

Political Interference and Growth Effects

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Research Question

- How does political shocks affect bureaucratic efficiency.
- What are the implication for this for capital formation through regulatory approval.

Motivation

- Most countries have various sets of regulations for firm entry, capital investment etc.
- Spirit is to curb any negative externalities.
- But, it gives control or discretion to politicians/bureaucrats.

$$K_{t+1} = \delta K_t + \tilde{I}_t$$

$$\tilde{I}_t = (1 - \Theta(b_t))I_t$$

(b_t) is a measure of red tape. It also erodes away the value of investment due to bribe, delays etc.

- b_t depends on how well the incentives of P and B are aligned.
- B has much longer horizon, P has shorter horizon but have power to push B to change b_t

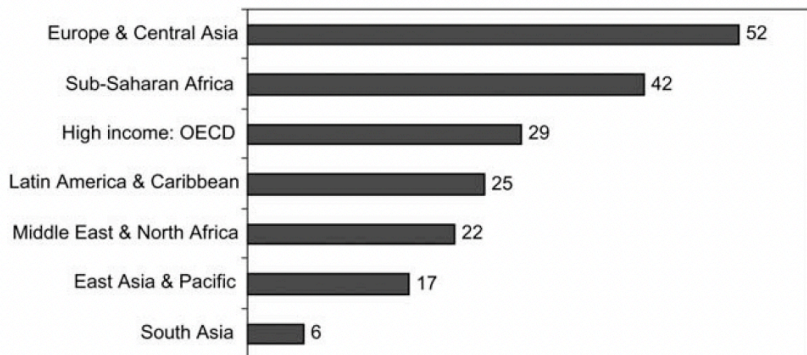
Framework

- **Elite Capture:** “Elites”/big businesses capture the political agenda using lobbying or bribes.
- **Red Tape-ism:**
 - ▶ It exists to discover information that firms do not have incentive to share.
 - ▶ However, bureaucrat may have incentive to misreport their discovery as most regulations are incomplete/not well designed.
Example: environmental impact assessment, etc

Existing Litt

- THE REGULATION OF ENTRY, Djankov 2002
 - ▶ Showed countries with more regulations have lower growth rate.
- Vishny and Shleifer 1993; Guriev 2004
- Allesina et al, 2007

Figure 1. Business Entry Reforms, by Region, 2003–08



Source: World Bank (2008).

Today:

- Looks into mechanics of regulatory enforcement using detailed capital investment data.
- Lengthy regulatory approval process involving several levels of bureaucracy

Setting

- Legislative body: elected politicians; 5 year tenure.
- Administration
 - ▶ Staffed by career bureaucrats, can not be fired.
 - ▶ Famous Indian Administrative Services (carried over from British Raj)
 - ▶ Highly meritocratic; poor incentives; very centralized.

Data

- Data on elected representatives.
- Career trajectory data for bureaucrats: post, location, start and end date
- CapEx data: Investments aimed to increase prod. capacity.

CapEx data

- Investment data, of USD 100k or more.
- Contains rich time, place and stage of approval.
- Only available for recent years starting 2002.

event	phase_title
Industrial entrepreneurs memorandum (IEM) filed	Preliminary Filing and Expression of Interest
Letter of Intent (LoI) sought	Preliminary Filing and Expression of Interest
Letter of Intent (LoI) received	Preliminary Filing and Expression of Interest
Memorandum of Understanding (MoU) signed	Preliminary Filing and Expression of Interest
State government approval sought	Initial Regulatory Engagement (Application/Preliminar...
Central Electricity Authority (CEA) approval sought	Initial Regulatory Engagement (Application/Preliminar...
Forest clearance sought	Initial Regulatory Engagement (Application/Preliminar...
Environmental clearance sought	Initial Regulatory Engagement (Application/Preliminar...
Licence sought	Initial Regulatory Engagement (Application/Preliminar...
Monopolistic & Restrictive Trade Practices (MRTP) clea...	Initial Regulatory Engagement (Application/Preliminar...
Expert Appraisal Committee (EAC) recommendation r...	Detailed Review and Expert Scrutiny
Coastal regulatory zone (CRZ) clearance received	Detailed Review and Expert Scrutiny
Forest Advisory Committee (FAC) recommendation re...	Detailed Review and Expert Scrutiny
Monopolistic & Restrictive Trade Practices (MRTP) clea...	Detailed Review and Expert Scrutiny
Special Economic Zone (SEZ) Board in-principle appro...	In-Principle Approvals and Further Governmental End...
Central Electricity Authority (CEA) initial approval rece...	In-Principle Approvals and Further Governmental End...
Central Electricity Authority (CEA) in principle approva...	In-Principle Approvals and Further Governmental End...
Planning Commission approval received	In-Principle Approvals and Further Governmental End...
Public Investment Board (PIB) approval received	In-Principle Approvals and Further Governmental End...
Foreign Investment Promotion Board (FIPB) approval r...	In-Principle Approvals and Further Governmental End...
Special Economic Zone (SEZ) Board formal approval re...	In-Principle Approvals and Further Governmental End...
Cabinet Committee on Foreign Investment (CCFI) appr...	In-Principle Approvals and Further Governmental End...
Forest clearance received	Final Regulatory Clearances
Environmental clearance received	Final Regulatory Clearances
State government approval received	Final Regulatory Clearances
Central Government approval received	Final Regulatory Clearances
Cabinet Committee on Economic Affairs (CCEA) appro...	Final Regulatory Clearances
Special Economic Zone (SEZ) Board notified	Final Regulatory Clearances
Licence received	Final Regulatory Clearances
Land acquisition sought	Land-Related Processes

- Year and place information is useful as district bureaucrats are usually tasked with several core tasks like: community meeting/approval, land acquisition, etc
- No formal involvement of politicians.

Bureaucrats

- Levels: District > State | Center
- Start their career at the district level as the apex district administrator.
- Promotion along the ladder at a regular/“expected” frequency.
- **Glittering Prize:** After around 16-20 years of service select few are chosen to go work in central ministries in Delhi.

Bureaucrats

- Motivated by “good postings”.
- Officers that have postings in “good” departments or who spend more time with senior politicians have higher chance of getting the glittering prize.
- I dont observe the decision process, only ex-post.

Iyer and Mani, 2012: Evidence that caste affinity between politician and bureaucrat is a substitute to bureaucrat's ability.

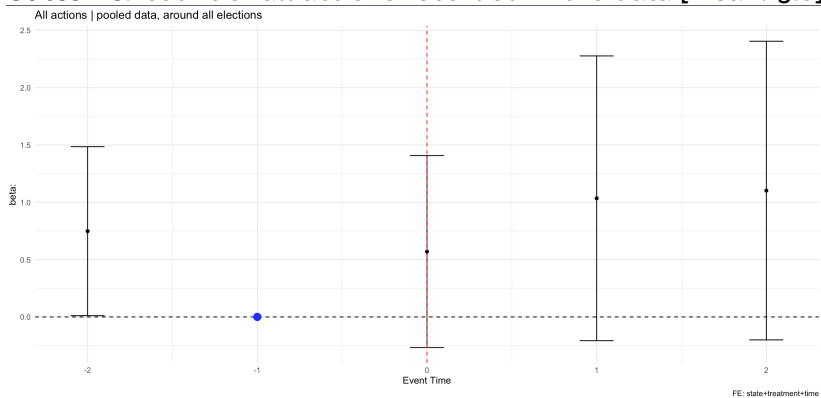
Politicians

- Even though most politicians have limited terms, there is a set of politicians that are very stable and often serve several terms.
- Without any power to fire, politicians use transfers/less desirable roles.
- Bureaucratic Transfers: High, a popular policy/public conversation

- Most transfers happen right **after** elections.
- If an incumbent win, almost no transfers happen in their district.

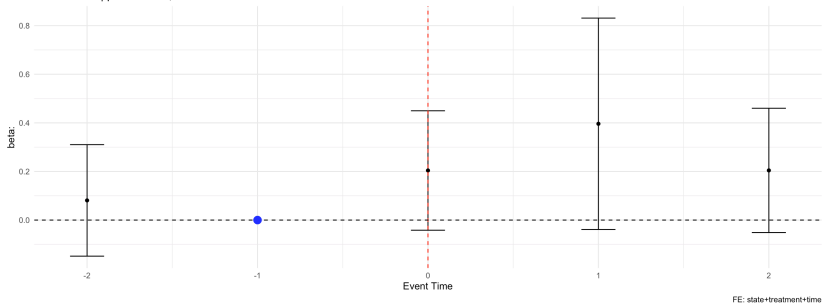
District level descriptive | Treatment: stable politician leaves the district

- **Outcome:** Count of all actions recorded in the data [Mean: 5.6]



● Outcome: Count of land related actions [Mean: 0.6]

land actions | pooled data, around all elections



Policy spotlight: new election map starting 2009

- In 2008, new election districts were drawn. As a result, some district changed their status from **Reserved** to **General** and vice-versa

GEN to GEN	GEN to Res	Res to GEN	Res to Res
296	35	30	88

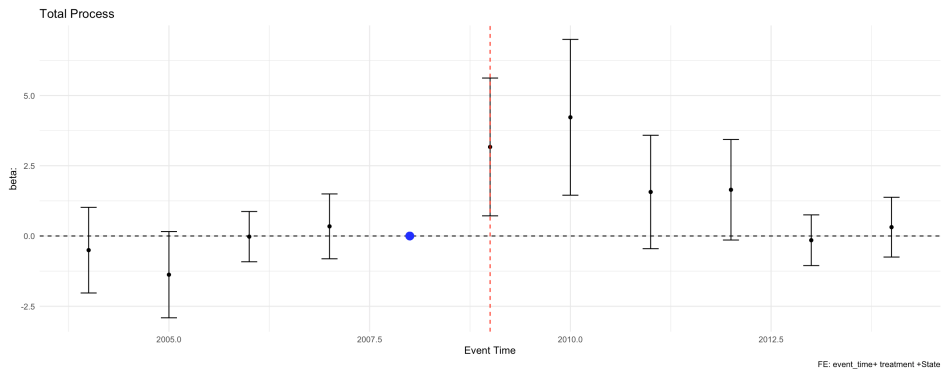
- All incumbent in these districts could not run in the 2009 election.
- Bureaucrats also know this atmost starting 2008 (or earlier?).

Treatment: Change of reservation status

$$y_{dt} = \alpha_{dt} + \sum_{t \neq -1} \beta_t \cdot \mathbb{1}(\text{time} = t) \cdot \text{Treatment}_d + \xi_t + \gamma X_{dt} + \delta_s + \epsilon_{dt}$$

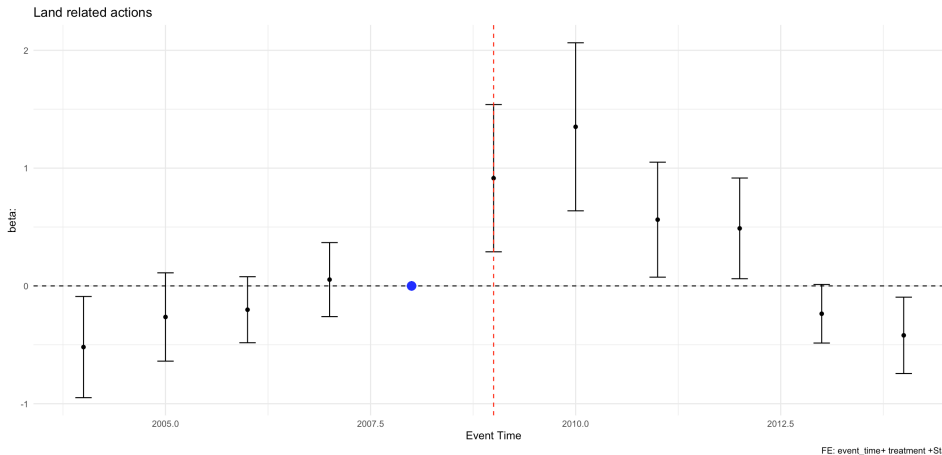
unit: district-year

Y=Count of all actions



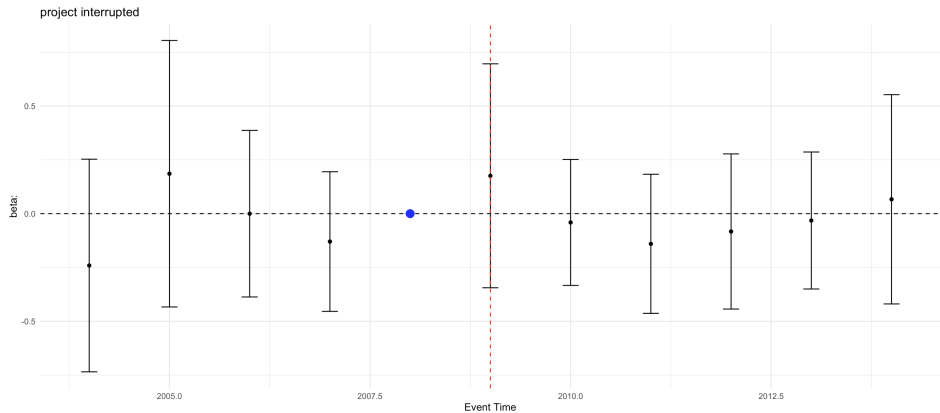
[Mean Y: 4.3]

Y= Land related actions



[Mean Y: 0.75]

Y: Project interrupted



Y: Project completed

