Discussion: Decentralization, Inequality and Poverty Relief in China

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Conference on the Study of Inequality in China
17 June 2013

The Questions

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Can China's scheme of revenue centralization and expenditure decentralization reduce urban-rural and interregional inequality?

Answer: Not in it's current implementation.

Why not?

Allocation of local government revenues is not directed to poverty-alleviation projects.

A Puzzle

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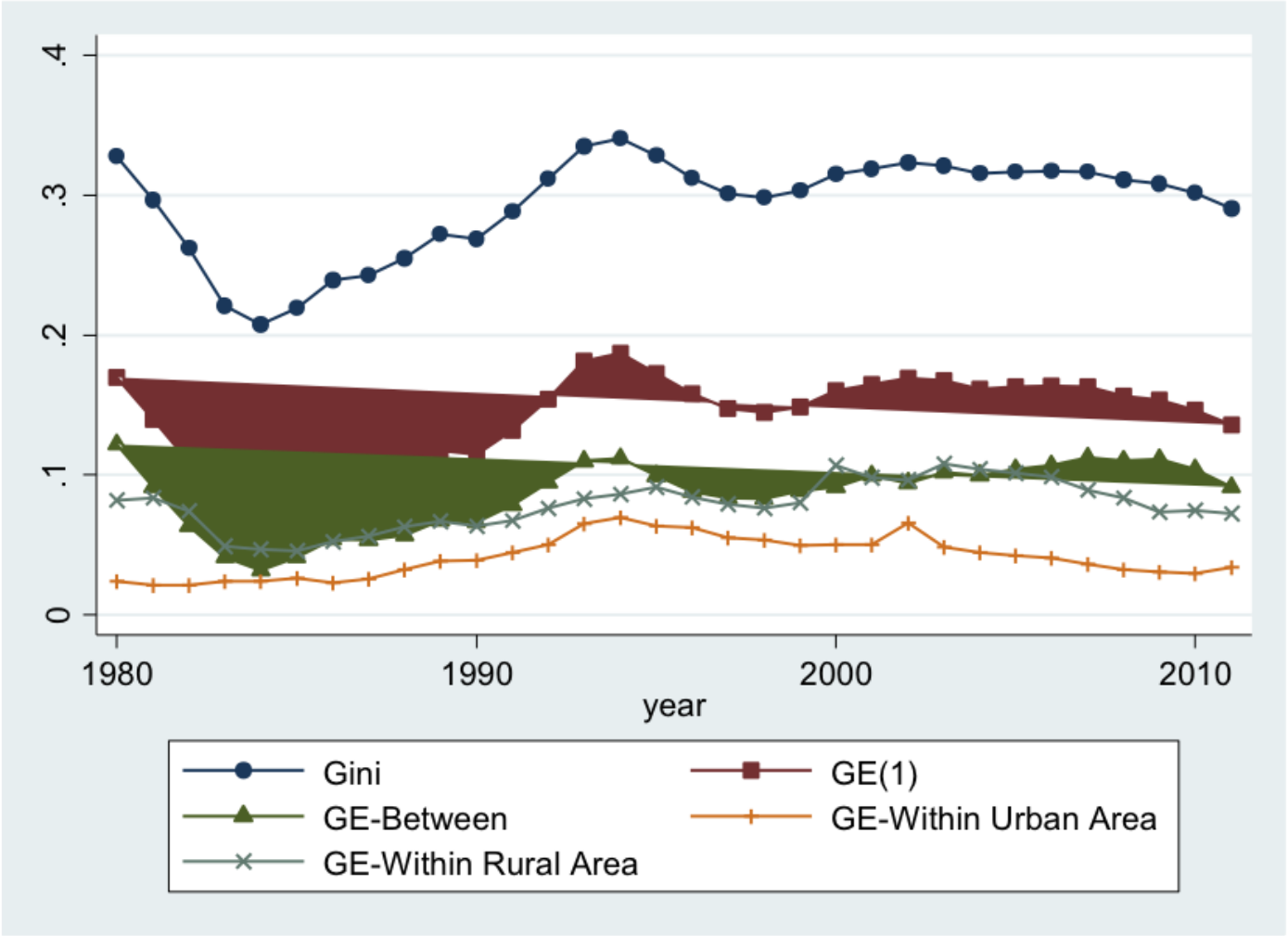
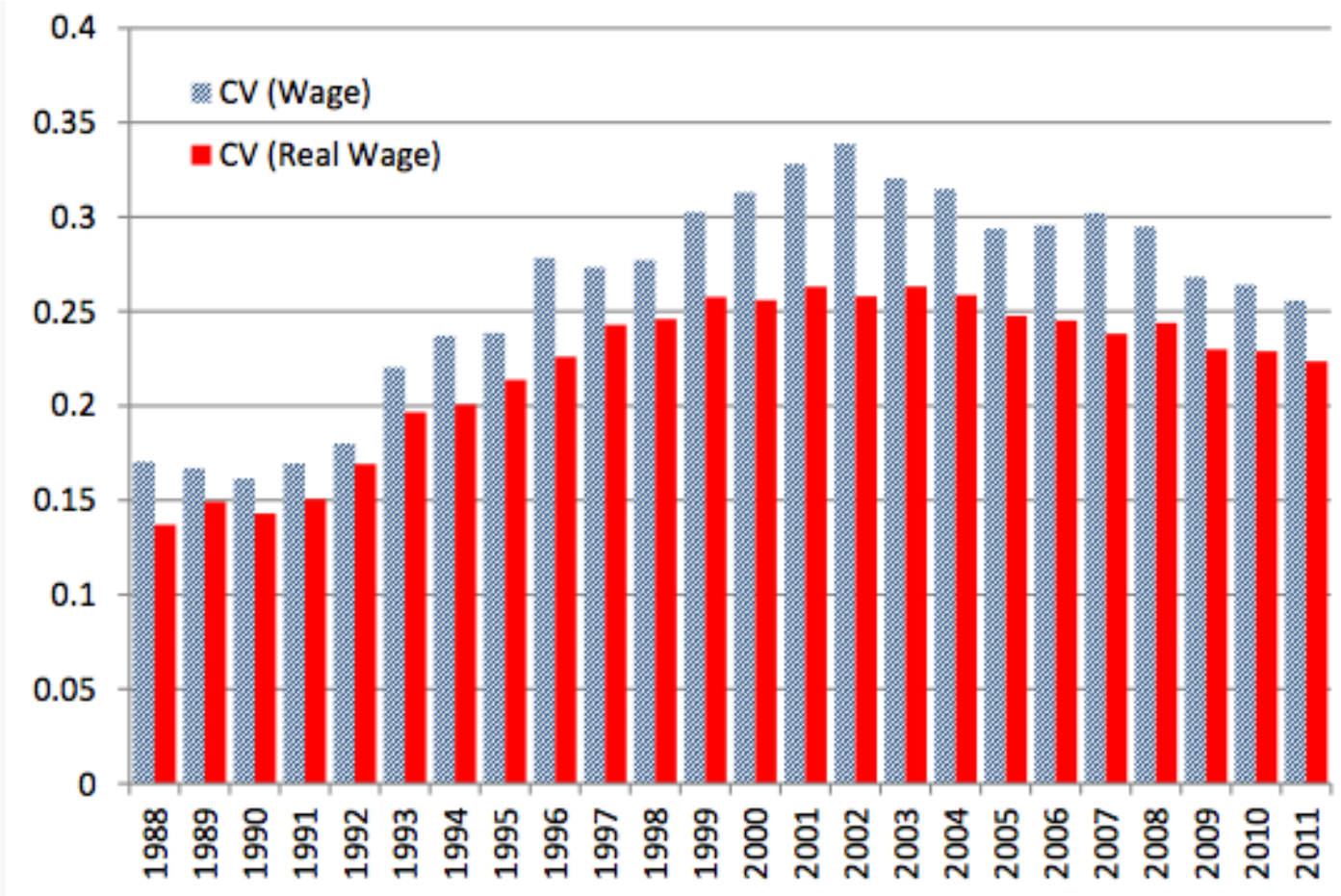


A Puzzle



Christopher Candelaria, Mary Daly, Galina Hale. 2013. "Persistence of Regional Inequality in China." FRBSF

Sources

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- Kuznets
- Market Barriers,
  - Human capital market failures, e.g. Loury
  - Migration barriers
- Political Economy
- Institutions

Consequences — What We Think

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- Distributive justice
- Growth consequences
  - Political economy issues
  - Human capital dynamics
  - Social capital

The Facts

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The facts are that there are no facts about the relationship between inequality and growth.

- There is no systematic relation.
- The models are bad.
- There is a systematic relationship in each country, but each country is unique.

The model

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- The budget constraint:

$$R = I + P(1 - \tau)$$

R — revenue; I — intergovernmental transfer; P — total tax revenue; τ — share of local tax revenue going to central gov't.

- The "behavioral relation"

$$\Delta \log \text{Inequality} = \alpha + \beta \Delta \log \tau + \gamma \Delta \log I$$

- If you assume $\Delta \log P = 0$, then

$$\Delta \log \text{Inequality} = \alpha + \beta \Delta \log \tau + \gamma \Delta \log I$$

The Model

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- Is this a structural model? If not, where does it come from?
- Why is the behavioral relationship stable with respect to governmental policy in the labor market?
- How do I use this model to assess the instruments?

Going Forward

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- What is the impact of local government expenditures on the poor?
- Can the central government align the incentives of local government officials with its income and wealth-distribution goals.

The Elephant in the Room

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