



Does grassroots democracy reduce income inequality in China? [☆]

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ABSTRACT

Using village and household survey data collected from 48 villages of eight Chinese provinces for the period 1986–2002, this paper studies how the introduction of village elections affects income distribution at the village level. We estimate both a static fixed-effect panel model and a dynamic panel model for the within-village Gini coefficient and take care of the endogeneity of the introduction of elections. The dynamic panel model shows that having elections reduces the Gini coefficient by 0.04, or 14.3% of the sample average. We also find that elections tend to increase the income shares of poorer portions of the population. Further econometric analysis based on dynamic panel models shows that elections increase per-capita public expenditures by 271 Yuan, but do not increase the level or progressiveness of net or total income transfer in a village. Therefore, elections' positive role in reducing income inequality is not played through more income redistribution, but through more pro-poor public investment.

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There is a growing interest in studying the role of local political institutions in promoting economic growth and equality. This paper adds to the literature by accomplishing two objectives. One is to test whether democratization of Chinese villages centered at the village election has resulted in more equal income distribution within the village in the last twenty years. Besides its possible consequences on social justice, a topic frequently tackled at the national level, income inequality may result in more adverse effects in a local community in terms of public goods provision (Bardhan and Mookherjee, 2005), health outcomes, and for that matter, local economic growth (see Angus Deaton, 2003 for a critical survey). Our other objective is to find out the channel(s) by which village elections have improved income distribution if any improvements have happened at all. Democracy could reduce income inequality by two ways. One is to lead the government to cater to the interests of the median voter who in general prefers the redistribution of income (Alesina and Rodrik, 1994; Benabou, 1996). The other is to press the government to spend more on public projects that enhance the income capability of the poorer. The second channel is preferred over the first under normal circumstances because the first is more likely to lead to unproductive redistribution, but the second enhances productivity in the society.

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Existing evidence suggests that grassroots democracy does raise the responsiveness of the local government and leads to pro-poor policies at the local level. Raghendra Chattopadhyay and Esther Duflo (2004) found that the election of a woman village head in Indian villages had led to the introduction of pro-woman policies. Andrew Foster and Mark Rosenzweig (2001) found that village elections in India had increased local governments' investment in road building and reduced their investment in irrigation facilities. They interpreted this finding as evidence for a pro-poor policy because irrigation benefited landlords and building roads provided jobs to the landless. Xiaobo Zhang, Shenggen Fan, Linxiu Zhang, and Jikun Huang (2004) found that village elections increased the share of public investment in village expenditures using a sample from Jiangsu province, China. Shuna Wang and Yang Yao (2007) found similar results using a larger sample covering eight Chinese provinces. Li Gan, Lixin Xu, and Yang Yao (2005, 2006) further found that village elections helped to reduce the negative impacts of health shocks on farmers' income and strengthen farmers' consumption smoothing capabilities. All these findings suggest that grassroots democracy could function to reduce income inequality at the local level. Nevertheless, they do not provide direct evidence for the strength of that relationship, nor do they tell us the channel by which democracy improves income equality. On the other hand, however, decentralization associated with grassroots democracy could also make elite capture easier at the local level when the local society is socially or economically divided (Bardhan and Mookherjee, 2005). Therefore, it is theoretically unclear whether income distribution would be unequivocally improved by grassroots democracy.

Existing studies using country-level data have not provided conclusive results for the impacts of democracy on equality.¹ One problem with cross-country studies is that the function of democracy depends on a country's social settings and other institutional arrangements, but cross-sectional regressions tend to ignore those factors. Since village elections operate in the same institutional framework and roughly the same set of social settings, a micro-level study has an advantage over cross-country studies.

Our study makes use of a unique panel dataset with a sample of 48 villages from 8 Chinese provinces for the period 1986–2002. China began to experiment village elections in 1987 and enacted *The Organizational Law of Village Committees* (OLVC) to formalize them in 1998. Since then, almost all Chinese villages have held at least one election. In the meantime, income inequality rose from 0.29 in 1987 to 0.35 in 2000 in rural China (Riskin et al., 2002). Our data thus cover a critical period of both the election and income distribution. It is also noteworthy that the election operates in what Daron Acemoglu calls “a weakly institutionalized polity” (Acemoglu, 2005) because no direct elections are found beyond the village in China. That is, village elections in China face extra constraints imposed by the authoritarian nature of the Chinese state, so it remains a question as to whether the elections could bring real power to the villagers in the first place. In this regard, our study contributes to the understanding of decentralized governance in a weakly institutionalized polity.

To avoid the complexities arising from political cycles, we focus on the effects of the introduction of the first election. We estimate both a static fixed-effect panel model and a dynamic panel model on the within-village Gini coefficient to pin down them. We also deal with the endogeneity of the introduction of elections with the instrumental variables (IV) method. In addition to the Gini coefficient, we also study how elections affect the income shares of the lower income percentiles of population. Moreover, we explore the channels, i.e., by more income redistribution or by more public investment, for elections to reduce income inequality.

The rest of the paper is organized as follows. Section 1 provides a brief introduction to village elections in China. Section 2 introduces the data and some key descriptive results. Section 3 presents the main results concerning the impacts of elections on income distribution. Section 4 is comprised of two parts. The first part studies the effects of elections on income redistribution, and the second part studies the effect of elections on public investment. Section 5 concludes.

1. A brief introduction to village elections in rural China

The Chinese commune system was dissolved in the early 1980s. The commune as an administrative unit was replaced by the township, and the production brigade under the commune was replaced by the village committee (VC). The 1982 Constitution defines the village committee as a self-governing body of the villagers (Clause 111). However, committee members had been appointed rather than elected except in a few localities. In 1987, under the leadership of Vice Chairman Peng Zhen, the National People's Congress (NPC), the Chinese legislative body, passed a tentative version of the OLVC that required the village committee be elected. This law triggered elections in Chinese villages. By 1994, half of the Chinese villages had begun elections. By 1997, 25 of the 31 mainland provinces had adopted a local version of the law, and 80% of the villages had begun elections (Ministry of Civil Affairs, 1998). In 1998, the formal version of the OLVC was passed by the NPC and the election has since spread quickly to virtually all the villages.

The VC is comprised of three to seven members depending on the size of the village. The core members are the chairman, vice chairman, and accountant. Before 1998, candidates for the chairman were usually appointed by the township government although popular nomination, a mixture of government appointment and popular nomination, and nomination by villager representatives also existed. The formal version of the OLVC requires that candidates be nominated by villagers, and the minimum number of villagers to propose a candidate is ten. A primary election, then, is held to reduce the number of candidates to two, and the formal contest is run between these two frontrunners. This version of election is popularly called *hai-xuan*. Since 1998 *hai-xuan* has become more popular. The term of the committee is three years but no term limit is required.

¹ For a recent and comprehensive study, see Branko Milanovic and Yvonne Ying (2001) and the references therein.

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