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Title: The Price of Power: Costs of Political Corruption in Indian Electricity  

State participation in basic service provisioning, such as electricity, is ubiquitous. On the one hand, politicians may be able to better target such services to voters who need it the most, but on the other hand, political targeting may hurt utility revenues and other consumer groups, simply exacerbating the already poor quality of electricity supply in several regions. I develop a model of consumer behavior, voting and patronage, and derive testable implications on how politicians target consumers for these subsidies. I test the model's predictions, using confidential data on the universe of billing records from a large state utility in India, in conjunction with data on elections and nighttime lights. I use a close election Regression Discontinuity Design (RDD) and find systematically lower bill collections, and data manipulation in bill records for areas where the state government narrowly wins. This points to a selective under-reporting of consumption for areas aligned with the ruling party, and selectively-allowed energy theft in these areas, as an informal mechanism of providing an electricity subsidy. Further, I develop a unique method for estimating price elasticity of electricity demand, accounting for data manipulation, and using policy-led tariff changes as instrumental variables. I find that politicians target subgroups with inelastic demand, subsidizing larger beneficiaries, and inadvertently minimizing deadweight loss. I use these elasticity estimates to measure the welfare consequences and find that the annual loss to the utility ($7.4M) outweighs the gain in consumer surplus ($2.7M). One of the main contributions of this paper is to identify the political rationale for and the mechanisms through which consumers receive these indirect electricity subsidies through data manipulation and electricity theft. The fact that this paper uses micro-level consumption and billing data allows me to estimate more accurate demand elasticities that previously in the literature and provides a framework to calculate the welfare consequences. These findings must be accounted for when considering the current debates in India and several other countries on the privatization of state-owned electricity utilities. They also highlight an instance of weak institutions that allow a kind of manipulation that reduces overall welfare.