

Political turnover and economic performance: the incentive role of personnel control in China

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Abstract

In this paper, we provide empirical evidence on the incentive role of personnel control in post-reform China. Employing the turnover data of top provincial leaders in China between 1979 and 1995, we find that the likelihood of promotion of provincial leaders increases with their economic performance, while the likelihood of termination decreases with their economic performance. This finding is robust to various sensitivity tests. We also find that the turnover of provincial leaders is more sensitive to their average performance over their tenure than to their annual performance. We interpret these empirical findings as evidence that China uses personnel control to induce desirable economic outcomes. Our study adds some basic evidence to a growing theoretical literature emphasizing the role of political incentives of government officials in promoting local economic growth.

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1. Introduction

In the course of China's remarkable economic growth since the late 1970s, local government officials have been playing an active role in building local infrastructure,

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encouraging local businesses and attracting foreign investment. The strong pro-business role of Chinese local officials stands in stark contrast with the rent-seeking behavior (the “grabbing hand”) of local officials in other transitional and developing countries (Krueger, 1974; Frye and Shleifer, 1997).

Two principal explanations have been put forward for why Chinese officials behave so differently. The first, based on what has come to be known as “market-preserving federalism”, argues that the pro-business incentives given to Chinese local officials are a result of a policy of fiscal decentralization and high-powered intergovernmental fiscal revenue-sharing contracts (Oi, 1992; Montinola et al., 1995; Qian and Weingast, 1997; Weingast, 1995; Mckinnon, 1997).¹ Employing provincial-level data, Jin et al. (2000) find empirical evidence, which supports the fiscal decentralization view.

However, a more recent explanation emphasizes the role of political incentives or career concerns on the part of local officials in China. According to this view, the readiness of the Chinese central government to reward and punish local officials on the basis of their economic performance motivates them to promote the local economy (Blanchard and Shleifer, 2001). The reward and punishment mechanisms are made possible within the multidivisional-form (M-form) structure of the Chinese economic system, which allows yardstick competition among local officials (Qian and Xu, 1993; Maskin et al., 2000). Although anecdotal evidence shows that Chinese cadres are evaluated in accordance with their economic performance (Whiting, 2001), no systematic body of empirical evidence has been presented on the relationship between the career mobility of Chinese local officials and their economic performance.

In this paper, we provide empirical evidence on the relationship between the turnover of Chinese provincial leaders and their economic performance in the post-reform period. Using the ordered probit model, we find that the likelihood of promotion of provincial leaders increases with their economic performance while the likelihood of termination decreases with their economic performance. This finding is robust to various sensitivity tests. We also find that the turnover of provincial leaders is more sensitive to their average performance over their tenure than to their annual performance. We interpret these empirical findings as evidence that China uses personnel control to induce desirable economic outcomes.

Our paper draws extensively on the growing empirical literature on the political incentives of government officials both in the Chinese context and in general. In a study of the comparative advantage of M-form vs. U-form, Maskin et al. (2000) find that the political status of a Chinese province (measured by the number of Central Committee members) is correlated with the provincial economic ranking. However, they do not establish a direct link between the career mobility of provincial leaders and their economic performance.² In a different political setting, Besley and Case (1996) show that the

¹ Some studies relate the positive incentives given to local officials to a number of other economic factors, such as the emergence of local government ownership as a credible institutional device to avoid state predation (Che and Qian, 1998) and inter-regional competition in the product and capital markets (Li et al., 2000; Qian and Roland, 1998).

² Also, their simple regression may be subject to the omitted variables bias.

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