The Political Economy of State Employment and Instability in China

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14th China Economics Summer Institute, CUHK

August 26th/27th, 2021

Motivation

- All governments must maintain social and political stability
  - Especially autocracies (Svolik 2012, Gehlbach Sonin Svolik 2016)

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  - Also: ethnic unrest, food prices, sex ratios

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- Economic stability policies include:
  - Transfers, taxation, social insurance
  - State employment programs:
    WPA (US), NREGA (India), Cobblestone Project (Ethiopia), Work for the Dole (Australia), Plan Jefes y Jefas de Hogar Desocupados (Argentina)

This paper

- Does the Chinese government use targeted state employment to maintain political stability?
  - Focus on state-owned enterprises (SOEs): firms officially owned by the Chinese government

Chinese SOEs: a puzzle

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   - 3.1 SOEs operate in a diverse array of sectors Chart
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Why?

SOEs provide political benefits

- **Hypothesis:**
  The government uses SOE employment to maintain political stability

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- **Empirical Question:**
  Does SOE employment increase in response to unrest threats?

Empirical challenges

- Mechanism: document a political motive
- Causal identification: need exogenous source of unrest
  - Omitted variables
  - Reverse causality

What I do

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  Triple-differences exploiting variation from regional ethnic conflict

$$\text{Ethnic conflict incidents in Xinjiang} \times \text{County ethnic shares outside Xinjiang} \times \text{Male minority}$$

  - Omitted variables:
    Compare minority men to general population
  - Reverse causality:
    Regional conflict creates unrest **threats** in rest of China

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  $\times$ Male minority

  - Omitted variables:
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  - Reverse causality:
    Regional conflict creates unrest **threats** in rest of China
- Generality: consider trade shocks and natural disasters

How state employment protects stability

- Relative to transfers:
  - Better monitoring
  - Opportunity cost of unrest
    Dube Vargas 2013 (Colombia); Blattman Annan 2015 (Liberia), Dell Feigenberg Teshima 2018 (Mexico) Literature
  - Creates appearance that benefits are earned
    Cameron Shah 2014 (Indonesia)

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- Directly engenders positive feelings for ruling party
  Wang 2016; Voigtlaender Voth 2014 (Germany)

Contributions to related literatures

- Economic policy as a political tool
  - Fiscal expenditures: Nordhaus (1975), Rogoff (1998), Persson and Tabellini (1990), Schuknecht (2000), Drazen (2000, review), Brender and Drazen (2005), Alt and Lassen (2006), Bertrand et al (2007), Lee Sung (2008)
  - Autocracies: Egorov, Guriev, and Sonin (2009), Boix and Svolik (2013), Lorentzen (2013); Gehlbach and Sonin (2014); Gehlbach, Sonin, and Svolik (2016); Gehlbach (2018)

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- The political economy of China
  - Cantoni Yang Yuchtman (2019); Campante Chor Li (2019), Qin Stromberg Wu (2018); Martinez-Bravo Padro-i-Miquel Qian Yao (2017); Jia Kudamatsu Seim (2015)
  - SOE puzzle: Lin Cai Li (1998); Dong Putterman (2003); Zeng (2017, regulation); Liu (2018, input subsidies)

Road map

Chinese government objectives

- Growth
  - Rhetoric, GDP targets, personnel policy
- Stability
  - "Stability overrides everything." - Deng Xiaoping, 1989
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- Stability
  - "Stability overrides everything." - Deng Xiaoping, 1989
  - Priority target in bureaucratic promotion
- SOEs potentially play an important role
  - SOEs are "a pillar of domestic stability" - CCP, 2017
  - Just rhetoric?

Other Policies

Unrest exists in China

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- Uyghur conflict
  - Extremely high government priority (Thum 2019)
  - Mostly localized (Bovingdon 2010)
  - Recent escalation (NYT 2021, WP 2021)

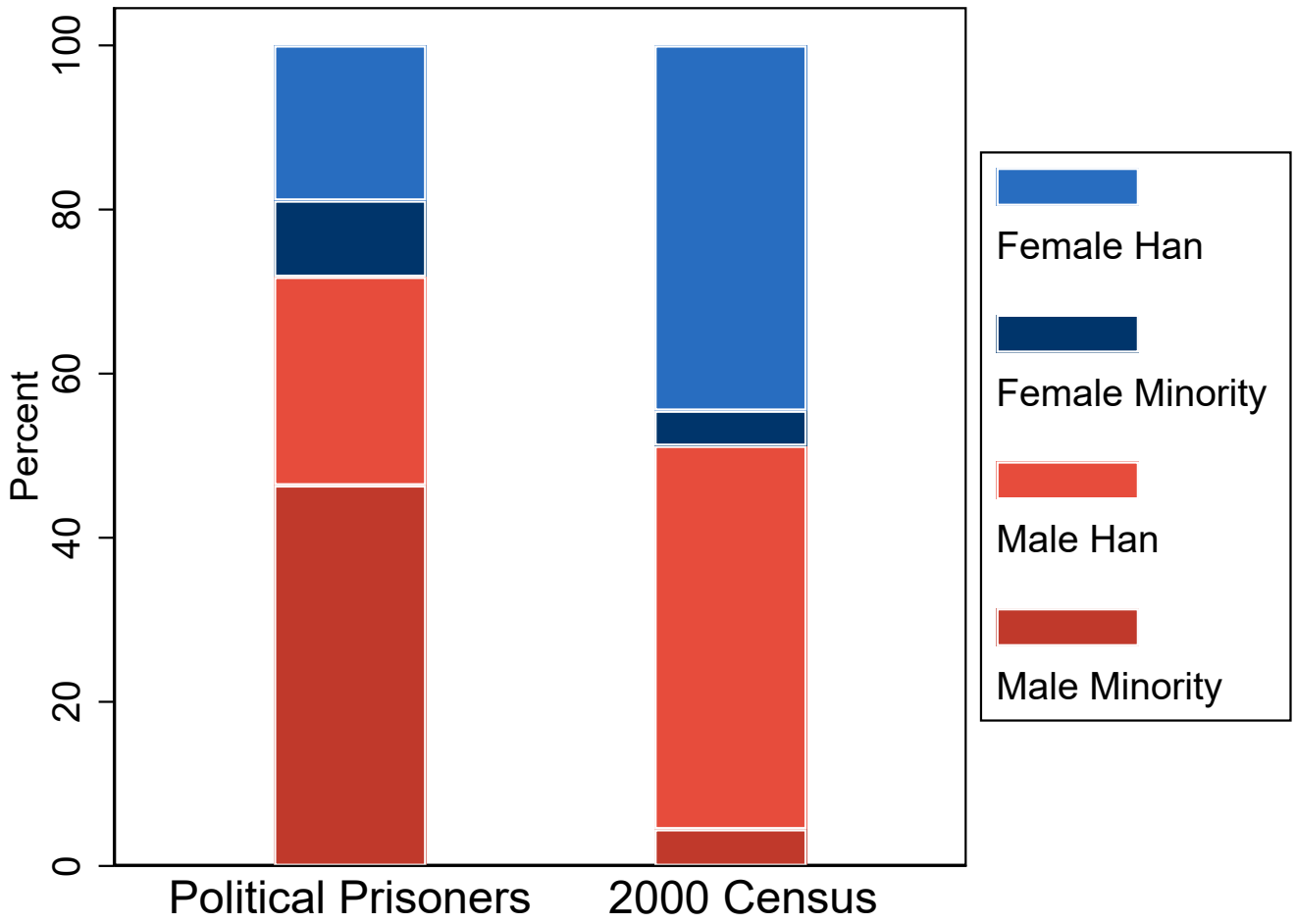
Road map

Main dataset

- *Urban Household Survey*, 2002 - 2009
  - Individual-level data
  - Demographics: age, years of education, minority indicator
    - Minority data only available 2002-2009
  - Labor Market: Employment by ownership, wage Quality Coverage

- Describe other data sources when relevant

Who participates in unrest? Men and male minorities



Data: U.S. Congressional-Exec. Committee on China 2019, China Census 2000

Three facts about Chinese state employment

Conditional on age, education, survey year, county, sector:

1. SOEs hire more men and male minorities
   - 1.1 SOEs: 57% men and 1.7% male minorities
   - 1.2 Private: 45% men and 1.3% male minorities

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3. SOEs hire after natural disaster floods
   3.1 Private firms shed labor

Table Trade Var. Flood Var. Flood County Flood Map

Caveats

Caveats:

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  - Wages?
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- State employment and private hiring may interact
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Next:

1. Build a model of SOE stabilization
   1.1 Address state-private interaction via the labor market
2. Test using ethnic unrest shock
   2.1 Explicitly political

Road map

Objectives

- Generate testable comparative statics
  - If political stability were a state employment motive, what patterns would we see?
- Quantify stability motive

Setup

1. Two types of utility-maximizing **individuals** Full
   - 1.1 U unrest type and N neutral type
   - 1.2 Enjoy leisure ℓ and consumption c
   - 1.3 Idle U-types create instability

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Setup

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2. Many profit-maximizing **private firms** Full and **SOEs** Full

3. A single **government** Full
   - 3.1 Cares about aggregate output and stability
   - 3.2 Subsidizes U-type SOE labor, τ_U, taxes all N-type labor, τ_N
     - 3.2.1 In reality, may not be a literal subsidy or tax

Intuition

- When the **unrest threat** increases
  - Govt. **increases SOE subsidy** for unrest-type workers
  - SOEs **increase labor demand** for unrest-type workers

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- **Predictions:** when unrest shock ↑, unrest-type workers':
  - SOE employment increases
  - Wages rise
  - Private employment falls (wage effect)
    - all relative to neutral types

Linking comparative statics to empirics

- Test predictions using variation in Uyghur unrest threat
  - Minority men as unrest-prone type

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- Test predictions using variation in Uyghur unrest threat
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- **Predictions:** when Uyghur unrest threat ↑, male minorities':
  - SOE employment increases
  - Wages increase
  - Private employment falls
    - all relative to the general population

Quantification

- The model yields an expression for the implicit wage subsidy that the government gives SOEs to hire male minorities

$$\tau_U = 1 - \frac{N^{soe}/U^{soe}}{N^{priv}/U^{priv}}$$

- Estimate from the data!

Road map

Ethnic conflict creates threats elsewhere

- Ethnic conflicts tend to spill over when the conflict is severe to places with higher shares of aggrieved group(s)

  Forsberg (2014), Buhaug Gleditsch (2008), Cederman Girardin Gleditsch (2009)

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- For example:
  - In 1985, Uyghur groups in Xinjiang protested nuclear testing
  - Protests spilled over to Uyghurs in Beijing

Difference-in-differences

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...when previous year had many Xinjiang unrest incidents, $I_{t-1}^{XJ=1}$

- Hand-coded from Proquest, Wisenews, government documents ACLED
- Lagged by one year; employment is sticky

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...in (non-Xinjiang) counties with large Uyghur pop. shares, $U_{c,\,t=2000}^{XJ=0}$

- China's 2000 Census Summary Statistics

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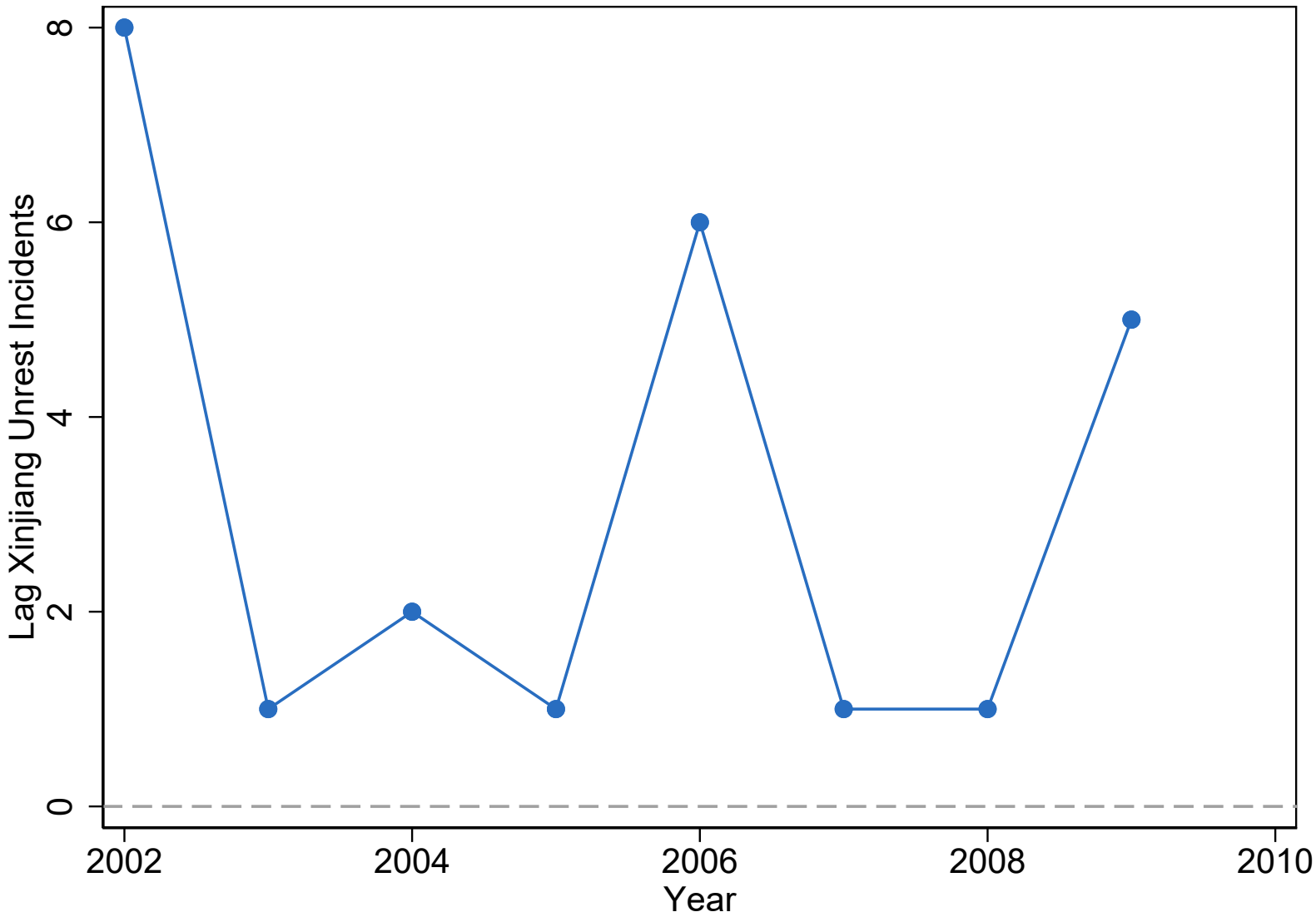
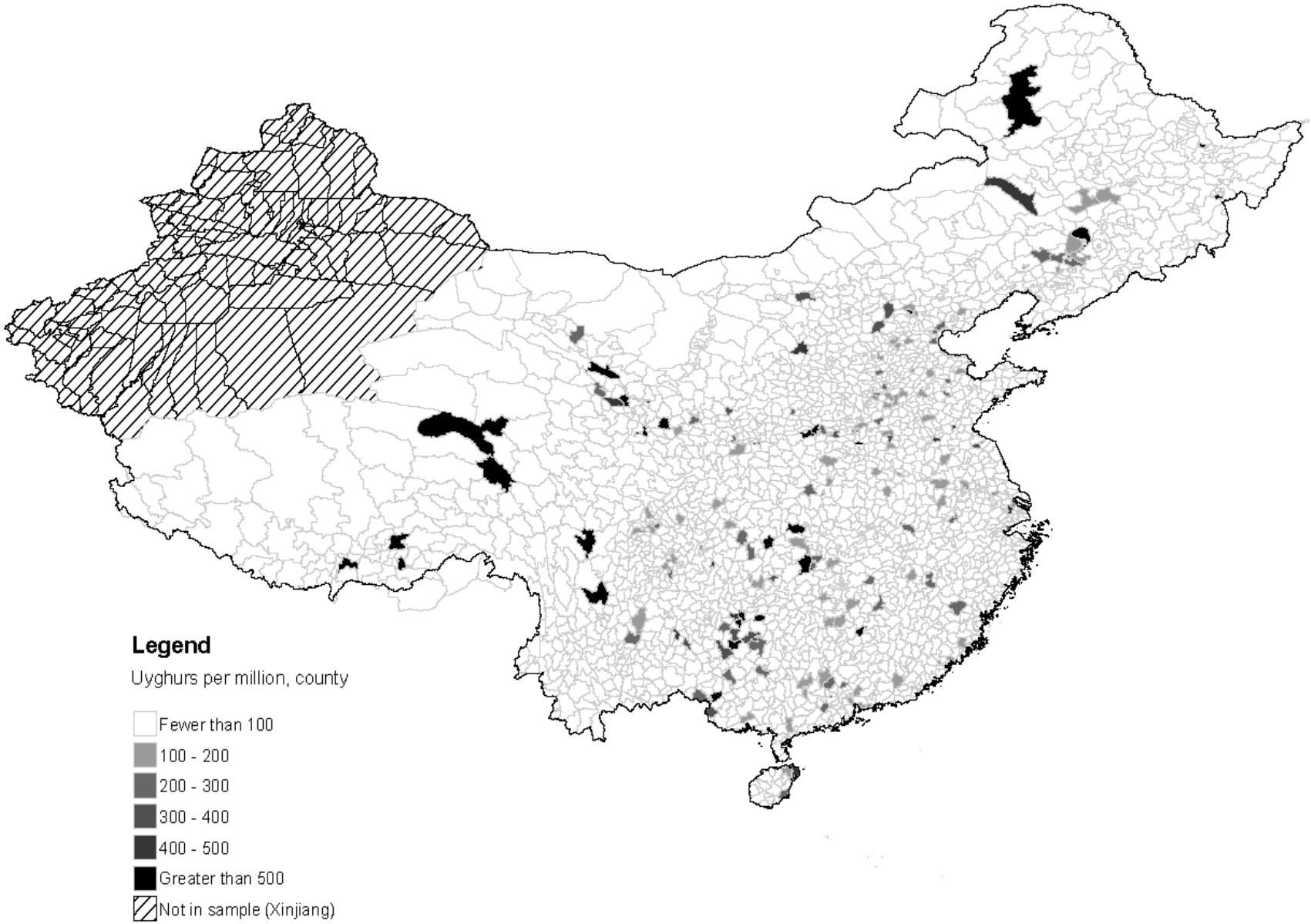
$$I_{t-1}^{XJ=1} \times U_{c,\,t=2000}^{XJ=0}$$

c counties, t years

Xinjiang incident timeline



Map of county Uyghur shares



Difference-in-differences

$$Y_{ict} = \alpha + \beta I_{t-1}^{XJ=1} \times U_{c,\, t=2000}^{XJ=0} + \tau_t + \eta_c + ... + \epsilon_{ict}$$

Sample omits Xinjiang. i individuals, c counties, t years

- Omitted variables may lead to $E[\epsilon_{ict}|X] \neq 0$
  - Ownership changes
  - 2001 accession to WTO
  - Fiscal stimulus during 2008 recession

- Instead: triple difference, male minority vs. everyone else

Triple difference

$$
\begin{aligned}
Y_{ict} = \alpha + & \boxed{\beta_{\boldsymbol{M}} I_{t-1}^{XJ=1} \times U_{c,\, t=2000}^{XJ=0} \times \text{Male Min}_i} \\
& + \beta I_{t-1}^{XJ=1} \times U_{c,\, t=2000}^{XJ=0} \\
& + \gamma_1 I_{t-1}^{XJ=1} \times \text{Male Min}_i + \gamma_2 U_{c,\, t=2000}^{XJ=0} \times \text{Male Min}_i \\
& + \delta_i I_{t-1}^{XJ=1} \times U_{c,\, t=2000}^{XJ=0} \times \boldsymbol{X_i} \\
& + \delta_c \boldsymbol{X_c} \times \tau_t \times \text{Male Min}_i \\
& + \textit{Dist XJ}_c \times \tau_t + \eta_c \times \text{Male Min}_i + \tau_t + \epsilon_{ict}
\end{aligned}
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Triple difference

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\begin{aligned}
Y_{ict}^{No\,XJ} = \alpha &+ \beta_{\boldsymbol{M}} I_{t-1}^{XJ=1} \times U_{c,\,t=2000}^{XJ=0} \times \text{Male Min}_i \\
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X_i: individual characteristics (age, years of education, robust. by gender)

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X_i: individual characteristics (age, years of education, robust. by gender)

X_c: base year county-level characteristics (labor share and growth by ownership)

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$\textit{Dist XJ}_c$: county distance from Xinjiang in log kilometers

Standard errors clustered at the county level

Caveats to identification

- An omitted variable must covary:
  1. With Xinjiang incidents over time
  2. **And** with Uyghur population share over counties
  3. **And** differentially affect male minorities

  - In a way that increases SOE employment and wages
  - **And** decreases private employment

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and minority men work differentially more in mining,
and mining companies are differentially state owned

Road map

Baseline employment predictions

	(1)	(2)	(3)
Dependent Variable:	SOE	Private	Salary (000s RMB)
Mean of dependent variable			
Coun. Uyg. Share × Lag Xinjiang Incid. × Male Minority (βM)	Positive	Negative	Positive
Observations			
R-squared			

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

Baseline employment results

	(1)	(2)	(3)
Dependent Variable:	SOE	Private	Salary (000s RMB)
Mean of dependent variable	*0.550*	*0.250*	*45.51*
Coun. Uyg. Share × Lag Xinjiang Incid. × Male Minority (βM)	36.59***	-24.24**	5,422***
	(12.59)	(11.04)	(2,075)
Observations	224,412	224,412	176,962
R-squared	0.231	0.156	0.431

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Robustness: strategic sectors

- Alternative SOE motive: control strategic sectors
  - Public services, mining, utilities
  - Initial share by county * year FE * male minority indicator

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	(1)	(2)	(3)
Dependent Variable:	SOE	Private	Salary (000s RMB)
Coun. Uyg. Share × Lag Xinjiang Incid.	38.70***	-25.38**	5,892***
× Male Minority (βM)	(13.85)	(11.57)	(2,024)
Control for '02 share in:			
Public services * Year FE * Male Min.	Y	Y	Y
Mining * Year FE * Male Min.	Y	Y	Y
Utilities * Year FE * Male Min.	Y	Y	Y
Observations	224,412	224,412	176,962
R-squared	0.232	0.156	0.435

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

Drop

Robustness: drop economically-triggered incidents

- Drop all incidents triggered by economic events (8.9%)
  - Factory layoffs in Hotan county (2001)
  - Xinjiang tax on cab drivers (2007)

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	(1)	(2)	(3)
Dependent Variable:	SOE	Private	Salary (000s RMB)
Shock without economically-triggered incidents × Male Minority (βM)	60.08***	-46.63**	7,312***
	(19.20)	(18.14)	(2,336)
Observations	224,412	224,412	176,962
R-squared	0.231	0.156	0.431

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

More

Placebo: lead of Xinjiang incidents

	(1)	(2)	(3)
Dependent Variable:	SOE	Private	Salary (000s RMB)
Coun. Uyg. Share × Lead Xinjiang Incid.	-16.04	7.605	-2,513
× Male Minority (βM)	(13.40)	(7.529)	(1,580)
Observations	224,412	224,412	176,962
R-squared	0.231	0.156	0.431

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

Placebo: minority women

	(1)	(2)	(3)	(4)	(5)	(6)
Sample:	Men			Women		
Dependent Variable:	SOE	Private	Salary (000s RMB)	SOE	Private	Salary (000s RMB)
Coun. Uyg. Share × Lag Xinjiang Incid. × Minority (βM)	36.25***	-22.49*	5,350**	2.741	-8.842	272.4
	(12.21)	(12.35)	(2,081)	(13.15)	(10.01)	(1,246)
Observations	116,239	116,239	98,737	108,173	108,173	78,225
R-squared	0.204	0.146	0.440	0.276	0.191	0.429

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

More

Is there evidence of a broad stabilization effort?

Social relief transfers: ad hoc transfers disbursed by local governments
(Hussain 1994, Wong 2005)

Is there evidence of a broad stabilization effort?

Social relief transfers: ad hoc transfers disbursed by local governments (Hussain 1994, Wong 2005)

Dependent Variable:	Social Relief Transfers			
		Decomposition		
Sample:	All			
Mean of Dep. Var.	*18.57*			
Coun. Uyg. Share × Lag Xinjiang Incid. × Male Minority (β_M)	17,507***			
	(4,703)			
Observations	224,412			
R-squared	0.017			

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

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Dependent Variable:	Social Relief Transfers			
		Decomposition		
Sample:	All	SOE	Private	Not Empl.
Mean of Dep. Var.	*18.57*	*1.510*	*1.690*	*1.790*
Coun. Uyg. Share × Lag Xinjiang Incid. × Male Minority (β_M)	17,507***	6,419**	7,701	88,221**
	(4,703)	(3,042)	(5,733)	(35,632)
Observations	224,412	123,828	55,907	44,677
R-squared	0.017	0.023	0.049	0.045

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

Quantification

- Recall that:

$$\tau_U = 1 - \frac{N^{soe}/U^{soe}}{N^{priv}/U^{priv}} = 1 - 0.739 = 0.261$$

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- SOEs receive subsidy of 26.1% on male minority wages
  - 95% confidence interval: $(20\%, 32\%)$.

Road map

Conclusion

- Evidence that China uses state employment to maintain stability
  - Targeted and nimble response
  - Economic and political shocks

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  - Targeted and nimble response
  - Economic and political shocks

- Political economy motives $\rightarrow$ productivity and development

Thank you!