Starving Your Enemies and Your Friends: Career Incentives and Nonlinearity in Intergovernmental Transfers

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Motivation

How does corporate ‘philanthropy’ influence the governments whose services they are supplementing?

The Short Answer

It creates incentives for the central government to “starve” both disloyal and very loyal subnational governments of funding. The disloyal will not follow directions. The very loyal cannot credibly threaten to displease the central government.

Background

1. Subnational governments provide services, rely on central government funding.
2. Central governments are concerned with their priorities being addressed.
3. Subnational executives are driven by career incentives.
4. Those driven more by career incentives may be more eager to please the central government.
5. MNCs provide goods if there is a profit motive (e.g., if they need to).
6. Subnational governments bear a cost for partnering with the MNC.

Prediction: Under Normal Circumstances

Central Government $\rightarrow$ Prediction $\rightarrow$ Goods and Services

Local Government $\rightarrow$ Prediction $\rightarrow$ Goods and Services

Prediction: With Sufficient Corporate Presence

Central Government $\rightarrow$ Prediction $\rightarrow$ Goods and Services

Local Government $\rightarrow$ Prediction $\rightarrow$ Goods and Services

Bayesian Model: More Holistic Test of Theory

OLS Simulations: Very Certain*** Wrong Answers

Data

• Sample: China, India, Indonesia, and the Philippines from 2000-2015.
• Dependent Variable: Transfers Per Capita (in single units of country currency), lagged
• Independent Variable: career concerns, as proxied for by age.
• Threshold Variable ($z^*$): ‘Degree of corporate involvement’. Prop. of land covered by factories from 20 largest MNCs.
• Executive Controls: Appointed/elected, party, ethnicity, religion.
• Provincial Controls: Development (KFCs and Pizza Huts per capita), upcoming national election, upcoming local election, relative tax capacity, natural disaster damage, NGO factories from 20 largest MNCs.
• Constants in DGP ($b_i, b_0$) replaced with country and year random effects.

Results

Figure 1: Data generated 1000 times according to theoretical DGP. Each time, both an OLS regression and an OLS regression with a quadratic term were run and the coefficients recorded. All coefficients are statistically significant at the p < .01 level.

Figure 2: True values of parameters denoted by dotted lines. Thick lines are 25-75% bounds, and thin lines are 2.5-97.5% bounds. 100% of parameters have an R-hat of 1.01 or 1.00 after 25,000 iterations. Half of the iterations are discarded as a burn-in period.