"Politicking Behaviour of Indian Firms"

A Discussion

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     PCFs have higher leverage and greater access to credit.

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  3. The profitability of politically connected firms is different from their non-connected counterparts, which could also differ with the strength of connection. No effects on profitability.
  4. Politically connected firms have greater access to credit with a higher emphasis on long-term debt as compared to their non-connected peers. Seem to have greater access to credit, and to long-term debt.

What is a connection?

- Currently the authors define political connection as one where a senior officer / board member of a firm is or was a Member of Parliament.
- A more refined measure also includes whether the firm has contributed to a political party, or all political parties.
- But this is insufficient. There is a difference between political connection and taking on a political position to further business interest.
- There's better identification for a political position held, than for political connection. More on this later.

Examples

- Example: Mallya in the Upper House of the Parliament since 2002 also was a member of the Consultative Committee for the Ministry of Civil Aviation and the Standing Committee on Commerce.
- Another example: The relationship between the real estate company DLF, Robert Vadra and the Congress Party. Neither DLF, or Robert Vadra are in politics, but have political connections.
- A more recent example would be that of the current ruling party's President (Amit Shah) and his son's business interests.

Identification 1

The workhorse specification in this paper is:

$$Y_{it} = \alpha + \beta_1 \text{POL}_i + \text{Controls}_{it} + E_i + T_t + \epsilon_{it}$$

- Not sure if β_1 is identified here as with firm fixed-effects, this shouldn't be estimated.
- May be I'm wrong as the paper says "...to preserve the POL, entity fixed effects are introduced in the model..."
- A better strategy is to use the time-variation in political connection, introduce fixed effects in that model.

Identification 2

- A more skeptical approach is that a firm needs to expend sufficient capital to be politically connected in the first place.
- This means that the firm is doing well enough to be able to obtain better credit, especially long-term credit, and hence has greater leverage.
- All that is measured so far is merely that these are firms that are doing well in the first place anyway.
- The only way to resolve this is to compare a matched set of firms, one with political connection and the other without.

Every political party has a baron

- All major political parties have a mining baron, a liquor baron, and "industrialists" within the same industry belonging to one or the other party.
- This presents a nice identification strategy, close elections. See Anagol and Fujiwara (2016) for more on this.
- With close elections, where the odds of being in power were similar, given that one party is in power, how does it affect that firm's cash flows?

What does this effect mean to the economy?

- The question of whether this is corruption greasing the wheels of the economy to allocate resources efficiently or is hurting the economy is yet to be fully explored.
- However, the implicit assumption in the interpretation of results is one of "bad" corruption.
- Differentiating one from the other is an important contribution to the growing literature on political connections.

Wishlist

- It is an interesting and important question.
- I would like to see a more well identified setting to estimate this effect.
- I would like to see it differentiate political connections from positions in government held by businessmen.
- Lastly, I would recommend that the data isn't restricted to the S&P BSE 500 index, and the universe of listed stocks are used for the study.