



Local funds and political competition: Evidence from the National Rural Employment Guarantee Scheme in India[☆]



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ABSTRACT

The National Rural Employment Guarantee Scheme (NREGS) in India is one of the largest public employment programs in the developing world. It was introduced by the central government led by Indian National Congress (INC). While its implementation is, in principle, based on demand for work from households, we investigate how political competition affects intra district allocation of funds under the scheme. Using longitudinal data on funds allocated to blocks and elections held for block councils, we find that greater amount of funds were allocated to blocks where INC had lower seat share. Further, we address the issue of endogeneity by focusing on a subsample of blocks where the aggregate vote share of INC was close to that of its rivals. Our results suggest that 1.5 percentage point more funds were approved for blocks that had 1 percentage point lower seat share for INC. We also provide a mechanism for the effect by showing that the results are only true when the MP of the district, a member of the body that approves the block fund allocation, is from INC.

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1. Introduction

Central governments, all over the world, often introduce flagship public schemes that not only have large budgetary outlays, but lead people to identify the scheme with a particular political regime. For example, Bolsa Familia in Brazil, is often identified with the Lula administration and is believed to have resulted in his victory in presidential elections in 2006. Similarly, the National Rural Employment Guarantee Scheme (NREGS), which guarantees 100 days of employment to rural households in India, is a flagship program of the Indian National Congress party (INC) and was touted to be one of the main reasons for INC getting re-elected to the central government in 2009 (Zimmerman, 2012).

In the context of developing countries, the NREGS is an interesting experiment in policy implementation since it requires active participation of elected local representative bodies in rural areas (called the *panchayati raj institutions*: PRI). While such decentralization, in principle, may lead to better implementation, it also lends itself to local capture. These can often take the shape

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of elites getting disproportionate share of benefits from a scheme, especially when the beneficiaries are uninformed about the scheme (Bardhan and Mookherjee, 2000). At the same time, policy implementation can also be affected by local political competition: in particular competition between parties in local elections. Political will to implement the scheme can, in principle, be driven by ideologies of parties (as captured by Candidate-Citizen models of Besley and Coate, 1997). However, recent evidence finds that political opportunism can often dictate how policies get implemented. For example, Bardhan and Mookherjee (2010), in the context of West Bengal in India, find that areas which are subject to close legislative assembly elections often see better implementation of land reforms. They find that the relation between implementation and political strength (in terms of seats) is an inverted U, with parties not implementing the reform policy if they have a very low or very high representation in an assembly constituency. Similarly, there can be an interplay of party politics with clientelism. These would involve transfer of public resources to individuals/specific groups associated with the ruling political party (Grossman and Helpman, 1996).

In the context of NREGS, there is no major ideological difference between the major parties about the scheme *per se*¹; the difference in posture, if any, has more to do with the fact that the rural voters may identify the scheme with INC since it is one of its flagship programs. This may decrease the will of other political parties to implement the scheme. This leakage of benefits (or lack of it) when parties implement policies has been studied in the context of center-state transfers. For example, Arulampalam et al. (2009) study the impact of national and state assembly compositions on center-state transfers. In their context, the goodwill from center to state transfers is lost to “leakage” if the government at the state and center are from different parties. This affects the transfers the center is willing to make to the state. The case of NREGS is similar. While the scheme is largely funded by the center, the funds are channeled through local bodies that may have key political personnel who are not aligned to the party at the center. Hence, this paper explores whether the funds allocated at the local level are affected by local political competition.

The analysis presented in the paper uses data from two waves of block council elections (in 2005 and 2010) and NREGS fund allocation to all blocks for the financial years 2009–10, 2011–12 and 2012–13 in Rajasthan, a state in India. Confounding determinants of demand for funds are controlled for by using block level data from 2001 and 2011 census. Moreover, we carry out block level fixed effects estimation and allow for appropriate trends. We model the funds allocated to a block as a function, among other things, of the existing seat share of the Indian National Congress (INC) in each block council. We find a negative relationship between INC seat share and NREGS fund sanctioned. To allay fears of endogeneity, we focus on a subset of blocks with close vote share difference between INC (BJP) and the largest other party in the 2005 and 2010 elections. To further elaborate, each block has multiple wards and elections are held for each ward. However, since party vote shares are reported for the whole block and not for each ward, we look at the aggregate vote share at the block level. We refer to these blocks as *close blocks*. In particular, close blocks are defined in terms of aggregate vote margins of no more than 4 percentage points difference between the vote share of INC (BJP) and the closest rival.^{2,3} We use the INC seat share variation within the close block councils after controlling for the aggregate vote share of INC. The resultant variation in seat shares comes from the varying distribution of INC votes across wards within the block. Using this variation, we find that, for close blocks, the funds sanctioned are 1.5 percentage higher if the seat share is 1 percentage point lower. Thus there is evidence that funds are targeted to areas where INC has lower seat share. This may be feasible within close blocks because voters are not necessarily biased towards any one party.

Our analysis using the sample of close blocks does not go as far as proving that the relationship is causal. Concerns may still remain due to lack of data to carry out a more robust evaluation design. However a battery of robustness checks points out that the negative relationship between funds and seat share for INC is very strong and robust.

Moreover, we provide further proof that these outlays may reflect political strategies by INC. The result that there are higher funds to low INC seat share blocks is only obtained when the district member of parliament (MP) is from INC. The MP is part of the district council, the body that approves the block plans and is a key political personnel in the district. We find no such result for BJP thus pointing out that, perhaps, BJP does not find it optimal to use NREGS funds since it is identified with the INC led central government, especially post general elections in early 2009.

The paper contributes to three strands of the literature: It contributes to the empirical literature on the impact of local political competition on public policy implementation. It gives further evidence that political opportunism guides how parties act on policies. After 2008, INC was in power both at the center and the state. Hence, we are able to abstract away from any center-state issues and focus narrowly on local elections. This analysis is also unique in that we consider fund flow for a policy at the block level. Similar information at this level of disaggregation for implementation of policies are tough to get, especially in developing countries and most papers on developing countries focus mostly on district allocations. What is also useful about this exercise is that it is clear how political parties can affect outcomes, since political appointees have a declared role in fund allocation decisions.

These results add to the literature on how political parties allocate funds. Dixit and Longdregan (1996) point out that parties transfer funds to swing voters if the voters are not ideologically inclined to any party, whereas they transfer funds to their core support group if they are better at targeting funds to their own supporters. We look within, what can be considered, swing areas to see how funds are allocated further. We do find a positive impact of vote share of a party (INC) and the funds it gets. However, we point out that within areas with similar vote share, funds are allocated to places with lower seat share. Our results are in contrast to empirical results that find evidence of political patronage in local politics (Besley et al., 2004).

¹ The major parties of India are largely left of centre, especially in the context of the rural economy. The differences in rhetoric come largely from posturing during elections. For an interesting take on this issue, refer to <http://debrajray.blogspot.in/2013/08/namomania.html>.

² The choice of 4% is adhoc. 4% is the lowest margin difference we can use for this paper due to sample size issues. We show robustness results with lower vote margin differences, but with fewer controls. In particular, this is not an optimal bandwidth, since we do not have data for each ward election.

³ The focus on blocks rather than wards is consistent with the NREGS fund allocation since money is transferred to blocks and not to wards.

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