Politicians, Bureaucrats and Firms

Motivation

- We know about political distortion, but we usually see it in a very reduced form. Ex: measuring politician-firm connection.
- However, this give us a very little clue about the exact mechanisms that politicians use to create these distortions.
- This is a bit unsatisfactory because of two previously unaddressed reasons:
  - Current state of knowledge requires active effort either on part of politician or firm owners to connect, or uses socio-ethnic identifiers
  - Politicians have no executive power.

PLAN FOR TODAY

- **Stylized facts** that will hopefully convince you that the project is interesting.
- **Methodology**: centers around estimating politician's span of control using insights from previous research, a few new pretty cool data sources.
- The end goal is to shock politician's span of control using a new instrument, that will allow me to identify *cost of political overreach*.

SETTING/CONTEXT:

- Formally, Indian bureaucracy is supposed to be apolitical. Bureaucrats can not be hired or fired by politicians. However, they can be shuffled around and transferred to other geographical locations or less desirable postings (Iyer and Mani 2012).

- Bureaucrats have career incentives, which includes having good postings on their ER sheet (resume).

- Political interference was becoming a serious issue. So in 2013, Supreme court mandated that all bureaucratic postings should have a fixed term of at least 2 years.

- Even after 10 years, its rare for a bureaucrat to last 2 years, average duration is around 13-15 months in one posting.

- Bureaucrats that are assigned to important posts experience an asset growth at 10% higher compared to similar candidates without transfer (Yuan et. el 2022).

- Investigating effects of politician's span of control on firm level outcomes.
  - Using an instrument to generate variation in the "political span of control" to identify effects on variable of interests on the firms side.

Election data

- Candidate level voting data for state assembly elections (1990-)
- Candidate biographical covariates: education, assets (movable and immovable), liabilities, pending judicial charges, etc (from 2003-)

Data consisting of 4200 assembly constituencies with 5-7 election rounds per constituency.

Data mapping most of Bureaucracy

- **Post level**: This involves past and present history of each bureaucratic post, list of people occupying it.
- **Officer Level**: Past and present occupied posts for each officer, including their bio details.
- **Asset Data**: Asset disclosure of IAS level officers (unbalanced, yearly).

Data for around 3500 IAS officers in service, with 180 officers joining every year. Additional data would come from individual state's administrative services, that staffs lower level posts (around 10x of center cadre in size).

Includes measurement of officer's ability (education, training) and transfer patterns.
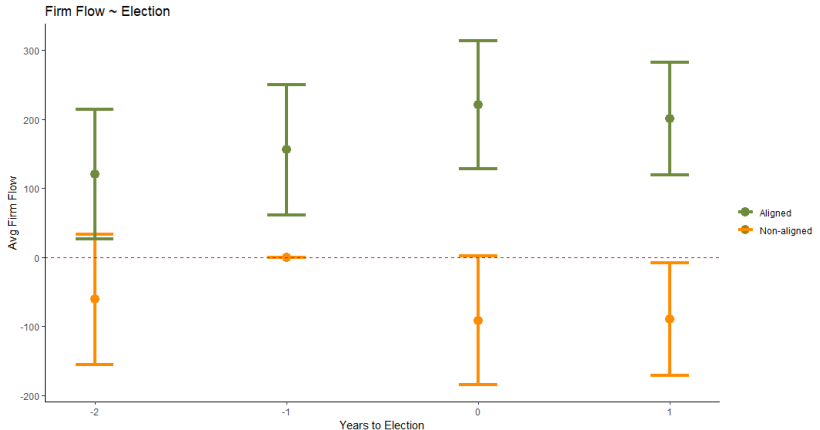
Firm Data

- Universe of around 1.25 million new firms registration from 1990 onwards.
- A good measure of near future expectation as registration is mostly cost less and online.
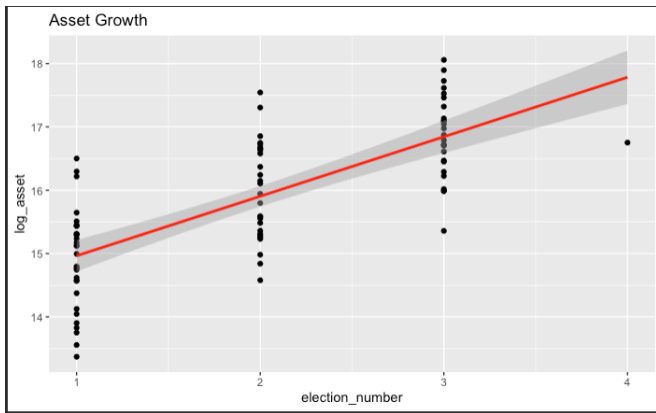- Minimum bureaucratic involvement.

Several other firm series also available, routinely used in prior research (Hsieh and Olken, 2014; Peters, 2023).

1. More firms are registered in aligned constituencies vs non-aligned constituencies.

Firm Flow ~ Election

2. Political assets grow at 35% yoy

Asset Growth

Each election cycle (5 years), contesting candidates are around 2.7 times richer in terms of their disclosed assets.

Sample: Cross sectional sample. Picking top 3 candidates in each election.

- **Fixed Sample**: Keeping same candidates across two consecutive elections. Assets of winners grow to 4 times their previous values in 5 years, similar number for runner up in around 3.5x.
- MLAs that are aligned with the ruling state party also grow at a rate higher than (winning) MLAs that are not aligned.

Elected representatives should not have much hope for re-election

- Elections are quite competitive. Even after wining an election round, the probability of winning the next election is only around 0.33.
- Candidate often drop out of the pool (does not contest, even after winning). High churn.
- Anti-incumbency bias, both at candidate and party level.

	-99	1	2	3	4	5	6	7
1	32	34	25	6	2	1	0	0
2	61	16	15	6	2	1	0	0
3	79	4	4	6	3	1	1	1
4	87	1	1	2	2	2	1	3
5	90	0	0	1	1	2	1	5
6	92	0	0	0	1	1	1	5
7	93	0	0	0	1	1	1	5

Most bureaucratic posts have frequent churn

- Average term duration is around 14 months.
- Supreme court mandated a minimum of 2 years term duration in 2013, but no effect yet.
- For RJ, half of the post were created after 2009 (expansion of state).
- Bureaucrats that are assigned to important posts experience an asset growth at 10% higher compared to similar candidates without transfer (Yuan et. el 2022).

So Far

- High amount of political and bureaucratic churn.
- Evidence of political and bureaucratic rent seeking.
- Political alignment creates meaningful effects.

- Borrowing structure from misallocation literature

$$\pi_i = (1 - \tau_i)P_i Y_i - w_i L_i$$

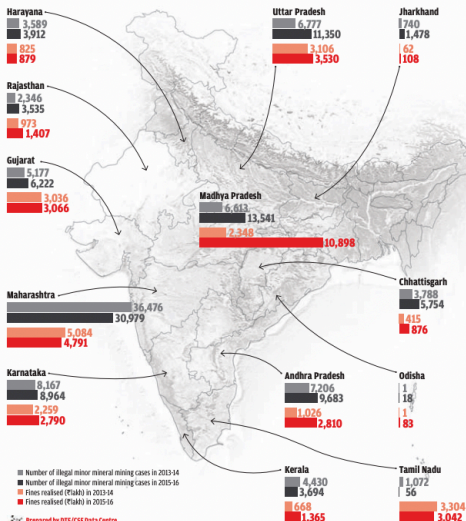$$\frac{(1 - \tau_i)}{(1 - \tau_j)} = \frac{P_j Y_j / L_j}{P_i Y_i / L_i}$$

- Basic idea is that a differential tax creates wedge across industries/sector that shows up as "misallocation".
- My setting potentially allows a time-varying "tax" in terms of variation in "political span of control".

Political Span of Control

- **Hypothesis**: Presence/absence of "crony" sectors would motivate politician to increase/decrease their span of control.
- Illegal sand mining is rampant in many parts of India.

Countrywide malaise

As per the Union Ministry of Mines, sand is the fourth most important minor mineral in terms of production after road metals, building stone and brick earth. Yet the government does not collect data on the volume of illegally mined sand. Cases of illegal mining of minor minerals are present across the country

Harayana
- 3,589
- 3,912
- 825
- 879

Uttar Pradesh
- 6,777
- 11,350
- 3,106
- 3,530

Jharkhand
- 740
- 1,478
- 62
- 108

Rajasthan
- 2,346
- 3,535
- 973
- 1,407

Gujarat
- 5,177
- 6,222
- 3,036
- 3,066

Madhya Pradesh
- 6,613
- 13,541
- 2,348
- 10,898

Chhattisgarh
- 3,788
- 5,754
- 415
- 876

Maharashtra
- 36,476
- 30,979
- 5,084
- 4,791

Karnataka
- 8,167
- 8,964
- 2,259
- 2,790

Andhra Pradesh
- 7,206
- 9,683
- 1,026
- 2,810

Odisha
- 1
- 18
- 1
- 83

Kerala
- 4,430
- 3,694
- 668
- 1,365

Tamil Nadu
- 1,072
- 56
- 3,304
- 3,042

Legend:
- Number of illegal minor mineral mining cases in 2013-14
- Number of illegal minor mineral mining cases in 2015-16
- Fines realised (₹lakh) in 2013-14
- Fines realised (₹lakh) in 2015-16

Data Source

- Currently collecting data for legal sand mining licenses and fine data.
- Satellite based measures.
- Price indexes from construction industries can also contain some information.

- crony sector $>$ political/bureaucratic span of control $>$ effects on wider economy in terms of temporal misallocation.

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