Culture and Privatization: The Agricultural Legacy and Politicians’ Decisions in China
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Abstract

- We examine the role of local politicians’ cultural attributes, in particular individualism vs. collectivism, in their policy decisions on the massive privatization of China’s state-owned enterprises (SOEs).
- Drawing on the well-documented link between wheat cultivation and individualistic culture, we employ the soil suitability for wheat relative to rice in their birth places to measure Municipal Party Secretaries’ (MPS) individualism. We find that individualistic MPS introduced more private ownership and were more likely to transfer control rights to private owners in privatization. We further show that MPS individualism had little effect on the efficiency gains of privatization.
- Our findings highlight an important factor—politicians’ cultural attributes—in shaping China’s privatization.

Baseline Results

<table>
<thead>
<tr>
<th>Dep. Vars.</th>
<th>Private share</th>
<th>Private dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat-rice ratio</td>
<td>0.560**</td>
<td>0.679***</td>
</tr>
<tr>
<td>Firm Controls</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>MPS Controls</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>City FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>299,151</td>
<td>299,151</td>
</tr>
<tr>
<td>N</td>
<td>0.4364</td>
<td>0.4397</td>
</tr>
</tbody>
</table>

We find that individualistic MPS introduced more private ownership and were more likely to transfer control rights to private owners in privatization.

Further Analysis

- Robustness checks:
  - Alternative privatization definitions
  - Alternative agricultural suitability measures
  - Placebo tests using provincial and central SOEs
  - Control for firm fixed effects
  - City Mayor’s individualism
  - A fuzzy regression discontinuity (RD) design by exploiting the variations in traditional farming practices generated by a natural geographic boundary in China
  - Check whether the assignment of MPS workplace was influenced by the farming practices in their birth places (Personnel selection)

Hypothesis: Individualistic politicians are more likely to privatize SOEs.

Further Analysis

- Heterogeneous effects
  - Test whether the effect of MPS individualism on privatization varies with MPS’s personal characteristics
  - City characteristics

Understanding mechanisms

- Using household surveys and focusing on members of the Chinese Communist Party (a group of individuals comparable to MPS), we examine whether wheat cultivation could influence one’s attitude toward the role of government in the economy.

Control

- We contribute to the literature on privatization. Different from existing studies focusing on economic and financial factors, we document that politicians’ cultural attributes can be an important determinant of privatization.
- Our study relates to the research on the policy impact of politicians’ personal characteristics. The existing research has emphasized the importance of politicians’ personal characteristics in economic growth and institutional transformation. We focus on the influence of politicians’ individualism in their privatization decisions while in office.
- We add to the broader literature on cultural traits and economic outcomes. Our findings regarding the impact of individualism vs. collectivism on privatization enrich the literature that emphasizes the persistent and profound impact of culture on economic and financial outcomes.

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References