

The Political Economy of State Employment and Instability in China

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 - ▶ Face many sources of instability: adverse trade conditions, natural disasters, ethnic unrest, food prices, sex ratios, etc.

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 - ▶ Face many sources of instability: adverse trade conditions, natural disasters, ethnic unrest, food prices, sex ratios, etc.

- ▶ Governments implement **economic stability policies**
 - ▶ Transfers, social insurance, and...
 - ▶ State employment programs:
WPA (US), NREGA (India), Cobblestone Project (Ethiopia), Work for the Dole (Australia), Plan Jefes y Jefas de Hogar Desocupados (Argentina)

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Does the Chinese government use state employment to maintain political stability?

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Can compensating political benefits help explain the persistence of state-owned enterprises (SOEs) in China?

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18% of urban employment in 2018 (NBS 2019)

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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

- ▶ **Mechanism:** study SOE response to ethnic unrest threat
- ▶ **Causal identification:**
Triple-differences using variation from ethnic conflict in Xinjiang using individual-level UHS data from 2002-2009
 - Ethnic conflict incidents in Xinjiang
 - × County ethnic Uyghur shares outside Xinjiang
 - × Male minority
- ▶ **Omitted variables:**
Compare minority men to general population
- ▶ **Reverse causality:**
Regional conflict creates unrest threats in rest of China

Empirical results

- ▶ When threat of ethnic unrest \uparrow , male minorities'
 - ▶ Probability of SOE employment increases
 - ▶ Wages rise
 - ▶ Probability of private employment falls

- ▶ ...all relative to the general population

Theory

- ▶ These results are predicted by a model in which:
 - ▶ The government cares about stability...
 - ▶ ...and can subsidize state employment
 - ▶ Male minorities spend some leisure time on unrest

- ▶ When the threat of unrest increases:
 - ▶ Government empl. subsidies to SOEs ↑, SOE labor demand ↑
 - ▶ SOE employment ↑, wages ↑, private employment ↓

- ▶ Quantification exercise suggests SOEs receive an implicit 26% on male minority wages

Question:

Does the Chinese government use state employment to maintain social stability?

Empirical Strategy:

Does threat of unrest -> SOE employment?
Xinjiang unrest threat triple difference
Annual unrest incidents in Xinjiang
x County-level Uyghur population share
x Indicator for male minority

Results:

In response to Xinjiang unrest threat, male minorities:

1. Work for SOEs more
2. Work for private firms less
3. Receive higher wages

Theory

Results are predicted by a model in which:
The government cares about stability, can subsidize state employment, some demographics spend leisure on unrest

Quantification exercise suggests SOEs receive 26% subsidy on male minority wages

Generality

Private employment moves procyclically with respect to:

1. Natural disasters
2. Demand for Chinese exports

SOE employment moves countercyclically with respect to both.

Thank you!