Powerful Politicians and Their Economic Impact

上海师范大学
Shanghai Normal University

Haoyuan Ding[1]; Zeyang Jin[2]; Chang Ma[3]; Chang Xue[4]

[1]Shanghai University of Finance and Economics, [2]Shanghai Normal University,
[3]Fudan University, [4]Sun yet-sun University

Abstract

Motivated by the recent "Trump 2.0" election, this paper examines a distinctive political arrangement in Chinese cities to assess the economic consequences of powerful politicians. Exploiting variation in whether local leaders concurrently hold both executive and legislative positions, we show that cities governed by such powerful politicians experience significantly slower economic growth than those with a separation of powers. We attribute this decline to fiscal policy distortions: leaders with concentrated authority are more likely to reallocate budget expenditures, initiate large-scale investment projects, employ irregular PPP-based financing, and favor politically connected economic agents, thereby worsening resource misallocation. Although power concentration raises local debt levels and borrowing costs, it also facilitates more decisive countercyclical responses during economic downturns, partially mitigating its adverse effects in crisis periods.

Research Questions

1. What is the economic impact of powerful politicians?
2. What is the transmission channel?
3. What is the economic tradeoff?

Approach

Use a Unique Local Political Arrangement in China

- Executive power is effectively controlled by the Communist Party.
- Legislative power is held by People's Congress supervision and fiscal plan approval.
- Powerful politicians are Party Secretaries who also chair the Congress.
- Political arrangements in China.
  - Central level: separation of power
  - Provincial level: concentration of power
  - **City level**: No clear rules
  - County level: separation of power

Figure 1. Share of Powerful Politician: 1998-2022.

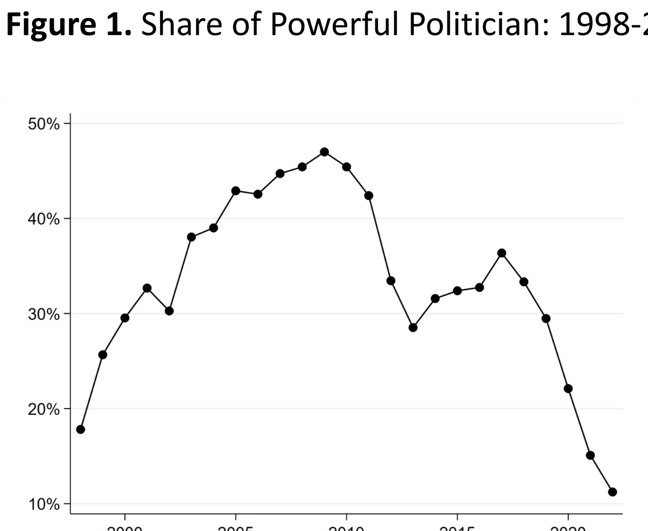
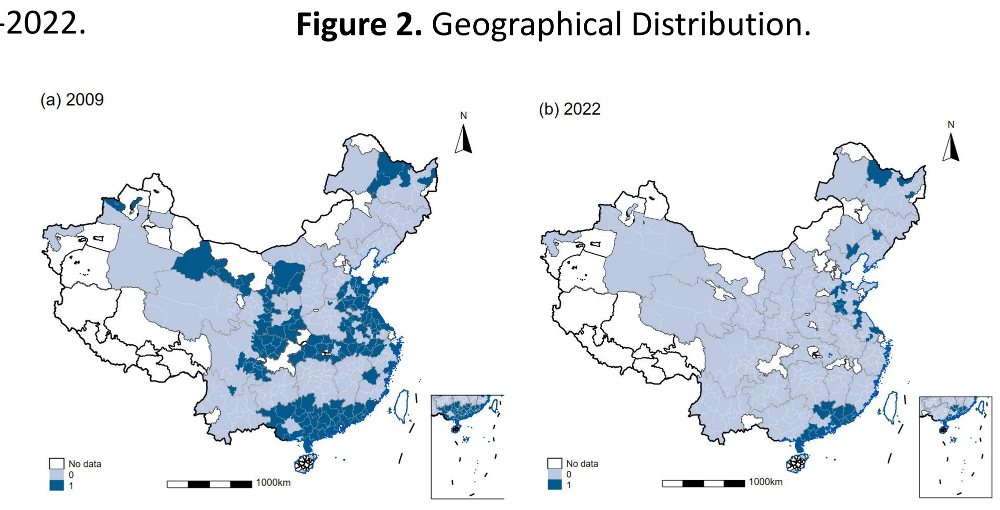


Figure 2. Geographical Distribution.



Dep. variable:Powerful Politician	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Full sample(lag 1 period)				New constructed sample(lag 1 period)			
Economic factor								
GDP per capita	0.068	0.065	0.061	0.077	-0.11	-0.104	-0.109	-0.096
	(0.061)	(0.061)	(0.062)	(0.059)	(0.117)	(0.118)	(0.118)	(0.118)
Population	0.248	0.253	0.262	0.261	0.035	0.05	0.077	0.08
	(0.252)	(0.251)	(0.252)	(0.244)	(0.249)	(0.248)	(0.251)	(0.253)
Primary sector	0.003	0.003	0.002	0.003	-0.003	-0.003	-0.003	-0.004
	(0.004)	(0.004)	(0.004)	(0.004)	(0.007)	(0.007)	(0.007)	(0.007)
Secondary sector	0.000	0.000	0.000	0.000	0.003	0.003	0.003	0.002
Secretary information	-0.002	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Male		-0.064**	-0.064**	-0.071**		-0.011	-0.016	-0.018
		(0.029)	(0.030)	(0.028)		(0.044)	(0.044)	(0.044)
Ethnic		-0.017	-0.017	-0.023		0.011	0.012	0.006
		(0.022)	(0.022)	(0.023)		(0.047)	(0.047)	(0.047)
Age			-0.001	0.003			0.001	0.004
Congress chairman info			(0.002)	(0.002)			(0.003)	(0.003)
Ave. age in peer cities (province)				**0.099*****				**0.056****
				(0.017)				**(0.024)**
Observations	4,651	4,646	4,629	4,629	1,116	1,113	1,107	1,107
R-squared	0.791	0.792	0.792	0.801	0.844	0.844	0.847	0.848
Year × Province FE	YES	YES	YES	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES	YES	YES	YES

Table 1. The determinants of Powerful Local Politicians.

Hypothesis 1. **Powerful politicians lower average economic growth.**

$$GDP\ Growth_{c,t} = \beta * Powerful\ Politician_{c,t} + \text{Controls}_{c,t} + \varepsilon_{c,t}$$

Dep. Variables	(1) GDP growth	(2) Consumption	(3) Fixed Asset	(4) Real state	(5) FDI	(6) Public employments
Powerful Politician	-0.303*	0.005	-0.034**	-0.003	-0.001	0.0230**
	(0.169)	(0.006)	(0.017)	(0.005)	(0.002)	(0.011)
Observations	6,599	4,065	3,122	3,634	3,597	3,435
R-squared	0.791	0.826	0.837	0.754	0.79	0.904
Controls	YES	YES	YES	YES	YES	YES
Year-Province FE	YES	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES	YES

Table 2. Powerful Politicians and GDP Growth.

Hypothesis 2. Transmission Channels

	Expense		Income	
	adjusted	actual	adjusted	actual
Powerful Politician	0.056**	0.045**	0.017	0.015
	(0.024)	(0.022)	(0.028)	(0.029)
Control	YES	YES	YES	YES
Year-Province FE	YES	YES	YES	YES
City FE	YES	YES	YES	YES
Observations	983	983	963	979
R-squared	0.785	0.798	0.385	0.395

Table 3. Powerful Politicians and Fiscal Policy.

	Manufacturing firms		Listed firms	
	(1)	(2)	(3)	(4)
Powerful Politician × Non-SOE		-0.526*		-0.0047**
		(0.315)		(0.002)
Powerful Politician	-0.303	-0.363	-0.0004	0.0008
	(0.286)	(0.275)	(0.001)	(0.001)
Province×Year	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	1424,437	1424,437	145,620	145,620
R^2	0.276	0.267	0.323	0.306
No. of Cities	277	277	252	252
No. of Years	11	11	23	23

Table 4. Powerful Politicians and Corporate Investment.

Hypothesis 3. Tradeoff

Powerful Politicians in Time of Shocks

	(1) GDP growth	(2) Infrastructural Invest.	(3) Real estate Invest.	(4) FDI	(5) issue debt
*Powerful Duality*Trade Tension*	0.0078**	0.178**	0.078**	0.001**	0.089**
	(0.004)	(0.073)	(0.039)	0.000	(0.043)
Trade Tension	-0.0058***	-0.007	-0.001	0.001	-0.025**
	(0.001)	(0.021)	(0.014)	(0.001)	(0.010)
Observations	1,698	1,372	1,698	1,590	943
R-squared	0.682	0.816	0.847	0.808	0.971
Controls	YES	YES	YES	YES	YES
Year-Province FE	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES

Table 5. The Effects of Powerful Politicians During Crises.

Results

- Using the Chinese local political arrangement, we find that:
  - Concentrated power reduces average economic growth.
  - Fiscal policy is the key channel:
    - Reallocate budget expenditures, initiate large-scale investment projects, employ irregular PPP-based financing.
    - Favors politically connected agents (state sector)
    - Leads to resource misallocation
  - However, it helps buffer external shocks.
- Key takeaway: Assigning powerful politicians involves an economic trade-off

Contact

Zeyang Jin
School of Finance and Business, Shanghai Normal University
Email: jinzy@shnu.edu.cn
Phone: +86 17621213255

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