Grabbing Hands: Career Incentives and Revenue Extraction in an Authoritarian Regime

Zeren Li
Duke University
zl129@duke.edu

2017/4/20

Motivation

- How do political incentives affect government revenues?
- In democracies, electoral competition, and post-election governing affect fiscal policies.
- In non-democracies, political career incentives play a pivotal role in shaping economies and fiscal policies
- However, the empirical evidence is mixed owing to two challenges
  - autocrats' multiple concerns regarding revenue collection (monitoring/power sharing/cooptation)
  - career incentives are endogenous

This project

will examine the effect of promotion incentives that China's prefecture-level court leaders have on revenue extraction, using a regression discontinuity design (RDD) that exploits an arbitrary age threshold for promotion.

Principal-agent problem

- Central government is the principal, and local governments are agents
- Central government sets up two rules
  - Revenue sharing rule
    - Shared revenue /Local revenue
  - Performance evaluation rule
    - Punish the officials who fail to maintain stability
    - Promote the officials who extract more shared revenue
- Two types of local officials: junior and senior
  - Promotion incentives(extract shared tax)/ Corruption incentives(extract local tax)
  - Junior become senior if they pass certain age
- Eligible age for promotion: After passing age threshold, P(Promotion) declines to zero if officials are older than the eligible age.

Hypotheses

- Both junior and senior officials fear of punishment and extract too much will leads to instability
  H1: Total amount of revenue does not increase with cadres pass the age threshold for promotion.
- Junior officials emphasize shared revenue extraction owing to their promotion incentives
  H2: The proportion of shared revenue in the total amount of revenue decreases with cadres pass the age threshold for promotion.
- Senior officials emphasize local revenue extraction since they are ineligible for promotion
  H3: The proportion of local revenue in the total amount of revenues increases with cadres pass the age threshold for promotion.

Background

- 1994 Tax Sharing System:
  - Budgetary Revenue (shared/local)
  - Extra Budgetary Revenue (local)
  - Off budgetary Revenue (local)
- Promoting officials by evaluating their fiscal extraction capacity
  - Formal rule (Guideline 1988/2004)
  - Correlation between promotion probability and fiscal extraction (Guo, 2007; Guo, 2009; Lv and Landry, 2014; Landry et al., 2014).
- Age Restriction for Promotion
  - Central government rarely grant promotion to local officials who pass the eligible age for promotion.
  - For prefecture leaders, the age threshold is 55 years old (Kou and Tsai 2012)

Data

- 330 cities X 5 years (2003-2007)
- Dependent variables: total amount of each of type revenue such as VAT, enterprise income tax, and personal income tax; Proportion of shared/local revenues in total revenue
  - Source: China's Fiscal Statistics for Prefectures, Municipalities and Counties
- Running Variable: The age of party secretaries
- Personal level controls: political turnover; information such as birth year, birth month, gender, ethnicity, years of education, years in office
  - Provincial Yearbook; Baidu Encyclopaedia
- Provincial-level controls: GDP, urbanization and population, transparency score
  - city statistics yearbook; government transparency report

RDD: Parametric and Non-parametric Specifications

$$Y_{it} = \beta_0 + \tau D_{it} + \beta_1 X_{it} + \beta_2 D_{it} X_{it} + \gamma P_{it} + \delta W_j + \mu_i + \nu_t + \alpha + \varepsilon_{it}$$

- Parametric Approach & Robust Non-parametric Approach
- Order=1 or 2
- Y: Revenue(Total Amount & Proportion); X: Age; D: Dummy of the eligible age (55); P: Prefecture-level time-variant controls; W: Individual-level controls; SE are clustered at provincial level.

Empirical Step

- Estimate the effect of age threshold on
  - DV: Promotion Probability
  - DV: Total Amount; Proportion of shared/local revenues in total revenues
- Robustness
  - McCrary Test
  - Balance test of the confounding covariates
  - Selecting different polynomials
  - Selecting different bandwidths
  - Performing baseline regressions with closer margins
- Placebo test
  - whether there are significant jumps in other placebo outcomes across the age threshold
  - whether there are discontinuities in extraction/allocation e at other "pseudo-thresholds".

Further Step

- Account for public spending
- Build up formal model
- Construct dataset
- Add detailed extraction measures

Q&A

welcome comments and suggestions