Corruption and the Allocation of Subsidies in China: the Role of Hometown Preference *

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Abstract

Government subsidies can boost firm performance and growth, but political connections, especially those based on hometowns, can lead to politician-firm corruption and distorted subsidy distribution. This study examines how government subsidies given to firms in politicians' hometowns are affected by anti-corruption efforts. Using a Difference-in-Differences (DiD) approach and China's 2013 anti-corruption inspections as the exogenous shock, I find that the inspection reduces subsidies by 22.6% for firms in cities with a local-born leader. Also, a novel measure of hometown favoritism—quantifying leaders born in each city but serving elsewhere—reveals that each additional leader a city produced before the inspection results in a subsequent 2.2% subsidy reduction. The back-of-the-envelope calculation suggests that the pre-existing corrupt subsidies linked to city leaders' hometowns are estimated to cost about $2.24 billion, or 0.02% of China's GDP. The inspections also reduce ambiguously described subsidies, decrease subsidies generated from firms' illicit business expenses, and lead to increased public spending in the hometowns of affected politicians due to a crowding-out effect of corrupt subsidies. Notably, while hometown firms receive fewer corrupt subsidies post-inspection, their productivity remains unaffected. Overall, these findings suggest that without anti-corruption efforts, the politician-firm *quid pro quo* can distort the allocation of subsidies.

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1 Introduction

Government subsidies are a key tool for boosting firm performance and driving economic growth. Widely implemented across both developed and developing economies, these financial incentives can significantly influence firms' productivity, survival rates, and innovation capacity.[1] For example, China's industrial policy spending and direct subsidies are substantial, amounting to at least 1.73 percent of GDP (approximately $248 billion) (Kennedy et al., 2022), emphasizing the substantial economic significance of subsidies.[2]

However, the very nature of government subsidies implies that they are not always guided by economic efficiency and are particularly vulnerable to corruption. The allocation of subsidies is often discretionary, allowing for potential manipulation by political actors (Fang et al., 2023). Additionally, evaluating the effectiveness of subsidies *ex-post* is challenging, and there are no clear criteria to determine the optimal allocation of subsidies. These factors combine to make subsidy allocation a fertile ground for corrupt practices, which can ultimately diminish the intended economic benefits of subsidies.

One specific channel through which corruption can distort subsidy allocation is politician's hometown favoritism, a phenomenon where politicians show preference for their places of origin. This has been documented in various contexts (Besley et al., 2012; Hodler and Raschky, 2014; Carozzi and Repetto, 2016; Do et al., 2017).[3] In the realm of subsidies, hometown favoritism may manifest as preferential allocation to firms in a politician's birthplace. The shared cultural background and reduced information asymmetry between hometown-connected politicians and firms can lower the transaction costs of corruption, thereby making it an attractive avenue for illicit practices.

Establishing a causal link between hometown favoritism and government subsidy allocation

[1]Specifically, the effect of subsidies includes firm productivity (Bernini and Pellegrini, 2011; Cin et al., 2017; Li et al., 2022; Dvouletỳ et al., 2021); firm survival rate (Désiage et al., 2010; Zhang and Xu, 2019; Ehrl, 2021); firm innovation (González et al., 2005; Clausen, 2009; Herrera and Sánchez-González, 2013; Howell, 2017).

[2]The industrial policy spending in the United States and Japan was 0.39 percent and 0.50 percent of GDP in 2019, respectively.

[3]Extensive literature has examined the role of hometown favoritism in various contexts, including intergovernmental transfers (Carozzi and Repetto, 2016; Kung and Zhou, 2021); government investment (Öhler and Nunnenkamp, 2014; Fiva and Halse, 2016; Do et al., 2017; Shi, 2021); elections (Fisman et al., 2018, 2020); auditing quality of regional government spending (Chu et al., 2021); and the allocation of foreign aid received (Hodler and Raschky, 2014; Bommer et al., 2022).

is challenging due to competing explanations. Specifically, politicians may favor local firms due to corruption or simply because they have better knowledge of these businesses.[4] This study addresses this challenge by focusing on China's 2013 anti-corruption inspections, which were sudden and uniquely uncompromised, coinciding with the political turnover under Xi Jinping.[5] The research investigates whether these robust anti-corruption inspections curtailed the misallocation of subsidies to hometown firms. If subsidies were indeed being allocated to local firms through corrupt politician-firm practices, rather than due to politicians' intimate knowledge of the local firms, a reduction in subsidies should be observed following the anti-corruption crackdown. This research aims to shed light on the mechanisms of hometown favoritism in subsidy allocation and assess the effectiveness of anti-corruption inspections in disrupting such preferential treatment.

China provides a useful setting to study corrupt subsidies in politicians' hometowns. First, the aforementioned anti-corruption efforts can be exploited as a plausibly exogenous and negative shock to the value of political connection, thus allowing me to infer the role of hometown favoritism in facilitating corruption.[6] Second, China's extensive industrial policy spending, combined with the significant discretionary power regional political leaders hold over subsidy allocation—with limited oversight from higher political levels—creates fertile ground for corrupt practices (Pei, 2017; Fang et al., 2023). This discretionary power has often led to widespread *quid pro quo* arrangements between politicians and firms in their hometowns, resulting in the misallocation and misuse of subsidies.

In this paper, I analyze two types of hometown favoritism among political leaders in China: (1) "intra-city favoritism" and (2) "inter-city favoritism." For (1), the intra-city

[4]The primary concern in studying hometown favoritism and subsidy allocation arises from the potential simultaneity between a politician's hometown connections and their knowledge of local firms. This creates a challenge in distinguishing whether subsidies are allocated based on corrupt favoritism or legitimate, non-corrupt reasons, such as a deeper understanding of the firms' capacities and needs.

[5]President Xi announced his anti-corruption campaign in 2012. The campaign is widely used in the literature to examine corruption in China. On an unprecedented scale, more than 392 province-level political leaders, 22,000 prefecture-level leaders, and 170,000 at the county-level were investigated and inspected by the central government after the announcement of the anti-corruption campaign. In addition to politicians, firms were also inspected by the central inspection team.

[6]Xi's campaign is considered more sustained and far-reaching than those of his predecessors. Previous anti-corruption efforts, such as those under Jiang Zemin and Hu Jintao, were generally seen as less ambitious and more focused on specific cases or periods. Furthermore, the scale and intensity of Xi's campaign are generally considered to be greater than anti-corruption efforts in most other countries in that time.

favoritism occurs when a city party secretary or mayor serves in their native prefecture city (hereafter "Hometown Leader").[7] [8] The local-born leader favoritism is a typical measure of localized hometown favoritism, as it allows for direct observation of preferential treatment within a leader's jurisdiction of origin.[9] For (2), the inter-city favoritism, a novel measure introduced in this study, is based on the number of city party secretaries and mayors a prefecture city produces who serve in other prefecture cities (hereafter "Leader #"). I include this second type to account for the fact that Chinese politicians' influence on government subsidy allocation often extends beyond their current jurisdictions.[10]

I find that the anti-corruption inspection leads to a 22.6% decrease in the amount of each subsidy allocation for firms located in the prefecture cities that had at least one local-born leader prior to the inspection. For the results of the second type of hometown favoritism, each additional leader a prefecture city produced who served elsewhere prior to the inspection led to a 2.2% decrease in subsidy allocation for firms in that city. Back-of-the-envelope calculations indicate that the anti-corruption inspection reduced overall firm subsidies by 5.64%, with 1.55% attributed to the first type of favoritism and 4.09% to the second. This shows the widespread corruption induced by politician's hometown favoritism, suggesting the importance of the novel second type. Moreover, these calculations suggest that the costs associated with affected pre-existing corrupt subsidies amount to approximately $2.24 billion (0.02% of China's GDP).

I explore the mechanism through which anti-corruption efforts impact subsidies for firms located in politicians' hometowns, revealing three key insights. First, anti-corruption

[7] A hometown leader refers to an individual who was born, raised, and eventually appointed as the main city-level leader of their native city.

[8] In China's governance structure, (1) the city mayor heads the local government, focusing on administrative and executive functions, day-to-day operations, and public administration; (2) the city party secretary, a high-ranking position within the Communist Party of China (CPC), holds considerable power and primarily ensures the implementation of CPC policies and directives. While the city party secretary's authority often supersedes that of the mayor, decisions on firm subsidy allocation typically involve both officials.

[9] Intra-city favoritism refers to the tendency of politicians to disproportionately benefit their place of origin when assigned leadership roles within their native city or prefecture. This can manifest through preferential allocation of resources, government subsidies, or policy benefits to specific areas or entities within the leader's hometown.

[10] Firms in China can receive government subsidies from various sources, including their local city government and the governments of other cities. This allows for an examination of subsidies allocated by politicians to their hometowns, even when they are not the current leaders of those hometowns. This phenomenon is analogous to "pork barrel" politics in electoral systems, despite the absence of explicit electoral incentives in China.

inspections have a significant heterogeneous effect on corrupt subsidies, while legitimate subsidies remain unaffected, suggesting corruption as the primary mechanism for preferential allocation rather than better local knowledge.[11] Second, I find a significant decrease in the correlation between firms' entertainment and travel costs—often associated with corruption (Cai et al., 2011; Fang et al., 2023)—and subsidies in inspected hometowns, indicating these firm expenses were likely used as bribes to secure subsidies from politicians. Third, inspections increase city public spending in areas with local-born leaders, implying that pre-existing corrupt subsidies were crowding out local fiscal expenditure.

I rule out an important alternative hypothesis by demonstrating that, despite a significant reduction in subsidies to politicians' hometowns, the average productivity of local firms remains largely unchanged. This suggests that the pre-existing subsidies for hometown-connected firms, potentially influenced by politician-firm corruption, were ineffective in raising firm productivity. Consequently, this evidence counters the alternative hypothesis that anti-corruption efforts unnecessarily reduced effective subsidies. Moreover, it further provides suggestive evidence that corruption is the main mechanism driving preferential treatment in politicians' hometowns.

This paper addresses three strands of literature. First, it relates to the literature on the role of hometown favoritism. As already mentioned, a large amount of literature has analyzed the role of hometown favoritism in various outcomes.

I contribute to this strand of literature in three ways. First, while most existing literature relates to hometown favoritism and outcomes in the public sector, I focus more on private-sector firms, providing novel evidence on the reciprocity between political leaders and hometown-connected firms. Second, I introduce a new measure of hometown favoritism that goes beyond the typical local-born leader metric. By quantifying how many leaders were born in each prefecture-level city while serving in other cities, I find that corruption in a prefecture city increases as it produces more city party secretaries and mayors who influence resource allocation elsewhere. This suggests that hometown connections encourage politician-firm reciprocity and corruption even without geographical proximity. Third, in the context of

[11] Corrupt subsidies are defined as those with ambiguous descriptions, e.g., subsidies simply labeled as "Government Subsidy." Legitimate subsidies, in contrast, typically contain specific details, including the subsidized program, the source of the subsidy, and the timeline for disbursement.

China, where there are no explicit electoral incentives for politicians to favor local voters, as political leaders are only appointed by their superiors and peers, I find that political leaders still favor their hometown firms, suggesting a role of non-election-related reciprocity between political leaders and hometown-connected firms.

It is important to note that this paper is not the first to examine negative shocks to political connections based on a politician's hometown. In particular, recent work by Chu et al. (2021) employs a similar approach to investigate the effect of hometown favoritism on the number of suspicious government expenditures. Their groundbreaking work focused primarily on public sector interactions. This paper extends and complements their paper by examining the dynamics of public-private sector interactions, thereby offering a more comprehensive understanding of hometown favoritism's effects across diverse economic domains.

The second strand of literature this paper contributes to concerns the effects of anti-corruption efforts. Previous studies have examined how anti-corruption measures impact firm R&D expenditures and subsidies (Xu and Yano, 2017; Fang et al., 2023); land resource discounts (Chen and Kung, 2019); regional entrepreneurship (Kong and Qin, 2021; Colonnelli and Prem, 2022). My causal evidence demonstrates that firms connected to political leaders suffer from anti-corruption inspections, which is consistent with a large body of literature. The study most closely related to this paper in this literature is Fang et al. (2023), which finds that the allocation of R&D subsidies became more merit-based and less influenced by corruption following the anti-corruption campaign. However, this paper differs by focusing on a crucial yet understudied aspect: the hometown favoritism of political leaders. To the best of my knowledge, no existing paper has examined the relationship between corruption induced by politicians' hometown favoritism and government subsidies.

The third strand of literature to which this paper contributes is the effect of political connection. This body of research has consistently shown that political ties can substantially influence various aspects of firm operations and outcomes: firm returns (Fisman, 2001; Faccio, 2006); access to bank loans and capital markets (Li et al., 2008; Piotroski and Zhang, 2014; Cull et al., 2015); regulatory oversight on firms (Yu and Yuan, 2011; Correia, 2014). My paper extends this literature by examining hometown ties as a significant form of political connection, particularly in the allocation of government subsidies. I introduce two measures of hometown

favoritism that captures both direct and indirect political connections, including those of leaders serving outside their birthplace. By focusing on China and examining the effects of anti-corruption efforts, I demonstrate how political favoritism persists in non-democratic contexts and how institutional changes can affect the value of political ties. This paper offers a subtle understanding of the mechanisms through which political connections benefit firms and how these benefits may be vulnerable to anti-corruption efforts.[12]

The paper is organized as follows: Section 2 provides background information on anti-corruption inspections, government subsidies, and the conceptual framework of hometown favoritism. Section 3 describes the data. Section 4 outlines the empirical strategy. Section 5 presents the main results of the paper. Section 6 discusses additional analyses. In appendix, I have a set of robustness checks.

2 Background

First, I explain the institutional background of the hometown favoritism of political leaders in China. Second, I discuss the allocation process of subsidies in China, which may be linked to potential corruption and rent-seeking activity. Third, I explain President Xi's anti-corruption campaign and the accompanying anti-corruption inspections.

2.1 Hometown Favoritism in China

The hometown favoritism in China stems from two main aspects and has influenced the interactions between bureaucracies and firms in China for decades. The first pertains to social identity and self-categorization that arise from cultural proximity and geographical affinity, facilitating information flows between Chinese political leaders and firms. Less Information asymmetry is among individuals born in the same origin with similar beliefs, languages, and

[12]This paper builds upon the seminal work of Fisman (2001) by using a sudden and uniquely uncompromised shock to the value of political connections. While Fisman (2001) relies on news about President Suharto's health as a source of variation, this paper leverages the staggered anti-corruption inspections, which may provide a direct and targeted shock to the value of political connections. This approach may allow for a relatively more precise estimation of the effects of political connections on firm outcomes, addressing some limitations in previous literature.

ethnicities, as it is simpler to observe peers' behavior and preferences.[13] A large amount of literature also supports the role of affinity and proximity.[14]

The second aspect, which is the main focus of this study, concerns the reduced transaction costs of corruption in politicians' hometowns. If political leaders currently serve in their hometown city, the cost of colluding with local firms could be lower than that of other non-hometown political leaders. This aspect stems primarily from less information asymmetry, which fosters trust between political leaders and firms in prefecture cities with hometown leaders. As corruption-related deals are always costly (Shleifer and Vishny, 1994; Lambsdorff, 2002; Dong and Torgler, 2013; Kwong, 2015), reducing transaction costs could encourage collusion between political leaders and firms and provide preferential treatment to in-group individuals for personal benefits.

In a parallel vein, if a prefecture city could produce more leaders, firms headquartered in that prefecture may receive preferential treatment over counterparts for two reasons. First, leaders from other cities influence the allocation decision of the leader serving in their hometown. Local leaders are responsible for allocation decisions; however, the influence of leaders from other cities on these decisions is noteworthy due to the interplay of local leaders' social and political incentives. For example, the Chinese leader's promotion partially depends on connections amongst political leaders because local People's Congresses hold the political elections in leaders' jurisdictions. Semi-retired political leaders mainly fill the seats of members of the local People's Congresses, e.g., the person who served other cities as a leader and is now a member of the congress in her hometown prefecture city. Favor exchange amongst political leaders is thus reasonable and can affect public resource allocation. Second, firms linked to a larger cohort of generated leaders from the hometown city could expand their resource access. This extends beyond resources allocated solely by their headquarters' prefecture city, encompassing resources derived from other cities as well.

Hometown favoritism has also drawn the attention of the Chinese government. Wang

[13]For example, Shi (2021) finds that Chinese political leaders reduce the entry barriers for investors from their hometown due to lower information asymmetry.

[14]For example, effects on labor market outcomes (Goldin and Rouse, 2000; Bertrand and Mullainathan, 2004; Charles and Guryan, 2008); cultural proximity on loan outcomes (Fafchamps, 2000; Blanchflower et al., 2003; Fisman, 2003; Pope and Sydnor, 2011; Du et al., 2017; Fisman et al., 2017). For example, Fisman et al. (2017) find that cultural proximity decreases information friction between lenders and borrowers. As a natural result, lenders tend to lend money to borrowers who are close to them.

Qishan, a loyalist of President Xi, reshuffled the Discipline Inspection Commissions (DIC) leadership in most prefecture cities and made the DICs have fewer hometown directors after 2013.[15]

2.2 Subsidy Allocation in China

China adopts large-scale subsidy policies to improve firm performance. In 2018, the total allocated subsidies to Chinese listed firms were RMB 153.8 billion ($23.6 billion), which suggests that, on average, each listed firm could receive more than RMB 38.5 million ($5.92 million) in government subsidies.

Nearly all subsidy allocations to listed firms are originally lodged at the prefecture city level.[16] The granting of subsidies is mainly decided by a prefecture city's finance department, especially the amount of each distribution and the receiving firms. However, as subsidies for firms are a type of discretionary government spending, the allocation decision made by the department must have the local government's stamp of approval. This approval, however, is contingent on the city's party secretary and mayor, who hold prominent positions at the prefecture city level. These political leaders wield the authority to sanction or dismiss subsidy applications from the finance department. The practical power given to political leaders leads to a situation where they are directly involved in the selection process for the subsidy beneficiaries, which creates sufficient incentives for firms to bribe and cultivate a good relationship with those political leaders.

Furthermore, local governments' decentralization and high degree of autonomy have further intensified corruption in subsidy allocation. According to Pei (2017), the economic reform that started at the end of the 1970s led the local governments to obtain more administrative power over public resources, e.g., government funds. While the local government must submit the decision of subsidy allocation to the higher-level government, e.g., the provincial government, the lenient upper-level oversight, and the regional autonomy make it almost

[15]Discipline Inspection Commissions (DIC) is the regional subordinate of CCDI, which plays a role similar to CCDI.

[16]Figure A.1 shows the organizational chart of the allocation process of subsidy.

impossible for submitted applications to be rejected by the provincial government. [17] The approval process for subsidy applications follows a pyramidal structure, but city-level leaders play a role as gatekeepers of applications. Fang et al. (2023) corroborate the preceding point by noting that the higher-level government rarely denies resource allocation decisions made by the lower-level government. Therefore, the criteria for getting government subsidies or the selection of beneficiaries could fluctuate among different regional governments and be altered to suit a leader's preferences.

2.3 Anti-corruption Inspections

Since late 2012, the Central Commission for Discipline Inspection (CCDI), an organization set up to detect corruption, has disclosed the investigations of corrupt government political leaders and firm directors to the public. Starting in May 2013, the CCDI dispatched several inspection teams to different provinces and enterprises for audits and inspections. All provinces underwent anti-corruption inspections by the end of 2015.[18]

The anti-corruption inspections were more thorough than any predecessors. Since President Xi took office, the higher authorities probed 392 provincial leaders, 22,000 prefecture-city leaders, and 170,000 county leaders. Xi's anti-corruption campaign has become a central hallmark of his term in office.

Xi's anti-corruption campaign imposes stringent oversight on local government accounting in China. Any suspicious subsidy allocation to a firm could result in investigations by the CCDI, raising political leaders' probability of being expelled.

3 Data

In this section, I present the data construction and source as well as the most salient trends in my data.

[17] Government in China consists of four separate levels: (1) central government; (2) provincial government; (3) prefectural (city) government; (4) county government. A prefecture city is a smaller administrative division of a province.

[18] Table A.2 illustrates detailed information on anti-corruption inspections, e.g., timeline.

3.1 Subsidy Allocation Data

The main data set used in this paper consists of subsidy allocation information merged with publicly listed Chinese firm-level data from 2009 to 2018.[19] These data sets are sourced from the China Stock Market & Accounting Research Database (CSMAR). I excluded firms flagged for special status or financial abnormalities, such as those designated as ST and PT.[20]

For each subsidy allocation, the data includes information on the recipient firm, a description of the subsidy, the amount allocated, and the year of allocation. I further refine the subsidy allocation data by excluding allocations described as "tax refund." In China, tax refunds for listed firms are considered a type of government subsidy, so they were removed from the data set. Finally, I compute the log value of the firm's allocated subsidies in year t, denoted as Log(Subsidy).

Additionally, the main data set includes firm-level information such as firm address, age, assets, state ownership status, return on assets, and leverage. I use firm-level data prior to the inspections to avoid changes in these variables resulting from anti-corruption inspections. These variables are also obtained from CSMAR.

3.2 Hometown Favoritism Status from Political Leader's Biography

In this section, I discuss the two variables measuring the degree of hometown favoritism by politicians.

3.2.1 Intra-city Hometown Favoritism by Political Leaders

I include an indicator variable for a prefecture city that had a local-born city party secretary or mayor, denoted as Hometown $\text{Leader}_{i,c,2009-2013}$, indicating firm i is located in prefecture

[19] Chinese listed firms only began disclosing detailed information on their government subsidies after 2007. Therefore, this study focuses on the period from 2009 to 2018.

[20] An ST firm is under "special treatment" by the authorities due to financial abnormalities. PT stands for "particular transfer," indicating that a firm is nearing exit.

city c that had at least one local-born party secretary or mayor during 2009 to 2013.[21] To construct the variable, I manually matched leaders' serving places and their birthplaces in the period 2009-2013, following the leaders' biographies.[22] The variable takes the value of one for a prefecture city if a leader's jurisdiction aligns with her birthplace, and she held leadership in her hometown from 2009 to 2013. Suppose some firms headquartered in that prefecture city, the firm is hometown-preferred by the hometown leader, and the indicator for hometown favoritism applies to those firms.[23] As firms and leaders were in the same city, the proximity may foster stronger personal connections and potential favoritism, hence the term "intra-city hometown favoritism." Figure 2a illustrates the prefecture cities that had a hometown leader in China.

3.2.2 Inter-city Hometown Favoritism by Political Leaders

I further consider the intensity of hometown favoritism by calculating the average number of party secretaries and mayor who were born in prefecture city c and serving in other cities during 2009 to 2013, denoting as Leader $\#_{i,c,2009-2013}$.[24][25] While the measure, Leader $\#_{i,c,2009-2013}$, is different from Hometown Leader$_{i,c,2009-2013}$, it captures the degree of hometown favoritism within each prefecture. It is natural to assume that a prefecture city may receive more preferential treatment from political leaders if it produces more political leaders, as discussed in the Background section. Figure 2 illustrates whether prefecture c housed a local-born leader who served within that prefecture, alongside the average leader count produced by prefecture c from 2009 to 2013. Since firms and politicians have no geographical proximity in

[21] Figure 1 illustrates the trend of city-level leaders serving in their hometowns from 2008 to 2019, which shows a decreasing trend (about 40% from 2013 to 2016) after the anti-corruption inspection in 2013. Therefore, I employ the pre-existing hometown favoritism status before anti-corruption inspections, serving as a strategy to mitigate potential endogeneity concerns. This approach helps address potential confounding factors arising from the association between changes in hometown leaders and changes in anti-corruption efforts.

[22] Some biographies can be accessed from https://ldzl.people.com.cn, a website for political leader information in China. For the missing information, I manually obtained it from Baidu, which is the Chinese version of Google.

[23] Regarding the firm address, the database provides two addresses: (1) where the firm is registered and (2) where the firm is currently located. In this paper, the firm's headquartered address is used.

[24] For example, if prefecture city c produced 5 city-level leaders serving in other cities from 2009-2013, then Leader $\#_{i,c,2009-2013}$ is 1, as $\frac{5\,\text{leaders}}{5\,\text{years}}$.

[25] The variable construction of Leader $\#_{i,c,2009-2013}$ excludes hometown leaders, as I focus on the generated leaders who were serving in other cities.

this type of hometown connection, it is termed "inter-city hometown favoritism." Figure 2b illustrates the number of city-level leaders that each prefecture city produced.

3.3 Anti-corruption Inspections

The other main variable is the staggered anti-corruption inspection. As the inspection is at the province-level, I have the variable $\text{Inspection}_{p,t}$, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years.

3.4 Other Regional Level Variables

I use the following time-varying provincial control variables: (1) GDP per capita, (2) Log(Fiscal Income); (3) Log(Population). The Chinese Statistics Year Books provide the data.

3.5 Summary Statistics and Balance Tests

Panel A of Table 1 and Table 2 presents the summary statistics for the main variables used in this study. Panel B of these tables provides descriptive statistics for the firm and regional controls.

In Table 1, I compare firm-year and province-year attributes between observations with a connection to a hometown leader and those without. Interestingly, the value of Log(Subsidy) for firms connected to a hometown leader is lower than for firms not connected to a hometown leader. This finding might seem counterintuitive to the hypothesis that firms receive greater subsidies from hometown leaders, but these statistics are not conditional on firm size, nor is the sample divided into periods before and after the inspection. Additionally, I find that firms connected to a hometown leader have a higher probability of undergoing anti-corruption inspections, suggesting that regions with hometown leaders might be inspected earlier by the central government. This raises a concern about the exogeneity assumption of the inspections. To address this, I conduct a balance test (see Table A.4) for the early-inspected provinces, which suggests no significant regional differences between early-inspected provinces and

late-inspected provinces.[26]

Furthermore, in Table 2, I compare statistics of firms based in prefecture cities that generated higher leader counts versus those that did not. There are no statistically significant differences between the two types of firms.

There is a natural concern that the political turnover of a leader to serve their hometown may be associated with regional patterns. To address this, I conduct a balance test for hometown favoritism status, examining whether the assignments of Hometown Leader and Leader # correlate with regional characteristics.[27] The results are shown in Table A.3. In columns (1)-(3), the dependent variable is **1**(Hometown Leader), and the independent variables include regional attributes such as GDP per capita, number of firms, population, fiscal income, and others. The only statistically significant coefficient is the employment at the city level using samples before the anti-corruption inspection, but it is only significant at the 10 percent level. In columns (4)-(6), Leader # is regressed on the regional attributes, and after including all controls and fixed effects, no variables are found to be significantly correlated with the assignment of Leader #.

4 Empirical Strategy

I use the Difference-in-Differences method to estimate the effect of anti-corruption inspections on firms' subsidies. The main regression equation takes the following forms:

$$\begin{aligned} Log(Subsidy_{a,i,c,t}) = {} & \alpha_1 Hometown_{c,2009-2013} + \alpha_2 Inspection_{p,t} \\ & + \alpha_3 Hometown_{c,2009-2013} \times Inspection_{p,t} \\ & + X'\beta + \delta_i + \tau_t + \epsilon_{a,i,c,t} \end{aligned} \tag{1}$$

where the subscripts a, i, p, c, and t denote subsidy allocation, firm, province, prefecture city, and year, respectively. Hometown $\text{Leader}_{i,c,2009-2013}$denotes one of the two hometown

[26]I investigate the impact of province-level attributes in 2012 on the likelihood of CCDI inspection in 2013. Notably, none of the province-level attributes from 2012 appear to significantly influence the occurrence of anti-corruption inspections in 2013. Therefore, the concern about the inspection may not be severe here.

[27]In the balance test, I did not use time-invariant hometown favoritism status, e.g., $Leader\,\#_{i,c,2009-2013}$.

favoritism status variables: (1) Hometown Leader$_{i,c,2009-2013}$ denotes whether prefecture city c had at least one local-born city party secretary or mayor during 2009-2013; (2) Leader $\#_{i,c,2009-2013}$ denotes the average count of city-level leader produced by prefecture c during 2009-2013. Inspection$_{p,t}$ is the staggered anti-corruption inspection, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. α_3 is the coefficient of interest, capturing the effects of curbing corruption on hometown-connected firms' subsidy allocation. The vector of the control variables $X'\beta$ encompasses firm scale, whether state-owned enterprise, firm age, leverage, return on asset, province-level GDP per capita, and fiscal income. δ_i denotes firm fixed effects; τ_t denotes year fixed effects; $\epsilon_{i,t}$ is the error term. Standard errors are clustered at the province-level due to the variations in the anti-corruption inspection.

5 Main Results

In this section, I report the baseline results on subsidies for firms with hometown favoritism under anti-corruption efforts.

5.1 Baseline Results

5.1.1 Intra-city Hometown Favoritism: Hometown Leader

In this subsection, I examine the anti-corruption effect on subsidies for firms headquartered in a prefecture city that had at least one local-born city mayor or city party secretary from 2009 to 2013 (intra-city hometown favoritism).

From columns (1) - (3) of Panel A of Table 3, I progressively show the coefficients on the interaction term Hometown Leader $\times$ Inspection. In column (1), I only include pre-firm controls interacting with anti-corruption inspection, firm fixed effects, and year fixed effects. In column (2), I include time-varying provincial controls: GDP per capita and fiscal income. In column (3), I further control for the 2-digit industry-year fixed effects. Across all specifications, the results are negative and statistically significant at the 1 percent level. In column (3), which is the specification with all controls and fixed effects, the estimated

coefficient of Hometown Leader × Inspection is -0.226, suggesting that firms headquartered in the prefecture city that had at least one local-born city party secretary or mayor experienced a 22.6% reduction in allocated subsidies after the anti-corruption inspection.

5.1.2 Inter-city Hometown Favoritism: Leader

In this subsection, I examine the anti-corruption effect on subsidies for firms headquartered in a prefecture city that produced more leaders serving in other cities from 2009 to 2013 (inter-city hometown favoritism). In columns (1) - (3) of Panel B of Table 3, I show the same specification as in Panel A, but the main variable is now Leader $\#_{i,c,2009-2013}$ interacting with $\text{Inspection}_{p,t}$.

Across columns (1) - (3) of Panel B of Table 3, I progressively include provincial controls and 2-digit industry-year fixed effects. In the specification with all controls and fixed effects, I find that if a prefecture city produced one additional city-level leader serving in other cities, firms headquartered in that prefecture city experienced a 2.2% reduction in subsidies after the anti-corruption inspection.

In line with the findings related to intra-city hometown favoritism analysis, the results derived from inter-city analysis exhibit a similar pattern. Following the surge in anti-corruption efforts, hometown-connected firms experienced a reduction in government subsidies, reinforcing the notion of subsidies being associated with corruption.

5.2 Event-study

The differential trends across firms with hometown favoritisms may bias the estimates of the anti-corruption-related analyses. To address this concern, I visualize the dynamic effects of the interaction between Hometown Leader (Leader #) interacting with the relative year to 2013, with the outcome variable Log(Subsidy) and the 95 percent confidence intervals. I follow Roth et al. (2023) to assess unconditional parallel trend assumption (exclude covariates). The following is the event-study equation:

$$Log(Subsidy_{a,i,c,t}) = \sum_{\tau=-5}^{4} Hometown_{i,c,2009-2013} \times \beta_\tau(Periods\,since\,the\,inspection_t) + \delta_i + \tau_t + \epsilon_{a,i,c,t} \quad (2)$$

where the subscripts and definition of variables are the same as above. I set 2013 as the reference year, and all coefficients are relative to this year. As plotted in Figure 3, the estimated coefficients β_τ are fairly constant throughout 2009-2013. It observes a sudden decrease in the estimated coefficients after the anti-corruption inspection, which is a natural consequence of the anti-corruption campaign.

5.3 Heterogeneity in Corrupt Subsidy Allocation

5.3.1 Subsample Analyses

In this subsection, I investigate the correlation between the level of transparency in subsidy descriptions and the allocation amounts based on hometown favoritisms. The findings are categorized into four types of subsidies: (1) descriptions with fewer than 15 Chinese characters (mean value), (2) descriptions with more than the mean value, (3) descriptions without specific program information, and (4) descriptions with specific program information. Table A.1 provides an example of subsidy allocation to a firm.

I categorize subsidies with shorter descriptions as opaque or "corrupt," while those with longer descriptions are considered more transparent. The rationale for this classification is that detailed descriptions typically indicate higher levels of transparency and accountability. Subsidies with minimal descriptions are deemed opaque or "corrupt" due to their lack of sufficient information to justify the allocation of funds. Such opaque descriptions suggest that these subsidies may not be tied to specific projects but are rather the result of corruption between politicians and firms. Politicians may allocate corrupt subsidies by fabricating a short description but cannot fabricate a detailed description that includes a specific program.

I estimate equation 1, restricting the sample to the four subgroups mentioned above. Panel A of Table 4 reports the results for intra-city hometown favoritism (Figure A.2 shows

the event-study results). In column (1), the coefficient on the interaction term Hometown Leader × Inspection is -0.289 for subsidies with less than the average length of description, suggesting that hometown leaders reduce subsidies to firms by 28.9% after the anti-corruption inspection when the subsidy descriptions are opaque. However, as shown in column (2), this anti-corruption effect becomes smaller and statistically insignificant for subsidies with more transparent descriptions. In column (3), I restrict the sample to subsidies without descriptions containing specific program information, and the estimated coefficient is -0.259, suggesting a 25.9% decrease in those subsidies after the anti-corruption inspection, which is a similar pattern to the results in column (1). In column (4), I find no significant effect of anti-corruption inspections on specific subsidies.

Panel B of Table 4 reports the results for inter-city hometown favoritism. A similar pattern emerges, where the interaction term Leader # × Inspection is -0.029, suggesting a 2.9% reduction in subsidies for firms in prefectures that produced one additional city-level leader when the description length is below the mean. Consistent with the results for Hometown Leader, there is no significant effect of anti-corruption inspections on subsidies with longer descriptions. In column (3), the coefficient for subsidies without specific program information is -0.027. In column (4), no significant effect of anti-corruption inspections is found on subsidies with specific program information.

Overall, the findings support the notion that prior to the anti-corruption inspection, subsidies—especially those with vague or opaque descriptions—may have been utilized as a means for corruption and nepotism benefiting hometown-connected firms. The anti-corruption inspections appear to have curbed this practice by reducing opaquely described subsidies to such firms.

5.3.2 Mitigating Effect of Length of Subsidy Description

I further test the linear relationship between the length of subsidy description and the amount allocated to politicians' hometowns after the anti-corruption inspection, for the purpose of examining whether increased transparency directly influences the allocation amounts. That is, whether politicians allocate more transparent subsidies in terms of amount to their hometown firms. To explore this, I expand upon the previous findings by considering not only the binary

categorization of description length but also the continuous variable of description length. I estimate the following equation:

$$\begin{aligned} Log(Subsidy_{a,i,c,t}) =& \alpha_1 Hometown_{c,2009-2013} + \alpha_2 Inspection_{p,t} + \alpha_3 Description\,Length_{a,i,c,t} \\ &+ \alpha_4 Hometown_{c,2009-2013} \times Inspection_{p,t} \\ &+ \alpha_5 Hometown_{c,2009-2013} \times Description\,Length_{a,i,c,t} \\ &+ \alpha_6 Inspection_{p,t} \times Description\,Length_{a,i,c,t} \\ &+ \alpha_7 Hometown_{c,2009-2013} \times Inspection_{p,t} \times Description\,Length_{a,i,c,t} \\ &+ X'\beta + \gamma_c + \tau_t + \epsilon_{a,i,c,t} \end{aligned} \tag{3}$$

where subscripts, control variables, and fixed effects are defined in the same way as the baseline equation. Description Length denotes the length (in Chinese character).

In Table A.6, I interact both Hometown Leader (Leader #) and Inspection with Length of Subsidy Description. In columns (1) - (3) of Panel A, I find a significant mitigating effect of the length of subsidy description on the amount of allocated subsidies in the hometown of a hometown leader. In column (3), where I include all the control variables and fixed effects, the estimated coefficient suggests that for each additional Chinese character present in the subsidy description, the amount of that subsidy increases by 0.9%.

In columns (1) - (3) of Panel B, which report the results for inter-city hometown favoritism, I find a similar pattern to that for intra-city hometown favoritism, though the estimated coefficient becomes insignificant after controlling for industry-year fixed effects.

Overall, these findings suggest that increased transparency in subsidy descriptions, measured by the length of the description, is associated with higher subsidy amounts allocated to hometown firms after the anti-corruption inspection. Transparency in subsidy allocation is an important factor influencing the allocated amount because allocating larger subsidies to hometown firms via less transparent descriptions may pose a risk to politicians, especially during periods of heightened anti-corruption efforts.

5.4 Firm-level Subsidies

The data on subsidy allocation levels indicates that firms with connections to local government officials received smaller individual subsidy amounts from the government following anti-corruption inspections. However, this raises the question - what was the overall impact of these inspections on the total subsidies received by firms?

It is possible that while politicians reduced the size of each subsidy disbursement, they may have increased the frequency of allocations. In other words, firms could have received multiple smaller subsidies over a given period, resulting in a comparable or even higher total subsidy amount compared to before the inspections.[28]

To explore this possibility, I collapse the data on subsidy allocation levels to the firm level and re-estimate the Equation 1.[29] Table A.5 reports the results, displaying the effect of anti-corruption inspections on the aggregate amount of subsidies received by firms.

Panel A focuses on intra-city hometown favoritism, examining firms headquartered in a prefecture city that had a hometown leader. The key interaction term here is Hometown Leader $\times$ Inspection. In column (3), the specification that includes all the fixed effects and controls, I find that firms headquartered in cities with a hometown leader experience a significant reduction in total subsidies, approximately 13.9%, following anti-corruption inspections. Although the estimated coefficients are smaller than those in the baseline specification using subsidy allocation level data (a reduction of 29%), it still suggests that firms received fewer subsidies from the hometown leader.

Panel B examines the effect on firms headquartered in cities that produced more leaders serving in other cities. In column (3), I find that firms in cities that produced one additional leader serving in other cities experienced a 2.9% reduction in total subsidies following

[28] For example, if a firm was previously receiving an annual subsidy of \$100,000 from local officials with whom they had connections. After the anti-corruption inspections, that single \$100,000 subsidy may have been split into four separate subsidies of \$25,000 each, disbursed quarterly, in order to mitigate the adverse effect of allocating subsidies. While the individual subsidy amounts decreased, suggesting a reduction in favoritism, the firm could have ultimately received the same \$100,000 total through multiple smaller allocations. This would allow politicians to maintain support for connected firms while creating an appearance of propriety.

[29] In the baseline specification, the analysis of anti-corruption effects on hometown-connected firms focuses on the amount of each individual subsidy allocation. However, this effect is conditional on the subsidy allocation amounts for firms without any political connections. When examining the firm-level data, the comparison group is further expanded to include firms that did not receive any subsidies over the entire data period being analyzed.

inspections, which is a similar estimated coefficient to the coefficients using subsidy allocation level data. Overall, the firm-level results align with the earlier findings on individual subsidy allocations, indicating a notable impact of anti-corruption inspections on reducing subsidies linked to hometown favoritisms by politicians.

5.5 Aggregate Impact of Inspections on Corrupt Subsidies

5.5.1 Aggregate Corrupt Subsidies

In this subsection, I analyze the aggregate impact of the anti-corruption inspection on subsidies, considering how many government subsidies to firms are affected through the channels of two types of hometown favoritism using the firm-level results.

First, based on back-of-the-envelope calculations, the anti-corruption inspection reduces subsidies by 1.55% (13.9% $\times$ 0.177, the probability of being connected to a hometown leader, $\times$ 0.629, the probability of inspections) through the channel of intra-city hometown favoritism.

Second, similar calculations indicate that the anti-corruption inspection reduces subsidies by 4.09% (2.9% $\times$ 2.428 $\times$ 0.629) through the inter-city hometown favoritism channel. The anti-corruption inspection reduces 5.64% corrupt subsidies for firms.

Overall, these findings underline the more pronounced overall impact of anti-corruption inspection on subsidies associated with the inter-city hometown favoritism by politicians, highlighting its significant role in shaping corruption dynamics between politicians and firms.

5.5.2 The Costs of Ex-ante Corrupt Subsidies

The estimates on the aggregate reduction in corrupt subsidies indicate a significant decline of over 5.64% following anti-corruption inspections. This reduction has substantial financial implications. Based on the actual subsidy amounts provided in 2018, the cost associated with corrupt subsidies to these firms is calculated to be approximately 14.61 billion yuan (around \$2.24 billion and 0.02% of China's GDP).[30] This highlights the considerable financial burden imposed by corrupt practices in subsidy allocation, specifically through the channel

[30]The calculation is as follows: (1) Intra-city hometown favoritism (Hometown Leader): 13.9% $\times$ 0.177 $\times$ 153.8 billion yuan (subsidies in 2018) $\approx$ 3.78 billion yuan; (2) Inter-city hometown favoritism (Leader #): 2.9% $\times$ 2.428 $\times$ 153.8 billion yuan (subsidies in 2018) $\approx$ 10.83 billion yuan.

of politicians' hometown favoritisms.

6 Additional Analyses

In this section, I explore the potential mechanisms underlying the reduction in subsidies for hometown-connected firms. Moreover, I explore and rule out various alternative explanations that could potentially account for the baseline results.

6.1 Leveraging Firm Expenditures to Obtain Government Subsidies from Politicians

In this subsection, I examine the effect of firm-level corruption-related expenditures on generating subsidies from the prefecture city-level government. The "Entertainment and Travel Costs (ETC)" are publicly reported in firms' accounting books and are often used as the accounting item to expense expenditures related to bribing officials (Fang, 2023). The pioneering study by Cai et al. (2011) finds that managers in China often use this type of expenditure to reimburse expenses for bribing government officials.[31]

While ETCs must contain some legitimate business expenses, such as business trips, firms are given considerable latitude in using ETCs to disguise corrupt money. This type of cost is widely used in the literature to study firm-level corruption (see, e.g., Cai et al. 2011; Huang et al. 2017; Giannetti et al. 2021; Fang et al. 2023). ETCs, which can represent corrupt money, can thus wield influence on subsidy allocations, especially in regions with a higher degree of hometown favoritism, as lower costs for corruption-related deals if both parties are from the same place. It is thus natural to expect a reduction in the role of ETCs in generating firm subsidies after the surge in anti-corruption efforts.

[31]According to Fang et al. (2023), some hotels in China provide *baijiu* (Chinese liquor) or cigarettes for customers to purchase, and those purchases can be added to room bills as an expense of business trips. Those items are widely used as currency in bribes. Many baijiu shops in the liquor-producing town have gone bankrupt since President Xi came to power. For more information, see "How China's Anti-Corruption Campaign Hurts a Liquor-Producing Town" (https://www.theatlantic.com/china/archive/2013/11/how-chinas-anti-corruption-campaign-hurts-a-liquor-producing-town/281302/).

I estimate the following regression equation:

$$\begin{aligned} Log(Subsidy_{a,i,c,t}) =& \alpha_1 Hometown_{c,2009-2013} + \alpha_2 Inspection_{p,t} + \alpha_3 ETC_{i,c,t} \\ &+ \alpha_4 Hometown_{c,2009-2013} \times Inspection_{p,t} \\ &+ \alpha_5 Hometown_{c,2009-2013} \times ETC_{i,c,t} \\ &+ \alpha_6 Inspection_{p,t} \times ETC_{i,c,t} \\ &+ \alpha_7 Hometown_{c,2009-2013} \times Inspection_{p,t} \times ETC_{i,c,t} \\ &+ X'\beta + \gamma_c + \tau_t + \epsilon_{c,t} \end{aligned} \tag{4}$$

where $ETC_{i,ct}$ denotes the firm's expenses for entertainment and business travel, scaled by the firm's profit in year t.[32] The other variables and subscripts are the same as defined previously. The coefficient of interest is α_7, capturing the degree of change in the correlation between the ETC and the subsidy in the hometown-favored regions after the anti-corruption inspection.

Table 5 presents the results of the analysis. Columns (1) through (5) explore various types of subsidies, including (1) all types of subsidies, (2) subsidies with shorter allocation descriptions, (3) subsidies with longer allocation descriptions, (4) subsidies without specific program information, and (5) subsidies with specific program information. Panel A reports the results for intra-city hometown favoritism (Hometown Leader), while Panel B examines inter-city hometown favoritism (Leader #).

In columns (1) through (5) of Panel A, there is no evidence suggesting a link between firm ETCs and subsidy allocation in regions with a hometown leader for any type of subsidy. Interestingly, columns (1), (2), and (4) of Panel B indicate that firm ETCs influence subsidy allocation for inter-city hometown favoritism, especially for unspecific or corrupt subsidies. Specifically, in column (1), which covers all types of subsidies, the coefficient on the interaction term Leader # × Firm Entertainment Costs is 0.035, while the coefficient on Leader # × Firm Entertainment Costs × Inspection is -0.035. This suggests that firm ETCs can generate subsidies for firms in cities producing more leaders, but this effect disappears after anti-corruption inspections. Column (2) of Panel B further indicates that the impact of firm

[32]Using unscaled ETCs and logarithm ETCs, the results suggest a similar pattern.

ETCs on subsidy allocation mainly stems from corrupt subsidies, with the interaction term Leader # × Firm Entertainment Costs showing a coefficient of 0.048. This positive effect also vanishes after anti-corruption inspections. In column (4), a similar pattern is observed for subsidies without specific program information.

The difference in results for intra-city and inter-city hometown favoritisms provides valuable insights. For inter-city hometown favoritism, political leaders are not serving in their hometown city, so firms must build connections with these politicians via corrupt means to secure subsidies due to the lack of geographical proximity. Allocating subsidies from a leader's current jurisdiction to their hometown is risky, and corrupt expenditures play a role in this process because the increased distance and ability to transfer money across regions facilitate such illicit activities.

This implies that when leaders are in their hometowns, geographical proximity reduces the need for corrupt expenditures to secure subsidies. The close distance allows for more straightforward interactions and alternative forms of corruption, such as firms purchasing land, which would not be reflected in firm ETCs.[33] Conversely, when leaders are in different cities, hometown firms resort to ETCs to establish and maintain influential connections, leading to corrupt subsidy allocations. In this scenario, firm entertainment costs, which can cover some corrupt money, become crucial for firms connected to political leaders without geographical proximity. Consequently, there is a natural decline in the correlation between entertainment costs and firm subsidies after a region is exposed to anti-corruption efforts. Overall, the results suggest different types of interactions between political leaders and firms based on geographical proximity.

6.2 Local Government Public Expenditure

Prefecture cities, where leaders originate from within (Hometown Leader), may have experienced lower public expenditures compared to their counterparts before anti-corruption inspections. This phenomenon could be attributed to local governments favoring the corrupt allocation of subsidies to local firms, thus prioritizing them over other public expenditures

[33]Land purchases could be another channel through which corruption occurs, as suggested by Chen and Kung (2019); Fang et al. (2022) regarding corruption in the Chinese land market.

and potentially crowding out essential services. Consequently, these cities might witness a surge in public expenditures following anti-corruption inspections, as these inspections curtail unnecessary subsidies to firms.

Conversely, in cases of inter-city hometown favoritism (Leader #), anti-corruption inspections might not significantly boost local public expenditures. This is because subsidies stem from multiple jurisdictions or cities, thereby reducing their impact on politicians' hometown public expenditures. To investigate this possibility, I constructed a new panel dataset spanning prefecture cities from 2009 to 2018. The regression equation is structured as follows:

$$\begin{aligned} Log(1 + Public\,Expenditure_{c,t}) =& \alpha_1 Hometown_{c,2009-2013} + \alpha_2 Inspection_{p,t} \\ &+ \alpha_3 Hometown_{c,2009-2013} \times Inspection_{p,t} \\ &+ X'\beta + \gamma_c + \tau_t + \epsilon_{c,t} \end{aligned} \tag{5}$$

where the subscripts are the same as defined above. α_3 is the coefficient of interest, capturing the effect of anti-corruption inspections on the local public expenditures.

In columns (1) - (2) of Panel A in Table A.7, focusing on intra-city hometown favoritism, the statistically significant coefficient estimate for the interaction term between hometown leader and inspection suggests a positive effect on local public expenditures. This implies that anti-corruption inspections may catalyze increased fiscal allocation in cities with leaders rooted within, possibly due to the reduction of corrupt subsidy practices—a pattern congruent with preceding discussions.

Columns (1) - (2) of Panel B, which analyze inter-city hometown favoritisms, indicate that anti-corruption inspections may not significantly influence local fiscal spending in politicians' hometown cities, as previous corrupt subsidies were originating from various jurisdictions/governments.

6.3 Anti-corruption Effect on Firm Productivity

It is widely accepted that subsidies correlate to a firm's productivity (Cin et al., 2017; Takahashi and Hashimoto, 2022), and the surge in anti-corruption efforts may thus affect

the regional productivity, particularly in prefecture cities where either hometown leaders were present or produced more leaders serving in other cities. However, there can be two possible outcomes: (1) productivity loss- firms received fewer subsidies that can contribute to higher productivity; (2) no effect on productivity- the portion of the subsidies that are affected by anti-corruption efforts may not contribute to firm productivity. In other words, if hometown-connected firms did not use their ex-ante subsidies to improve productivity before the anti-corruption crackdowns, we may not find any productivity loss for those firms after the inspection.

To discover the aforementioned outcomes of anti-corruption efforts on regional productivity, I re-estimate equation (5) but use Log(Productivity) as the dependent variable, which is the prefecture city average log regional firm productivity, proxied by the log value of firm revenue per worker. As shown in columns (1)-(4) of Table A.8, I find that the anti-corruption efforts have no significant effect on regional firm productivity. While hometown-connected firms experienced a substantial decrease in subsidies, their productivity has not changed in the post-period. The results provide suggestive evidence that the allocated subsidies for hometown-connected firms are ineffective in the production process, which is a natural consequence because subsidies are misallocated toward corrupt firms that are less productive.

7 Conclusion

In this paper, I examine the relationship between anti-corruption initiatives and the subsequent reduction in subsidies allocated to firms in the hometown-favored prefecture cities of China. Through a Difference-in-Differences analysis, I discover that firms based in prefecture cities with at least one local-born leader or those that have produced a significant number of city-level leaders serving in other cities experience a decrease in subsidies allocated during anti-corruption inspections. The back-of-the-envelope calculations suggest that the associated costs of affected pre-existing corrupt subsidies are around $2.24 billion.

Moreover, the impact of anti-corruption efforts is more significant on corrupt subsidies, while legitimate and transparent subsidies remain unaffected. There is also a noticeable decline in the correlation between firms' corruption-related expenses and subsidies in regions

subjected to anti-corruption inspections. Lastly, I find that anti-corruption inspections lead to an increase in city public expenditures in cities with hometown leaders, suggesting that previously corrupt subsidies were crowding out local fiscal spending. These findings collectively suggest that hometown connections are a significant channel for corruption between politicians and firms.

To my knowledge, this is the first study to explore the consequences of hometown favoritism on government subsidies. My findings highlight the role of hometown favoritism in fostering corruption and the misallocation of public resources in the absence of anti-corruption efforts.

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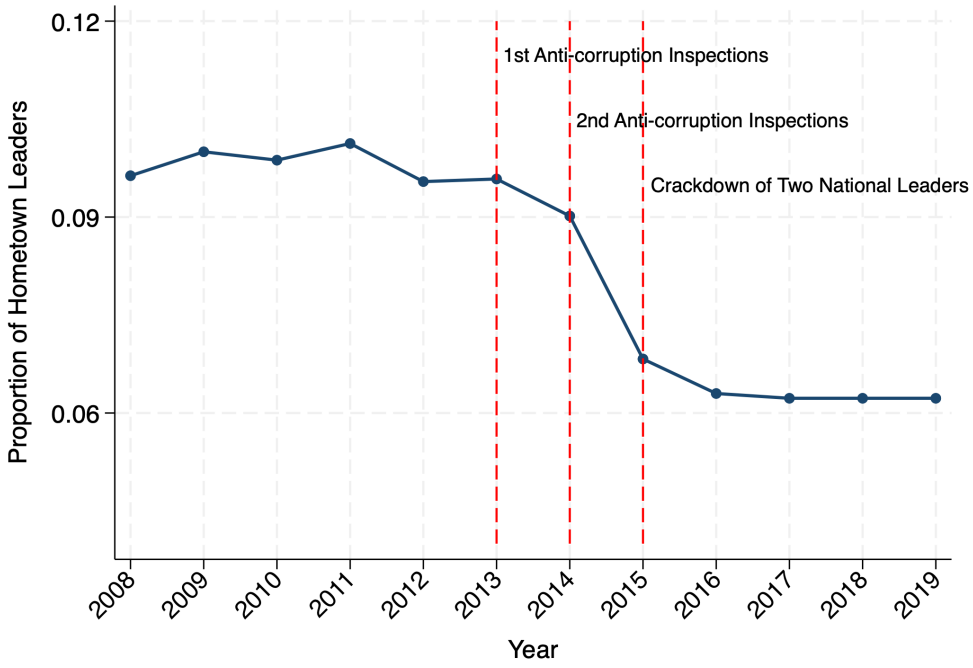
8 Figures

Figure 1: Whether a City has a Local-born Party Secretary or Mayor over Year

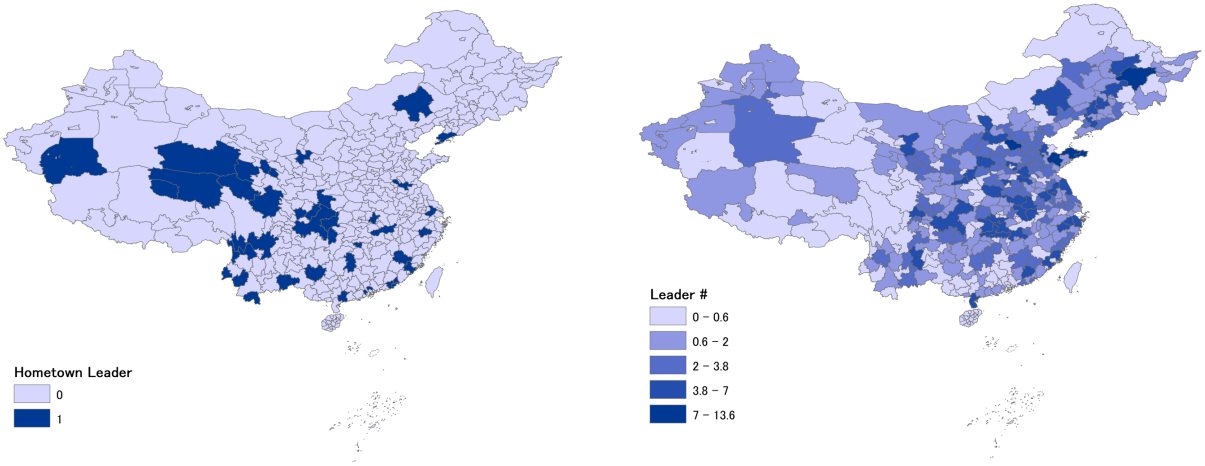


Notes: The figure illustrates the changes in the presence of political leaders serving in their hometowns.

Figure 2: The Prefectures with a Hometown Leader & the Birthplace Counts of Chinese Leaders in 2009

(a) Prefectures with a Hometown Leader from 2009-2013

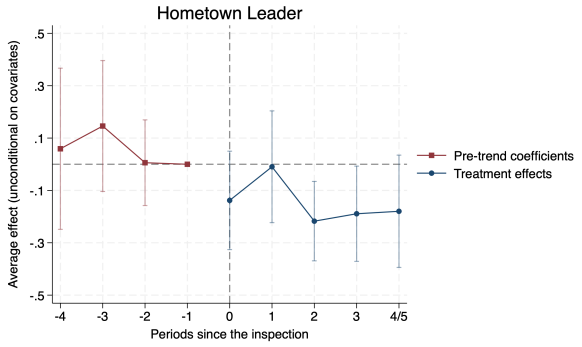
(b) Average Number of Leaders Produced by Each Prefecture from 2009-2013



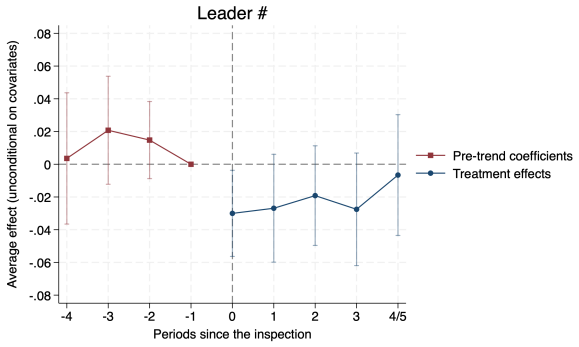
Notes: Panel A of this Figure displays the prefectures that had local-born city party secretaries or mayors from 2009 to 2013. Panel B shows the average number of Chinese party secretaries and city mayors produced by each prefecture during the same period.

Figure 3: Event-study: Politicians' Hometown Firms and Subsidy (Unconditional on Covariates Parallel Trends)

(a) Hometown Leader



(b) Leader #



Notes: Figure illustrates the event-study results for Hometown Leader and Leader #. Panel A and Panel B are estimated by $Log(Subsidy_{a,i,c,t}) = \sum_{\tau=-5}^{4} Hometown_{i,c,2009-2013} \times \beta_\tau Periods\,since\,the\,inspection_t + X'\beta + \delta_i + \tau_t + \epsilon_{a,i,c,t}$. Where $Hometown$ denotes one of the two hometown favoritism statuses: (1) Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013; Leader # is a continuous variable denoting the average number of leaders (mayor and party secretary) produced by each prefecture city from 2009 to 2013. δ_i is the firm fixed effects. τ_t is the year fixed effects. I also control for the 2-digit industry year fixed effects. The year of anti-corruption inspection is set as the reference year, and all other coefficients are relative to inspection.

9 Tables

Table 1: Summary Statistics: Sort by Hometown Leader

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Hometown Leader = 0					Hometown Leader = 1				
VARIABLES	N	mean	sd	min	max	N	mean	sd	min	max
Panel A. Main variables										
Log(Subsidy)	123,537	12.666	2.157	-3.507	23.112	18,911	12.557	2.065	3.189	21.778
Anti-corruption Inspection	123,537	0.643	0.479	0.000	1.000	18,911	0.724	0.447	0.000	1.000
Panel B. Other variables										
State-owned Enterprises	123,537	0.609	0.488	0.000	1.000	18,911	0.433	0.496	0.000	1.000
Firm Age	123,537	12.064	4.440	1.000	29.000	18,911	12.385	4.874	1.000	24.000
Log(Asset)	123,537	21.620	1.237	15.418	29.895	18,911	21.430	1.018	17.769	25.338
Leverage	123,537	0.542	1.315	0.018	55.409	18,911	0.471	0.375	0.014	7.350
ROA	123,537	0.043	0.092	-3.001	2.058	18,911	0.058	0.079	-0.416	0.703
Log(GDP per capita)	123,537	10.147	0.812	6.100	11.512	18,911	10.466	0.601	8.791	11.512
Log(Fiscal Income)	123,537	7.995	0.829	3.404	9.401	18,911	8.212	0.620	6.365	9.401
Log(Population)	123,537	8.418	0.693	5.690	9.223	18,911	8.642	0.417	7.701	9.223

Notes: The data is at the firm-level. This table illustrates the descriptive statistics, which are sorted by $Hometown\ Leader_{i,c,2009-2013}$. $Hometown\ Leader_{i,c,2009-2013}$ is a dummy denoting prefecture city c that had at least one local-born city party secretary or mayor from 2009 to 2013.

Table 2: Summary Statistics: Sort by Leader #

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Leader # Below Median					Leader # Above Median				
VARIABLES	N	mean	sd	min	max	N	mean	sd	min	max
Panel A. Main variables										
Log(Subsidy)	61,025	12.690	2.157	-3.507	22.236	81,423	12.624	2.136	-1.897	23.112
Anti-corruption Inspection	61,025	0.664	0.472	0.000	1.000	81,423	0.645	0.478	0.000	1.000
Panel B. Other variables										
State-owned Enterprises	61,025	0.557	0.497	0.000	1.000	81,423	0.608	0.488	0.000	1.000
Firm Age	61,025	12.277	4.606	1.000	29.000	81,423	11.978	4.418	1.000	28.000
Log(Asset)	61,025	21.607	1.225	15.418	28.828	81,423	21.585	1.201	17.551	29.895
Leverage	61,025	0.521	0.596	0.025	55.409	81,423	0.541	1.546	0.014	41.939
ROA	61,025	0.045	0.099	-0.999	2.058	81,423	0.044	0.083	-3.001	0.703
Log(GDP per capita)	61,025	10.237	0.956	6.100	11.512	81,423	10.154	0.645	8.092	11.512
Log(Fiscal Income)	61,025	8.121	0.978	3.404	9.401	81,423	7.951	0.642	5.658	9.401
Log(Population)	61,025	8.445	0.777	5.690	9.223	81,423	8.450	0.571	7.113	9.223

Notes: The data is at the firm-level. This table illustrates the descriptive statistics, which are sorted by $Leader\,\#_{i,c,2009-2013}$. $Leader\,\#_{i,c,2009-2013}$ is a continuous variable denoting the average number of leaders (mayor and party secretary) produced by each prefecture city from 2009 to 2013.

Table 3: Baseline Results: The Effect of Anti-corruption Efforts on Subsidy Allocation

	(1)	(2)	(3)
		Log(Subsidy)	
Panel A. Intra-city Hometown Favoritism			
Hometown Leader × Inspection	-0.207***	-0.213***	-0.226***
	(0.070)	(0.067)	(0.066)
Observations	142,442	142,442	142,442
R-squared	0.264	0.264	0.274
Panel B. Inter-city Hometown Favoritism			
Leader # × Inspection	-0.024**	-0.022**	-0.022**
	(0.010)	(0.010)	(0.010)
Observations	142,442	142,442	142,442
R-squared	0.264	0.264	0.274
Firm FEs	✓	✓	✓
Year FEs	✓	✓	
Pre-firm Controls × Inspection FEs	✓	✓	✓
Regional Controls		✓	✓
2-Digit Industry × Year FEs			✓

Notes: This table illustrates the effect of anti-corruption inspections on subsidies for firms located in the hometown of politicians. The sample includes all publicly listed Chinese firms from 2009 to 2018. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspections. Across all columns, the main dependent variable is $Log(Subsidy)$, denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader (Leader #) × Inspection. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the anti-corruption inspection, and 2-digit industry-year fixed effects. Significance level: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 4: Subsidy Allocation Heterogeneity: Specific Subsidy vs. Unspecific Subsidy

	Length of Subsidy Description		Whether Subsidy Description is Specific	
	(1) Subsidy ≤ Mean Length	(2) Subsidy > Mean Length	(3) Opaque Subsidy	(4) Subsidy for Programs
Panel A. Intra-city Hometown Favoritism				
Hometown Leader × Inspection	-0.292***	-0.095	-0.259***	-0.114
	(0.079)	(0.115)	(0.090)	(0.077)
Observations	95,387	46,950	96,235	46,120
R-squared	0.312	0.285	0.306	0.291
Panel B. Inter-city Hometown Favoritism				
Leader # × Inspection	-0.029**	-0.013	-0.027**	-0.017
	(0.014)	(0.019)	(0.013)	(0.011)
Observations	95,387	46,950	96,235	46,120
R-squared	0.312	0.238	0.305	0.290
Firm FEs	✓	✓	✓	✓
Pre-firm Controls × Inspection FEs	✓	✓	✓	✓
Regional Controls	✓	✓	✓	✓
2-Digit Industry × Year FEs	✓	✓	✓	✓

Notes: This table illustrates the effect of anti-corruption inspections on subsidies for firms located in the hometown of politicians, but restricting the sample to different types of subsidies: (1) Subsidy ≤ Mean Length of Description: subsidies with descriptions of no more than 15 Chinese characters (mean value); (2) Subsidy > Mean Length of Description: subsidies with descriptions exceeding 15 Chinese characters; (3) Opaque Subsidy: subsidies with no specific program information; (4) Subsidy for Specific Programs:subsidies with specific program information. The sample includes all publicly listed Chinese firms from 2009 to 2018. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspections. Across all columns, the main dependent variable is $Log(Subsidy)$, denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader (Leader #) × Inspection. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the anti-corruption inspection, and 2-digit industry-year fixed effects. Significance level: * p < 0.10, ** p < 0.05, *** p < 0.01.

Table 5: The Effect of Firm Rent-seeking Costs on Subsidies: Before and After Anti-Corruption Inspections

	Log(Subsidy)				
	(1) All Subsidies	(2) ≤ Mean Length	(3) > Mean Length	(4) Opaque	(5) Specific
Panel A: Intra-city Hometown Favoritism					
Hometown Leader × Inspection	-0.214**	-0.289***	0.064	-0.215*	-0.173**
	(0.095)	(0.101)	(0.106)	(0.118)	(0.065)
Hometown Leader × Firm Entertainment & Travel Costs	-0.125	-0.222	-0.038	-0.075	-0.272
	(0.103)	(0.195)	(0.108)	(0.133)	(0.162)
Hometown Leader × Inspection × Firm Entertainment & Travel Costs	0.047	0.118	-0.037	-0.038	0.309
	(0.118)	(0.200)	(0.196)	(0.173)	(0.188)
Observations	113,303	75,512	37,675	75,961	37,245
R-squared	0.292	0.336	0.241	0.324	0.311
Panel B: Inter-city Hometown Favoritism					
Leader # × Inspection	-0.006	-0.006	-0.001	-0.007	-0.010
	(0.013)	(0.014)	(0.022)	(0.015)	(0.014)
Leader # × Firm Entertainment & Travel Costs	0.035***	0.049***	0.016	0.049**	0.019*
	(0.012)	(0.011)	(0.017)	(0.018)	(0.011)
Leader # × Inspection × Firm Entertainment & Travel Costs	-0.035**	-0.048***	-0.008	-0.056**	0.002
	(0.015)	(0.015)	(0.022)	(0.020)	(0.014)
Observations	113,303	75,512	37,675	75,961	37,245
R-squared	0.292	0.336	0.241	0.324	0.311

Continued on next page

Table 5 – *Continued from previous page*

	Log(Subsidy)				
	(1) All Subsidies	(2) ≤ Mean Length	(3) > Mean Length	(4) Opaque	(5) Specific
Firm FEs	✓	✓	✓	✓	✓
Pre-firm Controls × Inspection FEs	✓	✓	✓	✓	✓
Regional Controls	✓	✓	✓	✓	✓
2-Digit Industry × Year FEs	✓	✓	✓	✓	✓

Notes: This table illustrates the effect of the anti-corruption inspection on the correlation between firm entertainment and travel costs (a corruption-related expense) and allocated subsidies, but restricting the sample to different types of subsidies: (1) Subsidy ≤ Mean Length of Description: subsidies with descriptions of no more than 15 Chinese characters (mean value); (2) Subsidy > Mean Length of Description: subsidies with descriptions exceeding 15 Chinese characters; (3) Opaque Subsidy: subsidies with no specific program information; (4) Subsidy for Specific Programs: subsidies with specific program information. The sample includes all publicly listed Chinese firms from 2009 to 2018. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspections. Across all columns, the main dependent variable is $Log(Subsidy)$, denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader (Leader #) × Inspection. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Firm Entertainment & Travel Costs denotes the firm's entertainment and travel costs, scaled by profit in the year. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the anti-corruption inspection, and 2-digit industry-year fixed effects. Significance level: * p < 0.10, ** p < 0.05, *** p < 0.01.

A Appendix

A.1 Robustness Checks

In this section, I present the results of the robustness checks. The results survive those robustness checks.

A.1.1 Are Hometown-Connected Regions Intensely Inspected?

One primary concern regarding the main specification is whether regions with hometown leaders or those generating more leaders experienced intensive anti-corruption inspections, potentially introducing endogeneity issues and biasing the estimates.

To address this concern, I construct a new panel dataset where each observation represents a province-year pair. To investigate whether hometown-connected regions are subject to intense anti-corruption inspections, I employ four dependent variables to represent anti-corruption intensity at the province-level: (1) Log(Media Coverage 1); (2) Log(Media Coverage 2); $\mathbf{1}$(Provincial Leader Expelled); (4) Log(1+Corruption Cases) as the main dependent variable.[34] [35] For the degree of hometown favoritism by politicians at the province-level, I construct two variables: (1) Hometown Leader # Province, denoting the average number of hometown leaders within each province prior to the inspections; (2) Leader # Province, denoting the average number of leaders that each province produced before the inspection. I interact these variables with anti-corruption inspections to examine whether regions produced more hometown leaders and city-level leaders experienced intensive inspections.

As shown in Table A.10, I find no significant differences in the above four outcomes between provinces producing more hometown leaders or leaders serving in other regions, and provinces generating fewer hometown leaders or leaders serving elsewhere. These results suggest that regions connected to more leaders are not subjected to intense inspections compared to other provinces, indicating that all regions undergo similar levels of inspection intensity. This finding implies that the issue of endogeneity may not be relevant in this

[34] For Log(Media Coverage 1) and Log(Media Coverage 2), I include two types of anti-corruption-related terms from all newspaper titles in each province: (1) $fanfubai$ in Chinese meaning "anti-corruption"; (2) $fubai$ in Chinese meaning "corruption".

[35] Incorporating media coverage of anti-corruption-related terms as a proxy for the intensity of anti-corruption is based on the assumption that regions undergoing intensive inspections may attract more attention from local media.

specification.

A.1.2 Additional Fixed Effects and Subsample Analyses

In this section, I assess the robustness of the baseline results by incorporating additional fixed effects and analyzing different sub-samples. Table A.9 presents these findings. Columns (1)-(2) demonstrate that the results remain statistically significant even after including province-by-year fixed effects and province-specific linear time trends. While the estimated coefficient for Hometown Leader decreases to -0.131 with the inclusion of province-by-year fixed effects, the coefficient for Leader # remains unchanged. In column (3), following Wang et al. (2020), I exclude firms located in four provincial-level cities: Beijing, Shanghai, Chongqing, and Tianjin from the sample.[36] The estimated coefficients for both Hometown Leader and Leader # remain stable, suggesting that the baseline results are generalizable to any type of city. In column (4), I exclude firms from government-dependent sectors as defined by Colonnelli and Prem (2022).[37] This exclusion controls for the potential confounding effect of these sectors' higher vulnerability to corruption. The similarity between these estimates and the baseline results suggests that the impact of anti-corruption inspections is not confined to government-dependent industries but is more pervasive across the economy. Overall, these additional fixed effects and subsample analyses show the robustness of the baseli

A.1.3 Placebo Anti-corruption Inspections

One potential concern with identifying the impact of the anti-corruption inspection is the possibility of concurrent policies that may have influenced subsidies in China during the same period, potentially biasing the results. Furthermore, the conventional event-study approach, which includes both pre-period and post-period estimated coefficients, may suffer from contaminated pre-period estimates, suggesting a violation of the parallel trend assumption, even if the event-study figure does not detect such a violation Borusyak et al. (2024).

To mitigate these concerns, I conduct a placebo analysis using a placebo anti-corruption

[36]These four cities' social and economic characteristics are likely to be heavily influenced by the central government's directives (Wang et al., 2020). To rule out the possibility that the effect of anti-corruption inspection is primarily driven by these centrally-controlled cities, I exclude them from the sample.

[37]In the Chinese context, government-dependent sectors typically include agriculture, electricity, natural resources, media, and mining.

inspection in either 2011 or 2012, limiting the data to observations before 2013.[38] The results are presented in Table A.11. In columns (1)-(4), the coefficients on the interactions between Hometown Leader (Leader #) and Post2011(2012) are not statistically significant. These findings suggest that the prefecture cities exposed to the anti-corruption campaigns did not exhibit differential trends in subsidies compared to other prefecture cities, consistent with the event-study illustrated in Figure 3.

A.1.4 Alternative Estimators Robust to Staggered DiD

One concern regarding staggered difference-in-differences analysis is that the conventional two-way fixed effect model might not produce unbiased estimates due to heterogeneous treatment effects (see De Chaisemartin and d'Haultfoeuille (2020); Callaway and Sant'Anna (2021); Goodman-Bacon (2021); Sun and Abraham (2021); Borusyak et al. (2024)). In this paper, Chinese provinces underwent the anti-corruption inspections in 2013 (11 provinces) and 2014 (20 provinces). To address this concern stemming from the staggered nature of anti-corruption inspections, I employ alternative estimators proposed by Callaway and Sant'Anna (2021) and Borusyak et al. (2024) to replicate the baseline analyses.[39] [40]

As illustrated in Figure A.4, the estimated coefficients of the approaches suggested by Callaway and Sant'Anna (2021) and Borusyak et al. (2024) exhibit a similar pattern to those of the conventional OLS estimates. Overall, this suggests that the conventional OLS estimates are not subject to severe issues arising from heterogeneous treatment effects or negative weighting problems associated with the staggered DiD design.

A.1.5 Sensitivity Analyses for Parallel Trends

One concern regarding the difference-in-differences approach is researchers' uncertainty about the validity of the parallel trend assumption and the robustness of estimates to potential violations of parallel trends (Roth (2022); Rambachan and Roth (2023)). Additionally, a key

[38] Assuming Xi's anti-corruption campaign started in 2011 or 2012 for the placebo analysis.

[39] While the approach proposed by Callaway and Sant'Anna (2021) may not be directly applicable to the subsidy allocation level data, I replicate all regressions using alternative estimators at the firm level instead of the subsidy allocation level.

[40] Both Callaway and Sant'Anna (2021) and Borusyak et al. (2024) may not deal with continuous treatment variables, e.g., Leader # in this paper. Therefore, I use a dummy variable taking the value of one when Leader # is above the 95 percentile, which represents 15% of the sample.

concern is that there may be unobserved city-specific shocks that could have affected firm subsidies differently, even without anti-corruption inspections. To mitigate this concern and evaluate the robustness of estimates in light of potential violations of parallel trends, I utilize the sensitivity analyses proposed by Rambachan and Roth (2023).[41]

Figure A.3 presents the results of sensitivity analyses. In Panel (a), robust confidence interval sets for all treatment effects in post-periods are displayed for $\Delta_{\text{SD}}(\bar{M})$, utilizing various values of $\bar{M}$ for the results of Hometown Leader.[42] Panel (a) of Figure A.3 shows that by imposing $\Delta_{\text{SD}}(\bar{M}) = 0.06$, the confidence interval would include zero. In Panel (b), the figure reports the various values of $\bar{M}$ for the results of Leader #. By imposing $\Delta_{\text{SD}}(\bar{M}) = 0.14$, the confidence interval set can thus include zero.[43]

Panels (c) and (d) illustrate the sensitivity analyses using $\Delta_{\text{RM}}(\bar{M})$, where post-period violations are confined by exploiting the relative magnitude in the violation of parallel trends.[44] In Panel (c), a robust confidence set of [-0.99, 0.30] is attained for the causal effect on firm subsidies across all years, which includes zero. However, as noted by Rambachan and Roth (2023), wider confidence sets are expected for parameters pertaining to later periods, as the identified set tends to be larger for later periods given that the treatment and control groups have had more time to diverge. The "breakdown value" for a null effect of inspection on firms located in cities with hometown leaders is approximately $\bar{M} = 0.6$. Thus, the determination of a significant effect on firm subsidies hinges on whether post-treatment violations of parallel trends are constrained to be no more than 0.6 times as large as the maximal pre-treatment violation.

[41]The sensitivity analyses are also conducted at the firm level, using the event-study coefficients from Callaway and Sant'Anna (2021).

[42]The analysis is based on bounds on the second derivative class $\Delta_{\text{SD}}(\bar{M})$, where post-period violations are confined by exploiting the linear violation of parallel trends. For example, such bounds on how far δ, the bias from a difference in trends, can deviate from linearity.

[43]Essentially, $\Delta_{\text{SD}}(\bar{M}) = 0.06$ would correspond to allowing the slope of the differential trend to change by 0.06 percentage points in subsidies for the Hometown Leader results. For $\Delta_{\text{SD}}(\bar{M}) = 0.14$, it would correspond to allowing the slope of the differential trend to change by 0.14 percentage points in subsidies for the Leader # results. Overall, any confounding changes related to 0.06 percentage points in subsidies can be allowed in the results for the Hometown Leader group, and 0.14 percentage points in subsidies can be allowed in the results for the Leader group. This is a relatively significant violation of the parallel trends assumption (see Section 6.3 of Rambachan and Roth (2023)), yet robust estimates can still be obtained by imposing this level of violation, demonstrating the robustness of the current results.

[44]By imposing $\bar{M} = 1$, indicating a restriction on post-treatment violations of parallel trends to not exceed the maximal pre-treatment violation.

Panel (d) illustrates the sensitivity analysis for estimates of Leader #. With $\bar{M} = 1$, the robust confidence set now ranges from [-1.21, 0.02], including zero. Although wider than the original OLS confidence interval, which is solely valid under exact adherence to the parallel trends assumption, it nonetheless excludes a null effect of anti-corruption inspection on firm subsidies in post-periods. Consequently, the overall estimates remain robust to potential unobserved violations of the parallel trends assumption. Given the absence of significant economic shocks around the time of anti-corruption inspections in China, a "breakdown value" of $\bar{M} = 1$ suggests the robustness of the estimates.

Overall, the results are robust to the sensitivity analyses suggested by Rambachan and Roth (2023), especially when imposing the linear violation to the parallel trends assumption.

A.1.6 Randomization Inference

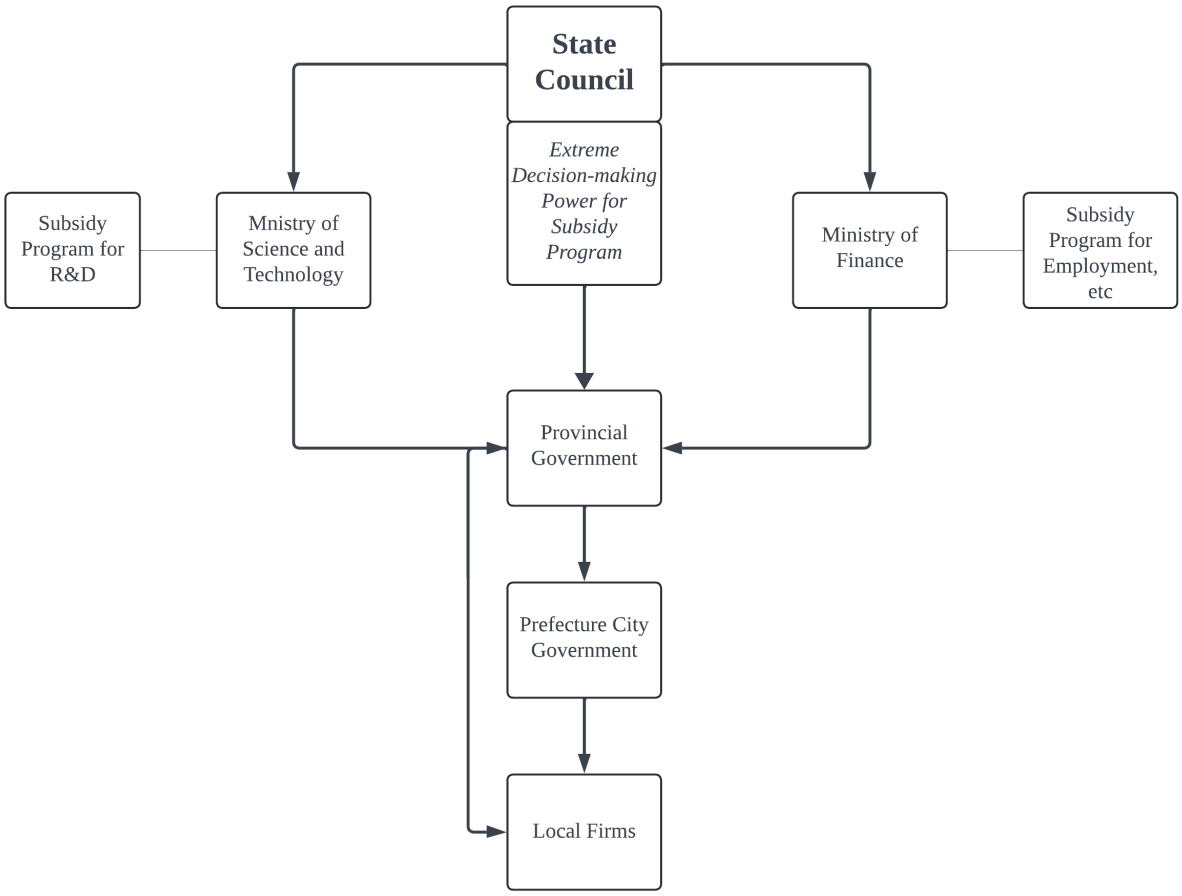
Another concern regarding the baseline results is that other groups may also be affected by the anti-corruption inspection regarding subsidies, as the anti-corruption campaign is a nationwide event that could affect any firm. This spatial correlation would lead to spurious estimates of the impact of the anti-corruption inspection. I thus follow the randomization inference procedure to compute the placebo estimated coefficients and p-value by comparing the baseline coefficients to the distribution of placebo hometown favoritism effects (see, for example, Cavallo et al. 2013).

To do the test, I randomly generate 500 fake treatment groups interacting with the anti-corruption inspection and run the baseline regression for each group.[45] I plot the distribution of the estimated coefficients and p-values of the interaction term in Figure A.5. Most estimated coefficients on the interactions between fake treatment and the anti-corruption inspection and p-values are concentrated between 0 and 1, respectively. Thus, the aforementioned concern is unlikely to explain my main findings.

[45]For the continuous variable of Leader #, I generate the placebo continuous treatment following the range and distribution of the actual Leader #.

A.2 Figures

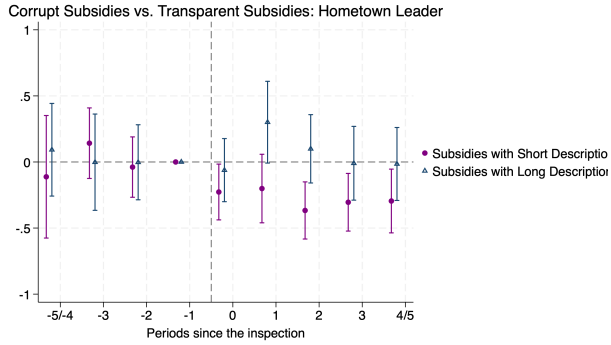
Figure A.1: The Organizational Chart of Subsidy Allocation Process in China



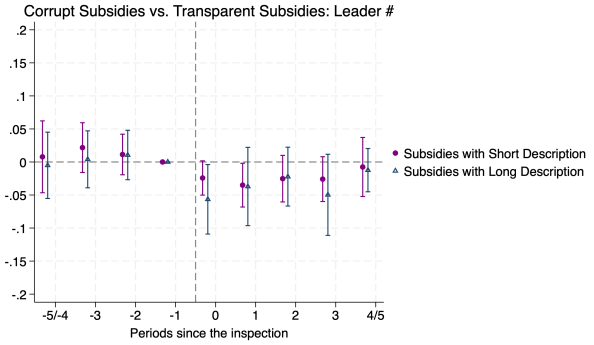
Notes: This figures illustrates the subsidy allocation process in China. Source: Author's illustration based on Fang et al. (2023)

Figure A.2: Event-study: Corrupt Subsidies vs. Transparent Subsidies (Unconditional on Covariates Parallel Trends)

(a) Hometown Leader



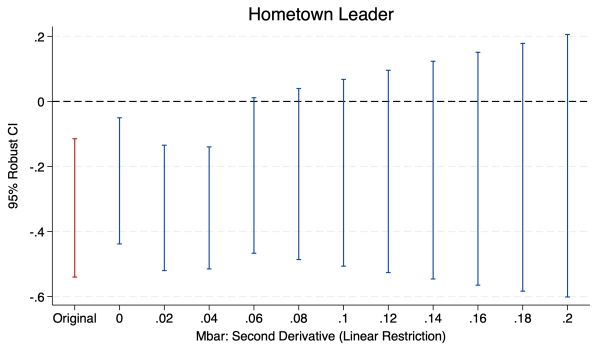
(b) Leader #



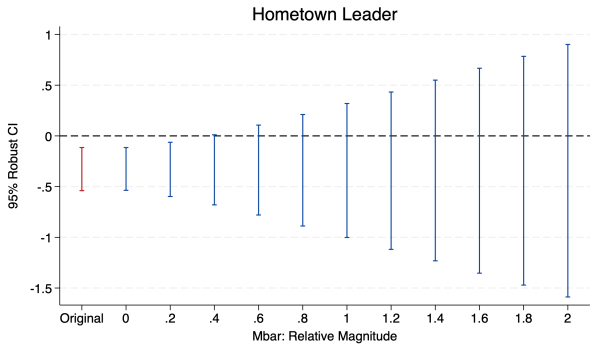
Notes: Figure illustrates the event-study results for the effect of the anti-corruption inspection on two types of subsidies: (1) Subsidies with a short description: subsidies with descriptions of no more than 15 Chinese characters (mean value); (2) Subsidies with a long description: subsidies with descriptions exceeding 15 Chinese characters. Panel A and Panel B are estimated by $Log(Subsidy_{a,i,c,t}) = \sum_{\tau=-5}^{4} Hometown_{i,c,2009-2013} \times \beta_\tau Periods\,since\,the\,inspection_t + \delta_i + \tau_t + \epsilon_{a,i,c,t}$ and restricting samples to the three aforementioned subsidies. Where $Hometown$ denotes one of the two hometown favoritism statuses: (1) Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013; Leader # is a continuous variable denoting the average number of leaders (mayor and party secretary) produced by each prefecture city from 2009 to 2013. δ_i is the firm fixed effects. τ_t is the year fixed effects. I also control for the 2-digit industry year fixed effects. The year of anti-corruption inspection is set as the reference year, and all other coefficients are relative to inspection.

Figure A.3: Sensitivity Analyses for Parallel Trends Assumption using Rambachan and Roth (2023) for Event-study Coefficients of Callaway and Sant'Anna (2021)

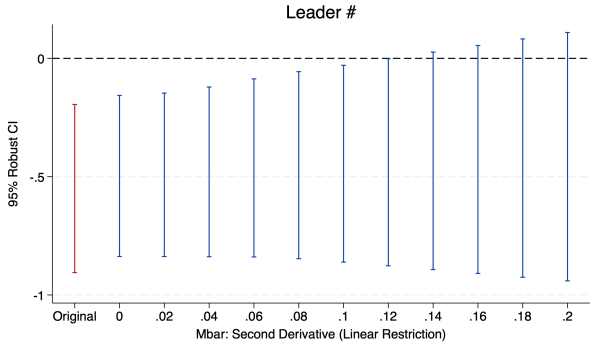
(a) Hometown Leader



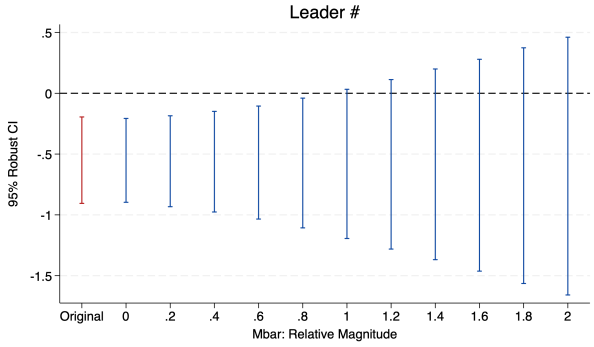
(c) Hometown Leader



(b) Leader #



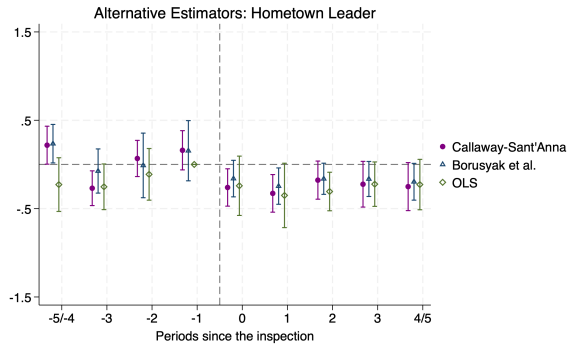
(d) Leader #



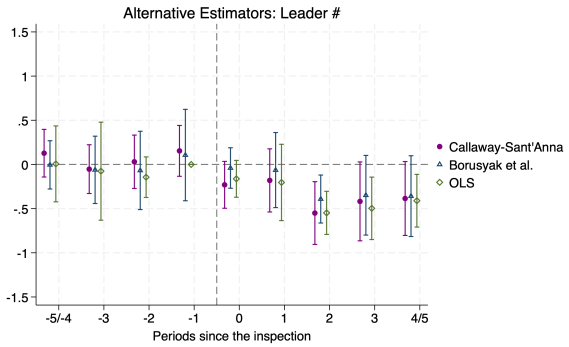
Notes: The figure illustrates the results of sensitivity analyses for the parallel trends assumption, based on the study by Rambachan and Roth (2023). It presents two measures: Mbar: Second Derivative, which indicates how far δ, the bias from a difference in trends, can deviate from linearity; and Mbar: Relative Magnitude, which denotes how many times the confidence interval of post-treatment coefficients can exceed the maximal value of the confidence interval of pre-treatment coefficients.

Figure A.4: Event-study: Alternative Estimators Robust to Staggered Difference-in-Differences (Firm-level Analyses)

(a) Hometown Leader



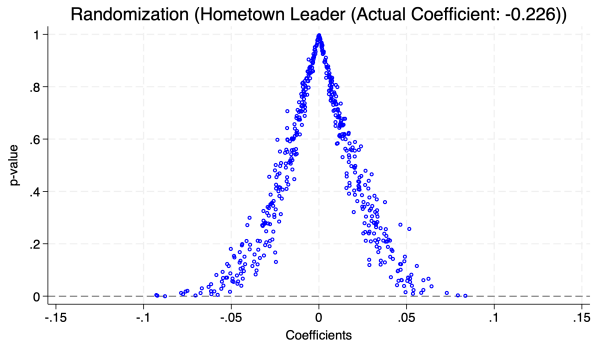
(b) Leader # (Dummy indicating 95 percentile Leader #)



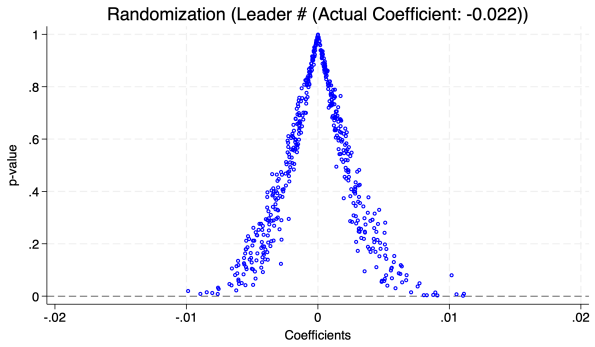
Notes: Figure illustrates the event-study results for Hometown Leader and Leader #, using alternative estimators: (1) OLS; (2) Callaway and Sant'Anna (2021); (3) Borusyak et al. (2024). I use firm-level data here. Where *Hometown* denotes one of the two hometown favoritism statuses: (1) Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013; Leader # (Dummy) is a dummy variable taking 1 if the average number of leaders (mayor and party secretary) produced by each prefecture city from 2009 to 2013 is above the 95 percentile, approximately 15% of the sample. The reason of using a dummy variable is that both new estimators robust to staggered Difference-in-Differences may not deal with continuous treatment variable. $X'\beta$ is the vector of controls. δ_i is the firm fixed effects. τ_t is the year fixed effects. I also control for firm-level characteristics interacting with the anti-corruption inspection and 2-digit industry year fixed effects (Callaway and Sant'Anna (2021) allow only for time-invariant control variables). The year of anti-corruption inspection is set as the reference year, and all other coefficients are relative to inspection.

Figure A.5: Randomization Test and Inference

(a) Hometown Leader



(b) Leader #



Notes: I repeat the baseline regressions 500 times but using different placebo treatment groups. I estimate the following equation: $Log(Subsidy_{a,i,c,t}) = \alpha_1 Hometown_{c,2009-2013} + \alpha_2 Inspection_{p,t} + \alpha_3 Hometown_{c,2009-2013} \times Inspection_{p,t} + X'_{i,p,t}\beta + \delta_i + \tau_t + \epsilon_{i,t}$

A.3 Tables

Table A.1: Example: Subsidy Details for A Firm in 2015

Firm ID	Year	Subsidy Amount	Description (Chinese)	Description (English)	Length of Description (Number of Chinese Words)	Whether Description < Mean Value
8	2015	30000	企业知识产权保护体系建设	Construction of Enterprise Intellectual Property Protection System	12	YES
8	2015	1000000	2015北京高新技术成果转化项目	2015 Beijing High-Tech Project	16	NO
8	2015	6300	北京中关村企业信用促进会补贴款	Subsidy from the Beijing Zhongguancun Enterprise Credit Promotion Association	15	NO
8	2015	450	国家知识产权局专利局专利资助金	Patent Subsidy from the State Intellectual Property Office Patent Bureau	15	NO
8	2015	5000	安全生产奖励费	Safety Production Reward	7	YES
8	2015	139803.2	社保就业补贴	Social Security Employment Subsidy	6	YES
8	2015	16670.41	工大科技园2013年度扶持资金	2013 Annual Support Fund for the Technology Zone	15	NO
8	2015	198300	2015科技创业家企业贷款贴息款	2015 Loan Interest Subsidy for Technology Entrepreneurs	16	NO
8	2015	200000	2014年度科技创新券兑换	2014 Technology Innovation Voucher Exchange	13	YES
8	2015	8500	九州认证补贴款	Jiuzhou Subsidy	7	YES
8	2015	500000	苏科技[2014]318号2014年度第三十六批科技发展计划资金	Su Technology [2014] No. 318: 2014 36th Batch of Science and Technology Development Plan Fund	30	NO
8	2015	35000	专利补助	Subsidy for patenting	4	YES

Notes: This table illustrates an example of subsidy allocation for a listed Chinese firm.

Table A.2: The Timeline of Anti-corruption Inspection

Province Name	Start Year	Duration	Batch
Panel A. Inspected Provinces in 2013			
Jiangxi	2013	83 days	1
Guizhou	2013	61 days	1
Chongqing	2013	61 days	1
Hubei	2013	51 days	1
Neimenggu	2013	64 days	1
Jilin	2013	57 days	2
Guangdong	2013	59 days	2
Yunnan	2013	59 days	2
Shanxi	2013	60 days	2
Anhui	2013	57 days	2
Hunan	2013	59 days	2
Panel B. Inspected Provinces in 2014			
Hainan	2014	64 days	3
Fujian	2014	60 days	3
Gansu	2014	61 days	3
Henan	2014	60 days	3
Tianjin	2014	61 days	3
Shandong	2014	60 days	3
Xinjiang	2014	55 days	3
Liaoning	2014	56 days	3
Beijing	2014	60 days	3
Ningxia	2014	61 days	3
Xizang	2014	61 days	4
Qinghai	2014	65 days	4
Guangxi	2014	61 days	4
Jiangsu	2014	61 days	4
Heilongjiang	2014	61 days	4
Sichuan	2014	62 days	4
Hebei	2014	58 days	4
Zhejiang	2014	61 days	4
Shanghai	2014	61 days	4
Shaanxi	2014	60 days	4

Notes: This table shows the timeline of the staggered anti-corruption inspection and the duration of each inspection.

Table A.3: Balance Test for Hometown Status

	(1)	(2)	(3)	(4)	(5)	(6)
	1(Hometown Leader)			Leader #		
			Before Inspection			Before Inspection
Log(Fiscal Income)	0.028	0.011	-0.023	0.014	0.058	-0.335
	(0.037)	(0.025)	(0.036)	(0.031)	(0.263)	(0.304)
Log(GDP per capita)	-0.029	0.006	0.020	-0.015	-0.124	0.146
	(0.022)	(0.025)	(0.013)	(0.026)	(0.187)	(0.119)
Log(Population)	-0.046	-0.430	-1.042	-0.568*	-0.085	-1.100
	(0.028)	(0.476)	(0.654)	(0.309)	(1.055)	(1.221)
Log(Firm #)	0.019	0.062	0.063	0.044	0.165	0.173
	(0.017)	(0.049)	(0.102)	(0.045)	(0.191)	(0.378)
Population Growth Rate	-0.002	-0.001	-0.002	-0.001	-0.010	-0.011
	(0.001)	(0.001)	(0.002)	(0.001)	(0.007)	(0.009)
Log(Wage)	0.016	0.009	0.189	-0.125	0.281	-0.494
	(0.115)	(0.177)	(0.257)	(0.203)	(0.586)	(0.940)
Log(Employment)	-0.002	-0.072	0.132*	-0.081	-0.135	-0.069
	(0.038)	(0.081)	(0.074)	(0.065)	(0.169)	(0.250)
Observations	2,782	2,782	1,297	2,782	2,782	1,297
R-squared	0.015	0.558	0.717	0.557	0.794	0.869
Year FEs	✓	✓	✓	✓	✓	✓
City FEs	✓	✓	✓	✓	✓	✓
Regional Controls		✓	✓		✓	✓

Notes: This table illustrates the effect of prefecture city attributes on whether a local-born party secretary or mayor is present, as well as the number of leaders produced by a prefecture city. Standard errors are clustered at the province level, indicated in parentheses. Hometown Leader is a dummy denoting whether prefecture city c has a local-born city party secretary or mayor in year t. Leader # is a continuous variable indicating the number of the current Chinese leader (city mayor and party secretary) that prefecture city c produces in year t. I include prefecture fixed effects and year fixed effects. Significance level: * p $<$ 0.10, ** p $<$ 0.05, *** p $<$0.01.

Table A.4: Balance Test for Provinces Experienced Anti-corruption

VARIABLES in 2012	(1)	(2)	(3)
	1(Anti-corruption Inspection in 2013)		
Log(GDP per capita)	-0.556	-0.930	-0.633
	(0.381)	(0.819)	(0.992)
Log(Population)	0.219*	-0.076	0.371
	(0.114)	(0.617)	(0.987)
Log(Wage)	0.565	0.468	0.370
	(0.726)	(0.809)	(1.172)
Log(Firm #)		0.063	0.008
		(0.182)	(0.353)
Log(Fiscal Income)		0.238	0.323
		(0.508)	(0.645)
Log(Agricultural Employment)			-0.052
			(0.120)
Log(Manufacturing Employment)			-0.288
			(0.502)
Log(Energy Industry Employment)			0.293
			(0.472)
Log(Construction Industry Employment)			0.058
			(0.351)
Log(Real-estate Industry Employment)			-0.032
			(0.277)
Log(Public Service Employment)			-0.455
			(0.531)
Observations	31	31	31
R-squared	0.143	0.152	0.182

Notes: This table illustrates the effect of provincial attributes in 2012 on anti-corruption inspection in 2013. Standard errors are clustered at the province-level, indicated in parentheses. Significance level: * p< 0.10, ** p < 0.05, *** p < 0.01.

Table A.5: The Effect of Anti-corruption on Subsidy Allocation (Aggregate Firm-Level)

	(1)	(2)	(3)
		Log(Subsidy)	
Panel A. Intra-city Hometown Favoritism			
Hometown Leader × Inspection	-0.085	-0.083	-0.140*
	(0.058)	(0.065)	(0.075)
Observations	13,253	13,253	13,253
R-squared	0.690	0.690	0.720
Panel B. Inter-city Hometown Favoritism			
Leader # × Inspection	-0.039***	-0.036***	-0.029**
	(0.011)	(0.011)	(0.012)
Observations	13,253	13,253	13,253
R-squared	0.690	0.690	0.719
Firm FEs	✓	✓	✓
Year FEs	✓	✓	
Pre-firm Controls × Inspection FEs	✓	✓	✓
Regional Controls		✓	✓
2-Digit Industry × Year FEs			✓

Notes: This table illustrates the effect of anti-corruption inspections on subsidies for firms located in the hometown of politicians, using subsidy allocation levels collapsed to the firm level. The sample includes all publicly listed Chinese firms from 2009 to 2018. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspections. Across all columns, the main dependent variable is $Log(Subsidy)$, denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader (Leader #) × Inspection. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the anti-corruption inspection, regional controls, and 2-digit industry-year fixed effects. Significance level: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table A.6: Anti-corruption Inspections and the Mitigating Effect of Length of Subsidy Description

VARIABLES	(1)	(2) Log(Subsidy)	(3)
Panel A. Intra-city Hometown Favoritism			
Hometown Leader × Inspection	-0.331***	-0.341***	-0.360***
	(0.088)	(0.087)	(0.070)
Hometown Leader × Inspection × Subsidy Description Length	0.009**	0.009**	0.009***
	(0.004)	(0.004)	(0.003)
Observations	142,442	142,442	142,442
R-squared	0.266	0.266	0.276
Panel B. Inter-city Hometown Favoritism			
Leader # × Inspection	-0.044***	-0.043**	-0.039**
	(0.016)	(0.016)	(0.015)
Leader # × Inspection × Subsidy Description Length	0.002*	0.002*	0.001
	(0.001)	(0.001)	(0.001)
Observations	142,442	142,442	142,442
R-squared	0.265	0.266	0.276
Firm FEs	✓	✓	✓
Year FEs	✓	✓	
Pre-firm Controls × Inspection FEs	✓	✓	✓
Regional Controls		✓	✓
2-Digit Industry × Year FEs			✓

Notes: This table illustrates the effect of anti-corruption inspections on subsidies for firms located in the hometown of politicians. The sample includes all publicly listed Chinese firms from 2009 to 2018. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspections. Across all columns, the main dependent variable is $Log(Subsidy)$, denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader (Leader #) × Inspection × Subsidy Description. Subsidy Description Length denotes the length of the subsidy description (Chinese character). Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the anti-corruption inspection, and 2-digit industry-year fixed effects. Significance level: * p < 0.10, ** p < 0.05, *** p < 0.01.

Table A.7: Hometown Favoritism by Politicians and Crowding Out Effect on Local Public Expenditure

	(1)	(2)
	Log(1+City Public Expenditure)	
Panel A. Intra-city Hometown Favoritism		
Hometown Leader × Inspection	0.029**	0.027**
	(0.012)	(0.012)
Observations	2,850	2,850
R-squared	0.987	0.987
Panel B. Inter-city Hometown Favoritism		
Leader # × Inspection	0.002	0.002
	(0.003)	(0.003)
Observations	2,850	2,850
R-squared	0.987	0.987
Year FEs	✓	✓
City FEs	✓	✓
Regional Controls	✓	✓
Pre-provincial Controls × Inspection FEs		✓

Notes: This table illustrates the effect of anti-corruption inspection on prefecture city c's public expenditures. Standard errors are clustered at the province level, indicated in parentheses, due to the anti-corruption inspection. This table reports the coefficients of the interaction term between Hometown Leader/Leader # and Inspection. Log(1+City Public Expenditure) denotes the logarithm value of the prefecture city c's public expenditure plus one. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. I include provincial controls, prefecture city fixed effects, year fixed effects, and pre-provincial controls interacting with the inspection. Significance level: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table A.8: Alternative Explanation: Average Productivity of Political Leaders' Hometown Firms after Anti-corruption Inspections

	(1)	(2)
	Log(Average Firm Productivity)	
Panel A. Intra-city Hometown Favoritism		
Hometown Leader × Inspection	0.057	0.045
	(0.065)	(0.064)
Observations	2,111	2,111
R-squared	0.701	0.702
Panel B. Inter-city Hometown Favoritism		
Leader # × Inspection	-0.008	-0.005
	(0.013)	(0.014)
Observations	2,111	2,111
R-squared	0.700	0.702
Year FEs	✓	✓
City FEs	✓	✓
Regional Controls	✓	✓
Pre-provincial Controls × Inspection FEs		✓

Notes: This table illustrates the effect of anti-corruption inspection on the prefecture city c's average firm productivity per worker: Log(Average Firm Productivity), proxied by Log(Revenue/Employee #). The sample includes all Chinese listed firms in the period 2009-2018. Standard errors are clustered at the province-level, indicated in parentheses, due to anti-corruption inspection. This table reports the coefficients of the interaction term between Hometown Leader/Leader # and Inspection. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. I include regional controls, prefecture city fixed effects, year fixed effects. Significance level: * p < 0.10, ** p < 0.05, *** p < 0.01.

Table A.9: Robustness Test: More Fixed Effects and Subsample Analyses

VARIABLES	(1)	(2)	(3)	(4)
	Log(Subsidy)			
	Province-Year FEs	Province Specific Trend	No Provincial-level Cities	No Government-dependent Sectors
Panel A. Intra-city Hometown Favoritism				
Hometown Leader × Inspection	-0.131**	-0.245***	-0.165**	-0.243***
	(0.058)	(0.069)	(0.063)	(0.068)
Observations	142,442	142,442	116,354	115,346
R-squared	0.281	0.276	0.238	0.269
Panel B. Inter-city Hometown Favoritism				
Leader # × Inspection	-0.026**	-0.018*	-0.020*	-0.024**
	(0.011)	(0.010)	(0.011)	(0.011)
Observations	142,442	142,442	116,354	115,346
R-squared	0.281	0.276	0.238	0.269
Firm FEs	✓	✓	✓	✓
Year FEs		✓		
Provincial Controls		✓	✓	✓
Pre-firm Controls × Inspection	✓	✓	✓	✓
2-Digit Industry × Year FEs	✓	✓	✓	✓
Province × Year FEs	✓			
Province Specific Linear Time Trend		✓		

Notes: This table illustrates the robustness of the baseline results to additional fixed effects and subsample analyses. The sample includes all publicly listed Chinese firms from 2009 to 2018, except in columns (3) and (4) which use subsamples as indicated. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspections. Across all columns, the main dependent variable is Log(Subsidy), denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader (Leader #) × Inspection. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2013. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produces from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the anti-corruption inspection, and other controls as indicated. Significance level: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table A.10: Robustness Test: Do Provinces With More Leaders Face Intensive Inspections?

VARIABLES	(1) Log(Media Anti-corruption 1)	(2) Log(Media Anti-corruption 2)	(3) **1**(Provincial Leader Expelled)	(4) Log(1+Corrupt Cases)
Panel A. Intra-city Hometown Favoritism				
Hometown Leader # of Province × Inspection	0.004	0.020	0.041	0.031
	(0.028)	(0.029)	(0.053)	(0.052)
Observations	300	300	300	300
R-squared	0.913	0.944	0.471	0.956
Panel B. Inter-city Hometown Favoritism				
Leader # of Province × Inspection	-0.003	-0.001	0.006	0.001
	(0.003)	(0.003)	(0.004)	(0.007)
Observations	300	300	300	300
R-squared	0.914	0.944	0.478	0.956
Year FEs	✓	✓	✓	✓
Province FEs	✓	✓	✓	✓
Regional Controls	✓	✓	✓	✓

Notes: This table illustrates the effect of anti-corruption inspections on media coverage of anti-corruption-related terms at the province-level, serving as a proxy for anti-corruption intensity. This proxy is based on the assumption that regions undergoing intensive inspections may attract more attention from local media. The sample includes all Chinese provinces from 2009-2018. Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspection. Across all columns, the main dependent variables are (1) Log(Media Anti-corruption 1), denoting all newspaper titles including the term $fanfubai$ (anti-corruption) in province p in year t; (2) Log(Media Anti-corruption 2), denoting all newspaper titles including the term $fubai$ (corruption) in province p in year t; **1**(Provincial Leader Expelled) denotes whether the provincial governor/party secretary was expelled in province p in year t; Log(1+ Corruption Cases) denotes the number of corruption cases in province p in year t. This table reports the coefficients of the interaction term between Hometown Leader # Province/Leader # Province and Inspection. Hometown Leader # Province is a continuous variable denoting the average number of local-born city party secretaries that province p had from 2009 to 2013. Leader # Province is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that province p produced from 2009 to 2013. Inspection denotes the staggered anti-corruption inspections, which takes 1 in affected province p for both the investigation year t and the following years, and 0 for all other years. I include regional controls, province fixed effects, year fixed effects. Significance level: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table A.11: Robustness Test: Placebo Anti-corruption Inspections (No Contaminated Post-period Coefficients)

VARIABLES	(1)	(2)	(3)	(4)
	Log(Subsidy)			
Panel A. Intra-city Hometown Favoritism				
Hometown Leader × Placebo Inspection in 2012	-0.000			
	(0.084)			
Hometown Leader × Placebo Inspection in 2011		0.044		
		(0.066)		
Panel B. Inter-city Hometown Favoritism				
Leader # × Placebo Inspection in 2012			-0.018	
			(0.012)	
Leader # × Placebo Inspection in 2011				0.013
				(0.009)
Observations	39,990	39,990	39,990	39,990
R-squared	0.350	0.349	0.350	0.350
Firm FEs	✓	✓	✓	✓
Pre-firm Controls × Post 2012 (2011)	✓	✓	✓	✓
Regional Controls	✓	✓	✓	✓
2-Digit Industry × Year FEs	✓	✓	✓	✓

Notes: This table illustrates the effect of placebo anti-corruption efforts on allocated subsidies for firms located in the prefecture city that had local-born city party secretaries/produced more Chinese leaders. The sample includes all Chinese listed firms in the period 2009-2012 (omitted observations after the actual anti-corruption inspection). Standard errors are clustered at the province-level, indicated in parentheses, due to the anti-corruption inspection. Across all columns, the main dependent variable is $Log(Subsidy)$, denoting the logarithm value of the amount of subsidy allocation to firm i located in city c in year t. This table reports the coefficients of the interaction term between Hometown Leader/Leader # and placebo anti-corruption efforts. Hometown Leader is a dummy denoting prefecture city c that had local-born city party secretaries or mayors from 2009 to 2012. Leader # is a continuous variable indicating the average number of Chinese leaders (city mayor and city party secretary) that prefecture c produced between 2009 and 2012. Post 2011 is an indicator variable that takes 1 after 2011 (the placebo anti-corruption inspection); Post 2012 is an indicator variable that takes 1 after 2012 (the placebo anti-corruption inspection). I limit the sample after 2012, which means that the observations after 2012 across all columns are dropped. The analysis includes firm fixed effects, year fixed effects, pre-firm controls interacting with the placebo anti-corruption inspection, regional controls, and 2-digit industry-year fixed effects. Significance level: * p < 0.10, ** p < 0.05, *** p < 0.01.