

The Effect of The 1959-1961 Chinese Famine on Political Connections of Entrepreneurs

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Background

- The 1959-1961 Chinese Famine: 20-30 million death
- Causes: Natural disaster & systematic political failures
- Sen (1981): caused by misallocation of the available food not by the shortage of food
- The government: blame to weather (drought)

The effects of the 1959-1961 Famine on political connections of private entrepreneurs

Are those survived entrepreneurs become more politically connected or politically estranged?

- Political connected: risk-aversion ↑, insecurity ↑, protection needs ↑
- Politically estranged: propaganda message was inconsistent with the local weather condition → distrust towards the government

What I did

- *Cross sectional data* of private entrepreneurs born between 1956 and 1965
- diff-in-diff strategy: take advantage of the **temporal** and **regional** variations in famine intensity
- Preliminary finding: Entrepreneurs who experienced the severe famine are less likely to join the Communist Party of China (CCP), to join the National People's Congress (NPC)¹, and the Chinese People's Political Consultative Conference (CPPCC) Committee²; Entrepreneurs who experienced the severe famine spend less money and time on rent-seeking activities.

¹Chinese version of upper houses of parliament

²Chinese version of lower houses of parliament

Hypothesis 1: *Early-life exposure to the 1959–1961 Chinese Famine had a negative effect on cultivation of political connections for private entrepreneurs.*

- Local weather condition were observable
- Survivors were able to distinguish nature or man-made disasters(Healy et.al, 2010)
- Famine increased political distrust when local weather conditions contradicted the propaganda(Chen and Yang, forthcoming)

Hypothesis 2: *Early-life exposure to the 1959–1961 Chinese Famine had a positive effect on cultivation of political connections for private entrepreneurs.*

- political connections: alternative formal institutional support, reduce barriers to growth (Bartels and Brady, 2003)
- Private firms: at a disadvantage; more in need of political connections (Li et.al, 2008)
- survived entrepreneurs: more risk averse (example: Malmendier and Nagel, 2011)

Political connections data: Survey of Chinese Private Firms in 2006

- Cover information of the characteristics of the private firm owners, their personal experience and the performance of the firms
- Focus on individuals who born between 1956 to 1965: pre-famine cohorts(1956-1958), during-famine cohorts(1959-1961), post-famine cohorts(1962-1965)
- Proxies for political connections: CCP_dummy, NPC_CPPCC_dummy, NPC_CPPCC_level

Data: Political Connections (2/2)

Table: Descriptive Statistics of political connections. N=3039

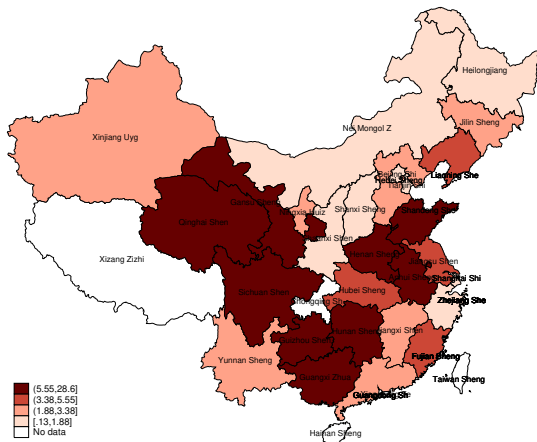
	Number	%
1. Party members	1,453	47.85
2. NPC deputies or CPPCC members	1,709	56.22
<i>At national level</i>	20	0.67
<i>At province level</i>	91	2.99
<i>At city level</i>	532	17.52
<i>At County level</i>	942	31.00
<i>At Township Level</i>	122	4.03

Data: Famine severity

Use province level excess death rates to approximate the Famine severity.

Data source: Lin and Yang (2000).

the difference between the average death rate in famine years (1959–1961) and the average death rate before the famine(1956–1958).



Identification Strategy (1/2)

$$TE = \underbrace{(Y_{severe}^{\text{during/before famine}} - Y_{severe}^{\text{post famine}})}_{Diff_{treated}} - \underbrace{(Y_{less\ severe}^{\text{during/before famine}} - Y_{less\ severe}^{\text{post famine}})}_{Diff_{control}} \quad (1)$$

two sources of exogenous variations in famine severity, namely, variation across birth cohorts and variation across provinces.

Sample selection bias? Because people can migrate.

Maybe no: Strict residence registration system

Identification Strategy (2/2)

$$y_{ijc} = \beta_1 Pre_{ijc} + \beta_2 During_{ijc} + \gamma_1 (Pre_{ijc} \times edr_j) + \gamma_2 (During_{ijc} \times edr_j) + X\mu + \lambda_j + \alpha_c + \epsilon_{ijc} \quad (2)$$

y_{ijc} : political connections for individual i born in province j and in industry c .

Pre_{ijc} , $During_{ijc}$: pre-famine and during-famine cohorts

edr_j : the excess death rate

λ_j , α_c : province/industry fixed effect

X : individual-level controls

γ : parameters of interest

Preliminary Results (1/2)

Table: The effects of the 1959-1961 Famine on political connections of entrepreneurs

Dependent Variables:	CCP_dummy (1)	NPC_CPPCC_dummy (2)	NPC_CPPCC_level (3)
Pre×edr	-0.0046** [0.0018]	-0.0048** [0.0022]	-0.0044 [0.0081]
During×edr	-0.0010 [0.0023]	-0.0050 [0.0034]	-0.0094 [0.0083]
Pre	0.1563*** [0.0174]	0.0853*** [0.0304]	0.1909** [0.0906]
During	0.0661** [0.0257]	0.0547* [0.0299]	0.1493 [0.0890]
Education	0.0727*** [0.0100]	0.0905*** [0.0099]	0.2922*** [0.0245]
Gender(female=1)	-0.1226*** [0.0266]	-0.0513** [0.0229]	-0.0802 [0.0627]
Province FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
N	3039	3039	3039
R ²	0.086	0.124	0.138

Note: Standard errors are clustered at province level. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Preliminary Results (1/2)

Table: Alternative Test: The effects of the 1959-1961 Famine on rent-seeking of entrepreneurs

Dependent Variables:	Ln(1+time on rent-reeking) (1)	Ln(1+money on rent-reeking) (2)
Pre\timesedr	-0.0206*** [0.0061]	-0.0029* [0.0016]
During\timesedr	-0.0108* [0.0062]	-0.0033 [0.0029]
Pre	0.1461** [0.0537]	0.0005 [0.0165]
During	0.0008 [0.0540]	-0.0093 [0.0241]
Education	0.2903*** [0.0273]	0.0285*** [0.0080]
Gender	-0.2368*** [0.0625]	-0.0764*** [0.0211]
Province FE	Yes	Yes
Industry FE	Yes	Yes
N	2741	2741
R ²	0.165	0.060

Notes: I use firm expense on public relations as proxy of money spent on rent-reeking, entrepreneur's daily hours spent on public relations as proxy of time spent on rent-reeking. Standard errors are clustered at province level.