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Coauthored paper with Yiping Wu

"Promoting Misuse: Fiscal Corruption and Organization in China"

Abstract

The economic benefits of fiscal decentralization often falter when applied to authoritarian settings, either because institutions for downward accountability are missing or because incentives for prudent taxing and spending are weak. Even when decentralized authoritarian regimes structure promotion incentives to supplement formal institutions and incentives, they risk stimulating growth while also encouraging corruption. This is especially true when administrative organization is segmented, such that local leaders are directly accountable to superiors but not to constituents and not to central leaders. Under such settings, fiscal decentralization can be a source of collusive corruption at middling levels of administration between superiors and their subordinates. Consequently, recentralization of fiscal accountability could be a potential solution. We test these arguments by focusing on fiscal misuse in China, where a number of recentralization experiments have taken place since the mid-1990s. One particular experiment, "Province Administers County" in Zhejiang, involved separating the link between a subset of counties and their prefectural superiors by placing counties directly under fiscal supervision of provincial authorities. Using county-level data on misuse of public funds and multi-level data on promotion cycles, we show that recentralization significantly reduced misuse rates by severing the link between county-level leaders and their superiors at the city level.