

# DISCUSSION

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## Local Public Service Provision and Spatial Inequality

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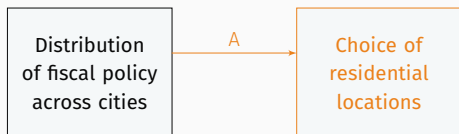


- 1 Large spatial variation in fiscal policy across cities:
  - ▶ Primary and secondary school teachers (per 10,000): 37 to 185.
  - ▶ Doctors: 6 to 91.
  - ▶ Hospital beds: 14 to 175.
  - ▶ Overall: 48 times higher per capita spending in richest province relative to poorest.
- 2 *Causal* effect of fiscal policy on structure of cities:
  - ▶ 1 SD higher spending  $\Rightarrow$  **0.25** SD lower spatial income inequality.
  - ▶ Effect is driven by education spending and transportation infrastructure.
  - ▶ No role for healthcare provision.

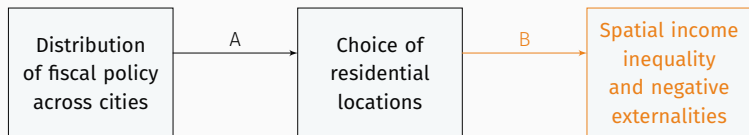
# THE MODEL

Distribution  
of fiscal policy  
across cities

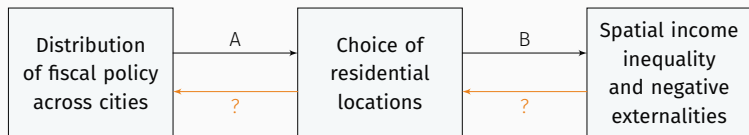
# THE MODEL



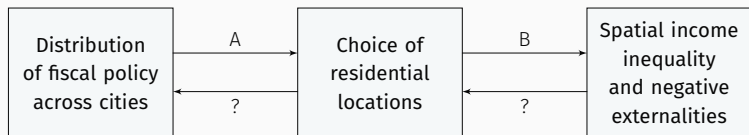
# THE MODEL



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# THE MODEL



**Data:** Urban Household Survey (2007).

**Identification:** Pre-determined (2002) measures of resource allocation.

- 1 What explains different provision of public goods?
  - ▶ Is cross-city distribution of fiscal policy truly random?
  - ▶ Seems unrelated to average neighbourhood income - why?
  - ▶ Given that political influence is so important, is city structure driven by the movement of people or by the preferences of bureaucrats/location choices of SOEs?



## ② Real estate channel

- ▶ "Market-driven residential development facilitates income sorting".
- ▶ "Promoting inclusive land-use policies are important for promoting equal opportunities".
- ▶ Role of real estate development: a **transmission channel** or a new set of policies?

- 1 Urban Household Survey available since 1986
  - ▶ Cross-sectional regression of *changes* in spending.
  - ▶ Possibility to exploit 1994 fiscal re-allocation between local and central government.
  - ▶ Persistence and adjustment lags?

## 2 Calculation of $R^2$ net of characteristics

Current technique:

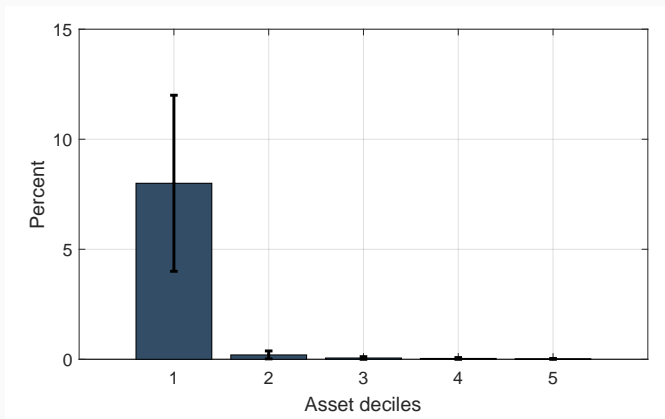
$$y_{i,k} = \underbrace{\alpha_k}_{\text{Income sorting}} + \varepsilon_{i,k}.$$

Alternative:

$$y_{i,k} = \underbrace{\alpha_k}_{\text{Residual income sorting}} + \underbrace{\beta X_{i,k}}_{\text{Demographic characteristics}} + \varepsilon_{i,k}.$$

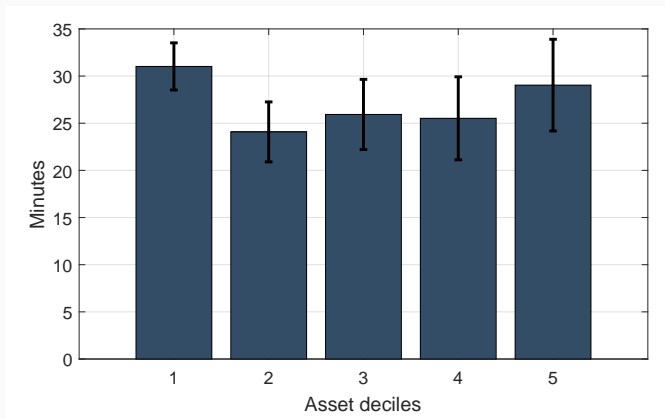
# RESULTS FROM CHFS

Average spending on transportation services,  
as a share of total assets



# RESULTS FROM CHFS

Time spent from your house to the nearest city/county center



## Estimation result

$$\text{Distance to city center} = \alpha + \beta \log(\text{Assets}) + \underbrace{\gamma \log(\text{Assets}) \cdot 1_{\text{social}}}_{\text{Social inclusion effect}} + u_i.$$

|                         |         |
|-------------------------|---------|
| Linear effect           | -0.77** |
| Social inclusion effect | 0.21    |
| $R^2$                   | 0.01    |
| Obs.                    | 889     |

# CONCLUSION

- 1 Convincing evidence: robust relationship between the quality of local public services and spatial inequality within Chinese cities.
- 2 Towards causality: exploit dynamics/repeated cross-sectional dimension.
- 3 Heterogeneity in local fiscal policies: great potential ahead.
- 4 Understanding/embedding the mechanism in the main empirical specification.