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Quid Pro Quo: Builders, Politicians, and Election Finance in India

Center for Global Development Working Paper No. 276

33 Pages

Posted: 16 Dec 2011

Last revised: 3 Nov 2015

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Date Written: March 29, 2013

Abstract

Where elections are costly but accountability mechanisms are weak, politicians often turn to private firms for illicit election finance. Where firms are highly regulated, politicians can exchange policy discretion or regulatory forbearance for bribes and monetary transfers from firms. Due to its regulatory intensity, we focus on the role of the construction sector. Specifically, we argue that builders will experience a short-term liquidity crunch as elections approach because of their need to re-route funds to politicians as a form of indirect election finance. We use variation in the demand for cement to investigate the presence of an electoral cycle in building activity in India consistent with this logic. Using a novel monthly-level dataset, we demonstrate that cement consumption does exhibit a political business cycle consistent with our hypothesis. Additional tests provide confidence in the robustness and interpretation of our findings.

Keywords: elections, election finance, corruption, political economy, India**JEL Classification:** P16, D72, E32[Suggested Citation](#) >[Show Contact Information](#) >

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