QUID PRO QUO: BUILDERS, POLITICIANS, AND ELECTION FINANCE IN INDIA

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Introduction

- Elections are costly
  - National election in 2009 spent $3 billion on campaign ->increased GDP by 0.5%
- Accountability mechanisms are weak
  - Rule of ten

The Indian Context

- Election cost have skyrocketed – Factors !!
  - Size of constituencies – average size in 1952 was 300,000 which has ballooned to 1.5 – 2 million voters
  - Intensity of political competition – Number of national parties decreased from 8 to 6 between 1989 -2004, but state parties increased from 20 to 36 and registered parties 85 to 173
  - Number of elections – 73rd and 74th amendments to the constitution added nearly 2.9 million new positions
  - Weakness of non-electoral systems of accountability-
    - Non existence of state funding
    - Spending limits are unrealistic
    - Disclosure requirements -> partial success
    - Funds collected from members not enough for campaign -> need funds from other sources

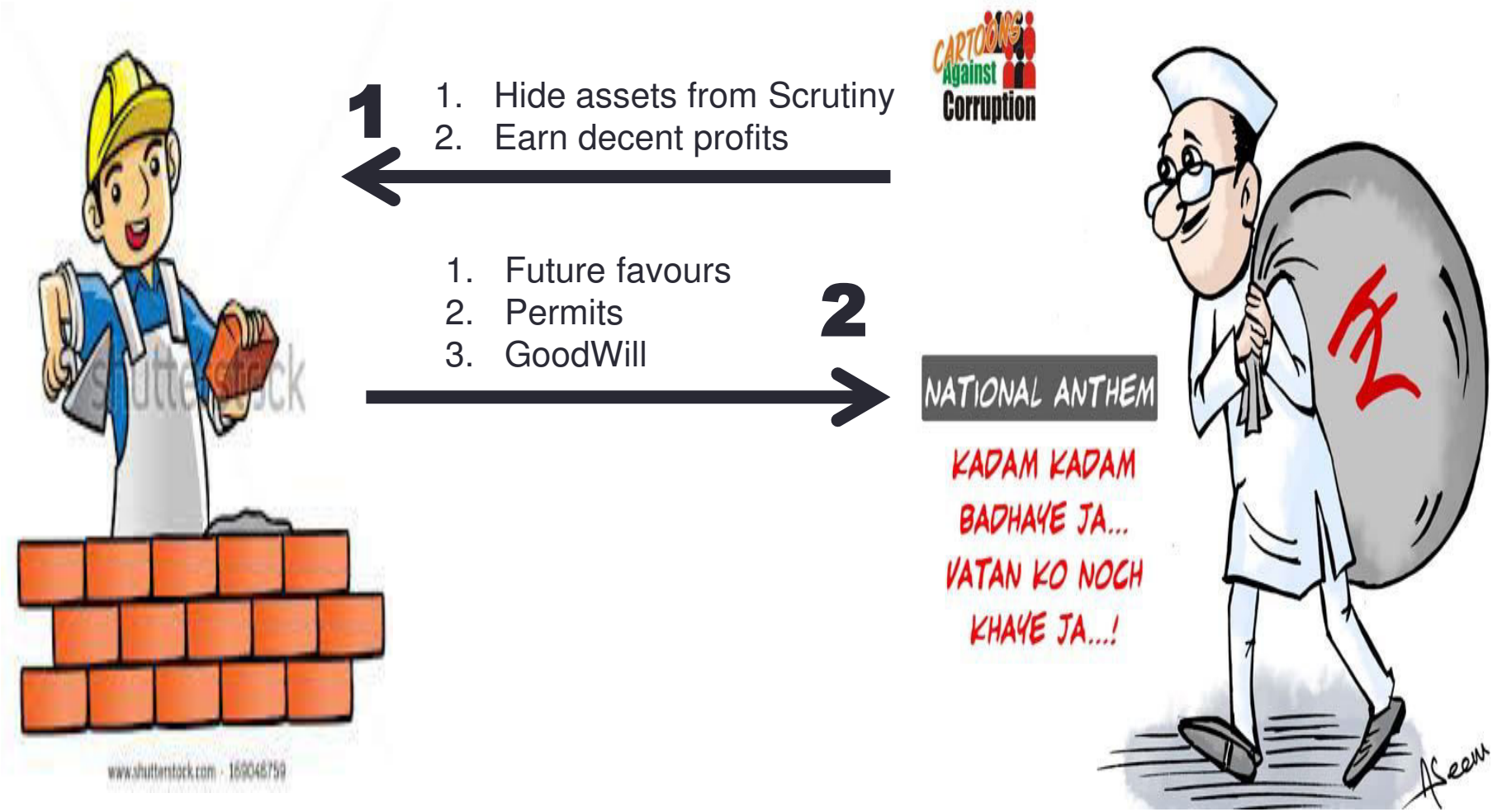
Mechanism of private financing

- Parties recruiting candidates involved in serious criminal activities
- Increase in number of businessmen contesting national elections
- Wealthy individuals are contesting elections
- Parties ask for payments in exchange of party nominations

The real estate channel

- The builder- politician nexus
  - More regulatory intensive sector, more its rent extractive potential
  - The discretionary power the state has with respect to land is the single biggest source of corruption
  - It is easier for politicians to accumulate resources than to hide them. To hide these assets from scrutiny, mechanism should have three important feature –
    - Absorptive capacity
    - Liquid asset
    - Contract enforcement

How the quid pro quo works



Hypotheses on cement consumption(1/2)

- Cement consumption can be a suitable indicator for real estate building activities –
  - Cement is indispensable ingredient in virtually all real estate construction
  - Real estate accounts for 65-75 % of cement consumption -> any change in building activities fluctuates cement consumption
- Hypothesis1 # Cement consumption should contract during month of election
- Hypothesis 2 # Contraction in cement demand is larger during scheduled elections compared to unscheduled elections

Hypotheses on cement consumption(2/2)

- Hypothesis 3 # Contraction in cement consumption will be significant in national elections, though smaller magnitude than in state level elections
- Hypothesis 4 # Magnitude of contraction is larger in case of dual elections than if only state or national election is being held
- Hypothesis 5 # Negative impact of elections on cement consumption should be stronger in more urban states

Data and method(1/2)

- Data on cement consumption of 17 major states which account for 92% of country population and 90% of all India total cement consumption
- Data disaggregated based on state, month and year
- Data on frequency and timing of elections across these 17 states between April 1995 to march 2010 are used which reports 52 state elections (9 unscheduled) and 5 national elections (2 unscheduled)

Data and method(2/2)

$$\log y_{it} = \sum_{j \in \{-6;6\}} \alpha_j m_{jit} + \beta_1 y_{it-1} + \tau_t + f_{is} + \varepsilon_{it}$$

Lag for serial correlation

Where ,

i – State

t – month of year

y – level of cement consumption

m_{jit} - equals 1 when t is j months away from state election

τ_t - indicator for each month year

f_{is} - fixed effect term for each of twelve months of year in each month

Results (1/2)

DV:	-1 Log cement consumption	-2 Log cement consumption	-3 Log cement consumption	-4 Log cement consumption
election-6	0.02	0.02	0.04	0.06
	[0.78]	[0.73]	[1.54]	[2.69]***
election-5	-0.01	0.00	-0.02	0.00
	[0.42]	[0.04]	[0.88]	[0.03]
election-4	0.00	-0.01	-0.02	-0.02
	[0.12]	[0.38]	[0.84]	[0.69]
election-3	-0.03	-0.03	-0.03	-0.03
	[1.08]	[1.19]	[1.21]	[1.55]
election-2	0.04	0.03	0.02	0.01
	[1.27]	[1.24]	[0.83]	[0.55]
election-1	0.04	0.02	-0.01	0.01
	[1.38]	[0.85]	[0.31]	[0.21]
election	-0.12	-0.12	-0.12	-0.13
	[4.12]***	[4.71]***	[4.87]***	[5.44]***
election+1	0.09	0.05	0.03	0.03
	[2.95]***	[1.97]**	[1.33]	[1.29]
election+2	0.02	0.04	0.03	0.03
	[0.82]	[1.50]	[1.19]	[1.17]
election+3	0.03	0.04	0.07	0.04
	[0.89]	[1.40]	[3.06]***	[1.56]
election+4	-0.01	-0.02	0.03	0.01
	[0.28]	[0.57]	[1.16]	[0.63]
election+5	-0.04	-0.01	0.02	0.04
	[1.46]	[0.25]	[0.98]	[1.82]*
election+6	-0.03	-0.04	-0.01	0.01
	[1.05]	[1.65]*	[0.51]	[0.20]
Fixed effects?	-	Time	State-Month	Time + State-Month
Observations	2856	2856	2856	2856
Number of states	17	17	17	17
R-squared	0.95	0.96	0.97	0.97

Results (2/2)

- The regression result indicate that –
  - State election are associated with 12% decline in cement consumption
  - Consumption declines by 15% for the month of scheduled elections
  - Dual elections are associated with 38% drop in level of cement consumption
  - The decline in consumption is more stronger for urban states than rural (15% vs 11%)
  - National elections are associated with 5% decline in consumption

Robustness

- Economic uncertainty
  - Builders explicitly stop construction -> but scheduled elections monitor more decline than unschedued
  - Cement production also declines
- Consumption smoothing
  - Politicians need their fund during election
  - Banks reluctant to give loans
  - Banks need to address liquidity constraints in advance of election
  - Borrowers increases -> cost of borrowing increases
- Model code of conduct
  - Restricts government from announcing new schemes but existing schemes continues
  - Government design conduct so that there is minimum possiblity of slowdown

Thank You !!