Political Power-Sharing, Firm Entry, and Economic Growth: Evidence from Multiple Elected Representatives

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  ▶ exploit haphazard overlap between electoral and administrative boundaries
  ▶ compare firm entry in villages on either side of the boundary separating blocks that are governed by multiple politicians (split blocks) vs one politician (unsplit blocks)
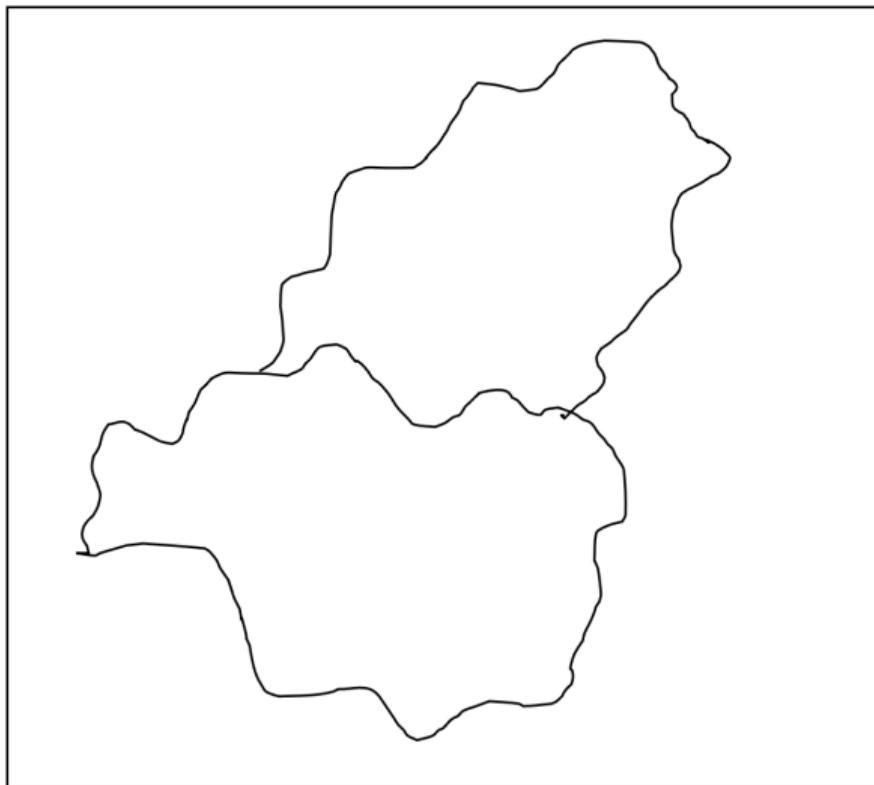
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▶ **Main results**
  ▶ Multiple politicians positively affect firm entry, employment, and nightlight intensity
    ▶ Lower regulatory bottlenecks, better management of local bureaucrats, better infrastructure
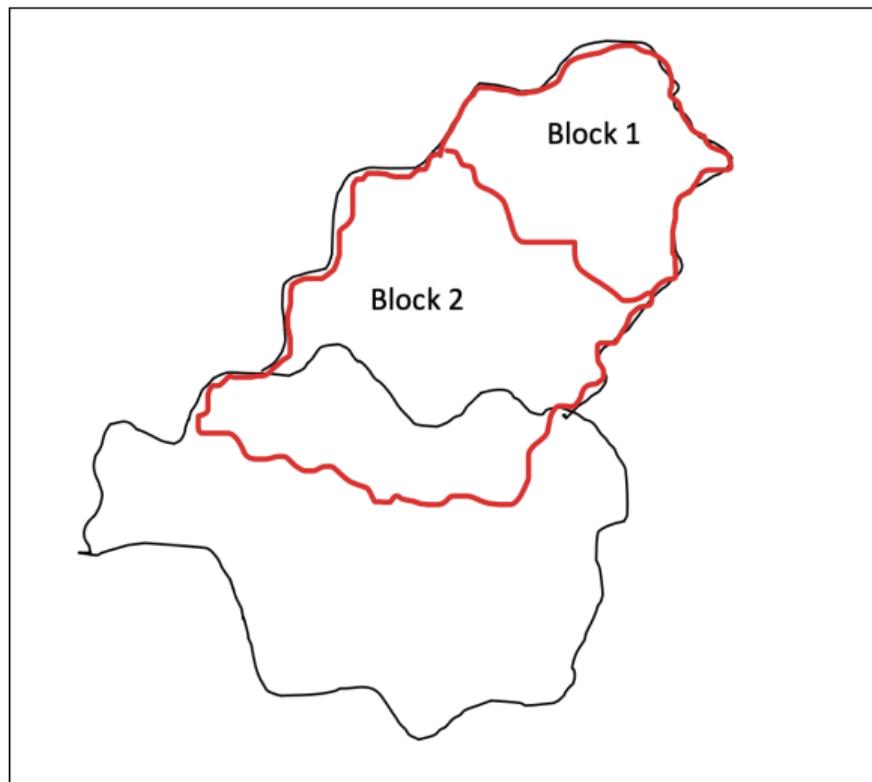   ▶ Checks and balances

Discussion

▶ Ambitious research question. Many intermediate steps
  ▶ Multiple politicians → better management of local bureaucrats → better local infrastructure → higher firm entry
  ▶ Collusion or competition

▶ Clever identification: number of politicians across blocks exogeneous to firm entry

▶ <u>Main comments</u>:
  1. What is the source of checks and balances? Incentive structure of politicians
  2. Few questions/suggestions on the empirical analysis

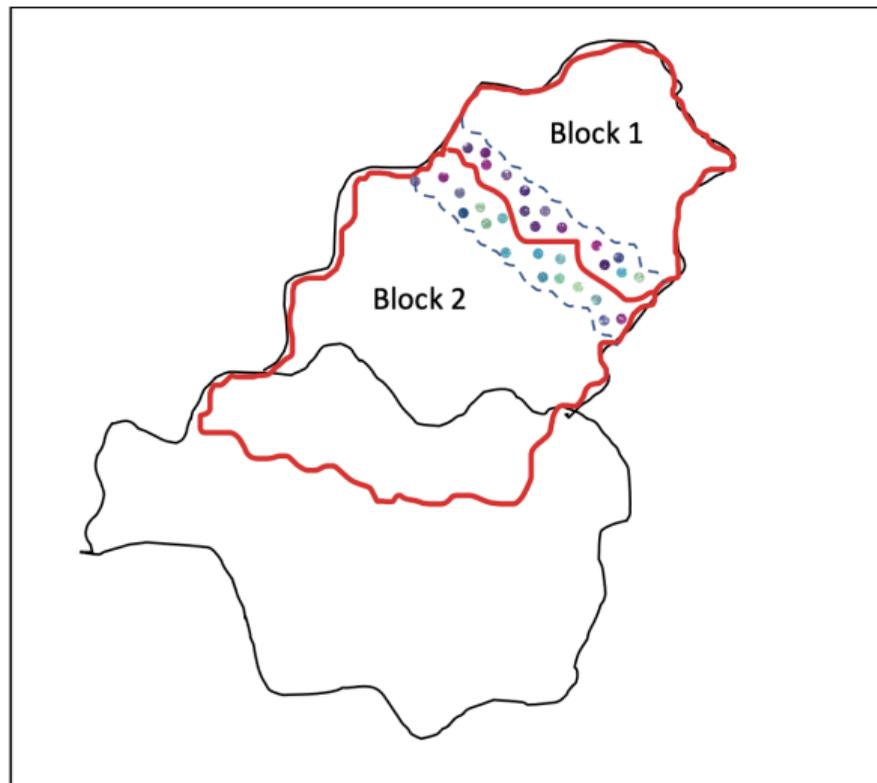# Incentives of Politicians

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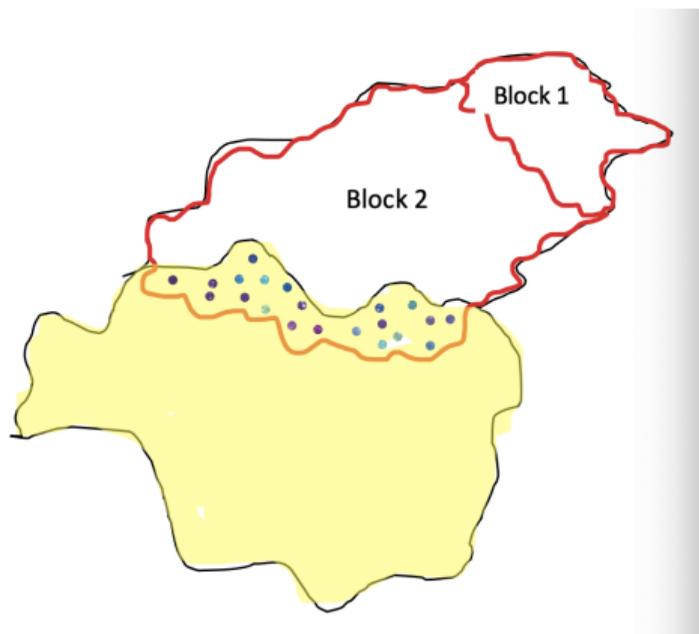
- ▶ What are the incentives of politician 2 to do so?

How actively do politicians provide oversight for public goods provision in villages not directly in their constituency?
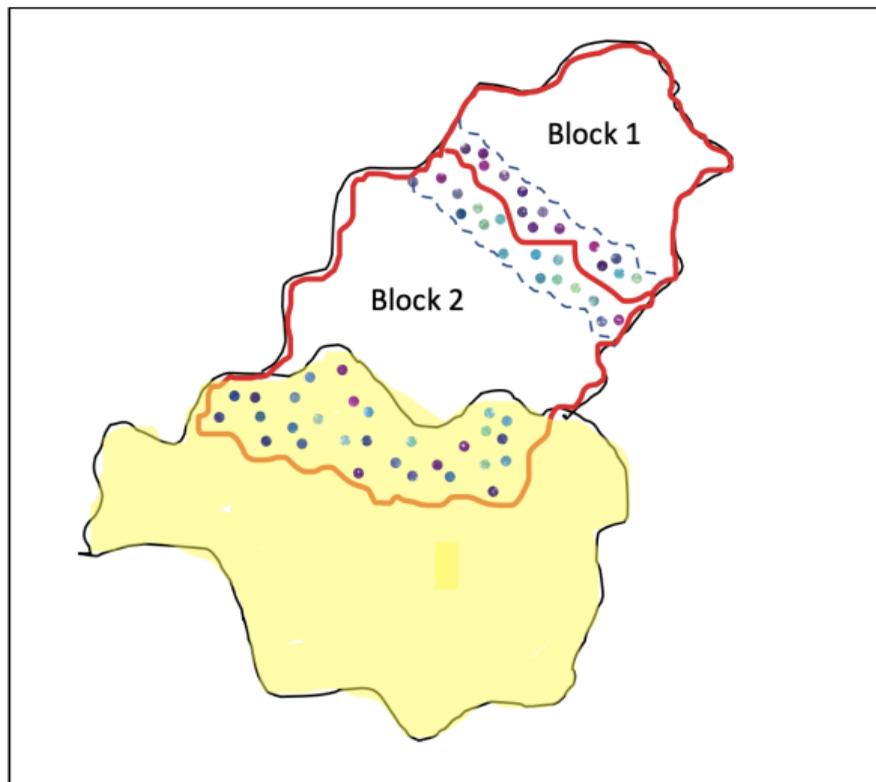
Suggestion 1: Check if the split of the block matters
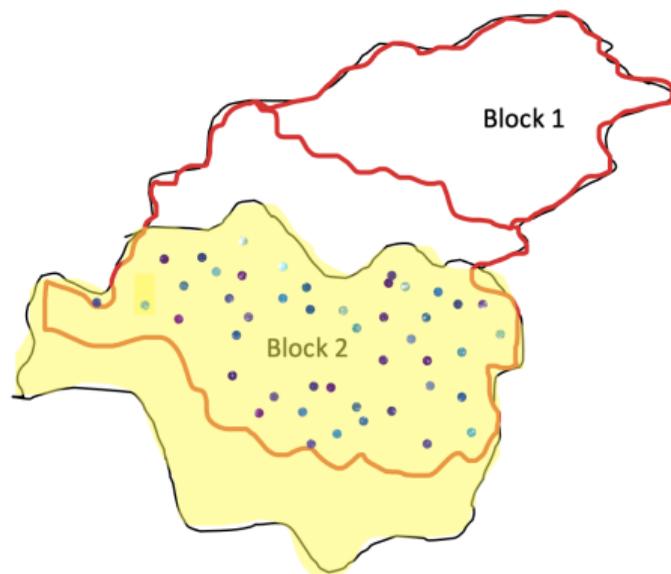
Suggestion 2: Check if the experience of the politician matters

► Possible that a popular politician is not worried about poor infrastructure and may not impose any checks and balances on the politician in the shared block

► Can check if the results differ for first-time elected representatives vs experienced representatives

Determinants of firm entry

- Individual characteristics
    - Age of the founder
    - Education of the founder
    - Wealth of the founder/availability of pledgeable collateral
    - Gender

- Financial infrastructure: Bank branches

- Ease of doing business
    - Regulatory approvals
    - Public goods: roads, power, water supply
    - Bankruptcy resolution

Results from the spatial discontinutiy framework

$$Y_{v(v \in b(B))} = \gamma \cdot Split_b + f(distance_v) + \beta \cdot X_v + \phi_B + \varepsilon_{v(v \in b)} \; for \; v \in bw$$

- ▶ The set of control includes: population, area, distance to district headquarters, and compactness

- ▶ Also include: share of males, bank branches per capita, average wealth/income of the village

- ▶ Similarly, in the test of covariates that differ between split and unsplit blocks (Table 1), include income/wealth of the block and median age of the entrepreneur

Other Comments

▶ What are the characteristics of firms that enter these villages? Average number of employees, size of assets, average life of the firm, mom-and-pop stores or manufacturing firms, investment in fixed assets?

▶ Data on firms at the establishment level or headquarter level? If establishment level, can you exploit within firm variation in branch expansion across split vs unsplit blocks?

▶ Evidence on politicians disciplining local bureaucrats. Data on transfers?

▶ Some mechanism tests are done using the spatial discontinuity framework, others are done using the time series discontinuity framework. Better to do all tests for mechanisms using the time series discontinuity framework.

Conclusion

▶ Important research question

▶ Careful analysis, a more detailed discussion of the incentives of politicians would enable better understanding of the mechanisms