‘Effortless Perfection:’ Do Chinese cities manipulate air pollution data?

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This paper uses unique data on daily air pollution concentrations over the period 2001–2010 to test for manipulation in self-reported data by Chinese cities. First, we employ a discontinuity test to detect evidence consistent with data manipulation. Then, we propose a panel matching approach to identify the conditions under which irregularities may occur. We find that about 50% of cities reported dubious PM10 pollution levels that led to a discontinuity at the cut-off. Suspicious data reporting tends to occur on days when the anomaly is least detectable. Our findings indicate that the official daily air pollution data are not well behaved, which provides suggestive evidence of manipulation.

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Introduction

To incentivize air pollution abatement in Chinese cities, performance evaluations of local officials include the number of “blue-sky days,” which are days with air pollution index (API) below 100. In the absence of independent verification mechanisms, the discontinuous incentive structure are associated with anomalies in the API scores around the cut-off. Some cities are allegedly under-reporting their air pollution levels. We call this phenomenon “effortless perfection.”

Data manipulation has adverse health and public-policy considerations. Even in the case of minor under-reporting, if it occurs frequently enough, it increases citizens’ likelihood of exposure to higher air pollution levels. Misinformed citizens may not efficiently mitigate pollution-related health risks by avoidance behavior such as wearing masks or canceling outdoor activities. On the other hand, if citizens suspect that manipulation is occurring, overly cautious citizens may not efficiently conduct their business and other economic activities. From a public-policy perspective, data manipulation defeats the purpose of such incentive schemes, jeopardizes the public interest and undermines the government’s credibility.

Furthermore, data manipulation has consequences for the use of such data in empirical studies. Manipulation introduces non-classical measurement error into the pollution data that are used by many empirical researchers. Such measurement error will bias studies that evaluate the impact of air pollution on health and other outcomes. The biased marginal effects of pollution might lead to incorrect policy recommendations. If the measurement error in the air pollution data correlates with
weather variables, which may be used as instruments for true air quality, then standard econometric methods may not rectify the bias due to the measurement error in this data.

Our paper aims to identify irregularities in the air pollution data in order to provide insight on the nature of manipulation and the circumstances under which it is likely to occur. We define manipulation as the behavior of not reporting the true pollution level, such as data falsification or hiding bad pollution data. It does not include strategic behavior such as temporary driving bans, closing factories, or requiring different fuels. Although these command-and-control policies are inefficient, they can indeed reduce pollution in the short run so we cannot call them manipulation.

The best way to detect manipulation is to use independent measures of air pollution to validate the official data. Ideally, the alternative data sources would allow us to differentiate between command-and-control policies and manipulation. Unfortunately, such data are unavailable for all the relevant pollutants, cities, and periods. In the absence of the ideal data set, we have to impose assumptions that are consistent with the absence of manipulation, and then test the implications of these assumptions. Therefore, this paper uses econometric methods to uncover suggestive evidence of manipulation from the self-reported data.

We pose two research questions. First, we investigate whether a city reports dubious pollution data around the cut-off for blue-sky days. To answer this question, our empirical strategy is borrowed from the test proposed in McCrary (2008) in the context of regression discontinuity design. The intuition here is that if the pollutant concentration on a particular day misses the cut-off for blue-sky day by a small amount, then there is an incentive for the city to under-report the pollutant concentration and score a blue-sky day. If such behavior occurs often, the distribution of the pollutant concentration exhibits a discontinuity. In the absence of manipulation, the distribution of air pollutant concentrations is expected to be continuous because polluters and regulators do not have complete control over the realized pollutant concentration (Brannlund and Lofgren, 1996). Thus, detection of this type of manipulation boils down to a test of discontinuity around the cut-off for blue-sky days in the distribution of pollutant concentrations. Irregularity around the cut-off is a red flag of potential manipulation.

Second, we study the patterns of manipulation by proposing a panel matching approach. The ideal experiment to examine such patterns is to observe twin cities that are expected to have identical distributions of air quality. The panel matching approach constructs pairs of cities that have the same geographic and provincial characteristics. Since true air quality is unobservable, we use visibility as a proxy together with other weather variables (Sloane and White, 1986). The key assumption that allows us to identify manipulation is that for a constructed city pair, we expect that the two cities have the same distribution of API conditional on visibility and other weather variables. This approach does not pin down which city is suspected to be a manipulator. Instead, it identifies the conditions under which manipulation is most likely to occur.

This paper is not the only attempt to investigate dubious air pollution data in China. Andrews (2008a, 2008b) first questioned the credibility of official data in Beijing and brought this issue to public attention. The author presented the evidence that the API has massive bunching below the cut-off in addition to other gimmicks to polish air quality reports. Chen et al. (2012) provide a formal econometric analysis on the accuracy of the air pollution data. They confirmed the anomaly around the cut-off based on the official data from 37 large cities during 2000–2009. We improve on this literature in three aspects.

First, we use a more comprehensive data set. In particular, we obtained the confidential daily air pollution data from the Chinese government. The data include non-disclosed variables underlying the calculation of the API. Our data set covers 113 cities during 2001–2010, which includes all cities that are required to report daily air pollution information. The detailed data have never been used in previous studies.

Second, our data set allows us to apply the discontinuity test to pollutant concentrations directly instead of the API. The distribution of pollutant concentrations satisfies the continuity assumption of the McCrary (2008) test, whereas that of the API does not. The API is a nonlinear transformation of pollutant concentrations. Its distribution is not continuous, which violates the assumption required for the McCrary test. Applying the McCrary test to the API scores directly may lead to biased results.

Third, our panel matching method is novel. The nonparametric specification does not assume that manipulation and control variables such as visibility and weather conditions are separable, which allows for more realistic forms of manipulation which differ based on weather conditions. Furthermore, linear fixed effects models are known to be inconsistent when they are misspecified as shown in Chernozhukov et al. (2013) and Gibbons et al. (2011). Since we do not expect the true relationship between API and other variables to be linear or to follow a particular functional form assumption, the nonparametric approach is preferable.

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1 These policies were used during major events such as 2008 Olympic Games in Beijing and Expo 2010 in Shanghai. They are also used when local governments are desperate to meet their environmental targets at the end of a particular year.

2 A notable independent measure is the U.S Embassy Beijing Air Quality Monitor. It has reported PM2.5 particulates pollution since 2008. However, PM2.5 was not regulated during 2001–2010. Some research institutions collected air quality data independently but the data are not widely available.

3 Command-and-control policies have been used to ensure that the target number of blue-sky days is met. However, such behavior can lead to a bunching below the cut-off for blue-sky days but should not cause discontinuity.

4 Inspection of the empirical cumulative distribution functions (CDFs) can suggest which city is the manipulator, but the formal tests we perform do not answer this question.
Our results suggest evidence consistent with manipulation. We find sharp discontinuities at the cut-off for blue-sky days for PM$_{10}$ data for 50% of the cities in our data set. In comparison, we do not find such evidence for sulfur dioxide (SO$_2$) and nitrogen dioxide (NO$_2$). This is not surprising, since PM$_{10}$ is the primary culprit of non-blue-sky days in the majority of Chinese cities. In terms of the circumstances under which we find evidence consistent with manipulation, our findings indicate that such evidence is more likely to occur under high visibility and low wind speed. The interpretation is quite intuitive here. When wind speed is low, nature is not doing its part and the pollutants are not simply “gone with the wind.” On days with high visibility, manipulation is not easily detectable. It is important to note that the two methods we use to detect manipulation may be applied by the monitoring agencies themselves to detect manipulators.

It is worth emphasizing that the identification of potential manipulation requires non-trivial assumptions. Hence, caution is warranted in interpreting the results we present here. They should be interpreted as evidence consistent with manipulation under the assumptions we make. Hence, we discuss the caveats entailed when we present our identification strategies.

Although we focus on air pollution, the methodology extends to other sub-fields of economics where the reported data are subject to manipulation due to the presence of a particular cut-off. It is related to the policy environments where moral hazard arises under asymmetric information due to a cut-off in the performance evaluation. Take finance as an example, lenders treat mortgage borrowers with credit scores just above certain thresholds differently from those with slightly lower scores. Similar to our first approach, Keys et al. (2010) test for discontinuities in FICO scores around these thresholds, which they find and interpret as suggestive evidence of manipulation.

Another potential field of application is education. The literature on gaming in the school system as a result of high-stakes testing has been growing in the last decade. Similar to our setting, the ideal data, where one can observe an independent measure of the allegedly manipulated data, is not available. In this literature, similar to Chen et al. (2012), the use of fixed-effects approaches is widespread. For instance, Figlio and Getzler (2002) use a fixed-effects approach at the student level to find associations between high-stakes testing and disability reclassification. Dee et al. (2000) use a different approach, where they compare the difference in frequency in test scores below and above the thresholds for passing. This is the discrete-variable equivalent to testing a discontinuity for a continuous variable. Thus, it is similar to our first approach.

The rest of the paper is organized as follows. Section 2 gives an overview of the empirical setting. Section 3 describes the data and variables. Section 4 presents the discontinuity test that detects irregularities around the cut-off. Section 5 proposes the panel matching approach to identify the patterns of manipulation. We give special attention to caveats and robustness checks for the two approaches in Sections 4.4 and 5.5, respectively. Section 6 concludes. Additional estimates and robustness checks are included in the online appendix.

Empirical background

This section introduces air pollution and its regulation in China. We focus on the institutional background on why some Chinese cities may engage in data manipulation.

Air pollution and regulation

Air quality of major Chinese cities is among the worst in the world, a consequence of three decades of double-digit economic growth with lax environmental regulation. The Asia Development Bank reports that less than 1% of the largest Chinese cities meet the air quality standards recommended by the World Health Organization (Zhang and Crooks, 2012). Poor air quality is a result of rapid economic growth that heavily relies on fossil fuel consumption (Zhang and Wang, 2011b). Coal accounts for about 70% of total energy use, which has led to severe SO$_2$, NO$_2$, and particulate matter pollution. In addition, motor vehicle usage has grown dramatically, since private car ownership has increased from 3.43 million in 2002 to 78.72 million in 2011. $^5$ Automotive consumption of gasoline has become a major source of air pollution in big cities.

Severe air pollution has caused tremendous health, economic, environmental, and social problems. Although particulate-matter pollution has improved significantly since 2005, its concentrations are still five times higher than the safety level. Because of SO$_2$ and NO$_2$ emissions, acid rain occurred in 227 cities in 2011, or about half of all the monitored cities.$^6$ A recent study suggests that the welfare loss caused by ozone and particulate-matter pollution in 2005 is about 112 billion of 1997 U. S. dollars (Matus et al., 2012). The monetized health costs of air pollution alone are estimated to be between 1.2% and 3.8% of GDP (World Bank, 2007).$^7$ In addition, pollution has stirred widespread discontent among the emerging middle class in urban areas, resulting in what the Chinese government defines as “mass incidents.” These mass incidents have threatened social stability that is regarded as a top priority for the Chinese central government. They have also created bottom-up pressures for local governments to clean up the environment.


$^7$ The World Bank used the adjusted human capital (AHC) approach to estimate the forgone earnings due to pollution at 1.2% of GDP. They used the value of a statistical life (VSL) approach to estimate the mortality risks at 3.8% of GDP.
In the wake of serious air pollution, China has been constructing a national system of atmospheric air pollution standards since 1982. The ambient air quality standards relevant to the period we study here were set in 2000 and were not changed during the entire period of study. See Tables 1 and 2 for pollution standards, categories of API and health concerns. As a national strategy to improve ambient air quality, 113 key cities are required to disclose their once classified air quality data. The mandate began with weekly reporting in 1998 and advanced to daily reporting in 2000. The central government uses information disclosure to create an incentive for local governments to engage in air pollution reduction more actively. Disclosed air pollution data are used not only to inform the public but also to evaluate city officials’ environmental performance.

However, China’s air pollution regulations have faced a fair amount of critique (Natural Resources Defense Council, 2009): the regulations are relatively lax compared to the standards recommended by WHO or those adopted by other developed countries; certain pollutants are not included; and in some cases the standards have been revised downward to increase compliance. The most pronounced case took place in the 2000 revision. In response to non-compliance due to the increase in automobile usage, the regulator removed NOX from the list of the criteria pollutants. The standards for NO2 and ozone (O3) were lowered as well. Due to the lax standard, ambient NO2 concentrations are seldom considered the primary air pollutant. Another important case is PM2.5, a fine particulate with major health consequences, which was not included in the standards until 2012. Fortunately, during the period of our study, 2001–2010, the standards remained consistent.

### Costly action vs. effortless perfection

Although China has a relatively comprehensive system of air pollution regulation, implementation of the standards at the local level is a major problem. In order to motivate local officials to reduce pollution, environmental compliance has entered the cadre promotion system. Specifically, 113 key cities have been ranked in the annual Quantified Assessment of Urban Environmental Improvement (Chengkao) since 1989. Air quality is the single most important indicator in the assessment, which accounts for 20 percent of a city’s environmental quality grade. During the 11th Five-Year Plan period (2006–2010), a city with automated monitoring systems receives 20 points if the annual count of blue-sky days is greater than 85% of a year and 0 points if the share is less than 30%. In other cases, the city’s grade is determined by 20 × (p – 30%)/55%, where p is the proportion of blue-sky days. Therefore, city officials strive to achieve 85% of blue-sky days in a year in order to obtain a full score on air quality.

Local officials are expected to comply with the environmental standards because their prospects for career advancement are linked to their ability to meet the targets set by the higher-level offices. In addition, local officials compete with each other on observable performance measures including economic output and social stability, creating a promotion tournament (Chen et al., 2005; Li and Zhou, 2005; Shih et al., 2012). The rankings of environmental performance by the Chengkao were intended to award the title of “Environmental Protection Model City” to top performing cities. The yardstick competition that it creates among city mayors was intended to improve the environment. Zheng et al. (2013) provide empirical evidence that Chinese mayors’ likelihood of promotion is affected by both economic growth rate and environmental performance among other things.

However, some performance indicators are difficult to monitor and verify. The central government must often rely on data that are self-reported by local governments. Under asymmetric information, local officials have an incentive to use inappropriate behavior if their interests are not aligned with those who grant promotions. In a worst-case scenario, those officials may engage in data manipulation. Credibility of official statistical data in China has already been under international scrutiny, most notably the overstated economic growth rate. This has led to similar concerns about the integrity of the environmental data. For example, the API distributions of three municipalities, including Beijing, Tianjin and Chongqing, amass right below the cut-off (see Fig. 1). The irregularities have raised suspicion of systematic manipulation of air pollution data in China.

Although environmental compliance has been explicitly written into the contract between the central and local governments, economic growth is still regarded as the top priority in China (Zhang, 2012). Local officials have unparalleled enthusiasm for growing the economy because of the dual incentives of financial rewards and political futures. This is consistent with the argument that authoritarian leaders opt for less environmental goods in return for faster economic growth (Congleton, 1992). Local governments might lower environmental standards in order to appeal to investors and raise competitiveness, creating a “race to the bottom.” Even worse, taking advantage of the asymmetric information between the central and local governments, self-interested local officials might overstate economic achievement and understate environmental pollution.

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We have assembled a unique data set for the empirical analysis, which integrates a confidential air pollution data set with visibility and other weather conditions.

**Daily air pollution**

The air pollution data are provided by the China National Environmental Monitoring Center (CNEMC), which is affiliated with the Ministry of Environmental Protection of China. Note that CNEMC faithfully compiled the air pollution data reported by the local governments during 2001–2010. Since CNEMC is neutral with respect to local interests, we are relatively certain that any anomalies in the data are attributable to the local governments.10

The air pollution data contain two parts. The first part is public, which includes daily API score and primary pollutant. The main shortfall of the public data is that pollutant concentrations are not reported. Although the primary pollutant concentration can be inferred from its API score, non-primary pollutants’ information is unknown. In addition, the primary pollutant is not reported in a non-pollution day (API $\leq 50$). Fortunately, we have obtained the confidential part that includes concentrations of all three criteria pollutants: PM$_{10}$, SO$_2$, and NO$_2$. The confidential pollutant concentration information has never been used in previous studies.

The air quality data cover 113 cities from 2001 to 2010. The spatial distributions of air pollution in terms of API and three criteria pollutant concentrations are illustrated in Fig. 2. The spatially interpolated air pollution levels shown by the filled contour plots are generated by inverse distance weighting approach based on the city-level daily air pollution data. Air pollution, particularly PM$_{10}$ pollution, is generally worse in North and Northwest China. It is caused by a combination of pollution, geographic and meteorological conditions.

The summary statistics are reported in Table 3. PM$_{10}$ was the dominant primary pollutant in all cities, responsible for 73.7% of non-blue-sky days (API $\geq 100$). SO$_2$ caused less than 10% of non-blue-sky days. NO$_2$ was almost never responsible for non-attainment because of its lax standard. Fig. 3 shows the proportion of days where each of the pollutant is deemed the primary pollutant for the four capital cities, Beijing, Tianjin, Shanghai and Chongqing. The mean API is 76.32, implying the average air quality meets the requirement of blue-sky days. On average, blue-sky days account for 84.6% days in the last

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10 The judgment is based on personal communication with officials from CNEMC.
decade, which interestingly coincides with the target set by the central government. Days with Grade II air quality accounted for 67.7%, that is, most days had good air quality with moderate health consequences.

Air pollution index (API)

Air quality is reported in the form of both pollutant concentrations and Air Pollution Index (API). API converts concentrations of three criteria air pollutants (PM$_{10}$, SO$_2$, and NO$_2$) to a single index by a set of piece-wise linear transformations. The index $I$ for one pollutant with concentration $r$ is defined as the linear interpolation between two index classes such that

$$I = \frac{I_u - I_l}{r_u - r_l} (r - r_l) + I_l.$$  

(1)

In this form, $r_u$ and $r_l$ are the upper and lower boundaries of concentrations for each air quality level, and $I_u$ and $I_l$ are the corresponding upper and lower index classes. The thresholds are reported in Table 1. Although nine air pollutants were regulated during this period, only three pollutants enter the daily air pollution report system because of technical and cost constraints. The normalized index for each pollutant is computed based on its daily average concentration.

API on a given day is determined by the pollutant that has the highest index. The corresponding air pollutant is referred to as the primary pollutant.

$$API = \max(I_{SO2}, I_{NO2}, I_{PM_{10}}).$$  

(2)

API varies between 0 and 500 with a large number indicating poor air quality. Different API categories are associated with different pollution levels and health consequences (Table 2). Officially, a “blue-sky day” is defined as a day with the value of

Fig. 2. Average daily air pollution levels during 2001–2010: air pollution index (API, upper left), particulate matter concentration (PM$_{10}$, upper right), nitrogen dioxide concentration (NO$_2$, lower left), and sulfur dioxide concentration (SO$_2$, lower right). The filled contour plot shows spatially interpolated air pollution levels, which is generated by inverse distance weighting approach based on the city-level daily air pollution data. The dots represent cities that disclose daily API scores.
API less than 100, that is, the air quality is either excellent or good. The compliance with the air quality standards is then simplified by just counting the number of blue-sky days. Pollutant concentrations are measured and averaged across stations and over a 24-hour period. In order to release pollution information in the afternoon, daily report uses the data from the previous noon to current noon. To summarize, API calculation is implemented in four steps: First, a 24-hour average pollutant concentration is calculated for each station.

Table 1
Air pollution index and corresponding pollution levels.

<table>
<thead>
<tr>
<th>API</th>
<th>Daily average concentrations (mg/m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sulfur dioxide (SO₂)</td>
</tr>
<tr>
<td>50</td>
<td>0.050</td>
</tr>
<tr>
<td>100</td>
<td>0.150</td>
</tr>
<tr>
<td>200</td>
<td>0.800</td>
</tr>
<tr>
<td>300</td>
<td>1.600</td>
</tr>
<tr>
<td>400</td>
<td>2.100</td>
</tr>
<tr>
<td>500</td>
<td>2.620</td>
</tr>
</tbody>
</table>

Table 2
Categories of API and health concerns.

<table>
<thead>
<tr>
<th>API</th>
<th>Air quality level</th>
<th>Air quality conditions</th>
<th>Health concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–50</td>
<td>I</td>
<td>Excellent</td>
<td>Good</td>
</tr>
<tr>
<td>51–100</td>
<td>II</td>
<td>Good</td>
<td>Moderate</td>
</tr>
<tr>
<td>101–200</td>
<td>III</td>
<td>Lightly polluted</td>
<td>Unhealthy for sensitive groups</td>
</tr>
<tr>
<td>201–300</td>
<td>IV</td>
<td>Moderately polluted</td>
<td>Unhealthy</td>
</tr>
<tr>
<td>&gt; 300</td>
<td>V</td>
<td>Heavily polluted</td>
<td>Hazardous</td>
</tr>
</tbody>
</table>

Fig. 3. Distribution of primary pollutants in four capital cities: Beijing (upper left), Tianjin (upper right), Shanghai (lower left), and Chongqing (lower right). The histograms are based on city-level daily API scores during 2001–2010. They show the proportion of the days where NO₂, PM₁₀, and SO₂ are the primary pollutants. They also indicate the proportion of days when none of the pollutants is deemed the primary pollutant.

API less than 100, that is, the air quality is either excellent or good. The compliance with the air quality standards is then simplified by just counting the number of blue-sky days.

Pollutant concentrations are measured and averaged across stations and over a 24-hour period. In order to release pollution information in the afternoon, daily report uses the data from the previous noon to current noon. To summarize, API calculation is implemented in four steps: First, a 24-hour average pollutant concentration is calculated for each station.

Note that a blue-sky day is a just technical definition. It does not necessarily mean that the sky is literally blue.
Second, city average pollutant concentration is derived from multiple station averages. Third, individual pollutant index $I$ is calculated according to Eq. (1). And finally, API is the maximum of individual pollutant indices according to Eq. (2).

Pollutant concentrations are measured and averaged across stations and over a 24-hour period. In order to release pollution information in the afternoon, daily report uses the data from the previous noon to current noon. To summarize, API calculation is implemented in four steps: First, a 24-hour average pollutant concentration is calculated for each station. Second, city average pollutant concentration is derived from multiple station averages. Third, individual pollutant index $I$ is calculated according to Eq. (1). And finally, API is the max of individual pollutant index according to Eq. (2).

If manipulation happens, it is likely to happen in the process of calculating daily average pollutant concentrations at station- or city-level. It could be caused by data falsification, which is against the law. It could also be caused by regulatory loopholes. Specifically, the minimum data requirement to calculate daily averages for gaseous pollutants (SO$_2$ and NO$_2$) is 18 h of effective monitoring and that for particulate matter is 12 h.[$^{12}$] Cities could discard the observations with bad pollution on the excuse of faulty equipment. In addition, since the data requirement for PM$_{10}$ is lower than the other two pollutants, this becomes another reason why PM$_{10}$ is more vulnerable to manipulation besides PM$_{10}$ being the dominant primary pollutant.

Visibility and other weather variables

The meteorological data are obtained from the National Climatic Data Center under the National Oceanic and Atmospheric Administration (NOAA) of the United States. The weather data are collected by the weather stations under the China Meteorological Administration (CMA). Since weather stations are not prone to political interference, the human operators of weather stations do not have an incentive to manipulate the results. This data set that we use records weather information for 499 weather stations every 3 h from 2001 to 2010. Note that we dropped the weather stations that have less than 10,000 records.

Meteorological factors are correlated with air pollution. The variables that we use in the paper include visibility (VSB, in statute miles), temperature (TEMP, in Fahrenheit), atmospheric pressure (STP, in millibars), precipitation (PCP, in inches), and wind speed (SPD, in miles per hour). The weather variable of central interest is visibility, which is used as a proxy for API. Visibility is historically defined as “the greatest distance at which an observer can just see a black object viewed against

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### Table 3
Summary statistics of the variables used in the analysis.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>API (max)</strong></td>
<td>76.315</td>
<td>37.680</td>
<td>0</td>
<td>625</td>
</tr>
<tr>
<td><strong>Primary pollutant</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO$_2$</td>
<td>0.092</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NO$_2$</td>
<td>0.002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PM$_{10}$</td>
<td>0.737</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>0.169</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>0.677</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III1</td>
<td>0.124</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III2</td>
<td>0.021</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV1</td>
<td>0.003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV2</td>
<td>0.002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V</td>
<td>0.004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pollution concentration (mg/m$^3$)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO$_2$</td>
<td>0.054</td>
<td>0.055</td>
<td>0.001</td>
<td>2.147</td>
</tr>
<tr>
<td>NO$_2$</td>
<td>0.036</td>
<td>0.020</td>
<td>0.001</td>
<td>0.353</td>
</tr>
<tr>
<td>PM$_{10}$</td>
<td>0.100</td>
<td>0.066</td>
<td>0.001</td>
<td>2.721</td>
</tr>
<tr>
<td><strong>API (pollutant level)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO$_2$</td>
<td>43.262</td>
<td>27.544</td>
<td>0</td>
<td>409</td>
</tr>
<tr>
<td>NO$_2$</td>
<td>22.850</td>
<td>14.116</td>
<td>0</td>
<td>226</td>
</tr>
<tr>
<td>PM$_{10}$</td>
<td>74.731</td>
<td>38.277</td>
<td>0</td>
<td>501</td>
</tr>
<tr>
<td><strong>Weather</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visibility (VSB)</td>
<td>6.497</td>
<td>2.541</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Wind speed (SPD)</td>
<td>5.289</td>
<td>2.886</td>
<td>0</td>
<td>42.75</td>
</tr>
<tr>
<td>Temperature (TEMP)</td>
<td>99.081</td>
<td>19.604</td>
<td>23.50</td>
<td>98.04</td>
</tr>
<tr>
<td>Pressure (STP)</td>
<td>965.954</td>
<td>76.455</td>
<td>637.78</td>
<td>1045.48</td>
</tr>
<tr>
<td>Precipitation (PCP)</td>
<td>0.069</td>
<td>0.263</td>
<td>0</td>
<td>11.30</td>
</tr>
</tbody>
</table>

the horizon sky” (Malm, 1999). It has been shown that particulate matter and gaseous pollution can cause visibility impairment. All these variables are daily averages in order to match the time scale of API data. The summary statistics for weather variables are also reported in Table 3. In particular, average visibility is 6.5 miles.

Irregularities at the cut-off for blue-sky days

One expects that manipulation around the cut-off for blue-sky days is the most likely form of manipulation to occur. The reasoning here is straightforward. Local governments report their API scores on a daily basis and this data set is publicly available. If the API scores are tweaked by large amounts, citizens and central government officials may doubt the information reported by local governments. Manipulation right around the cut-off is less likely to be detected because the difference in visibility and other weather conditions associated with air quality may be indiscernible between API values at 100 and 100+. Hence, we may rightly predict that cities manipulate blue-sky days by examining the discontinuity in the probability density function (pdf) of air quality data around the cut-off.

API vs concentration

McCrary (2008) proposes a test for the manipulation of the running variable in regression discontinuity design. An implication of the manipulation of the running variable is that its pdf would have a discontinuity. The main assumption for the validity of this test is the continuity of the pdf of the underlying variable under the null hypothesis of no manipulation. Polluters and regulators have imprecise control of the waste load output because it is subject to random shocks (Brannlund and Lofgren, 1996). The pdfs of pollutant concentrations are hence expected to be continuous. The pdf of the API, on the other hand, is not continuous because it is a piece-wise linear transformation of the underlying pollutant concentrations. Fig. 4 illustrates how the relationship between pollutant concentration and API has kinks at some boundaries. This is why we apply this test to the pollutant concentrations. Thus, detection of manipulation boils down to a test of whether the pdf of a pollutant concentration exhibits a discontinuity around the cut-off for blue-sky days.

In the rest of the section, we show how the piece-wise linear transformation may lead to discontinuities in the pdf of API. According to Eq. (1), the relationship between pollution index $I$ and pollutant concentration $r$ can be simplified as the following linear function:

$$I = k_1 r + k_2,$$

where $k_1 = (I_u - I_l)/(r_u - r_l)$ and $k_2 = I_l - r_l(I_u - I_l)/(r_u - r_l)$. Note that the values of the constant $k_1$ and $k_2$ depend on the index class of $r$ in Table 1. In this form, pollutant concentration $r$ is a continuous random variable and index $I$ is piece-wise linear in $r$.

The cumulative distribution function (cdf) for a pollutant concentration is denoted by $F_r(x)$. The cdf for the corresponding pollution index $F_I(x)$ is then

$$F_I(x) = Pr[I(r) \leq x] = Pr[k_1 r + k_2 \leq x] = F_r \left( \frac{x - k_2}{k_1} \right).$$

Fig. 4. API is a nonlinear transformation of pollutant concentrations. In particular, there are kinks corresponding to API = 100 for SO2 and NO2 respectively.
Because $k_1$ and $k_2$ depend on pollution index classes, the cdf of pollution index is only piece-wise differentiable. We can derive the pdf for the pollution index around a threshold $c$ and examine the difference in probability densities between

$$f_l(c^-) = \frac{1}{k_1}f_r\left(\frac{c^- - k_2^-}{k_1^-}\right) \text{ and } f_l(c^+) = \frac{1}{k_1}f_r\left(\frac{c^+ - k_2^+}{k_1^+}\right).$$

Eq. (5) shows that discontinuity can occur even if the pollution data are faithfully reported. The discontinuity can be caused by the piece-wise linear transformation of pollution concentration. Let us take SO$_2$ as an example. The probability densities of the pollution index around 100 are $f_l(100^-) = 0.002f_r(0.15)$ and $f_l(100^+) = 0.006f_r(0.15)$ respectively. It is apparent that the right density is higher than the left density but this is not attributed to manipulation. The same situation is also true for SO$_2$. The pollution index of PM$_{10}$ is discontinuous at 50 by construction. However, it should be continuous if the right density is higher than the left density, which is not attributed to manipulation. The same situation is also true for NO$_2$. The pollution index of SO$_2$ and NO$_2$ are interested in the shifting of probability mass from above the cut-off to below it, which will yield the left limit, $f^{-}$, and the right limit, $f^{+}$. In our case, $r$ is the pollutant concentration and $c$ is the cut-off for API = 100. The estimator $\hat{\theta}$ is given in the appendix. It is asymptotically normal:

$$\sqrt{n} h \left( \hat{\theta} - \theta \right) \overset{d}{\sim} N\left(0, \frac{24}{5} \frac{1}{f^+ + f^-} \right).$$

$$B = \frac{H}{20} \left( \frac{-f^+}{f^{-}} - \frac{-f^-}{f^+} \right),$$

where $h$ is the bandwidth and $H = \lim_{\alpha \to \infty, h \to 0} h^2 \sqrt{n} h$. We perform the one-sided lower-tailed version of the test, since we are interested in the shifting of probability mass from above the cut-off to below it, which will yield the left limit, $f^{-}$ to be higher than the right limit, $f^{+}$. The test statistic is calculated in two steps, which is the standard method for local linear density estimators that correct for boundary bias as in Cheng (1993) and Cheng (1997). First, using the estimated variance of the data, a bin size, $b$, is chosen to discretize the data and plot the first-step histogram. After that, the discretized data is used to estimate the left and right limit of the pdf at the cut-off using a bandwidth $h$. McCrary (2008) recommends that the ratio of bandwidth and bin size $a = h/b$ shall be greater than 10. We use $a = 15$ as the benchmark. See Appendix A for the estimation process.

We use the $t$-statistics to infer whether there is evidence consistent with manipulation. Because manipulation involves under-reporting of pollution, we suspect that it would lead to a discontinuity at the cut-off, where the left limit is higher than the right limit. Therefore, a significantly negative $t$-statistic constitutes evidence consistent with manipulation. We rank cities by the significance of the discontinuity. The $t$-statistic is normalized by its variance and hence is more comparable than the actual magnitude of the discontinuity that depends on the shape of the pdf. Ideally, we would have a test statistic that could indicate the degree of manipulation and hence would have a more economic meaning. Such statistic does not exist to the best of our knowledge. It is important to note that a larger $t$-statistic does not necessarily imply a higher level of manipulation in the sense of a larger discontinuity in the pdf. Rather, it signifies a higher degree of confidence in the presence of manipulation.

---

To make this point clear, note that for a cdf we all understand what a discontinuity of 0.1 means, since all cdf values are probabilities. However, the McCrary statistic is the difference between the logs of the left and right limit, which is a percentage change in the pdf. The problem with its interpretation is that it highly depends on whether the discontinuity is at the tail of the density or more toward the center.
Baseline results

We apply the McCrary test to each city using 10 years of daily pollutant concentration data. PM$_{10}$ is the dominant pollutant in all cities, which accounts for 74% of non-blue-sky days. Hence, we expect it to find evidence consistent with manipulation for a larger number of cities. Our baseline result, the $t$-statistic of the McCrary test using $a = 15$, is illustrated in Fig. 5. It shows different levels of significance of our evidence consistent with manipulation in the PM$_{10}$ data across cities. We categorize three levels of manipulation based on $t$-statistics: above $-1.5$, between $-1.5$ and $-2$, and smaller than $-2$ as manipulators. A visual observation of this graph does not reveal obvious spatial patterns of manipulation.

The city-specific McCrary test result confirms heterogeneous manipulation behavior. Table 4 exhibits the cities that are suspected to report dubious PM$_{10}$ pollution. These cities are flagged because their pdfs of PM$_{10}$ concentrations exhibit a statistically significant discontinuity around the cut-off. More specifically, the left limit of the pdf is significantly higher than the right limit. The baseline result, the column with $a = 15$, suggests that 61 cities, 55% of our sample, reported dubious PM$_{10}$ pollution data in the last decade. Fifty cities show no evidence consistent with manipulation in the McCrary test. This result is obtained using the one-sided 5% critical $t$-statistic, $-1.645$. It is important to note that since we are applying the same test to many cities, it is likely that we find 5% rejections due to randomness even if the null of the absence of manipulation is true. Taking this into account, we still find ample evidence consistent with manipulation.

In the introduction section, we use the API histograms of four municipalities to motivate the research question (see Fig. 1). However, our formal empirical test uses pollutant concentration instead of API. The McCrary test is illustrated in Fig. 6. The results confirm that Beijing, Tianjin and Chongqing exhibit evidence consistent with manipulation. However, we cannot reject the null hypothesis that Shanghai does not exhibit evidence consistent with manipulation.
This table reports the McCrary standard deviation of the pollutant concentration. For more details, please see Appendix A.

To summarize the McCrary test results, we plot McCrary t-statistics for the three criteria pollutants against GDP per capita, population density, or industrial value added per capita in Fig. 7. It is important to note that these plots are used to summarize the results and are not to be interpreted in a causal fashion. These plots show that for PM$_{10}$ the relationship between the McCrary t-statistic and the three economic variables is negative. Since a more negative McCrary t-statistic implies more significant manipulation, a negative slope implies that the higher the GDP per capita, population density, or industrial value added per capita, the more significant the manipulation of PM$_{10}$ concentration data. This correlation is intuitive, since cities that are larger demographically or economically are more likely to have pollution problems due to PM$_{10}$ and hence are more likely to manipulate their data. For SO$_2$ and NO$_2$, we find no correlation.

Table 4

<table>
<thead>
<tr>
<th>City</th>
<th>$t$-Statistic for McCrary test: cities exhibiting manipulation (PM$_{10}$).</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>$a$</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Shenyang</td>
<td>-10.318</td>
</tr>
<tr>
<td>Shijiazhuang</td>
<td>-8.620</td>
</tr>
<tr>
<td>Anshan</td>
<td>-7.612</td>
</tr>
<tr>
<td>Beijing</td>
<td>-7.800</td>
</tr>
<tr>
<td>Chengdu</td>
<td>-6.407</td>
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<tr>
<td>Nanjing</td>
<td>-7.291</td>
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<tr>
<td>Hefei</td>
<td>-6.648</td>
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<tr>
<td>Hangzhou</td>
<td>-6.235</td>
</tr>
<tr>
<td>Xining</td>
<td>-5.286</td>
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<tr>
<td>Weinan</td>
<td>-4.828</td>
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<tr>
<td>Changchun</td>
<td>-3.602</td>
</tr>
<tr>
<td>Luoyang</td>
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<td>Chongqing</td>
<td>-4.167</td>
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<td>Jinzhou</td>
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<tr>
<td>Tianjin</td>
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</tr>
<tr>
<td>Kaifeng</td>
<td>-3.604</td>
</tr>
<tr>
<td>Xiangtan</td>
<td>-3.514</td>
</tr>
<tr>
<td>Qingdao</td>
<td>-3.300</td>
</tr>
<tr>
<td>Suzhou</td>
<td>-3.066</td>
</tr>
<tr>
<td>Xuzhou</td>
<td>-3.301</td>
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<tr>
<td>Guiyang</td>
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<tr>
<td>Changzhou</td>
<td>-3.574</td>
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<tr>
<td>Baotou</td>
<td>-2.856</td>
</tr>
<tr>
<td>Taiyuan</td>
<td>-2.833</td>
</tr>
<tr>
<td>Linfen</td>
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<tr>
<td>Xian</td>
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</tr>
<tr>
<td>Wulimuqi</td>
<td>-3.582</td>
</tr>
<tr>
<td>Wuhan</td>
<td>-3.242</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>-3.113</td>
</tr>
<tr>
<td>Jining</td>
<td>-2.109</td>
</tr>
</tbody>
</table>

This table reports the McCrary t-statistic for each city using the PM$_{10}$ concentration data. Notes: $a = h/\hat{b}$, $h$ is the bandwidth and $\hat{b} = \hat{a}/\sqrt{n}$, where $\hat{a}$ is the standard deviation of the pollutant concentration. For more details, please see Appendix A.

Caveats and robustness checks

It is important to stress that our empirical results are suggestive. What we refer to as manipulation may not be actual manipulation if our assumptions do not hold. Discontinuity is an alarming signal but clustering of pollutant distribution around the cut-off is not necessarily due to manipulation. Risk-averse polluters might over-comply with the standards and cause bunching of pollution data (Bandyopadhyay and Horowitz, 2006; Earnhart, 2007; Shimshack and Ward, 2008). In our case, in order to achieve a certain number of blue-sky days, some local governments temporarily shut down factories, reduce energy supply, or require firms to use high-quality fuels. These activities will also cause clustered pollutant distributions. Although these short-run policies are not efficient, we cannot label them as manipulation.

Command-and-control options can shift ambient air quality distribution and cause bunching below the cut-off. However, it would be almost impossible for a city to achieve air quality at a clear-cut level. As long as air quality cannot be precisely controlled, clustering should not lead to a discontinuity. Formally, we can write the pollutant concentration of a city as

$$t = \frac{X - \mu}{\sigma},$$

where $X$ is the observed concentration, $\mu$ is the true mean concentration, and $\sigma$ is the standard deviation of the true concentration. If $\mu$ is continuous, then $t$ is normally distributed. If $\mu$ is discontinuous, then $t$ is not normally distributed. This is the basis for the McCrary test.

14 Of course, it is possible that the correlation would go in the other direction, where with higher GDP per capita, citizens demand better air quality. However, this is not what we find in our study.

15 Personal communication with the officials from the Ministry of Environmental Protection of China.
We expect that \( r \) is clustered somewhere below the cut-off. However, \( r_v \) is random and diffuse across the cut-off. Therefore, the bunching below the cut-off is fine but discontinuity should be unexpected.

Our continuity assumption is also supported by the following argument. First, cities control air quality through regulating numerous polluters. Even if each polluter’s exogenous contribution to air quality is discrete, the aggregated air quality should be continuous. Second, a city’s pollution data are averaged over a number of monitoring stations. The averaging process will strengthen the argument that pollution concentration is continuous. Third, atmospheric scientists and environmental engineers also assume that the distribution of ambient levels is continuous (Junninen et al., 2004; Plaia and Bondi, 2006; Md Yusof et al., 2010). Specifically, the log–logistic distribution is used as a general probabilistic model to fit air quality data, in which the most popular special cases include log-normal, Weibull, and gamma distributions.

A minor caveat to the approach here is that one can only detect the types of manipulation that lead to a discontinuity. For instance, if a city manipulates by deducting a fixed number from the pollutant concentration, say 0.05. Then, this would not lead to a discontinuity, but just a mean shift in the distribution. There are other ways of manipulation that may not result in a discontinuity, but we do not find these alternatives very likely in practice. For cities to manipulate without leading to a discontinuity at the cut-off for blue-sky days, they must have knowledge of the distribution of the concentration for the entire period that we are studying. However, cities have to report their data on a daily basis and hence it is rather unlikely that they can manipulate without leading to a discontinuity at the cut-off.

We also perform a set of robustness checks. First, we investigate the impact of \( a \), the ratio of bandwidth to bin size, on the McCrary test results. According to McCrary (2008), the choice of bin size has no consequences on the test statistic if \( a \geq 10 \). Now in order to ensure that the asymptotic approximation delivers correct inference in finite samples, we need \( h \) to be fairly small, hence we choose to rank the cities’ statistics using \( a = 15 \). In the robustness checks, we allow different values for \( a \). The McCrary test results with \( a = 10 \) or 20 are reported alongside with the baseline results in Tables 4–6. The choice of bandwidth and bin size matters in the test results.

The second robustness check is concerned with the manipulation of different pollutants. Since \( PM_{10} \) caused 73.7% of the total non-blue-sky days, it is the most vulnerable target. We find evidence consistent with manipulation of \( PM_{10} \) concentration for 55%, \( SO_2 \) and \( NO_2 \) account for 9.2% and 0.2% of total non-blue-sky days, respectively. There should be less evidence consistent with manipulations of \( SO_2 \) and \( NO_2 \) concentrations. We report the results for the \( SO_2 \) concentrations in Table 6. We find that 26 cities, or 23%, are flagged because of discontinuities around the cut-off. As for \( NO_2 \), we include its
results in the Supplementary Appendix. NO$_2$ seldom leads to API greater than the cut-off for blue-sky days. Hence, there is very little mass above that cut-off to be able to estimate the right limit of the pdf, which makes the results of the McCrary test unreliable. Again here, the results use the 5% critical value, $C_0 = 1.645$. We should take into account that we would find 5% rejections randomly. But this does not change our results qualitatively.

The third robustness check involves implementing the McCrary test for “artificial” cut-offs. We change the cut-off to $c = 0.1$ and $c = 0.2$ in lieu of the cut-off for blue-sky days. If our hypothesis is true that manipulation leads to a discontinuity, then we do not expect to find any rejection for the artificial cut-offs. We implement the test for both PM$_{10}$ and SO$_2$ and report the results in the Supplementary Appendix. We do not find evidence of a discontinuity for either of the pollutants.\footnote{There are very few significant results that are driven by little mass above the cut-off which leads to unreliable estimates of the right limit of the pdf.}

The fourth robustness check compares the application of the McCrary test to pollutant concentrations and API. We have demonstrated in the identification section that applying the test to API directly might lead to inconsistent estimates because some discontinuities in the API distribution are inevitable because it is a piece-wise linear transformation of pollutant concentration. In order to empirically illustrate this argument, we also apply our test to API and report the implications for our key results in Table 7. Because there is no kink in the transformation from PM$_{10}$ to API at API = 100, see Fig. 4, the
This table reports the McCrary pollutant concentration. For more details, please see Appendix A.

In order to detect particular patterns of manipulation, we cannot simply look at one city. The ideal experiment in this setup would be to have twin cities in the sense that they have the same distribution of true air quality. In the absence of manipulation, these twin cities, city 1 and 2, have identical distributions of API. This implies that to test whether one of the cities manipulate, we are less likely to find evidence consistent with manipulation.

Identification strategy

In order to detect particular patterns of manipulation, we cannot simply look at one city. The ideal experiment in this setup would be to have twin cities in the sense that they have the same distribution of true air quality. In the absence of manipulation, these twin cities, city 1 and 2, have identical distributions of API. This implies that to test whether one of the two cities manipulate, one can test the following hypothesis:

$$H_0: \text{API}_{1} \overset{d}{=} \text{API}_{2}. \quad (7)$$

In this form, $\overset{d}{=}$ denotes equality of distribution. Since in practice we do not have twin cities, we have to form city pairs that are as close as possible in terms of true air quality.

We utilize visibility as a proxy for true air quality. Visibility measures the distance at which an object can just be discerned against a light sky (Sloane and White, 1986). Visibility degradation is closely related to air pollution because sunlight is absorbed or scattered by pollution particles in the air (Guo et al., 2009). Since visibility is reported by weather stations that are not prone to political pressures, it can serve as a reliable proxy for air pollution. However, the

For SO$_2$, the piece-wise linear transformation from concentration to API leads to a jump between the API of 100 and 101, absent manipulation, where the left limit is smaller than the right limit. Note that manipulation occurs if we find that the left limit is higher than the right limit. Hence, using the SO$_2$ API, we are less likely to find evidence consistent with manipulation.

Patterns of manipulation

The McCrary test does not inform under what situations cities may report dubious air pollution data. To address this issue, we propose an alternative identification strategy to investigate the patterns of manipulation. The identification relies on the fact that two cities with identical air quality should have the same API. Otherwise, the discrepancy is attributed to manipulation. This motivates our panel matching approach.

Identification strategy

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- statistics for each city using the PM$_{10}$ concentration data. Notes: $a = h/b$, $h$ is the bandwidth and $b = 2h/\sqrt{n}$ where $\hat{a}$ of the pollutant concentration. For more details, please see Appendix A.
The visibility-pollution connection is also affected by natural variations such as humidity. Therefore, we control for other weather variables including wind speed, temperature, and precipitation. These weather variables are perceived as exogenous, since they are determined by "nature" outside the economy, or for our purposes the political economy.

Our identification strategy is described as follows. Air quality is unobservable; however, it affects both API and visibility. API is determined by both true air quality and manipulation, where the latter is the latent variable to be identified. Visibility is determined by true air quality and exogenous shocks by "nature." "Nature" is partially observable such as weather. For the unobservable "nature," we spatially cluster cities since neighboring cities share some common geographical characteristics that affect the visibility-pollution connection.

Air quality can be proxied by visibility, weather conditions, and geographical location. This allows us to compare the distributions of API of two cities in a pair on days where both face the same visibility and other weather conditions. So our revised hypothesis is

\[ H_0: \text{API}_{t1} | W_{t1} = w \overset{d}{=} \text{API}_{t2} | W_{t2} = w. \]  

\[(8)\]
In this form, \( W \) designates the vector of visibility and other weather variables, and \( w \) designates a value that \( W \) takes. The above hypothesis suggests that two cities have identical distributions of API conditional on visibility, weather, and geographical locations.

**Why not a linear model?**

Now one implication of our hypothesis of no manipulation in Eq. (8) is that the conditional mean of API is equal for the two cities on days with the same weather variables:

\[
\text{Eq. (8) } \Rightarrow E[\text{API}_{t1} | W_{t1} = w] = E[\text{API}_{t2} | W_{t2} = w].
\]  

Now we can impose a linear model on the relationship between API and weather variables, as follows:

\[
\text{API}_{ti} = W_{ti}^\alpha \beta_1 + \alpha_i + \epsilon_{ti}.
\]  

for city \( i = 1, 2 \). In this situation, the testable implication would be

\[
\text{Eqs. (8) and (10) } \Rightarrow \alpha_1 = \alpha_2.
\]  

It also implies the identity of the conditional distribution, \( \text{API}_{t1} | W_{t1} = w \overset{d}{=} \text{API}_{t2} | W_{t2} = w \). Hence, the intuition behind our approach here is to test that there is no heterogeneity in the relationship between weather variables and API, once we control for geographic and provincial characteristics. For the linear model, this translates to the equality of the city-specific intercepts (city fixed effects). It is important to note that the type of manipulation that a linear model can detect is very restrictive. This is our motivation for using a general nonparametric approach that can allow for nonlinear dependence between API and weather variables.

The nonlinear dependence between API and weather variables stems from two main sources: (1) manipulation of API and (2) the nonlinear relationship between true air quality and weather conditions. First, the type of manipulation that can be modeled linearly only changes the mean of API. It imposes that manipulation leads the mean of API to change by the same amount whatever the weather conditions are. So it rules out a situation where manipulation occurs only under certain weather conditions. The latter is an implication of linearity. More specifically, it is due to the separability of \( W_0 \) and \( \alpha \), in Eq. (10). We suspect that manipulation may occur without changing the mean of API. Furthermore, it is more likely to occur under weather conditions that make it harder to detect manipulation. Hence, we do not expect manipulation to be orthogonal to weather conditions. As for the second issue, the relationship between true air quality and weather conditions, especially visibility, is inherently nonlinear. For instance, visibility is a censored variable since its measure is limited to 7 or 10 miles. Hence, we expect its relationship with true air quality to be nonlinear. Given the fact that API is a nonlinear transformation of measures of true air quality, this further strengthens the argument for using a general nonlinear approach to model the relationship between API and weather variables that imposes no parametric restrictions. This is one of the primary motivations for us to use a fully nonparametric approach here.

**Panel matching approach**

Following the above identification strategy, we propose a panel matching approach to study the pattern of manipulation. Now we formalize our above discussion and show the key assumptions that lead to our hypothesis. For city pair \( k \) with cities \( i = 1, 2 \), we have the following relationship:

\[
\text{API}_{tki} = \xi_k(W_{tki}, A_k, \Upsilon_{tki}).
\]  

where \( \text{API}_{tki} \) is the API score on day \( t \) of city \( i \) which belongs to city pair \( k \). \( W_{tki} \) are weather variables including visibility, wind speed, temperature, and precipitation. \( A_k \) are unobservable factors that are time-invariant and are specific to a city-pair, and \( \Upsilon_{tki} \) represents idiosyncratic shocks. Now our key identifying assumption here is that

\[
\Upsilon_{tk1} | W_{tk1} = w, A_k = a \overset{d}{=} \Upsilon_{tk2} | W_{tk2} = w, A_k = a.
\]  

where \( a \) is a realized value for the unobservable city-pair attribute \( A_k \). Please note that \( t \) is not necessarily equal to \( \tau \).

Eq. (13) is a homogeneity assumption, such as the one made in Chernozhukov et al. (2013) and Ghanem (2013), where similar assumptions are used to identify average partial effects in nonseparable panel models. The assumption is employed here to test the existence of manipulation. More importantly, the content of (13) is that once we control for weather conditions and unobservable factors specific to the city-pair, other unobservable factors should have the same distribution across the two cities.

Now (12) and (13) imply our testable hypothesis from above:

\[
H_0: \text{API}_{tk1} | W_{tk1} = w \overset{d}{=} \text{API}_{tk2} | W_{tk2} = w.
\]  

\[
\text{Note that (12) is not a structural relationship per se.}
\]

\[
\text{This is not a restriction, because the two cities do not have to face the same weather conditions on the same day. We just need to compare days with the same weather conditions, not the same days with the same weather conditions. We do this mainly because of constraints on sample size.}
\]
We are essentially matching days based on weather conditions. On days where cities 1 and 2 in pair $k$ face the same weather conditions, their API should have the same distribution.

In order to test the equality of distribution, we apply two tests, the Kolmogorov–Smirnov test (KS-test) and the $t$-test. The two-sample Kolmogorov–Smirnov test is a natural statistic in this setup since it detects any deviation from the equality of distributions. However, it may be conservative, when we do not have two independent samples with $i.i.d.$ observations. We then run the $t$-test for the equality of means, which is robust to deviations from the $i.i.d.$ assumptions. However, it only tests one implication of the equality of distributions, which is the equality of means.

Now for every city-pair, we test the equality of the distribution of API on days with similar weather variables including precipitation, wind speed, temperature, and visibility. We discretize our weather variables and implement the KS-test on each possible combination of weather variables. One can motivate the approach here as an extension of matching methods, where we compare the distribution of API on days where the two cities face similar weather conditions. Recall that in propensity score matching, one matches individuals according to the propensity score, i.e. the predicted probability of treatment. In this paper, we match days based on weather conditions. Then, we test the equality of the API distributions of the two cities for those days.

Since we apply the same tests for all different weather combinations for every city pair, we correct for multiple testing using Romano and Shaikh (2006). For details on the specific procedure that we use, please see Appendix B.

**Baseline results**

For the panel matching approach, we use days when PM$_{10}$ is the primary pollutant. Hence, we use the API of PM$_{10}$ conditional on the API being greater than 50. Along this portion, the distribution of the API of PM$_{10}$ is continuous, because the transformation from concentration to API is exactly linear.

First of all, we need to form city pairs before using the panel matching method. It is implemented in two steps. First, we find nearest neighbors in terms of geographical distance for each city, and define a candidate city pair if both cities are mutually nearest neighbors. Then, we remove all candidate city pairs that are not in the same province to ensure that each city pair is faced with the same provincial environmental goals. Our method results in 14 city pairs. We discard one of these pairs, Kelamayi–Wulumuqi, since the geographical distance between them is quite large. Hence, we are then left with 13 city pairs.

Tables SA.1–SA.15 in the Supplementary Appendix show the results for our panel matching approach. Among the 13 city pairs that we examine, we have four city pairs only that do not exhibit any evidence consistent with manipulation, specifically Wuhu–Maanshan, Zhenjiang–Yangzhou, Changzhou–Wuxi and Jilin–Changchun. We find at least some rejections for the other city pairs, including Kaifeng–Zhengzhou, Quanzhou–Xiamen, Hangzhou–Shaoxing, Shenyang–Fushun, Yinchuan–Shizuishan, Xian–Xianyang, and Zhuhou–Xiangtan. This evidence is suggestive of manipulation.

With the exception of Xian–Xianyang, the rejections seem to occur mostly for higher levels of visibility and low wind speed. This is intuitive for two reasons. First, since poor visibility is associated with high levels of pollution, it is easier for citizens to detect manipulation. This is an important concern for the local governments because the API data are published on a daily basis and the citizens can detect whether it is reasonable to think that a particular day is a blue-sky day or not. Second, it is more likely for manipulation to occur when it can make a difference, i.e. when it would turn a pollution day to a blue-sky day. In addition, to make it less detectable, we are more likely to see that manipulation occurs closer to the cut-off, i.e. the pollution levels should not be that severe. This again confirms our intuition that manipulation is more likely to occur with higher levels of visibility. It is also intuitive why manipulation would occur when wind speed is low. Note that if wind speed is high, the pollutants could be “gone with the wind.” However, if wind speed is low, then nature is not helping reduce pollution. As a result, cities manipulate their API to meet the target.

It is important to note the fact that we find evidence consistent with manipulation for certain weather conditions but not others. This indicates that a linear specification is not appropriate. Recall from above, that a linear specification implies that manipulation is orthogonal to the weather conditions. Our results indicate that this is not the case. Furthermore, they illustrate that the measurement error resulting from manipulation depends on weather conditions. This has important implications for using weather conditions as instruments for true air quality and is discussed in Section 6.

To illustrate the formal results in Tables SA.1–SA.15 of the Supplementary Appendix and to gain some intuition for the approach, we also include Figs. SA.1–SA.3. Fig. 8 is an illustration of the panel matching results for the city pair Zhejiang and Yangzhou. Each figure contains 6 plots for different weather variable combinations for each city pair. VSB denotes visibility, WSP wind speed, and TEMP temperature. All figures are for precipitation equal to zero after discretization, see Appendix C. Each plot includes two empirical cumulative distribution functions (cdfs) in solid lines, one for each city in a pair. We also include point-wise 95% confidence bands for each empirical cdf using dotted lines. It is important to note that these confidence bands are only a reference point and may not be interpreted formally, since the significance level that is used for the formal test is adjusted to correct for multiple testing. Furthermore, since we are comparing two functions, we ought to

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20 For details on discretization, see Appendix C.
21 Nearest neighbor matching does not result in unique matches, this is why we impose this condition.
use uniform confidence bands, which would be wider than the point-wise ones. Hence, caution is needed in interpreting the point-wise confidence bands.

Figs. SA.1, SA.2, SA.3, and SA.13 show how the city pairs Zhenjiang–Yangzhou, Changzhou–Wuxi, Jilin–Changchun, and Wuhu–Maanshan, respectively, do not reflect manipulation under various weather conditions. This of course gives us confidence in our approach that it can detect the absence of manipulation.

For the other city pairs, we find evidence consistent with manipulation. The figures show that evidence consistent with manipulation for different city pairs occurs in different ways. In most cases, the empirical cdf of API of the city suspected of manipulation first-order stochastically dominates that of the city not suspected of manipulation. For higher levels of visibility, this occurs for Kaifeng–Zhengzhou, Zhuzhou–Xiangtan, Quanzhou–Xiamen, Hangzhou–Shaoxing, Shenyang–Fushun, Jinan–Taian, and Huhehaote–Baotou. It is also important to note that the degree of manipulation, which is represented graphically by the vertical distance between the two cdfs, may be very different according to the weather conditions. For instance, for Huhehaote–Baotou, when wind speed and temperature is low, there is evidence consistent with more severe manipulation than with higher temperature and wind speed.

The evidence consistent with manipulation for city pair Xian–Xianyang, however, does not lead to first-order stochastic dominance. The upper-middle plot in Fig. SA.10 shows that the empirical cdf of Xian is flat between 100 and 125, which is evidence consistent with manipulation. For this case, it seems that manipulation occurs mostly right around the cut-off.

**Caveats and robustness checks**

The main caveat of the panel matching approach is that it relies heavily on the assumption that once we condition on weather variables, the entire distribution of API should be the same for both cities. This is of course a strong assumption. Weather variables are required to be good controls for true air quality at all their various levels and combinations for every
city-pair. The choice of the city-pair controls for geographical characteristics and administrative issues. If we thought that there is still a geographical difference between the two cities that may lead their distribution of API to be different under certain weather conditions, such as high visibility, but not otherwise, then this would confound the results of our panel matching approach. For instance, suppose we have two coastal cities in a pair. If we think that their relative proximity to the coast may play a different role under higher wind speed versus lower wind speed, then our assumption would not hold. For our coastal pairs, we find evidence consistent with manipulation under few weather bins (see Tables SA.6 and SA.10). We also do not generally find a different weather pattern for rejections between coastal and non-coastal cities.

As a robustness check for the panel matching approach, we compare its results with the McCrary results in Table 8. "YES" implies that the relevant test reports evidence consistent with manipulation, "NO" implies the contrary, and "Borderline" implies that it depends on the bandwidth. If the panel matching approach finds rejections, then this indicates evidence consistent with manipulation for one of the cities in the pair. If we do not find rejections, then most likely both cities should not be manipulating. It is however possible, though unlikely, that those cities manipulate in exactly the same way. Finally, we may find manipulation in the panel matching approach but not in the McCrary test. This would be the case, if manipulation behavior does not lead to a discontinuity in the pdf of the pollutant concentrations at the cut-off.

For the rest of the city pairs, we find that our panel matching approach and the McCrary test yield consistent results. This is in line with our expectations that both approaches should confirm each other once we exclude some unlikely cases.

Summary and concluding remarks

We find that the daily air pollution data in China are not well-behaved. The assertion is based on the analysis that applies a discontinuity test and a panel matching approach to a unique data set that covers all major cities over a decade. These results are relevant for empirical researchers and policy makers who may use such data to learn about the effects of pollution on various types of outcomes. We suggest that thorough robustness checks be done to examine the impact of the cut-offs. It is worth noting that even though we find discontinuities right at the cut-off, this does not imply that

\[22\] It is possible that both cities manipulate in different ways, however we find this case less likely, since cities are faced with very similar incentive schemes.

<table>
<thead>
<tr>
<th>City pair</th>
<th>PMA rejections</th>
<th>McCrary (2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhenjiang–Yangzhou</td>
<td>NO</td>
<td>Borderline</td>
</tr>
<tr>
<td>Changzhou–Wuxi</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Jilin–Changchun</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Kaifeng–Zhengzhou</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Zhuzhou–Xiantan</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Quanzhou–Xiamen</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Hangzhou–Shaoxing</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Shenyang–Fushun</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Yinchuan–Shizuishan</td>
<td>YES</td>
<td>Borderline</td>
</tr>
<tr>
<td>Xian–Xianyang</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Jinan–Taian</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Huhehaote–Baotou</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Wuhu–Maanshan</td>
<td>NO</td>
<td>NO</td>
</tr>
</tbody>
</table>

The table compares the results from the panel matching approach (PMA) with the McCrary (2008) test. "YES" indicates that there was evidence consistent with manipulation, "NO" indicates that there was no evidence of manipulation, and "Borderline" indicates that there is borderline evidence of manipulation. For instance, it was a borderline p-value at the 5% level.
manipulation only occurs right around the cut-off. A large discontinuity indicates that manipulation occurs on a larger window around the cut-off. In addition, we find a fair amount of heterogeneity and non-linearity in the data reporting behavior. As expected, the resulting data are unlikely to reflect the classical measurement-error assumptions. Our results indicate that the use of standard methods that rely on the classical-measurement-error assumptions would not be appropriate. Hence, the use of such data requires caution and care in the choice of estimation strategy and assumptions on the measurement error.

Our methodology can help the monitors ferret out the cities that report dubious data. In particular, we have discovered the meteorological conditions under which local officials are more likely to manipulate. However, the conviction of a manipulator requires an independent direct measure of pollution. Our approach only provides suggestive evidence. Our results suggest that situations where government officials report data that are used in their own performance evaluation lead to strong incentives for manipulation, as we would expect. Therefore, our models are applicable not only to daily air pollution reports but also to other self-reported data.

Our results have implications for health, public-policy and econometric considerations. For health, manipulation around the cut-off for blue-sky days, even if marginal, has a non-marginal impact on individual behavior. If API is above 100 and is reported as below 100 in a consistent manner, then individuals are more likely to be exposed to higher levels of pollution. This could have adverse effects on the health of sensitive groups. Also, if citizens suspect manipulation, they are less likely to take the API alerts seriously. From a public-policy perspective, manipulation undermines the credibility of public officials, which can have tremendous political-economy consequences. Finally, from an econometric perspective, our results document that the measurement error resulting from manipulation may be correlated with observables that are typically deemed exogenous. This undermines the use of such observables as instruments for true air quality.

This paper has focused on the identification of potential manipulation behavior. Although we have done some preliminary analyses on the patterns of manipulation, we did not provide a political-economy interpretation of why manipulation is more likely to occur in some cities but not others. This question will be left for future studies.

Acknowledgments

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Appendix A. McCrary test statistic

Implementation given \( b \) and \( h \)

There are two steps to implementing the McCrary (2008) test statistic on a variable \( R_i \):

1. First-step histogram of the discretized \( X_i \)

Using a binsize \( b \),

\[
g(R_i) = \left\lfloor \frac{R_i - c}{b} \right\rfloor b + b \left\{ \ldots, c - \frac{5b}{2}, c - \frac{3b}{2}, c - \frac{b}{2}, c, c + \frac{b}{2}, c + \frac{3b}{2}, \ldots \right\}
\]

where \( \lfloor a \rfloor \) is the greatest integer function.

Now \( \{X_j\}_{j=1}^n \) is the equi-spaced grid of width \( b \) covering the support of \( g(R_i) \) and

\[
Y_j = \frac{1}{nb} \sum_{i=1}^n 1\{g(R_i) = X_j\}
\]

A scatter plot of \( X_j \) and \( Y_j \) gives the first-step histogram.

The first step smoothes the data and improves the behavior of the estimator at the boundary, i.e. the cut-off, both from the right and left.

2. Calculation of \( \hat{\theta} \)

\[
\hat{\theta} = \ln \hat{f}^+ - \ln \hat{f}^-
\]

\[
= \ln \left\{ \sum_{X_j > c} K \left( \frac{X_j - c}{h} \right) \frac{S_{n,2}^+ - S_{n,1}^+(X_j - c)}{S_{n,2}^+ - S_{n,0}^+(X_j - c)} Y_j \right\} - \ln \left\{ \sum_{X_j < c} K \left( \frac{X_j - c}{h} \right) \frac{S_{n,2}^- - S_{n,1}^-(X_j - c)}{S_{n,2}^- - S_{n,0}^-(X_j - c)} Y_j \right\},
\]

where \( S_{n,k}^\pm = \sum_{X_j > c} K((X_j - c)/h)(X_j - c)^k, S_{n,k}^- = \sum_{X_j < c} K((X_j - c)/h)(X_j - c)^k, \) and \( K(t) = \max(0, 1 - |t|) \).
Selection of $b$ and $h$

McCrary (2008) points out that the binsize does not matter provided that $h/b > 10$. We use $\hat{b} = 2\hat{\sigma} n^{-1/2}$ proposed in the bandwidth selection guide, where $\hat{\sigma}$ is the standard deviation of $R_i$. In terms of bandwidth selection, McCrary (2008) proposes a method of bandwidth selection based on the rule of the thumb of Fan and Gijbels (1996). The method is based on a global 4th order polynomial approximation on either side of the cut-off. Unfortunately, the regression is sparse for our case. Hence we choose $h = ab\hat{b}$ where $a \in \{10, 15, 20\}$. We use relatively small bandwidths, since the normal approximation behaves poorly when the bandwidth is large due to the bias term.\footnote{We may want to estimate bias to double-check that our results are not affected by this issue.}

Local linear estimator for density plots

The density plots are local linear estimators of the density on the right and left of the cut-off, as follows:

$$
(\hat{\phi}_1, \hat{\phi}_2) = \arg \min \{L(\phi_1, \phi_2, r) \} = \sum_{j=1}^{n} \left\{ (Y_j - \phi_1(X_j - r))^2 K\left(\frac{X_j - r}{h}\right) (1 \{X_j > c\} \{r \geq c\} + 1 \{X_j < c\} \{r < c\}\right)$$

Appendix B. Correction for multiple testing

To correct for multiple testing, for each city pair we use a nominal value of $\alpha = 0.05$ and then apply Romano and Shaikh (2006) step-up procedure to control the $k$-FWER with $k = 1$ and the initial $\alpha_1$ as defined in (13) in Romano and Shaikh (2006).

$$
\alpha_i = \begin{cases} 
\frac{k}{i} & \text{if } i \leq k, \\
\frac{k}{i-k} & \text{if } i > k
\end{cases},
$$

(17)

where $s$ denotes the total number of hypotheses, $H_1, H_2, \ldots, H_s$, and for our case this is equivalent to the total number of weather variable combinations. Together with $D_1(k,s)$ defined as

$$
D_1(k,s) = \max_{k \leq |l| \leq s} S_1(k,s,|l|),
$$

$$
S_1(k,s,|l|) = |l| \sum_{k \leq j < |l|} \alpha_{k-|l| + j} \frac{\alpha_{k-|l| + j} - \alpha_{k-|l| + j - 1}}{j},
$$

we can construct the critical values for our $p$-values, which we denote by $p^c_i$.\footnote{Romano and Shaikh (2006) denote it by $\hat{a}_i$.}

$$
p^c_i = \frac{\alpha \alpha_i}{D_1(k,s)}
$$

(19)

To apply the step-up procedure, we order the observed $p$-values $\hat{p}_i$ in an ascending order, and let $\hat{p}_i$ denote the $i$th smallest $p$-value. Now the step-up procedure start with the largest $p$-value, $\hat{p}_1$. If $\hat{p}_1 \leq p^c_1$, then reject all hypotheses $H_1, \ldots, H_s$. Otherwise, reject $H_1, \ldots, H_j$ such that $j$ is the smallest integer for which

$$
\hat{p}_1 > p^c_1, \ldots, \hat{p}_j > p^c_j, \hat{p}_{j+1} > p^c_{j+1}.
$$

(20)

Appendix C. Discretization of weather variables

Visibility is rounded to the nearest integer. Precipitation is divided into three equi-space bins $[0,0.33]$, $(0.33,0.67]$ and $(0.67,1]$, which we refer to in the table by 0, 0.5 and 1, respectively. Wind speed is divided into 5 bins, $[0,5]$, $(5,10]$, $(10,15]$, $(15,20]$, $(20,25]$. Finally, temperature is also divided into 5 bins $\leq 20$, $(20,40]$, $(40,60]$, $(60,80]$, and $(80,100]$.

Appendix D. Supplementary material

Supplementary data associated with this article can be found in the online version at http://dx.doi.org/10.1016/j.jeem.2014.05.003.

References
