

Presentation of 'Rise and Fall of Local Elections in China' by Martinez-Bravo, Miguel, Qian and Yao

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Introduction: The Decision to Decentralize

- Most of the literature on decentralized governance deals with effects of decentralization (relative to centralization) and determinants of local government performance
- This begs the more primary positive political economy question: why and when does a central government decide to devolve powers to locally elected officials?

Introduction: The Decision to Decentralize, contd.

- In some contexts, the central government is forced to do so owing to political or economic crises (e.g., rise of democracy in Brazil in late 1980s, dismantling of apartheid in S Africa in 1994, fall of Suharto in Indonesia in 1998)
- But there are also contexts where there is no such extreme external pressure on the central government, and yet it devolves power (e.g., officials heading local government selected by elections in China between 1980-2000; similar patterns in autocratic states such as Uganda or Pakistan)
- In China, there has been a recentralization since the early 2000s, with central government reducing the power of elected local government officials
- This paper provides a theory to explain these changes, and tests it with empirical evidence

Outline of the Theory

- Central government has limited capacity (relative to local citizens) to identify/select high ability people to head local government, and to monitor their performance (in delivering benefits to local citizens, or enforcing central govt policies)
- **Advantage of local elections:** selection (more competent local government mayors), accountability (elections provide stronger disciplinary mechanism for mayor) which improve performance of local governments in terms of welfare of local citizens

Outline of the Theory, contd.

- **Disadvantage of local elections:** some policy areas may involve non-congruence of objectives of local citizens and central government, such as enforcement of One Child Policy or land acquisition for industrial or urban projects; in that case elected mayor will collude with local citizens to undermine central government goals
- Trade-off between the above depends on central government (CG) capacity to monitor mayor's performance: centralization is better for CG if monitoring capacity is high enough and goal non-congruence is important, otherwise decentralization will be better
- Advantages of decentralization outweighed disadvantage in the 1980s, but with improvement in CG monitoring capacity since 2000 the balance has been shifting in favor of centralization

Empirical Analysis

- Use village panel using more than 200 villages over twenty years, data includes timing and results of local elections, local government budgets, performance on different policy areas
- Use diff-of-diff strategy to identify effects of local elections

Empirical Test of Predictions

- Decentralization improved competence of local government mayors (younger, more educated)
- Improved performance of local governments w.r.t. policy areas of congruence: local public goods delivered, reduced land leased to enterprises
- Reduced their performance w.r.t. noncongruence policy areas: more One Child Policy exemptions, reduced expropriation of village land
- Re-election chances correlated with performance from standpoint of local residents
- Recentralization occurred after 2000, when Chinese central government capacity improved

Model

- Three players: CG g , local mayor/official o , villager v ; there are always some candidates for office that are competent, others are incompetent
- Stages of the game:
 1. o is chosen (by g (centralization) or by v (decentralization))
 2. Policy area $C \in \{0, 1\}$ chosen exogenously with probability $1 - \alpha, \alpha$ resp. ($C = 0(1)$ denotes non-congruence(congruence))
 3. o chooses effort $e \in \{0, 1\}$ at personal cost $c(e)$, increasing and convex function
 4. Success (one-zero) realized: $P(S = 1) = \mu e$, where $\mu \in \{0, 1\}$ is competence of o
 5. With probability λ , g observes C and S , nothing otherwise
 6. o is retained by g or v

Govt Capacity; Payoffs

Competence μ and performance S of local officials is always observed by v ; CG capacity observes competence with probability π , which along with λ represents **capacity** of CG

Payoffs:

$$U_v = S(-\theta)^{1-C}$$

$$U_g = S(\theta)^{1-C}$$

where $\theta > (<)1$ implies preferences over incongruent policies are stronger (weaker) than preferences over congruent policies

$$U_o = R - c(e)$$

where R is exogenous rent of official

Outcome of Decentralization

- Retention decision at the last stage by v : retain o if he obtained success in congruent policy, and failure in non-congruent policy
- Induced effects on effort of competent official: $c'(e^E) = R$ for congruent policy, 0 effort otherwise
- Incompetent official selects 0 effort for either policy
- So v selects competent candidate at stage 1 for office

Outcome of Centralization

- Retention decision at last stage: retain if $S = 1$ and g observes this, dismiss otherwise (wlog); hence retained with probability λe
- Effort of competent official: $c'(e^A) = \lambda R$, hence e^A smaller than e^E ; incompetent official selects zero effort
- g prefers a competent official, selects one with probability π
- Expected probability of success is πe^A ,
- Hence: **success is less likely compared to decentralization for congruent policy, but more likely for non-congruent policy**

Hybrid Form: Elections with Oversight

- Here g allows local elections (stage 6), but if it observes the performance of o it can overrule the choice of v if it chooses
- With probability λ , when g observes realization of S , it retains o provided $S = 1$ irrespective of the nature of the policy
- With probability $1 - \lambda$, v decides on retention, and will retain only if $S = 1$ for congruent policy and $S = 0$ for non-congruent policy
- Hence o 's incentive for non-congruent policy depends on whether λ is bigger than $\frac{1}{2}$

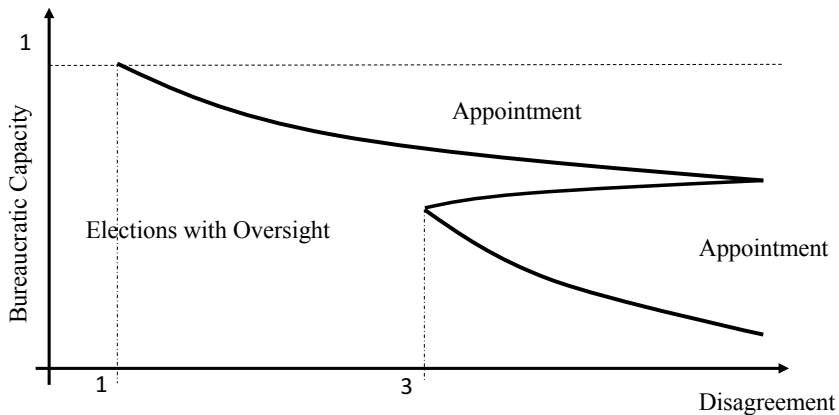
Elections with Oversight, contd.

- Resulting effort of competent official: $c'(e^O) = \max\{0, (2\lambda - 1)R\}$ for non-congruent policy (and e^E for congruent policy)
- If $\lambda > \frac{1}{2}$, g is better off, otherwise outcome is the same as under pure elections (assuming o is competent)
- If λ is sufficiently close to 1 and α is smaller than $\frac{1}{2}$, v will be better off selecting an incompetent official
- In what follows, they exclude this case, whence v has an incentive to select competent officials
- Then g unambiguously prefers elections with oversight to pure elections

Predictions of Effects of Elections with Oversight compared with Centralization

1. Local officials achieving more success with congruent policies are more likely to be retained. Those who better implement incongruent policies are more likely to be retained only when CG capacity is high.
2. Effort on congruent policies rises, on non-congruent policies falls.
3. Competence of officials rises.
4. Elections with oversight are chosen by g , rather than pure elections. Elections with oversight chosen (rather than centralization) by g if $\theta < 1$, ambiguous otherwise (Figure 1)
5. Large increase in CG capacity can cause g to prefer centralization (first best can be achieved by g if $\lambda = \pi = 1$)

Figure 1: Optimal Local Governance



Data and Empirical Specification

- Village Democracy Survey (VDS) conducted by authors, balanced panel of 217 villages for 1986-2005, combined with National Fixed Point Survey (NFPS) of Chinese Govt Ministry of Agriculture
- VDS includes data on electoral reforms, de facto leader power, names and characteristics of leaders, public good expenditures, sources of funds, enforcement of central govt policies
- Regress outcomes Y_{pvt} in village v in province p in year t , on E_{vpt} dummy for post election years, O_{pvt} dummy for post-open nomination reform, province-specific time trends, year and village fixed effects

Figure 2: The Effect of Elections on Congruent and Incongruent Policies Over Time

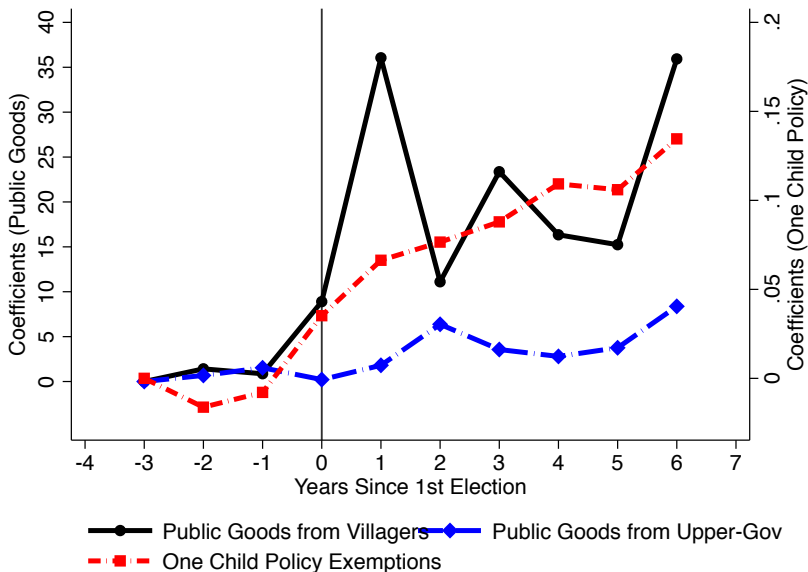


Table 1: The Effect of Elections on Congruent and Incongruent Policies

	Dependent Variables					
	A. Concordant Policies		B. Discordant Policies		C. Placebo Policies	
	Public Good Expenditures (Villagers, 10,000 RMB)	Village Land Leased to Enterprises	One Child Policy Exemptions	Dummy for Expropriation of Village Land	Upper-Government Special Aid (10,000 RMB)	Public Good Exp from Upper-Gov
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Dep. Var. Means</i>	9.46	111.01	0.55	0.02	1.49	4.28
Post 1st Election	16.080 (7.717)	-62.21 (33.842)	0.101 (0.056)	-0.013 (0.006)	-0.650 (0.915)	-0.672 (1.525)
Beta Coefficient	0.051	-0.052	0.076	-0.034	-0.005	-0.004
Wild Bootstrap p-value	[0.044]	[0.048]	[0.052]	[0.072]	[0.527]	[0.818]
Observations	4,340	1,957	4,340	4,340	4,340	4,340
R ²	0.103	0.559	0.792	0.094	0.059	0.073
Number of Clusters	29	27	29	29	29	29

Notes: All regressions control for the introduction of open nominations, province trends, and village and year fixed effects. Standard errors, clustered at the province level, are reported in parentheses. Wild bootstrap p-values are presented in square brackets. 1 mu = 1/15 hectare. The sample is a balanced village-level panel of 217 villages for the years 1986-2005. Column (2) has fewer observations because data on land leased is missing in some years, and also because we restrict the sample to 109 villages that ever leased land to enterprises.

Table 2: The Effect of Congruent and Incongruent Policies on Re-election Probabilities

	Dependent Variables: Dummy for VC re-election					
	A. Concordant Policies		B. Disconcordant Policies		C. Placebo Policies	
	Public Good Expenditures (Villagers, 10,000 RMB)	Village Land Leased to Enterprises	One Child Policy Exemptions	Dummy for Expropriation of Village Land	Upper-Government Special Aid (10,000 RMB)	Public Good Exp from Upper-Gov
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Dep. Var. Means</i>	0.479	0.477	0.452	0.452	0.480	0.479
<i>Ind. Var. (Policy*) Mean</i>	8.124	122.8	0.527	0.0154	0.138	3.340
Policy (see column heading)*	0.00068 (0.00016)	0.00005 (0.00009)	0.17517 (0.06261)	-0.08090 (0.24599)	-0.00721 (0.01121)	-0.00064 (0.00064)
Beta Coefficient	0.080	0.047	0.172	-0.012	-0.023	-0.039
Wild Bootstrap p-value	[0.020]	[0.599]	[0.016]	[0.727]	[0.567]	[0.471]
Observations	1,173	566	1,293	1,293	1,171	1,173
R ²	0.281	0.329	0.288	0.283	0.280	0.279
Number of Clusters	29	28	29	29	29	29

Notes: All regressions control for the introduction of open nominations, province trends, and village and year fixed effects. Standard errors, clustered at the province level, are reported in parentheses. Wild bootstrap p-values are presented in square brackets. The unit of observation is a village and year in which an election for village committee was held. *The independent variables are defined as the average value of the corresponding policy in the term before the election. Column (2) has fewer observations because data on land leased is missing in some years, and also because we restrict the sample to 109 villages that ever leased land to enterprises.

Table 3: The Effect of Elections on the Quality of Local Officials

	Dependent Variable		
	Age (1)	Years of Education (2)	Party Member (3)
A. Village Chairman (VC)			
<i>Dependent Variable Mean</i>	42.10	7.85	0.80
Post 1st Election	-3.042 (1.121)	0.694 (0.213)	-0.029 (0.047)
Wild Bootstrap p-value	[0.012]	[0.004]	[0.563]
Obs	3,264	3,264	3,384
R ²	0.409	0.612	0.507
Number of Clusters	136	136	141
B. Party Secretary (PS)			
<i>Dependent Variable Mean</i>	43.48	8.28	1
Post 1st Election	-1.084 (0.792)	-0.048 (0.167)	
Wild Bootstrap p-value	[0.168]	[0.874]	
Obs	2,496	4,176	
R ²	0.459	0.570	
Number of Clusters	104	174	

Notes: All regressions control for the introduction of open nominations, province trends, and village and year fixed effects. Standard errors, clustered at the province level, are reported in parentheses. Wild bootstrap p-values are presented in square brackets. The sample is a panel of village-year observations for the years 1982-2005. The number of observations varies across columns due to missing values in the outcome variables.