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Political Reform in China

Elections, Public Goods, and Income Distribution

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The control of large bureaucracies is a difficult task. State-level officials, for example, often lack the information they need for appropriate oversight of local officials. In autocratic countries, controlling local officials is further complicated by the weakness of established channels to receive feedback from citizens. To address this problem, several autocratic governments have introduced local elections in recent years.

China is a prominent example. The difficulties facing state officials who seek to control local (village) officials takes several forms. For instance, village officials are responsible for raising funds from villagers in order to provide local public goods such as schooling. But state bureaucrats cannot easily monitor village officials, who shrink from the substantial effort required to raise funds and run schools. Local officials can also exercise control over collectively owned means of production, such as land or village enterprises, to favor themselves and their cronies.

During the 1980s and 1990s, China introduced village-level elections in response. Policymakers intended elections to resolve monitoring problems by giving local officials incentives to implement policies that appeal to a majority of their constituents in order to obtain re-election.

Our research provides a rigorous empirical analysis of how these elections changed the incentives for local officials. We construct the Village Democracy Survey (VDS), a panel of over two hundred nearly representative villages from 29 provinces for the years 1982–2005. The survey documents

the history of economic policies and political reforms during this period. This is the longest and broadest panel ever constructed to describe Chinese villages and the first data set to systematically document the changes in the fiscal and political structure of village governments. We supplement the VDS with economic data from the National Fixed-Point Survey (NFS), which is collected yearly from the same villages as the VDS by the Ministry of Agriculture.

To establish a causal effect of elections, we utilize two features of the Chinese context. First, the timing of the introduction of elections is believed to have been unrelated to village characteristics. Second, electoral reforms were isolated to the village level and not accompanied by changes in institutions or policies in the upper levels of government, nor did the reforms affect the *de jure* powers of village leaders.

The main empirical analysis proceeds in three steps. First, we document that the timing of elections across villages within provinces is uncorrelated with observable characteristics of villages. This is consistent with the anecdotal evidence that the timing of reforms was imposed top-down with little regard for village-specific characteristics.

Second, we compare outcomes before and after the first election in each village between villages that had already introduced elections and those that have not, controlling for other factors that might have influenced these outcomes. Causal interpretation relies on the assumption that in the absence of electoral reforms, the evolution of

outcomes would have been similar across villages regardless of when they implemented the first election.

The first main outcome of our analysis is village government expenditure on public goods like schooling and irrigation. In rural China, these goods are mostly financed by village contributions, which local officials must exert substantial effort to collect. In the early post-reform (post 1978) era, it was widely believed that officials shirked this task. Our results show that the introduction of elections increased total local government expenditure on public goods by 22,071 USD, which is approximately the sample mean of annual village public goods expenditure. This is driven entirely by expenditures financed by villagers. In contrast, public goods financed by the upper levels of government are unchanged by elections.

The second outcome is land use. All village land is collectively owned, and most of it is allocated by the village leaders to households in long-term leases. The village leadership can retain some land and lease it to village enterprises. The profits from this land are supposed to benefit all villagers equally, but the lack of transparency in managing land leases and enterprises provides local bureaucrats opportunities to enrich themselves. For this reason, villagers typically prefer land to be fully allocated to households. We find that among villages that ever leased land to enterprises, the introduction of elections reduced the amount leased to enterprises by approximately 3.8 hectares, which is approximately 50 percent of the sample mean.

The third outcome we examine is household income. If elections caused a systematic reduction in the pro-elite bias in policy, then elections should reduce the income of rich households relative to poorer ones. We find that the introduction of elections has little effect on the income of the poorest half of households. However, the income of the 90th percentile household is reduced by 722 USD, which is approximately 20 percent of the sample mean. Consequently, the ratio between the income of the median and 90th percentile household increased by 1.7 percentage-points. This reduction in inequality is consistent with the fact that the existing elites' position deteriorated with the introduction of elections.

The main results are consistent with the hypothesis that the introduction of elections makes village officials more responsive to the preferences of their constituents. Elected officials provide more public goods. They also allocate land to households and away from enterprises,

which presumably favors a majority of the villagers. Consistent with the new policies being less favorable to the elite, elections reduce income for households at the top of the income distribution.

Given the main findings, we explore the policies used to achieve the increase in public goods expenditure and the reduction in inequality that followed elections. For this exercise, we use a subsample of villages for which we have detailed household-level data on income and expenditure. We find that elections increased household payments of local fees, which is consistent with the increase in public goods being driven by an increase in villager-financed public goods. However, as a fraction of total household income, fees are low and constant across the village income distribution. This low level and lack of progressivity means local fees were not the main policy tool used to redistribute income.

Since the village government does not have the legal right to impose recurring taxes, the only other way for it to redistribute income is through the reallocation of certain income-generating activities and assets under its control: village employment, land, and enterprises. Consistent with this, we find that the change in household income ratios is paralleled by changes in agricultural and enterprise income.

Finally, we investigate why elections led to these outcomes. According to the literature on political accountability, elections generate better outcomes through two mechanisms: the presence of re-election incentives and the selection of better politicians. We find evidence consistent with both mechanisms. Incentives matter since we find that the introduction of elections has strong positive effects even in villages that experienced no leader turnover. We also find that villagers are selecting different types of leaders, since elected leaders are younger and more educated than previously appointed ones.

In summary, therefore, our results suggest that local officials are better controlled by elections than by bureaucratic monitoring.

NOTE

This Research Brief is based on Martinez-Bravo, Padró i Miquel, Qian, and Yao (2014), available at http://aida.wss.yale.edu/~nq3/NANCYS_Yale_Website/resources/papers/Vdem_FINAL.pdf. All works cited are provided therein.