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Sandip Sukhtankar

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Does Firm Ownership Structure Matter? Evidence from Sugar Mills in India*

Sandip Sukhtankar†
Dartmouth College

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Abstract

This paper examines the effect of firm ownership structure on firm behavior and the economic outcomes of upstream suppliers by comparing privately owned sugar mills to cooperatives and public mills in India. In this setting, government support for cooperative and public mills allows meaningful variation in ownership structure to be observed, while the "command area" zoning system - whereby mills are given monopsony power to operate within an assigned area - helps tackle the identification challenge. The borders of command areas allow for a geographic regression discontinuity design, where underlying soil, weather, and institutional characteristics are exactly the same but ownership structure changes across boundaries. Using satellite images overlaid on digital maps to measure sugarcane grown along the borders, as well as a survey to determine the effects of crop choices on farmer welfare, I find that private mills encourage sugarcane production. Greater cane cultivation is tied to better credit provided by private mills, and it results in higher income and consumption for farmers.

JEL codes: D22, H19, L23, L33, O25, Q13

Keywords: ownership, firms, cooperatives, sugar, agricultural markets, remote sensing, satellite data

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†BREAD, JPAL, and the Department of Economics, Dartmouth College, 326 Rockefeller Hall, Hanover, NH 03755. sandip.sukhtankar@dartmouth.edu.