Factions, Local Accountability, and Long-Term Development: Theory and Evidence Fang, Hou, Liu, Xu, Zhang

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# This paper

- Motivating fact: huge variation in the development success within superstar performer Fujian Province
  - many examples of sub-national variation in economic success
- **Research Question:** what is the role of political factions and local accountability in explaining this huge variation?

#### • Theoretical framework:

- Stronger factions (*i.e.* same faction in power at the Provincial level) worse for county-level development
  - Mechanism: strong local faction wants to please the provincial leaders  $\Rightarrow$  less incentive to achieve local development
- Guerrilla presence in a county good for county-level development
  - Mechanisms: keeps county leader accountable + facilitates local public goods provision
- Empirical analysis: predictions of the model confirmed in a crosscounty analysis

# My discussion

• Interesting insight: in autocracies, local leaders' concerns about political purges play the role of electoral incentives in democracies

#### • Theoretical framework:

• it would be interesting to microfound the source of comparative advantage

#### • Empirical evidence:

- lots of results, all consistent with your story
- I don't think I am convinced yet

# Theoretical framework (1)

• Key assumption:

$$\frac{\alpha_{S}}{\beta_{S}} < \frac{\alpha_{W}}{\beta_{W}} \tag{1}$$

- Local leaders from strong factions have comparative advantage in using upward transfers to reduce probability of purges.
- Why?
  - Provincial leaders like transfers more when they come from a member of the same faction (strong)
  - Local population like income more when it comes from a member of the weak faction
  - Or both
- What motivates this assumption?
  - Distance between assumption and prediction of the model is very small.
- What do provincial leaders want?
  - Option 1: they want transfer of resources: but then, faction of the local leader should not matter
  - Option 2: they want to avoid losing power (support from the population): but then, they should care about local support in all counties

# Theoretical framework (2)

#### Some possible suggestions for the sources of comparative advantage:

- Strong faction can be monitored better by provincial leader  $\Rightarrow$  more incentive to transfer resources to avoid punishment
- Provincial leaders care more about transfers + only local leaders from strong faction can be promoted

#### **Empirical evidence**

Key assumption: initial county assignment to strong or weak faction uncorrelated to county-level development potential



#### Assignment of factions to counties

- Limited description in the paper of determinants of assignment
- Potential source of endogeneity: provincial leaders may have given to the weak faction counties with more potential
  - provincial leaders give to strong faction (which is more trusted) the most difficult counties
- Strong faction ends up controlling way less counties (11 vs 48): surprising?
- Few pre-treatment covariates to claim random assignment (and 3/8 coefficients significant)
- Counties assigned to strong and weak factions are geographically clustered



Is there a geographic element driving growth patterns?



Can you show the effects visually?



**Convincing!** 



Not convincing: distance to the coast seems main driver (and border counties robustness check does not solve this)



Should standard errors take geographic clustering into account?

# Panel data, but time-series dimension never exploited

- Dependent variable: average annual growth rates between 1952-1998 and between 1978-1998
  - plot outcome over time in different types of counties: when does the divergence in growth rates materialize?
  - 1952-1998 effect: 0.9; 1978-1998 effect: 2.  $\Rightarrow$  whole effect is concentrated in the 1978-1998 period.
  - Distribution of growth rates over the years crucial to understand development paths
- Can you do a diff-in-diff?
  - time-variation given by the relative strength of the strong faction at the provincial level

#### Time-variation in strong faction's strength



#### What is the treatment?

- Assume random allocation of weak/strong faction and of guerrilla
- What does "being a weak/strong faction", or "having guerrilla presence" mean?
- Your story is about local accountability
  - Being a strong faction leader matters because it means alignment to the provincial leaders
- But weak vs strong faction leaders could have other, different features that differentially impact outcomes
- Adding a source of time-series variation (provincial leaders' identity) can address this concern

## A final thought

- Within-province growth variation is very large
- Your results point towards a role of political leaders in driving this huge variation in economic success
- Anecdotally, do we find discussions about this?
- How can this equilibrium be sustained?