

# Ruling with Ideology: Politician Belief and the Decision to Privatize

MA Linxiang (University of Melbourne)

Correspondence: [linxiangm@student.unimelb.edu.au](mailto:linxiangm@student.unimelb.edu.au)

## Highlights

- Investigates how politician ideology affect policy making in authoritarian regimes
- Proposes micro-founded ideology measure for Chinese provincial leaders
- 1 SD  $\uparrow$  pro-communism ideology  $\Rightarrow$  governor privatizes 1.2% less firms
- Effect through both directly controlled firms and subordinate gov controlled firms
- Party secretary less influential and only through subordinate gov controlled firms

## Introduction

What role does politician's ideology play in authoritarian regimes? I utilize China's privatization of state-owned enterprises (SOEs) around 2000 to address this question for two reasons. First, at stark contrast to the nation's communism ideology, privatization was a highly controversial policy. Second, privatization was designed and implemented by provincial governments who are granted substantial anatomy over regional economic policy-making.

To measure a politician's ideology, I rely on four proxies based on her family composition, educational background, working experience, and personal experience. Then I construct a communism score as the first principal component of them.

I find that other things equal, a one-standard-deviation increase in a provincial governor's (party secretary's) communism score is associated with 1.2% (1.1%, albeit statistically insignificant) less SOEs being privatized. Moreover, governor ideology affects privatization through both provincial owned SOEs and subordinate governments owned SOEs, whereas the secretary ideology operates only through the latter.

I contribute to the literature on the economic consequences of ideology by demonstrating its effect in authoritarian regimes. I enrich the privatization literature by documenting a new fundamental driver. I also show how politicians can shape corporate ownership structure.

## Institutional Background

- Sub-national governments own most SOEs
- Sub-national governments decide privatization

## Hypothesis Development

- **Hypothesis:** Other things equal, a more communism provincial leader is less likely to privatize SOEs under her control.
- **Reasons:**
  - ① Believe state ownership more efficient production form
  - ② State ownership allow more influence over economy
  - ③ Private ownership may contradict personal belief

## Measuring Ideology

- Four Proxies (Indicators):
  - ① *Five Red Categories:* Politicians from social classes favoured by the Chinese Communist Party, instilled with communism through family
  - ② *Marxism Degree-holder:* Politicians hold degrees in a Marxism-related subject, imprinted through education
  - ③ *Served in Central:* Politicians served in the Central government, affected via peers and working environment
  - ④ *Famine non-Dissonance:* Politicians did *not* experience dissonant between famine and drought severity during the Great Famine
- Communism Score: 1st principal component to capture largest common variation - ideology

## Robustness

### Alternative explanations ruled out:

- Communism politicians differ systematically
- Communism politicians assigned to slow down privatization or to preserve state ownership
- Communism politicians receive more resources so no need to privatize

### Further robustness checks:

- Randomization Inference
- Selection-on-Unobservables
- Placebo using Central Gov Owned SOEs

## Conclusion

This paper investigates the role of politician ideology on policy making in authoritarian regimes through the lens of China's privatization reform. Using novel ideology measure, I show that other things equal, provincial governors with stronger communism belief are less likely to privatize SOEs in their jurisdictions. This effect is pronounced for both provincial owned SOEs and subordinate governments owned SOEs.

On the other hand, party secretary ideology affects privatization only through subordinate governments owned SOEs and to a lesser extent than governors. This distinction provides suggestive evidence on the division of labor between the two leaders.

## Author Information

MA Linxiang is a fourth year PhD Candidate from the Department of Finance of the University of Melbourne. His research interests are economic and financial history, political economy, and Chinese economy. The complete paper will be updated on the author's [SSRN page](#).



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ECONOMICS

## Summary of Findings

Provincial governor's ideology is a fundamental impetus to China's privatization through both directly controlled SOEs and subordinate government controlled SOEs. Party secretary's ideology only marginally affects the subordinate government controlled SOEs' privatizations.

## Ideology on Privatization

Main Regression:

$$Pr(Privatize_{ijpt} = 1) = Pr(\beta \text{Communism}_{pt} + \gamma_1 X_{ijp,t-1} + \gamma_2 P_{t-1} + \gamma_3 G_{pt} + \alpha_j + \zeta_p + \delta_t + \varepsilon_{ijpt} > 0)$$

	SEC	GOV	BOTH
Secretary	-0.037		-0.031
Communism	(0.023)		(0.019)
Governor		-0.049**	-0.041**
Communism		(0.020)	(0.017)
Secretary			-0.013
× Governor			(0.055)

- Controls: Firm, Provincial, Politician
- Fixed Effects: Province, Industry, Year
- Standard Errors: clustered by province
- Robust to: other regression forms, FEs, clustering

## Direct vs. Indirect Effects

### Direct: Provincial Gov Owned SOEs

	SEC	GOV	BOTH
Secretary	-0.014		-0.008
Communism	(0.011)		(0.012)
Governor		-0.025**	-0.024*
Communism		(0.009)	(0.012)
Secretary			-0.009
× Governor			(0.025)

### Indirect: Lower Gov owned SOEs

	SEC	GOV	BOTH
Secretary	-0.042*		-0.037*
Communism	(0.024)		(0.020)
Governor		-0.050**	-0.042**
Communism		(0.021)	(0.017)
Secretary			-0.009
× Governor			(0.057)