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

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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
This paper

- 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
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 and Identification

- **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

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Data Description

The graph illustrates the number of villagers with elected VCs over the years 1985 to 2005. The x-axis represents the years, while the y-axis shows the number of villagers with elected VCs. The graph also includes lines indicating the percentage of the largest and second-largest clans. The title at the top of the graph reads: "No. of elected VCs Percentage: largest clan Percentage: 2nd-largest clan."
Data Description

Population Share of Large Clans
Percentage of VCs of Large Clans

Largest
2nd-largest

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Data Description

The graph shows the relationship between the population share of the two largest clans combined and the logarithm of public investment. The graph includes three lines:

- Dashed line with VC of large clans = 1
- Dotted line with VC of large clans = 0
- Solid line with Average

The x-axis represents the population share of the two largest clans combined, while the y-axis represents the logarithm of public investment. The graph also includes a bar chart at the bottom indicating the density of the population share.

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### Main Results

<table>
<thead>
<tr>
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<tr>
<td>VC of the largest clan</td>
<td>0.332</td>
<td>0.412</td>
<td>0.379</td>
<td>0.359</td>
<td>0.378</td>
<td>0.481</td>
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<td></td>
<td>(0.126)</td>
<td>(0.148)</td>
<td>(0.148)</td>
<td>(0.189)</td>
<td>(0.157)</td>
<td>(0.200)</td>
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<tr>
<td>VC of the second-largest clan</td>
<td>0.183</td>
<td>0.303</td>
<td>0.328</td>
<td>0.256</td>
<td>0.367</td>
<td>0.421</td>
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<td>(0.151)</td>
<td>(0.148)</td>
<td>(0.145)</td>
<td>(0.193)</td>
<td>(0.155)</td>
<td>(0.227)</td>
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<td>Dependent variable mean</td>
<td>1.092</td>
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<td>1.092</td>
<td>1.083</td>
<td>1.225</td>
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<td>Year fixed effects</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>Village fixed effects</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>Provincial linear trends</td>
<td>x</td>
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<td>Village linear trends</td>
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<td>x</td>
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<td>NFS controls</td>
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<td>Persons migrating out</td>
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<td>Taxes to the upper-level government</td>
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<td>Transfers from the upper-level government</td>
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<td>Observations</td>
<td>3,742</td>
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<td>3,742</td>
<td>3,742</td>
<td>3,513</td>
<td>2,530</td>
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<td>Villages</td>
<td>220</td>
<td>220</td>
<td>220</td>
<td>220</td>
<td>217</td>
<td>208</td>
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</table>

**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

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Robustness Check: An RD Design

![Graph showing the relationship between Log Public Investment (demeaned) and Vote Share of Candidates of Large Clans. The graph includes a Loess fit and indicates the average within each 5% bin.]

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Robustness Check: An RD Design

- Vote Share of Candidates of Large Clans
- Any Public Investment (demeaned)
- Average within each 5% bin
- Loess fit

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Mechanisms and Alternative Explanations

- **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)*
Conclusion

- 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 goods.

Limitations:
1. Unmeasured bad outcomes (e.g. corruption) may exist.
2. Co-evolution/interactions of formal and informal institutions not studied.