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Hayek, Local Information and the Decentralization of State-Owned Enterprises in China

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Abstract

Hayek (1945) argues that local knowledge is a key for understanding the efficiency of alternative economic systems and whether production should be organized in centralized or decentralized ways. In this paper we test Hayek's central predictions by examining the causes of the government's decision to decentralize state-owned enterprises (SOEs) under its oversight from 1998 to 2007. We assume that the government that is located closer to an SOE has more information over nearby firms. Then when the distance between the oversight government and the enterprise is greater, an enterprise should be more likely to be decentralized (i.e., being delegated to a lower level of government). Moreover, where the oversight government's uncertainty over an enterprise's performance or communication costs is greater, the oversight government is more likely to decentralize enterprises so that lower oversight governments can better take advantage of local information. We find empirical support for these implications. The results suggest that Hayek's insight on the importance of local information explains the governance of state-owned enterprises quite well.

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A Short Biography of Prof. Zhangkai HUANG

Prof. Zhangkai HUANG obtained his Ph.D. of Finance from the University of Oxford at and now is an associate professor in the department of Finance at Tshinghua University. His research interests include corporate finance, corporate governance, capital market, private equity, banking and finance. He has published papers in Journal of Banking & Finance, China Economic Review, and Applied Economics Letters.

ALL ARE WELCOME!