Markets, Subsidies and Corruption: Evidence from India

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Abstract

Corruption often prevents well intentioned government run programs from having desired effects. In this paper, I study how the timing of corruption reduces access to a large scale food subsidy program, precisely when people need it the most. The Public Distribution System (PDS) in India which provides subsidized grains to eligible households through a network of Fair Price Shops, operates in parallel with the private food grain market. Shocks to the price of grain on the market alter the incentives of agents along the supply chain to divert grains meant to be sold under the PDS into the black market. I provide evidence for increased corruption in the program after adverse rainfall shocks in a district. These shocks reduce rice production, and in the absence of well integrated markets, push up its price locally, thereby increasing incentives for corruption. Using data from a large household survey, I analyze consumption patterns and find that households are able to buy less rice through the PDS, and are forced to buy more of it from the market after adverse shocks. Using a unique administrative data set, I show that official disbursements of rice made to a district under the PDS do not change in response to these local shocks. Alternative explanations are considered and ruled out. Since these adverse shocks also lower wages and earnings, the timing of corruption hampers the program’s ability to provide social insurance.