

Show Me the Money: Interjurisdiction Political Competition and Fiscal Extraction in China

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We argue that interjurisdiction competition in authoritarian regimes engenders a specific logic for taxation. Promotion-seeking local officials are incentivized to signal loyalty and competence to their principals through tangible fiscal revenues. The greater the number of officials accountable to the same principal, the more intense political competition is, resulting in higher taxation; however, too many officials accountable to the same principal leads to lower taxation due to shirking by uncompetitive officials and the fear of political instability. Using a panel dataset of all Chinese county-level jurisdictions from 1999–2006, we find strong evidence for an inverse U-shaped relationship between the number of county-level jurisdictions within a prefecture—our proxy for the intensity of political competition—and fiscal revenues in most provinces but not so in politically unstable ethnic minority regions. The results are robust to various alternative specifications, including models that account for heterogeneous county characteristics and spatial interdependence.