Brien & Li, 2006). However, multi-tier states have been common throughout the world (Treisman, 2007; Wibbels, 2006). That is, the local government is not a unitary entity but consist of multiply layers, with each having different functions and responsibilities. How political trust responds to different levels of local governments remains largely unexplored. This study attempts to fill this gap by examining political trust in different layers of local government in the context of land acquisition and subsequent compensation distribution in contemporary China.

Perhaps the issue of land acquisition is nowhere more salient than it is in contemporary China. The unprecedentedly rapid urbanization in China has been associated with massive deprivation of villagers from their land. It was estimated that around 66 million villagers lost their land between 2003 and 2013, with around 3 million a year afterwards (Chuang, 2015). The Land Administration Law by design discriminates against rural land

* Corresponding author.

E-mail addresses: meina.cai@uconn.edu (M. Cai), pengfei_liu@uri.edu (P. Liu), wanghui@zju.edu.cn (H. Wang).

¹ For a comprehensive literature review on political trust, see Levi and Stoker (2000) and Nannestad (2008).

and fails to protect villagers' land rights during land acquisition. For example, villagers are compensated for their loss of land at below-market values in the form of one-time lump-sum cash payment (Art.47). Worse still, China features a profound urban-rural divide where rural residents have been discriminated against in many ways, including access to social welfare benefits (Whyte, 2010). Taken together, a significant portion of land-losing villagers have been turned into unskilled, jobless laborers with no basic welfare guarantees (Sargeson, 2012). Disputes stemming from land acquisition have become the primary source of social unrest in rural and peri-urban China (Ho, 2014; Landesa, 2012; Liu, Fang, & Li, 2014; Sargeson, 2012; Yu, 2009). Thus, vulnerability, impoverishment, and marginalization of land-losing villagers have been a rising concern for the state. How to take care of land-losing villagers and design non- or less-discriminatory compensation policies has an important impact on regime stability and social justice.

China features a decentralized structure where policy responsibilities lie with local governments (Heilmann, 2008; Montinola, Qian, & Weingast, 1995; Xu, 2011). Career concerns—the need for government officials to demonstrate competence to increase their chance of career advancement—motivate local governments to come up with solutions to alleviate the central government's concerns on land-losing villagers. One such solution is to diversify compensation for loss of land from the traditional one-time lump-sum cash payment to regular payments, notably, in the form of pension insurances and yearly dividends. This study examines the conditions under which villagers prefer certain type of compensation policy over the other.

Our central finding is that under a multi-tier hierarchical political structure, political trust across government levels influences public policy support. In the policy area of land-taking compensation in China, pension payments and yearly dividends, both seen as alternatives to the one-time cash payment, are provided and managed by the county-level government and village collective, respectively. We find that political trust in the county-level government positively correlates with individual preferences for pension payments. Political distrust in the village collective induces villagers to favor the one-time cash payment over yearly dividends. Due to the nature of compensation policies (lump-sum vs. regular payments), we also examine the impact of individual risk preferences on policy support. We find that both risk-averse and risk-seeking individuals prefer the one-time cash payment to yearly dividends.

Our arguments are developed through analysis of survey and fieldwork evidence. We conducted two choice experiments: we elicit individual support to compensation policies by presenting villagers with a set of paired compensation packages, from which they are asked to choose; we elicit risk preferences by presenting villagers with a menu of dichotomous lotteries with varying probability of winning real monetary rewards. Both experiments are embedded in an original survey of about 300 randomly selected rural households in China in 2015. Our research is also based on fieldwork, which was conducted in Zhejiang, Jiangsu, and Guangdong provinces from 2013 to 2015. While it focuses more intensively on the original survey, particularly the survey experiment component, our fieldwork has proved of indispensable importance not only to guide our survey design but also to interpret the findings from the quantitative analysis. Where appropriate, the fieldwork interviews with local elites and villagers are used.

Our research first contributes to a more refined understanding of political trust. Levi and Stoker (2000) in their review article urge scholars to “expand their inquiries beyond the traditional focus on citizens' trust in ‘government’ in general, by studying the causes and consequences of citizens' trust in *specific political actors, organizations, or institutions*” (pp. 495–496, italics added by authors). Previous studies have responded to this need by examining trust

in local government without addressing its multi-level structure (Fitzgerald & Jennifer, 2016; Tang & Huhe, 2016). In a more recent study where political trust is treated as a measure of legitimacy, Whiting (2017) finds a strong positive relationship between citizens who are exposed to a media campaign to promote legal consciousness and political trust in county-level authorities in China, because legal aid is provided by the county-level government. Our research complements these studies by juxtaposing the analysis of trust in county authorities with that of village authorities within a single framework.

Our paper also contributes to the growing literature on the politics of land and urbanization in China. This body of literature highlights that the coercive nature of land acquisition has made land-losing villagers worse off than they had been before (Guo, 2001; Heurlin, 2016; Mattingly, 2016; Sargeson, 2012, 2013; Whiting, 2011).² Some studies notice that local governments have developed pension insurances (Cai, 2016) and yearly dividends (Cai, 2003; Jiang, Liu, & Li, 2010; Liu, 2011) as alternative compensation policies, with an implicit assumption that these alternatives help address the concerns on the long-term livelihood of land-losing villagers and hence are welcomed. We show that the welcome of alternative compensation policies is not universally true, but conditional on villagers' trust in different levels of local authorities. To our best knowledge, our study represents the first experimental study on land acquisition in China.

Last but not least, our findings have important policy implications. Both pension insurance and yearly dividends are designed by policy-makers as a way to solve the sustainability problem associated with the lump-sum payment. However, a policy—no matter how policy-makers are in favor of it—is unlikely to be embraced and efficiently implemented if it fails to reveal true preferences of its targeted population. By examining compensation policy support from the perspective of individual preferences of land-losing villagers, our study suggests that pension policy is likely to be more appealing to villagers. In contrast, the policy of yearly dividends may have a hard time to gain public support when the trust in village or local cadres is low.

The rest of the article proceeds as follows. Section 2 briefly describes land acquisition and compensation policies in China. Sections 3 and 4 theorize how political trust and risk preference impact individual preferences on compensation policies. Section 5 discusses the research design where we detail our survey, choice experiments, and variable measurement. Section 6 provides empirical analysis. Section 7 concludes.

2. Land acquisition and compensation in China

China features a dual land tenure system of state-owned urban land and collectively-owned rural land, with a formal rejection of private land ownership. The rural decollectivization and household responsibility system introduced in the early 1980s granted rural households the right to use land for a fixed period of time and to claim the residual income generated from their designated land.³ Land commodification in the late 1980s multiplied the roles that land plays in the economy. To the state, land functions as a source of revenue, an instrument with which to intervene in the economy, and a financing vehicle whereby the state uses land as collateral to solicit bank loans to support state investment (Hsing, 2010; Lin, 2009; Rithmire, 2015; Tao, Su, Liu, & Cao, 2010; Whiting, 2011;

² Not all studies found villagers become worse off after land acquisition. Villagers are found to be eager to have their land expropriated in some cases (Hsing, 2010; Paik & Lee, 2012; Shi, Hongtao, & Jianwei, 2011).

³ The time guaranteed for rural households to hold onto land use rights was extended originally from 3 years to 30 years by 1993 (Lin, 2009).

Wong, 2013). These functions provide strong incentives for the state to participate in massive land acquisition.

The institutions governing land acquisition by design discriminate against villagers (Ho, 2001). The state has the exclusive authority to acquire land from villagers and convert it to urban non-agricultural use. The Land Administration Law (LAL, National People's Congress, 2004) requires land acquisition to take place only when it serves the "public interest" (Article 2)—a term that is not clearly defined, however. Ambiguity in land laws allows state actors to abuse the eminent domain power by allocating a significant portion of acquired land for industrial, commercial, and real estate development. Indeed, land acquisition has been implemented extensively and excessively, generating tens of millions of landless villagers (Chuang, 2015; Sargeson, 2013).

The state must compensate affected villagers for their loss of land. The compensation is comprised of three components: compensation for the loss of arable land, resettlement subsidies, and compensation for the loss of on-site property and agricultural products, all of which are, in the absence of well-functioning rural land markets, calculated based on the annual agricultural output value prior to land acquisition without taking into account land's future market values (LAL, Article 47). Upon the completion of land acquisition, all compensation funds are first channeled to village collectives, which then distribute compensation all at once in the form of cash payments among affected villagers. This is the traditional and most straightforward distribution method that has been used since the land commodification in the late 1980s.

The lump-sum cash compensation payment raises a few concerns. First and foremost, the state pays land-losing villagers compensation at below-market prices, but auctions off the acquired land in a fully-functioning urban land market. The resulting price differential unproportionally benefits the state at the cost of land-losing villagers (Cui et al., 2015; Lin, 2009; Rithmire, 2015; Sargeson, 2012, 2013). Worse still, below-market compensation is sometimes coupled with land-related corruption where local elites siphon compensation entitled to land-losing villagers (Heurilin, 2016). Another major drawback of the lump-sum cash payment is that it fails to consider the long-term livelihood of land-losing villagers. The urban-rural divide is profound in China where rural residents have been denied access to social welfare benefits that are made available only for urban residents for decades (Cheng & Selden, 1994; Knight & John, 1999; Wang, 2005; Whyte, 2010). To villagers, land functions as a basic means of economic production, a source of livelihood, and a form of social security (Cai, 2016). However, land's insurance function is almost entirely ignored in calculating the one-time cash compensation. This problem becomes more serious when cash compensation is exhausted. Indeed, our fieldwork shows that compensation could soon become exhausted in cases where villagers use it to buy luxury cars or play gambling games.⁴ As a result, land acquisition has become a touchstone for grievances and protests in rural and peri-urban areas, forcing local governments to come up with solutions.

One remedy is the so-called "land for welfare" program whereby local governments provide land-losing villagers with social welfare benefits, generally in the form of a pension plan that guarantees eligible affected villagers monthly pension payments for life. The policy implementation has been uneven: economically more developed areas are more likely to implement the land for welfare program, which must be self-funded (Cai, 2016). An examination of official documents from coastal provinces that implemented the program (Jiangsu Government, 2005; Zhejiang Government, 2002) suggests some common features. Specifically,

the county-level government sets up a pension fund special account for land-losing villagers who are above 16 years old and willing to participate in the pension program on a voluntary basis. Pension funds consist of primarily two sources: individual contributions come from resettlement subsidies—one of the three compensation components—which will be withheld to be used as a one-time lump-sum upfront payment; matching contributions are generally provided by city- and county-level governments from their land-generated revenue. The funds are distributed in the form of monthly pension payments using direct deposit to participating villagers once they reach the eligible age, typically age 55 for women and 60 for men. The pension amount is set by the county-level government and is generally adjusted every 2–3 years based on the local living standard. For those who pass away, the component of individual contributions to pension funds can be transferred to their legal heirs or designated beneficiaries.

Another remedy is to use land to generate regular income for affected villagers. As early as the 1990s, the local government in Nanhai, Guangdong province, initiated a bonus land (*fanhuan di*) policy, whereby the local government provided affected villages, not villagers, with a parcel of land as a bonus, in addition to the traditional compensation funds. The size of the bonus land is usually between 10 to 15 percent of the acquired land and in practice is often determined through negotiations between local governments and the affected rural collectives (Liu, 2011; Yueqing Government, 1999, Article 10).⁵ Rural collectives then use the bonus land to generate a regular income and distribute this income among affected villagers in the form of yearly dividends (Liu, 2011; Jiang & Liu, 2003; Su, Tao, & Wang, 2013). This approach has been called the Nanhai Model, which has spread to Fujian, Hunan, Jiangsu, and Zhejiang (Cai, 2016). Compared to the traditional below-market lump-sum cash compensation, the form of yearly dividends allows villagers to receive a share of land's market values. Compared to the form of pension payments, the yearly dividends policy removes the age restriction and allows affected villagers, regardless of age, to receive regular payments sooner.

3. Political trust and land acquisition

Political trust is defined as a basic evaluative or affective orientation toward the government relative to one's normative expectations of how government should function (Miller, 1974a, 1974b). Political trust influences how citizens respond to existing authorities and public policies. When citizens perceive the government to be trustworthy, they are more willing to voluntarily comply with or even consent to government demands and regulations (Levi, 1997; Tyler, 2006). In contrast, negative evaluation of government institutions or of politicians arising from political distrust reduces public support for government action and increases implementation cost (Chanley et al., 2000; Hetherington, 1998). Moreover, distrust in government has a potential to trigger citizens, particularly those who have high political efficacy, to participate in noninstitutionalized mobilization—citizen-directed activities such as protests, demonstrations, and riots—in an attempt to challenge the political authority or to influence policymaking (Gamson, 1968; Hooghe & Marien, 2013; Seligson, 1980). Hetherington and Globetti (2002) argue that political trust becomes influential especially when policies require personal sacrifice, with the magnitude of trust's effect dependent upon the degree to which a policy encroaches on a person's self-interest.

Policy on compensation for loss of land in China serves as a good example to examine the impact of political trust because it involves sacrifice of land—perhaps the most valuable asset to Chi-

⁴ Interviews ZJ03190110, GD04280114, ZJ07160114, JS08090113. More details about the interviews are available in Appendix B.

⁵ Interviews ZJ07220113, ZJ07220113, JS08090213.

nese villagers, and because it allows us to examine political trust in a decentralized multi-level government structure. The question of trust arises “when an individual finds herself in a relationship entailing the possibility of risk or vulnerability” (Levi & Stoker, 2000, p. 495). The traditional one-time lump-sum cash compensation is distributed around the time of land acquisition. It is tangible and involves a large amount of payment, which, once released from the local authority, allows individual villagers to immediately gain a complete control over its use. That is, the relationship on compensation distribution is over at the time when villagers receive their compensation in full amount. In contrast, both monthly pension payments and yearly dividends as alternative compensation options push villagers enter into a long-term relationship with their local authorities that involves potential risk or vulnerability. Either option requires land-losing villagers to forgo a sizable portion of their immediate tangible cash benefits, which will be withheld by local governments or rural collectives. Under this setting, political trust becomes essential for villagers to be willing to make such sacrifice.

The attributes of politicians and governments that make them trustworthy are categorized along two dimensions. The first involves “a commitment to act in the interests of the truster because of moral values that emphasize promise keeping, caring about the truster, incentive compatibility, or some combination of all three” (Levi & Stoker, 2000, p. 476). The second, and often ignored, relates to “competence in the domain over which trust is being given” (ibid.). Concerns about both commitment and competence could arise when land-losing villagers consider the options of regular payments.

In the domain of pension payments, responsibilities for managing pension funds lie with the county-level government; neither the township-level government nor village collective has much chance to intervene. Government officials in China face a high turnover rate—officially local government officials have the two five-year term limit; in reality, however, they serve generally less than one five-year term (Guo, 2009; Landry, 2008). As a result, the pension insurance policy becomes an incentive compatible option for the local government, because it allows the local government that acquired land to receive all land-generated revenue while pass on the responsibilities of pension payments to its successors (Cai, 2016). The flip side is that, due to changes in the government leadership, land-losing villagers may doubt if the pension payments policy made at the time of land acquisition will still be credible by the time when they reach the age requirement and become eligible to receive pension payments. In terms of competence, there is a rising concern about whether the local government would be fiscally capable of delivering as much as the promised amount, especially considering the rapidly aging population in a slowing down economy. Indeed, the Minister of Human Resources and Social Security has been aware of the potential crisis for pension funds and planning to introduce the reform of raising the retirement age by five years in a progressive way no later than 2020 (China Daily, 2015; Economist, 2014). The implementation of this reform would temporarily alleviate the financial burden for the local government, but villagers would have to wait longer to receive their promised pension payments, which may elevate villagers’ concerns about policy credibility.

In the domain of yearly dividends, responsibilities for managing the bonus land and generating sustainable income as a source to distribute yearly dividends lie with the village collective.⁶ Village collectives were notorious for excessive extraction of taxes and the

like from villagers, creating “taxation without representation” and forcing villagers to voice their grievances through a variety of actions (e.g., peaceful petition, demonstrations, sit-ins, rightful resistance, and so on) (Bernstein & Lü, 2000, 2003; Li, 2008; O’Brien & Li, 2006). Rural discontent and unrest remain salient after the centuries-old agricultural tax was abolished in 2006 (Rithmire, 2017). Dense networks within the village make it easier for villagers to observe and discover misconduct of local cadres—such as secret and illegal land sales, forced demolition and eviction, and embezzlement of land-generated income—thereby eroding villagers’ trust in village collectives and local leaders. Even if villagers believe village cadres are benevolent and act in the public interest, many concern about how capable their leaders are of generating a sustainable source of income. Our fieldwork observations suggest that efforts have been made to increase the chance for the bonus land to generate this income. For example, the bonus land is purposefully allocated in areas that have a high market value potential (e.g., industrial park) and sometimes even falls outside the boundaries of the affected village. Village collectives often engage in low-risk economic activities, among which the most common way is to build buildings—factory buildings, employee dorms, grocery stores, shops and so on—on the bonus land and collect rent afterward. Local people call this approach “rental economy” (*chuzu jingji*).⁷ However, none of these arrangements guarantees a sustainable source of income. Moreover, the distribution of this income, after being successfully generated, requires village leaders to act competently, fairly, and honestly. These qualifications may not be easy to fulfill in the village context.

Compared with the lump-sum cash compensation, both pension payments and yearly dividends require villagers to surrender immediate monetary benefits. Lack of confidence in political leaders’ commitment to act in the public interest and concerns on ineptitude and malevolence of political leaders are expected to influence individual compensation preferences in the following ways:

Hypothesis 1: Individuals who distrust their county-level government prefer the one-time lump-sum cash payment to future monthly pension payments.

Hypothesis 2: Individuals who distrust their rural collective prefer the one-time lump-sum cash payment to yearly dividends.

One may raise a concern whether villagers are able to distinguish who (the county-level government versus village collective) provides what (pension versus dividends). According to land rules and regulations,⁸ detailed compensation information must be announced publicly. Since the amount/form of compensation is not trivial, villagers do care about this information. More importantly, our fieldwork shows that compensation is distributed in different ways, providing villagers with a shortcut with which to distinguish various compensation providers. Specifically, monthly pension payments are directly deposited into the individual pension account. In contrast, where money is handled by village collectives, it is normally distributed in cash and requires individual households (not every household member) to physically appear in Village Committee and pick up cash that varies from several hundred to thousands of yuan.⁹

Empirically, some county-level governments have already been fiscally incapable of providing pension payments. In response, Premier Li Keqiang says, “For the local governments that have difficulty in providing pensions, so long as they have tried their best, the central government will provide subsidies. In the past three years [2013–2016], the central government has provided a trillion

⁶ Formally speaking, the village collective is not part of the state in China. Practically however, under the one-party rule where the communist party cells are penetrated into villages, the village collective can be understood as arms of the state authority.

⁷ Interviews ZJ07150114, JS08090213, JS08090113, GD04280114.

⁸ See, for example, Land Administration Law, and Measures of Public Announcement of Land Expropriation (*zhengyong tudi gongbao banfa*).

⁹ Interviews GD04280114, ZJ06080115.

on this issue. The bottom line is that local governments must be fully committed. The central government will monitor to ensure that pension payments are delivered on time and in full" (Xinhuanet, 2016). This raises a concern that under the nested hierarchical structure like China, governments across different levels also face different levels of budget constraint. In our case, the central government could lend credibility to the county-level government, making the policy on monthly pension payments trustworthy. In contrast, while villages often times act as arms of the state in policy implementation (O'Brien & Li, 2006), they are not formally part of the state and face a hard budget constraint. Indeed, the hard budget constraint was considered as one of the important reasons for township village enterprises to prosper in rural China during the early reform era (Che & Qian, 1998). Hence, village cadres' commitment to acting in the public interest and their competence have a direct impact on how much yearly dividends villagers can receive. The budget constraint problem may influence how villagers respond to alternative compensation policies.

4. Risk preferences and land acquisition

Individual preferences influence personal choice when trade-offs are involved and lead to heterogeneities in observed behavior. While neoclassical economics assumes self-interested individuals to be risk-averse, experimental research shows that individuals differ in their risk-taking preferences (Andersen, Harrison, Lau, & Elisabet Rutström, 2006; Binswanger, 1980; Holt & Laury, 2002). Economists discover that on average Chinese are more risk-seeking than Westerners in experimental settings (Bruhin, Fehr-Duda, & Epper, 2010; Kachelmeier & Shehata, 1992; Weber & Hsee, 1998).

In our context, risk attitudes are expected to be important to predict individual policy preferences as the compensation instruments exhibit variation in the security of expected income. The one-time lump-sum cash compensation, once paid, provides villagers with a safe source of income completely at their disposal. In contrast, the policy of yearly dividends requires the rural collective, rather than individual villagers, to generate and manage a source of income, as detailed above. While the policy was designed to provide villagers with an opportunity to receive a share of land's market values, the fluctuation of the land market entails that it also involves a large variation in expected returns. The low-risk investment strategies implemented by village leaders (e.g., building factory or dorm buildings to collect rent) do not guarantee stable returns. Under a good economic situation where firms grow and demand more space and employees, the probability for rural collectives to collect more rent increases, which may, but not necessarily, increase the chance for villagers to receive more yearly dividends.¹⁰ However, when firms face a hard time and many have to lay off workers or shut down during an economic downturn, factory or dorm buildings are left in empty, producing no or a reduced amount of dividends, as was the case during the 2008 financial crisis (Nanfang, 2011). That is, the policy of yearly dividends provides villagers with a riskier option in comparison with the one-time lump-sum cash payment. By taking this option, villagers must forgo their right to manage the cash payment on their own, share risks resulting from the fluctuating land market, and figure out the associated opportunity cost about how much they would have earned if they chose the one-time cash payment option. We expect that:

Hypothesis 3: Risk-averse individuals prefer the one-time lump-sum cash payment to yearly dividends.

Hypothesis 4: Risk-seeking individuals prefer yearly dividends to the one-time lump-sum cash payment, provided that the expected average return from the fluctuating yearly dividends is greater than the expected value of the one-time cash payment.

5. Research design

5.1. Survey and sampling

We conducted original surveys in Hangzhou, the capital of Zhejiang province, in summer 2015. Neither the province nor the city is a probability sample. Within the city Hangzhou, localities are probability samples. Counties were first stratified by per capita income into two strata. We selected one county in each stratum into the sample, with probability of selection proportionate to size of county population. Within each selected county, two townships were selected, with probability of selection proportionate to size of township population. Below the township, data on the village level is absent. We take advantage of the publicly accessible NOAA-NASA nighttime light intensity data¹¹ and selected five villages in each township into the sample, with probability of selection proportionate to size based on light intensity. Fig. 1 shows the sampled localities.

In each selected village, we conducted two sets of surveys targeting at two groups of people: village elites and ordinary villagers. We randomly selected 15 households from the village household registration list and one member of each selected household was surveyed. This sampling process yielded a sample size of about 300 households in 20 villages. We also conducted an elite survey answered by village elites (e.g., village head or the village Communist party secretary) in each village. A survey team comprising of graduate and undergraduate students conducted face-to-face one-hour-long interviews with selected individuals and recorded their answers in a paper-format questionnaire. Appendix A provides more details about our survey design and implementation.

According to our elite survey, in the rich county, all villages have pensions available for land-losing villagers and eight have bonus land. In the poor county, three villages have pensions and three have bonus land. Of the 10 sample villages in the poor county, one never experienced land expropriation. Another one experienced land taking by the village, but not land expropriation by the state; hence it was not qualified to receive land expropriation compensation. This suggests that implementation of alternative compensation policies varies at the local level.

5.2. Variables and measurement

5.2.1. Measuring compensation policy support

We elicit support to compensation policies using a discrete choice experiment where villagers are asked to make their choice over a set of hypothetical compensation packages. The underlining assumption is that villagers are sincere and support their preferred compensation policies that have direct impacts on their economic conditions. Each compensation package is described by three attributes: land compensation fees, resettlement subsidies, and compensation from the bonus land, all of which, if combined, constitute the lion's share of the total compensation.¹² Table 1

¹¹ Nighttime lights data is available at the following webpage, <http://ngdc.noaa.gov/eog/dmsp/downloadV4composites.html>.

¹² The only compensation component missing in our design is the compensation for loss of agricultural products, which accounts for only a small proportion of the total compensation, and, more importantly, has always been offered in the form of the one-time cash payment. This lack of variation led us to deliberately exclude it from our design.

¹⁰ Many factors can prevent more rent collected by rural collectives from being transformed into more yearly dividends for individuals. These factors include, for example, corruption and ineptitude village leaders. Our fieldwork also shows that some rural collectives often take a proportion of the income for reinvestment, thereby reducing the share that villagers can receive.

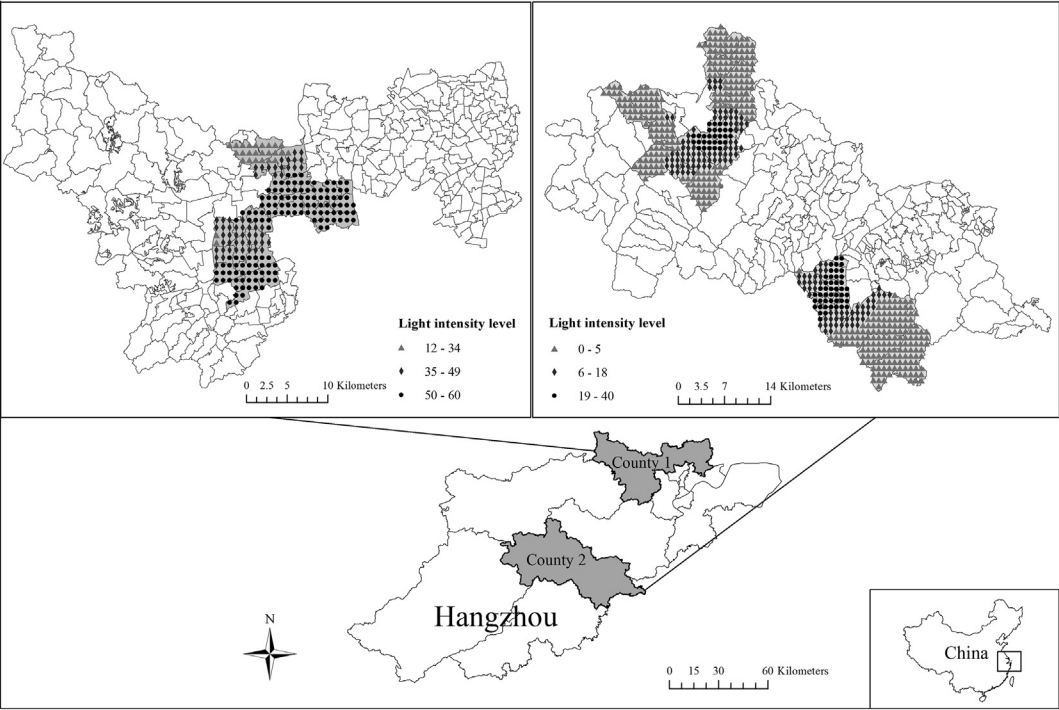


Fig. 1. Survey sampling.

Table 1
Attributes and levels for the discrete choice experiment.

Attribute	Levels	Variable names
Land compensation fees (LCF)	○ All distributed in the form of the one-time cash payment ○ About 10–20% of LCF kept by the village as the public funds and the rest distributed among affected villagers in the form of the one-time cash payment ○ All kept by the village to develop village collective economy and generate benefits which will be distributed in the form of yearly dividends	<i>Compensation_baseline</i> <i>Public funds</i> <i>Dividends from compensation</i>
Resettlement subsidies	○ Distributed in the form of the one-time cash payment ○ Distributed in the form of pensions: villagers pay nothing and start receiving monthly pension payments when women reach 55 and men reach 60	<i>Resettlement_baseline</i> <i>Pension</i>
Bonus land	○ The rural collective sells the land and distributes the land-generated income in the form of the one-time cash payment ○ Distributed in the form of land or houses ○ The rural collective first uses land to generate benefits, which will be distributed in the form of yearly dividends	<i>Bonus land_baseline</i> <i>Physical bonus land</i> <i>Dividends from bonus land</i>

details the attributes and levels identified in this study. This design produces 18 scenarios (i.e., $3 \times 2 \times 3$) for one compensation package. As shown from Table 1, compensation for loss of land takes more than the three forms discussed in this paper. For example, benefits generated from the bonus land can be distributed in the physical form (e.g., land or houses) as well as the monetary form. We include these scenarios to reflect some local variations that we observed in the field and to present villagers with a set of choices that we believe best mimic the real-world situations.

A pair of compensation packages that vary in the attributes and levels indicated in Table 1 yields 306 possible choice sets (i.e., 18×17), which, following the principle of maximizing the D-efficiency, was reduced to 12 using Ngene.¹³ Table 2 provides an example of a paired choice set. To avoid boredom, each survey

respondent was presented with a sequence of three randomly selected choice sets and asked to make a choice for each set.¹⁴

5.2.2. Measuring political trust

One concern about the survey-based research on political trust is that the concept of trust is generally underspecified and leaves the interpretation to survey respondents. Levi and Stoker (2000) remind us “[t]rust is seldom unconditional; it is given to specific individuals or institutions over specific domains” (p. 476). Similarly, Nannestad (2008) suggests that trust can be understood as a “three-way relationship...where A trusts some specific B with respect to some specific x” (p. 417). We follow the suggestion and specify the policy domain in our measurement as follows.

1. How much do you trust your county-level government in rural land-related policies?

¹³ Ngene is a software for generating optimal experimental designs that are used in stated choice experiments.

¹⁴ We detailed the randomization process in Supplementary materials.

Table 2

Example of a paired choice set from questionnaire.

Compensation package A	Compensation package B
◦ The village will take all land compensation fees to develop village collective economy and distribute the benefits generated from the collective economy in the form of yearly dividends ◦ Resettlement subsidies will be distributed in the form of the one-time cash payment ◦ The rural collective will first use the bonus land to develop collective economy and generate benefits, which will be distributed in the form of yearly dividends	◦ The village will take about 10–20% of the land compensation fees for local public goods and services, and distribute all the remaining among affected villagers in the form of the one-time cash payment ◦ Resettlement subsidies will be distributed in the form of pensions: you don't need to pay anything; women at the age of 55 and men at the age of 60 start receiving monthly pension payments ◦ The rural collective will first sell the bonus land and distribute the land-generated income in the form of the one-time cash payment
Between packages A and B, which one will you choose?	
☐ 1 Package A	☐ 2 Package B

2. How much do you trust your village cadres to manage and distribute collective assets?

We used the words “county-level government” and “village cadres” in our questions. In contrast to the county-level government which is far away from villagers' daily life, villagers have direct interactions with village cadres and know them personally; consequently, they may judge their trust in village more at the individual level. We also used the words “collective assets” as opposed to “land” in measuring village trust because village cadres' responsibilities include, but not limited to, management of land. For example, they also manage how to generate income from buildings built on the bonus land.

Both questions are measured on a 5-point scale. As shown from Table 3, about 64% of respondents are either very trust or trust the county-level government, and the percentage is reduced to 55% when it comes to trust in village cadres. This pattern is consistent with the existing survey research which shows that Chinese trust the higher level government more than the lower level (Cui et al., 2015; Li, 2004). In data analysis, we treated trust neutral as the baseline and generated additional dummies to measure trust: *Trust* (combination of “Very trust” and “Trust”) and *Distrust* (combination of “Very distrust” and “Distrust”), due to lack of variation for the categories “Very distrust” and “distrust.”

5.2.3. Measuring risk preferences

We measure risk preferences by replicating the classic lottery-choice experiment by Holt and Laury (2002).¹⁵ Unlike Holt and Laury's experiment that invites college students and business school faculty to participate in lab settings in American universities, we conducted our experiment with villagers in the field.

The experiment consists of 10 choices between the paired lotteries with actual monetary payments shown in Table 4. The amount of monetary payoffs is 10 times that of payoffs in Holt and Laury's study without considering the currency exchange. The payoffs for Option 1 (¥20 vs. ¥16) have a smaller variation than those for Option 2 (¥38.5 vs. ¥1), suggesting that between the two options, Option 1 is safe and Option 2 is risky. In the first lottery decision where the probability of winning high payoffs for both options is 1/10, only an extreme risk-seeking individual would choose Option 2. As the probability of winning high payoffs increases (moving down the table), individuals are expected to switch from Option 1 to Option 2. The point where the switch occurs reveals individual risk preferences. In the 10th decision where the probability of winning high payoffs is 10/10, even the

Table 3

Political trust across levels.

	County government		Village cadres	
	Freq.	%	Freq.	%
Very trust	102	33.66	77	25.33
Trust	91	30.03	90	29.93
Neutral	78	25.74	80	26.32
Distrust	16	5.28	29	9.54
Very distrust	5	1.65	8	2.63
Don't Know	10	3.3	15	4.93
Refuse to Answer	1	0.33	4	1.32
Total	303		303	

extreme risk-averse individual should switch to Option 2 which yields a sure payoff of ¥38.5.

The experiment implementation consists of two stages. In the first stage, survey respondents were presented with the 10 lottery choices (as listed in Table 4), with a promise that *one* of these choices would be selected at random *ex post* and actually played with a real monetary reward, the amount of which is determined by the choice made in this stage. In the second stage, we delivered our promise by instructing survey respondents to play the lottery game *once* and paying them immediately after their play.

We divided risk preferences into three categories: risk seeking where the switch from safe to risky choice occurred at decision 1 through 3, risk neutral where the switch occurred at decision 4 through 6, and risk averse where the switch occurred at decision 7 through 10. The way we divided risk categories is based on the value of the expected payoff difference shown in Table 4.¹⁶ We treated risk neutral as the baseline and generated two dummies to measure risk preferences: *Risk seeking* (risk seeking = 1) and *Risk averse* (risk averse = 1).

5.2.4. Control variables

Individual age, sex, and income are controlled for in the analysis. Older villagers may be more likely to prefer pension payments to the one-time cash payment because it's sooner for them to receive pension payments. Due to diminishing marginal utility of income, rich villagers may prefer yearly dividends to the one-time cash compensation, while the poor prefer the opposite. Summary statistics is available in Appendix C.

¹⁵ The experiment by Holt and Laury contains lottery choices over low- vs. high- real money payoffs and real vs. hypothetical money payoffs. We only replicated part of their study.

¹⁶ Ideally we would like to use the 10-point scale measure. However, lack of observations in decisions 7 to 10 led us to take a categorical measure. Summary statistics on risk preferences can be found in Supplementary materials.

Table 4
The ten paired lottery-choice decisions with payoffs.

No.	Decision	Option 1	Option 2	Expected payoff difference ^a	Your choice		
1		 = ¥20  = ¥38.5	 = ¥38.5	¥1.17	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2
1							
2							
2				¥0.83	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2
1							
2							
3		¥0.50	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2		
1							
2							
4		¥0.16	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2		
1							
2							
5		¥-0.18	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2		
1							
2							
6		 = ¥16  = ¥1	 = ¥1	¥-0.51	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2
1							
2							
7				¥-0.85	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2
1							
2							
8		¥-1.18	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2		
1							
2							
9		¥-1.52	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2		
1							
2							
10		¥-1.85	<table><tr><td>1</td></tr></table> or <table><tr><td>2</td></tr></table>	1	2		
1							
2							

6. Empirical analysis

We estimate the multinomial conditional logit model specified as follows:

$$V_{ij} = X_j\beta_j + Z_i\gamma_i + \epsilon_{ij}$$

where V_{ij} represents the choice made by individual i on choice scenario j , which equals 1 if an individual i chooses the option j and 0 otherwise. The vector X_j represents the choice attribute j faced by individual i . The vector Z_i represents the characteristics that do not vary by choice (e.g., demographic controls). The coefficients β_j and γ_i are the estimates on the choice attributes j and choice-invariant vector Z_i , respectively. The error term ϵ_{ij} is assumed to follow the Type 1 extreme value distribution in the standard discrete choice model.¹⁷

Fig. 2 presents marginal effects of individual preferences over various compensation forms. The coefficients can be understood as the preference of the alternative compensation policies (i.e., pension payments or yearly dividends) over the one-time lump-sum cash payment, the baseline policy.

Political trust in the county-level government and preferences for pension payments are positively correlated, but not statistically significant. Fig. 2 shows that those who distrust the government may still prefer pension payments over the one-time cash payment. Perhaps the most straightforward reason for why trust and lack of trust in the county-level government produce similar results relates to pension's insurance function. To Chinese villagers who have been denied access to social welfare benefits for decades, land functions as a social insurance. The one-time cash payment in its current calculation formula fails to consider land's insurance function, which can be fulfilled, at least partially, by pension payments. Another equally, if not more, important reason relates to the soft budget constraint facing county-level governments, discussed earlier. According to our fieldwork, many villagers believe that their local government will not default on its promise to pay pensions even if it runs out of money because the higher-up government authority will take care of the situation if it ever happens.¹⁸ Therefore, local social security entitlement programs like pensions, once promised, are less likely to be reversed.

Unlike the county-level governments, village collectives face a hard budget constraint. Village cadres' commitment to acting in

the public interest and their ability to generate a stable source of income are expected to have a direct impact on individual policy preferences. This is confirmed by the negative and statistically significant coefficient of the interaction term *Dividends from bonus land* × *Distrust in village*. The probability for those who distrust village cadres to choose the lump-sum cash payment over yearly dividends increases by 20.3%, the finding consistent with Hypothesis 2.

The coefficient of the interaction term *Dividends from bonus land* × *Risk averse* is negative and statistically significant at the 5% level, suggesting that risk-averse individuals prefer the one-time cash payment over yearly dividends, consistent with Hypothesis 3. However, the amount of land-taking compensation is thousands times greater than the monetary payoff involved in our lottery-choice experiment design. This discrepancy raises the concern about to what extent our measure of risk preferences reflects individual risk preferences in the real world. Experimental economists discovered that individuals become more risk-averse when dealing with high payoffs (Binswanger, 1980; Holt & Laury, 2002). Kachelmeier and Shehata (1992) examined risk preferences using large real monetary rewards in China—the amount, at its maximum, was three times the normal monthly income—and confirmed a statistically significant impact of the level of monetary incentives on revealed risk preferences, consistent with the findings from experimental studies using hypothetical high monetary payoffs. Given the fact that land-taking compensation carries high stakes, land-losing villagers are expected to be more risk-averse in face of real-life compensation options. That is, some individuals who were risk-seeking or risk-neutral in our lottery-choice experiment are expected to switch to be risk-averse in reality. As land's market values appreciate, land-taking compensation is expected to be increasing and also induces individuals to be more risk-averse. As a result, the actual objection to yearly dividends due to sharply increased risk aversion is expected to be stronger than what we estimated here.

The negative and statistically significant coefficient of the interaction term *Dividends from compensation* × *Risk seeking* shows that risk-seeking individuals also prefer the one-time cash payment to yearly dividends, suggesting that the condition of Hypothesis 4 (i.e., the expected average return from distributing land compensation fees in the form of yearly dividends is greater than the expected value of the one-time cash payment) is not satisfied. One possible explanation relates to our survey location, a relatively rich area that provides villagers with more investment opportunities to generate a higher return than the expected average return from fluctuating yearly dividends.

¹⁷ Detailed model specifications are available in [Supplementary materials](#).

¹⁸ Interview ZJ06080115.

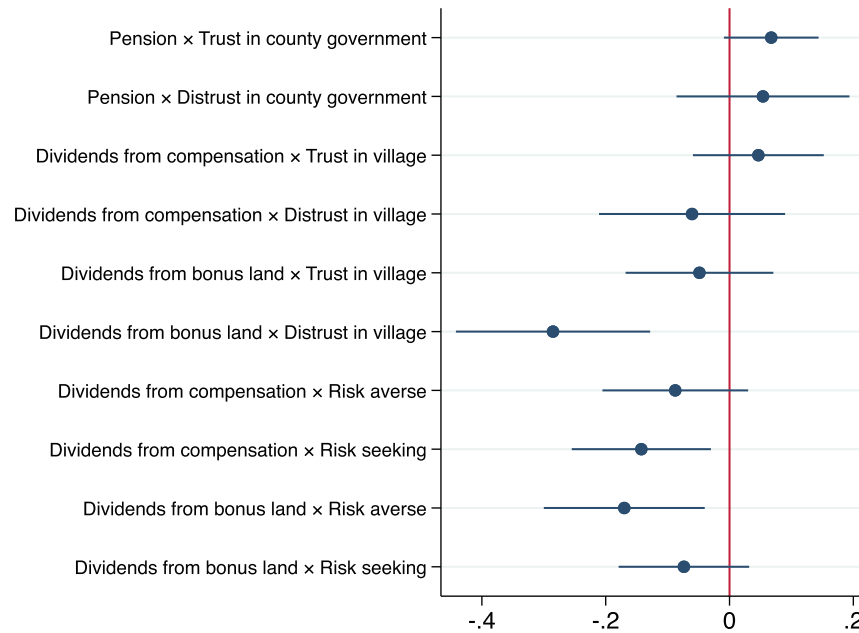


Fig. 2. Marginal effects of preferences over compensation policies.

Notes Full regression results available in [Supplementary materials](#). The bars denote 90% confidence intervals based on robust standard errors clustered by respondents. The one-time lump-sum cash compensation is set as the baseline.

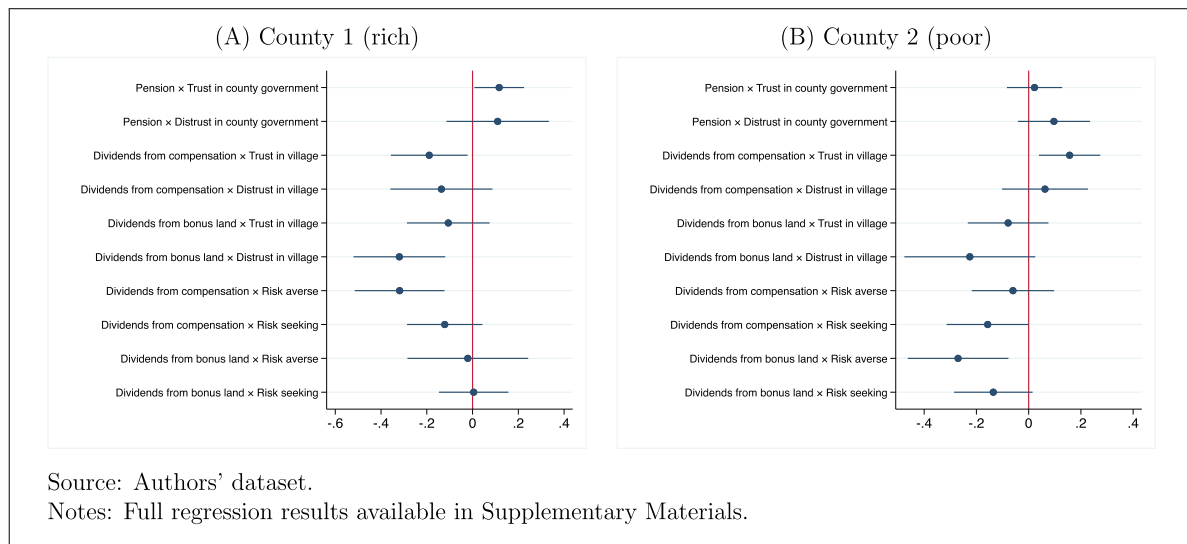


Fig. 3. Marginal effects of preferences over compensation policies (subsample analysis).

All these results exhibit a high degree of consistency across various model specifications.¹⁹ We also performed subsample analysis by separating the two sample counties that vary in the level of economic development. The subsample analysis produces interesting dynamics, as shown in [Fig. 3](#). The coefficient of the interaction term *Pension × Trust in county government* is positive and statistically significant in County 1, but remains insignificant in County 2, suggesting that the local economy may explain the effect of political trust on individual preferences of monthly pension payments. In poor areas where land-losing villagers have fewer opportunities to find an alternative that can substitute for land to secure their life, pension's insurance function carries an extra value and may induce those

who are not confident with their local government to choose pension payments over the one-time cash payment. The coefficient of the interaction term of *Dividends from bonus land × Distrust in village* remains negative and statistically significant in County 1. While it is statistically insignificant in County 2, the coefficient of the interaction term *Dividends from compensation × Trust in village* in County 2 is positive and statistically significant, suggesting that those who trust village cadres prefer yearly dividends over the one-time cash payment when distributing land compensation fees. As mentioned earlier, of the 10 villages surveyed in County 2, nine had experienced land expropriation and only three offered the bonus land as an alternative compensation policy. This may influence how survey respondents in County 2 respond to our questions related to the bonus land. In County 1 risk-averse individuals prefer the one-time payment to yearly dividends. In County 2 both risk-averse and risk seeking indi-

¹⁹ Regression results are available in [Supplementary materials](#).

viduals favor the one-time payment over yearly dividends. More importantly, all the signs of coefficients in the subsample analysis are largely consistent with the full sample analysis, suggesting that our baseline results remain unchanged qualitatively.

7. Conclusion

This study examines how political trust across local government levels impacts public support to land-taking compensation policies (i.e., one-time cash payment vs. regular payments in the form of pension payments or yearly dividends) in China. We demonstrate that citizens have the ability to differentiate their trust in multiple levels of the local government. Specifically, political trust in the county-level government positively correlates, but not statistically significant, with individual preferences of monthly pension payments over the one-time cash payment; political distrust in village cadres induces villagers to support the one-time cash payment over yearly dividends.

Our findings offer insight into the understanding of the decentralized political structure. The focus in the existing literature, referenced at the beginning of the article, has been on national-local relations while treating multi-level local governments as a unified political authority. Our research shows that the multi-level government structure functions more complex than we normally assume. Not only local governments at each level have their own policy responsibilities, but their interactions with the higher-up authorities also vary and this variation impacts citizens' response to government policies. For example, the higher-up authority can lend credibility to local governments by softening their budget constraint. Our study shows that the central government are willing to bail out the county-level governments that are struggling financially, thereby alleviating villagers' concerns on the ability of county-level governments to commit to pension policies. As a result, even those who distrust their county-level government may still prefer pension payments over the one-time payment. In contrast, village cadres face a hard budget constraint and their ability to generate a stable source of income determines the extent to which villagers prefer yearly dividends over the one-time cash payment.

This study also generates policy implications on the popularity of new forms of land-taking compensation policies. An important component of good land governance, promoted by the World Bank (Deininger, Seold, & Burns, 2012), is to provide land-losing villagers "with fair compensation in kind or cash at market values made available expeditiously" (p. 33). The traditional one-time lump-sum cash compensation in China clearly deviates from the international standard. Local governments have designed monthly pension payments and yearly dividends as alternative policies to make land-taking compensation sustainable and improve the fairness of compensation. Our findings suggest that the pension policy is likely to be more appealing to land-losing villagers than the policy of yearly dividends. The problem lies in the design of the yearly dividends policy, which puts too many responsibilities on the shoulder of village cadres, who, among government officials at all levels, have the least amount of resources at their disposal. Lack of resources and qualifications impacts village cadres' ability to generate a stable source of income, thereby reducing villagers' confidence to support the yearly dividends policy. More broadly, while the literature applauds China's decentralized policy-making process whereby policy innovations are first initiated locally, gradually diffused elsewhere, and eventually promoted a policy change nationwide (Heilmann, 2008, 2008; Heilmann & Perry, 2011; Teets & Hurst, 2015), our study highlights a caution that political trust in local authorities impacts the extent to which local policy innovations are embraced elsewhere as they travel beyond their original borders.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix A. A note on survey design

We took great caution to increase data reliability in both the survey design and implementation stages. We conducted extensive fieldwork to understand land issues on the ground before designing the survey. In the design stage, we conducted a pretest during which we went through the entire survey questionnaire question by question with individual villagers in their houses. We tried our best to make survey respondents understand and feel comfortable with our questions. We revised the questionnaire based on the feedback that we received from our pretest.

In the implementation stage, we made the survey completely anonymous. One of the authors randomly selected survey respondents from each village's registration list. We trained our survey enumerators, all of whom were graduate or undergraduate students from a local university. Many speak the local dialect. The survey enumerators conducted face-to-face interviews with survey respondents in their houses to reduce, if not prevent, potential disturbance or intervention from an external party, such as village cadres.

We did a number of things to increase response rates. First, we used each Village Committee's landline phone to make the first contact with the selected respondents, because we find that villagers were more willing to pick up our call based on the caller ID they are familiar with. Second, many times we conducted the interviews at night or during weekends to increase the likelihood that the selected respondents were available. When some survey respondents were not available or unable to complete the survey for the first time, we made a second (and occasionally third) visit to complete the survey. Third, at the beginning of each survey interview, we emphasized using the consent form with waived signature that (i) we were university researchers; (ii) the research has absolutely no relation with the government or the rural collective; (iii) the findings generated from this survey would be used for academic purpose only; (iv) there is no right or wrong answer, and all what we want is their honest opinions (The survey protocol was IRB approved, Protocol#H14-105). Fourth, we also paid respondents very generously to motivate their participation. We paid twice throughout the survey: We paid immediately after the experiment on risk preferences based on how much they earned; we paid another 100 yuan (about 16 USD) at the end of the interview for those who completed their questionnaires. With these efforts, the response rate was nearly 100%.

Appendix B. Interviewee list

Code	Province	Level	Interviewee	Institutions
ZJ03190110	Zhejiang	Deputy provincial municipality	Section chief	National-level Economic Development Zone
ZJ07120113	Zhejiang	County	Bureau chief	Bureau of Land and Resources
ZJ07220113	Zhejiang	County-level city	Group of officials	Bureau of Land and Resources
JS08090113	Jiangsu	Urban district	Section chief	Party Agriculture office (<i>nong ban</i>)
JS08090213	Jiangsu	Village	Party secretary	Village Party Committee
ZJ07160114	Zhejiang	Village	Village head	Village Committee
ZJ07150114	Zhejiang	Village	Party secretary	Village Party Committee
GD04280114	Guangdong	Village	Party secretary	Village Party Committee
ZJ06080115	Zhejiang	Village	Group of villagers	N/A

Appendix C. Summary statistics

Panel A: independent variables				
	Obs.	Percentage		
Political trust in county government	303	100%		
Trust	193	63.70%		
Distrust	21	6.93%		
Trust neutral	78	26.07%		
Trust_DK	11	3.58%		
Political trust in village	303	100%		
Trust	167	55.12%		
Distrust	37	12.21%		
Trust neutral	80	26.40%		
Trust_DK	19	6.19%		
Risk preferences	303	100%		
Risk seeking	52	17.16%		
Risk neutral	163	53.79%		
Risk averse	88	29.04%		

Panel B: demographic controls					
	Obs.	Mean	Std. Dev.	Min	Max
Age	303	55.04	10.86	20	78
Personal income	303	9.99	4.33	1	20
Sex (female = 1)	303	0.24	0.43	0	1

Appendix D. Supplementary data

Supplementary data associated with this article can be found, in the online version, at <https://doi.org/10.1016/j.worlddev.2019.104687>.

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