

Informal Institutions, Collective Action, and Public Investment in Rural China

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April 4 2014

Research Question

- **Informal institutions**, rules and norms that are “created, communicated, and enforced outside of officially sanctioned channels” (Helmke and Levitsky 2004)
- Do informal institutions promote good local governance in environments of weak formal institutions?
- No conclusive answers due to the challenges of:
 - 1 Defining informal institutions
 - 2 Measuring them
 - 3 Identifying their effects: **variation is usually cross-sectional**

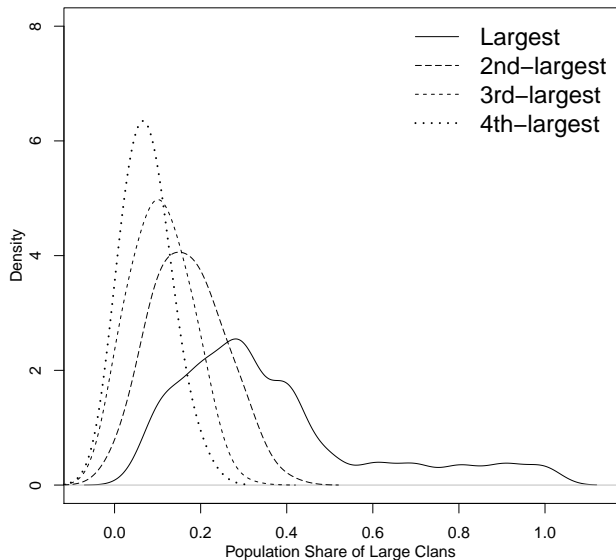
- We look at informal institutions that facilitate public goods provision (in this paper, [public goods expenditure](#))
- Particularly, we focus on [informal institutions of lineage groups](#), or large family clans
- We use a panel dataset of 220 Chinese villages for over 20 years
 - Annually collected social and economic data
 - Retrospective surveys on electoral outcomes and indicators of informal institutions

Hypotheses and Main Findings

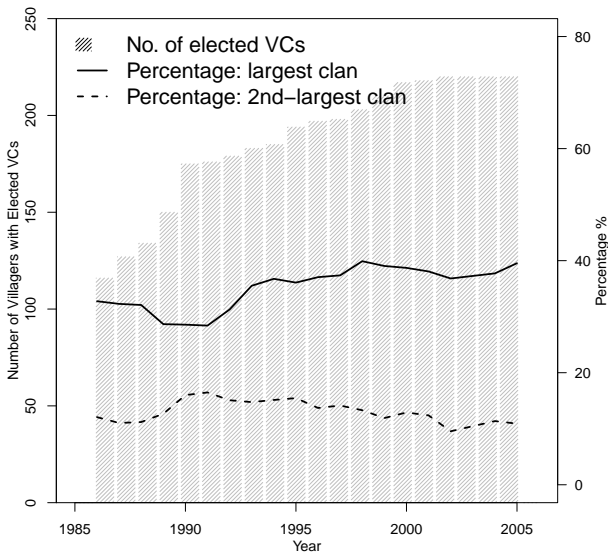
- Two fundamental challenges of public goods provision in weak institutional environments:
 - 1 Lack of funds
 - 2 Lack of monitoring and incentives
- Informal institutions could possibly promote public goods provision because:
 - 1 Solve the collective action problem (Ostrom 1990)
 - 2 Provide extra incentive or better monitoring (Tsai 2007)
- **Results:** Informal institutions of large clans overcome the **collective action** problem among villagers, thus increasing public goods expenditure

- **Measurement:** village chairpersons (VCs) from the largest and 2nd largest clans
- **Identification strategies:**
 - 1 Fixed effects (and with linear time trends):
take care of time-invariant heterogeneities and regional disparities
 - 2 A regression discontinuity design (with caveats):
takes care of endogenous choices of leaders
- The results are consistent: VCs of large clan in office, more public goods expenditure

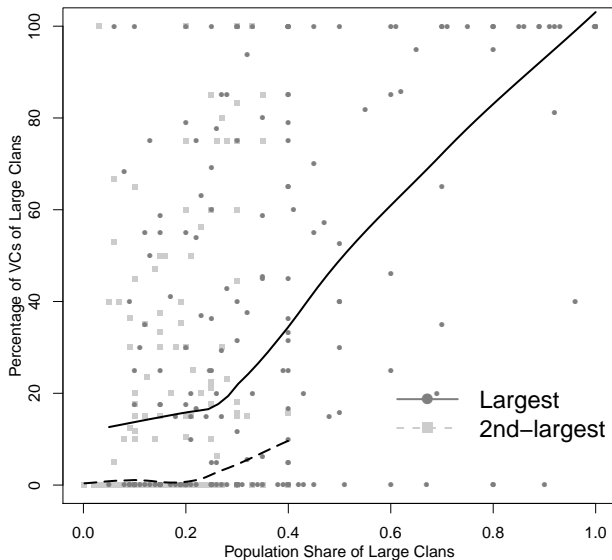
Data Description



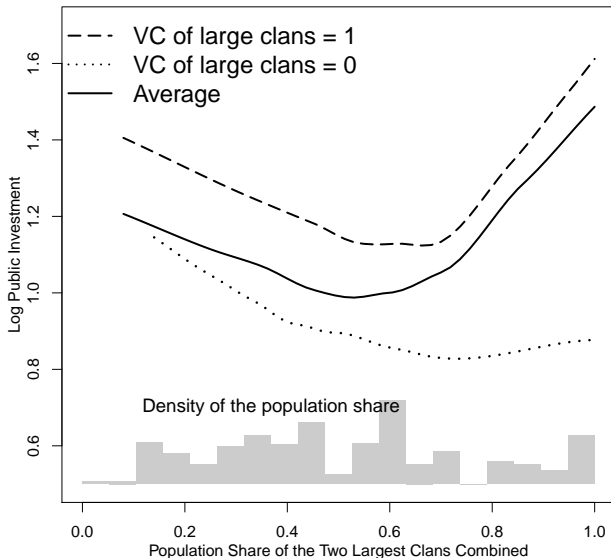
Data Description



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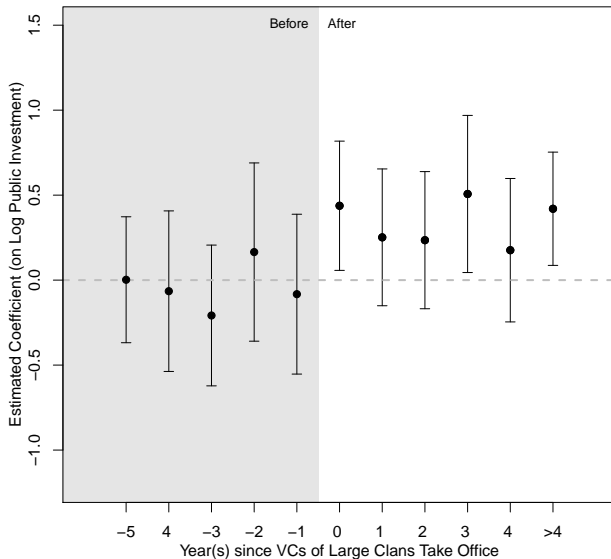


Main Results

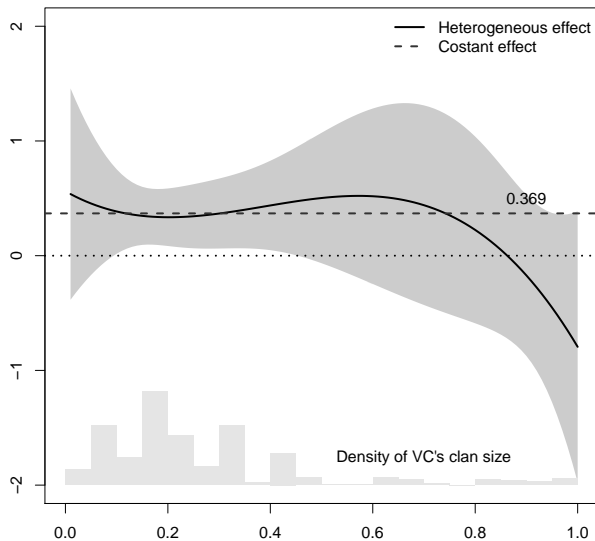
	Log Public Investment (1,000 yuan)					
	(1)	(2)	(3)	(4)	(5)	(6)
	OLS	FE	FE	FE	FE	FE
VC of the largest clan	0.332 (0.126)	0.412 (0.148)	0.379 (0.148)	0.359 (0.189)	0.378 (0.157)	0.481 (0.200)
VC of the second-largest clan	0.183 (0.151)	0.303 (0.148)	0.328 (0.145)	0.256 (0.193)	0.367 (0.155)	0.421 (0.227)
Dependent variable mean	1.092	1.092	1.092	1.092	1.083	1.225
Year fixed effects	x	x	x	x	x	x
Village fixed effects		x	x	x	x	x
Provincial linear trends			x		x	x
Village linear trends				x		
NFS controls					x	x
Persons migrating out						x
Taxes to the upper-level government						x
Transfers from the upper-level government						x
Observations	3,742	3,742	3,742	3,742	3,513	2,530
Villages	220	220	220	220	217	208

Note: This table shows that the presence of a VC of large clans is associated with a larger amount of village public investment. Standard errors clustered at the village level are in parentheses. The dependent variable is the log amount of village investment (1,000 yuan) during that year. The independent variables are two dummy variables indicating whether a VC came from the village's largest or second-largest clan, respectively. The sample is based on village-year observations from 1986 to 2005 after village elections were introduced.

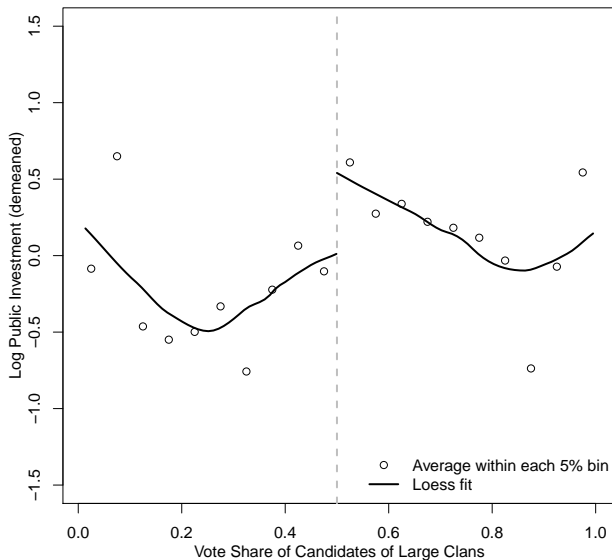
Main Results



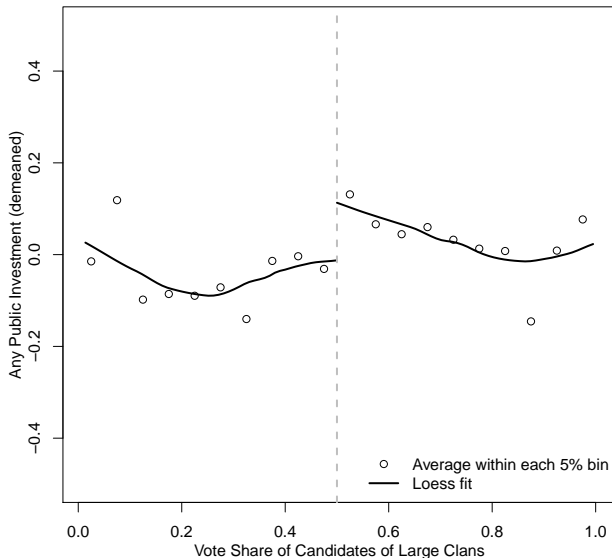
Main Results



Robustness Check: An RD Design



Robustness Check: An RD Design



- **Alternative explanations:**

- 1 More competent leaders **Not likely**
- 2 Improvements in formal institutions **Not likely**
- 3 Party co-optation **Not likely**

- **Mechanisms:**

- 1 Effect stronger in villages with lineage halls (a sign that informal institutions drive the results)
- 2 The accountability mechanism **No strong evidence**
- 3 The collective action mechanism (tax and levies)

- In rural China's context, informal institutions of large clans increase public goods expenditure
- It is likely that they work through overcoming the collective action problem of financing public
- **Limitations:**
 - 1 Unmeasured bad outcomes (e.g. corruption) may exist
 - 2 Co-evolution/interactions of formal and informal institutions not studied