Land is a basic means of economic production, a source of livelihood, and a form of social security to many people. The land rights of the poor and the vulnerable are often affected by urbanization in developing and transition economies. In China, urbanization involves massive land acquisition and has generated tens of millions of land-losing farmers. A significant portion of these farmers were also turned into unskilled, jobless laborers with no basic welfare guarantees. Land disputes have become the primary source of social unrest in rural China, rising the concerns about vulnerability, impoverishment, and marginalization of land-losing farmers.

To alleviate these concerns, local governments 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. How do land-losing farmers respond to these compensation policies? We find that political trust and risk preferences impact individual support to land-taking compensation policies in China. Specifically, political trust in the county-level government positively correlates with individual support to pension payments; political distrust in the village collective induces farmers 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 conducted in 2015: we elicit individual policy support by asking farmers 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. This research refines our understanding of political trust by juxtaposing trust in county authorities with trust in village authorities within a single framework. Our findings also suggest that the pension policy is likely to be more appealing to farmers and hence more effective at quelling rural anger than yearly dividends. More generally, while the decentralization literature praises policy experimentation and diffusion to be fundamentally crucial for growth and development, our findings highlight that popular embrace of local policies depends on some local attributes, many of which are not easy to replicate and may lead to policy failure as they are emulated elsewhere.