

Power Tariff Policy and Manufacturing Sector Productivity in India

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To achieve further industrialization and economic growth in the coming years, India urgently needs to improve the quality of its infrastructure, especially in the power sector. India launched a series a power sector reforms for this purpose in the early 1990s. The role and impact of a power tariff policy giving preferential treatment to the agricultural sector has emerged as a crucial issue since then. While the agricultural power subsidy has been credited for further promoting the Green Revolution by reducing the cost of irrigation with electric pumps, the tariff policy may significantly obstruct industrialization by (a) imposing a cross subsidy scheme charging exorbitant tariffs on industrial consumers to compensate financial loss in the agricultural sector, (b) worsening the financial status of power utilities and thereby degrading the quality of the power infrastructure. In this study we analyze the impact of the power tariff policy on the manufacturing sector with a focus on productivity, on the assumption that the distorted tariff structure can hamper technological change by reducing the profits of firms. We expect that our empirical analysis using plant level panel data constructed from the Annual Survey of Industries (ASI) over the period from 2004-2007 will demonstrate negative impacts from the distorted tariff structure.