



Can equalization of public services narrow the regional disparities in China? A spatial econometrics approach

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ABSTRACT

Regional disparities that challenge the economy and public administration must be confronted by the governments and public in developing countries. As the extensive mode of economic growth has caused many problems in China, it is necessary to find other ways to promote the development of poor areas to narrow regional disparities in the country. This paper measures the equalization of public services and residents' living standards in China, based on a provincial panel data for the period 2001–2013, to analyze the impact of the equalization of public services on China's regional disparities. The empirical results, based on spatial econometrics models, show that the equalization of all types of public services can promote the regional equality of incomes and consumptions. There is also evidence suggesting that the regional disparities are affected by other economic and social factors.

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1. Introduction

The question of how to narrow regional disparities in China is a significant question that is not only related to the governments' decision-making but is also associated with the equality and justice of society. After long-term economic growth, China, which is the biggest developing country in the world, has developed several serious problems. Among these, extremely unbalanced regional development is quite conspicuous (Lee, Peng, Li, & He, 2012). Comparing the economic data of China's rich cities, such as Shanghai, Beijing, and Tianjin with the poor provinces, like Guizhou, Yunnan, and Gansu, shows that the average GDP per capita of the three rich cities is 3.2 times higher than is that of the three poor provinces. To narrow the regional disparities, some practical difficulties must be addressed. The rapid economic growth in China is based on the high consumption of resources; this has led to serious environmental pollution, with the result that the economically developed areas in China are often heavily polluted (Chen, 2015). Both the government and the public want to find a way out of the dilemma, despite the depressed global economy and economic slowdown in China, which means that the underdeveloped areas in China cannot choose the extensive mode of economic growth anymore. So China has to find a new way to speed up the development of backward areas.

Public services are closely related to people's livelihood, which could promote social justice and marginal social utility. Moreover, public services may also have a significant influence on economic growth (An & Ravallion, 1993; Struyk, 1967). Strengthening the infrastructure can not only benefit residents but can also provide a basic guarantee for the development of the regional economy (Banerjee, Duflo, & Qian, 2012; Démurger, 2001). The development of social welfare can improve the level of residents'

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living security and redistribution income, which could reduce the Gini coefficient (especially in a developing country like China, which has a high Gini coefficient) and promote consumption, thereby facilitating economic growth (Zhang & Zhang, 2004). If this is the case, the question arises as to whether it is possible to reduce regional disparities in developing countries like China by promoting the equalization of regional public services.

Much research on “public and economy” has focused on the effect of governments’ public finance expenditure on economic growth (Kalinina, Petrova, & Buyanova, 2015; Nuta, Nuta, Chirila, Roman, & Pusca, 2015). The current study differs from other, similar, studies in two aspects. First, as governments’ public service expenditure is not equal to the public services enjoyed by the residents, we try to analyze whether the amount of public services that governments have offered to local residents and the equalization among different areas can influence regional disparities. Of course, there are scholars involved in this issue (Prontzas, 2012; Rahman, 2015), but relevant studies usually only focus on one aspect of public services, and few people take the whole public service system as the research object, especially in empirical studies. Second, relative studies care mainly about the economic effect of public services (Struyk, 1967; Turnovsky, 2015) and little attention has been paid to the influence of public services on the disparities of residents’ living standards. This study focuses on the disparities of living standards, rather than on economic gaps, because the ultimate goal of economic development should be raising people’s quality of lives and tackling poverty, especially in developing countries like China.

This paper uses provincial panel data from China for the period 2001–2013 to do empirical research. This involves several steps: First, constructing an evaluation index system to measure the equalization level of public services among 30 provinces in China, dividing the public service items into two parts, according to whether they can bring direct economic benefits, and measuring their equalization levels separately; Second, calculating the relative incomes, consumptions, and real purchasing power of the residents of the 30 provinces, and then using these data to measure the provincial regional disparities in China; and Third, constructing spatial econometrics’ models and analyzing the influence of equalization of public services on regional disparities. The empirical results show that all three types of equalization of public services could narrow the regional disparities from different sources. There is also evidence to suggest that the regional disparities in China may also be influenced by some other economic and social factors, though these results need further investigation for confirmation.

The rest of the paper is organized into six sections. The next section is a literature review that analyzes studies of public services and regional disparities. The third section focuses on measuring the equalization of public services and regional disparities in China. The fourth section is a description of the data, models, and variables. The results from the research and the discussion are presented in the fifth section. The last section presents the conclusions and the implications of our research.

2. Literature review

The literature on equalization of public services mainly concerns how to realize equalization and how to measure public services. John Rawls expounds the theory of social justice in his book, *A Theory of Justice*, which emphasizes that the egalitarian tendency of public services and financial theory is helpful in realizing the equalization of public services. The significance of public finance to the realization of public services’ equalization is always emphasized in the follow-up theoretical studies, and it is generally believed that it is necessary to increase the expenditure in the field of public finance and promote its equalization within all levels of governments (Domenico & Haugh, 2009; Langørgen, 2012; Levchenkova & Petchey, 2007; Smith, 1986). All these papers mentioned above discussed the implementation mechanisms of equalization of public services, but they were either just based on models or theoretical analysis, lacking empirical studies, or just conflated all the items of public services, so that the conclusions lacked either empirical evidence or specificity. While focusing on the positive effect of finance on the equalization of public services, some scholars also point out that the governments’ public finance expenditure also exhibits some problems, such as selective expenditure (Jones, Kaufman, Jones, & Kaufman, 1974). Specific to China, Zhang and Li (2014) pointed out that, as the basic public services are facing serious shortages in China, the government has to offer differentiated public services to ensure its validity. Although these papers mentioned above analyze the system barriers of equalization of public services (especially in China), they are still just based on theoretical analysis or local cases, and empirical evidence is lacking. For empirical studies on the equalization of public services, measurement is a keyword. Lucy and Birkhead (1977) set up an evaluation index system to measure the equalization of regional public service processes, focusing on the four stages of service supply—input, usage, result, and impact. Boyle and Jacobs (1982) measured the distribution of public services from the perspective of tax by using indexes such as per capita tax contribution, and so on. Warner and Hefetz (2002) focused on the regional fairness of public services and chose indexes such as per capita financial budget and per capita expenditure to measure the equalization of public services. Neutens, Delafontaine, Scott, and De Maeyer (2012) used a GIS-based method to identify spatiotemporal gaps in public service delivery. Although these studies have tried to measure the public services from different perspectives, they have a common defect, in that they regard the public service as a unified whole. As the ways in which different types of public services achieve equalization differ, such holistic analysis cannot really touch the system barriers of the equalization of public services. Studies have, at the level of theory, considered the distribution of public services to be the core issue of public services and have considered the mechanism, fairness, and efficiency of public service supply to be important aspects of evaluation (Denhardt & Denhardt, 2000; Entwistle & Martin, 2005; Griffiths, 2009). Although theoretical research has laid good foundation for related studies, we still need to provide empirical evidences for these conclusions to promote the academic development of relevant fields.

The impact of public services on economy and regional economic disparities is another aspect of concern in related studies. Liu (2012) pointed out that China’s public service expenditure could promote economic growth and social equity, but this effect was only restricted to basic public services. Although these articles are related to the influence of public services on economic growth

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