Powerful Politicians and Their Economic Impact

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Abstract

Motivated by the recent “Trump 2.0” election, this paper examines a distinctive political arrangement in Chinese cities to assess the economic consequences of powerful politicians. Exploiting variation in whether local leaders concurrently hold both executive and legislative positions, we show that cities governed by such powerful politicians experience significantly slower economic growth than those with a separation of powers. We attribute this decline to fiscal policy distortions: leaders with concentrated authority are more likely to reallocate budget expenditures, initiate large-scale investment projects, employ irregular PPP-based financing, and favor politically connected economic agents, thereby worsening resource misallocation. Although power concentration raises local debt levels and borrowing costs, it also facilitates more decisive countercyclical responses during economic downturns, partially mitigating its adverse effects in crisis periods.

Research Questions

1. What is the economic impact of powerful politicians?
2. What is the transmission channel?
3. What is the economic tradeoff?

Approach

Use a Unique Local Political Arrangement in China

- Executive power is effectively controlled by the Communist Party.
- Legislative power is held by People’s Congress (supervision, fiscal plan approval).
- Powerful politicians are **Party Secretaries** who also chair the Congress.
- Political arrangements in China.
  - Central level: separation of power
  - Provincial level: concentration of power
  - **City level**: No clear rules
  - County level: separation of power

Figure 1. Share of Powerful Politician: 1998-2022.

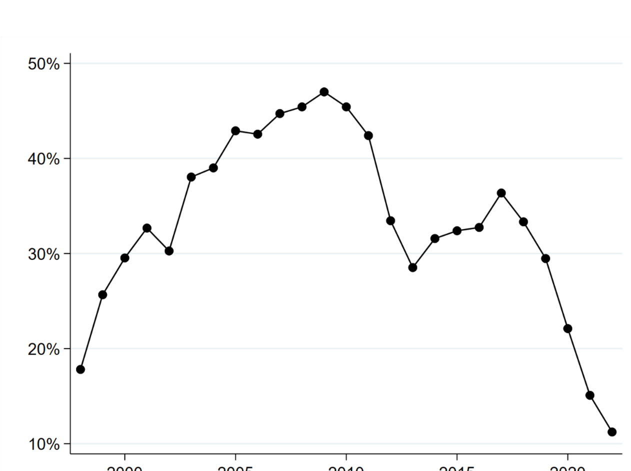
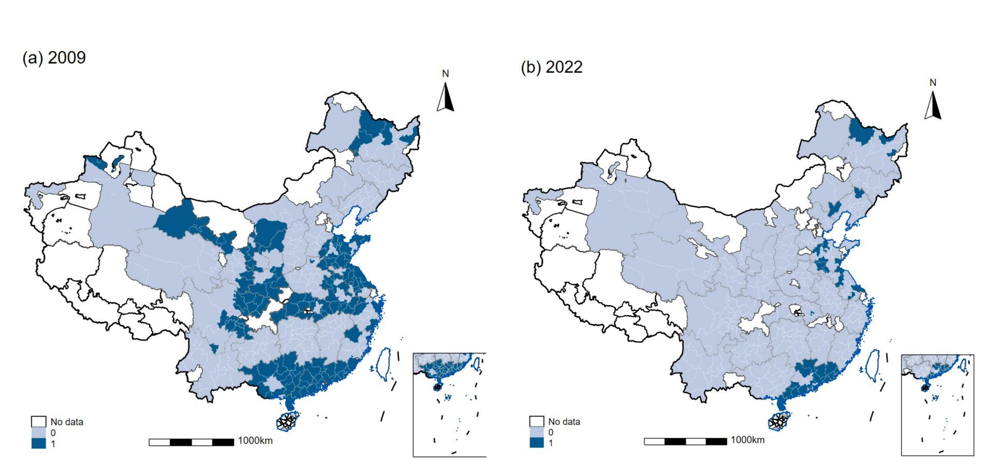


Figure 2. Geographical Distribution.



	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. variable: Powerful Politician	Full sample(lag 1 period)				Secretary turnover window(lag 1 period)			
Economic factor								
GDP per capita	0.068	0.065	0.061	0.077	-0.11	-0.104	-0.109	-0.096
	(0.061)	(0.061)	(0.062)	(0.059)	(0.117)	(0.118)	(0.118)	(0.118)
Population	0.248	0.253	0.262	0.261	0.035	0.05	0.077	0.08
	(0.252)	(0.251)	(0.252)	(0.244)	(0.249)	(0.248)	(0.251)	(0.253)
Primary sector	0.003	0.003	0.002	0.003	-0.003	-0.003	-0.003	-0.004
	(0.004)	(0.004)	(0.004)	(0.004)	(0.007)	(0.007)	(0.007)	(0.007)
Secondary sector	0.000	0.000	0.000	0.000	0.003	0.003	0.003	0.002
Secretary information	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Male		-0.064**	-0.064**	-0.071**		-0.011	-0.016	-0.018
		(0.029)	(0.030)	(0.028)		(0.044)	(0.044)	(0.044)
Ethnic		-0.017	-0.017	-0.023		0.011	0.012	0.006
		(0.022)	(0.022)	(0.023)		(0.047)	(0.047)	(0.047)
Age			-0.001	0.003			0.001	0.004
Congress chairman information			(0.002)	(0.002)			(0.003)	(0.003)
Ave. age in peer cities				0.099***				0.056**
				(0.017)				(0.024)
Year × Province FE	YES	YES	YES	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	4,651	4,646	4,629	4,629	1,116	1,113	1,107	1,107
R-squared	0.791	0.792	0.792	0.801	0.844	0.844	0.847	0.848

Table 1. The determinants of Powerful Local Politicians.

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Hypothesis 1. **Powerful politicians lower average economic growth.**

$$GDP\ Growth_{c,t} = \beta * Powerful\ Politician_{c,t} + \text{Controls}_{c,t} + \varepsilon_{c,t}$$

Dep. Variables	(1) GDP growth	(2) Consumption	(3) Fixed asset	(4) Real state	(5) FDI	(6) Public employments
Powerful Politician	-0.329**	0.005	-0.034**	-0.003	-0.001	0.023**
	(0.155)	(0.006)	(0.017)	(0.005)	(0.002)	(0.011)
Controls	YES	YES	YES	YES	YES	YES
Year × Province FE	YES	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES	YES
Observations	6,599	4,065	3,122	3,634	3,597	3,435
R-squared	0.791	0.826	0.837	0.754	0.79	0.904

Table 2. Powerful Politicians and GDP Growth.

Hypothesis 2. **Powerful politicians reshape the local economy by reallocating budgets, launching large investment projects, and using irregular PPP financing to favor connected agents, thereby worsening resource misallocation, raising local debt, and increasing borrowing costs.**

	Government expenditure			Government financing			
Dep. Variables	Adjusted budget	Actual budget	Large-scale projects	Irregular PPPs	Debt ratio	Issuance spread	Trading spread
Powerful Politician	0.056**	0.045**	0.147**	0.712**	0.010**	0.276***	0.380***
	(0.024)	(0.022)	(0.066)	(0.336)	(0.004)	(0.071)	(0.100)
Control	YES	YES	YES	YES	YES	YES	YES
Year×Province FE	YES	YES	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES	YES	YES
Observations	983	983	1,228	886	1,900	17,030	29,942
R-squared	0.785	0.798	0.76	0.329	0.842	0.561	0.105

Table 3. Powerful Politicians and Fiscal Policy.

	Manufacturing firms		Listed firms	
	(1)	(2)	(3)	(4)
Powerful Politician × Non-SOE		-0.526*		-0.0047**
		(0.315)		(0.002)
Powerful Politician	-0.303	-0.363	-0.0004	0.0008
	(0.286)	(0.275)	(0.001)	(0.001)
Province×Year	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	1424,437	1424,437	145,620	145,620
R^2	0.276	0.267	0.323	0.306
No. of Cities	277	277	252	252
No. of Years	11	11	23	23

Table 4. Powerful Politicians and Corporate Investment.

Hypothesis 3. **In times of crisis, powerful politicians can cushion the adverse effects of external shocks through the implementation of fiscal policies.**

	(1) GDP growth	(2) Infrastructural Invest.	(3) Real estate Invest.	(4) FDI	(5) Issue debt
*Powerful Duality*Trade Tension*	0.008**	0.178**	0.078**	0.001**	0.089**
	(0.004)	(0.073)	(0.039)	0.000	(0.043)
Trade Tension	-0.006***	-0.007	-0.001	0.001	-0.025**
	(0.001)	(0.021)	(0.014)	(0.001)	(0.010)
Controls	YES	YES	YES	YES	YES
Year×Province FE	YES	YES	YES	YES	YES
City FE	YES	YES	YES	YES	YES
Observations	1,698	1,372	1,698	1,590	943
R-squared	0.682	0.816	0.847	0.808	0.971

Table 5. The Effects of Powerful Politicians During Crises.

Results

- Using the Chinese local political arrangement, we find that:
  - Concentrated power reduces average economic growth.
  - Fiscal policy is the key channel:
    - Reallocates budget expenditures, initiate large-scale investment projects, and employs irregular PPP-based financing
    - Raises local debt levels and borrowing costs
    - Favors politically connected agents (state sector)
    - Leads to resource misallocation
  - However, it helps buffer external shocks.
- Key takeaway: Assigning powerful politicians involves an economic trade-off.