



POLITICAL PARTISANSHIP AND THE TRANSMISSION OF FISCAL POLICY

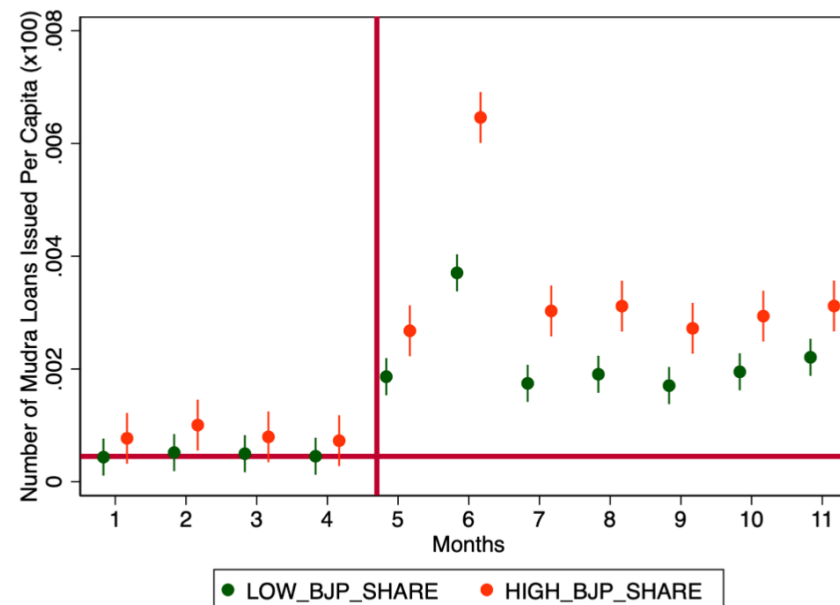
- by Francesco D'Acunto, Pulak Ghosh, Alberto G. Rossi

Discussion by Rik Sen (University of New South Wales, Sydney)

WHAT DOES THIS PAPER EXAMINE

- Does political ideology (support for the ruling party) affect the take-up of a government-guaranteed loans program?
- *Findings:*
- Greater increase in loans in higher-BJP-support districts after a well publicised campaign by the prime minister (Modi) for the program

Figure 1: Mudra Loans per Capita Over Time by Support for the Ruling Party (BJP)



OTHER PATTERNS

- Aggregate characteristics of the pool of potential borrowers across districts do not differ based on BJP support
- Borrowers' risk, interest rates, subsequent default rates, access to bank branches, and Google search intensity (measure of awareness) of "Mudra" is not different between high vs low BJP support districts
- Other results in the paper seem to be inconsistent with supply side effects driving the main pattern

TAKEAWAY

“A subtle route through which partisanship can shape policy effectiveness is agents’ subjective beliefs about the benefits of participation.”

WHAT I LIKE ABOUT THIS PAPER

- Interesting question and setting
- Important implications: optimal promotion of large-scale government programs
- Unique data on Mudra loans from a very large bank

GROWING INTEREST IN THESE KIND OF QUESTIONS

Political Adverse Selection

**Leonardo Bursztyn, Jonathan T. Kolstad, Aakaash Rao,
Pietro Tebaldi & Noam Yuchtman**

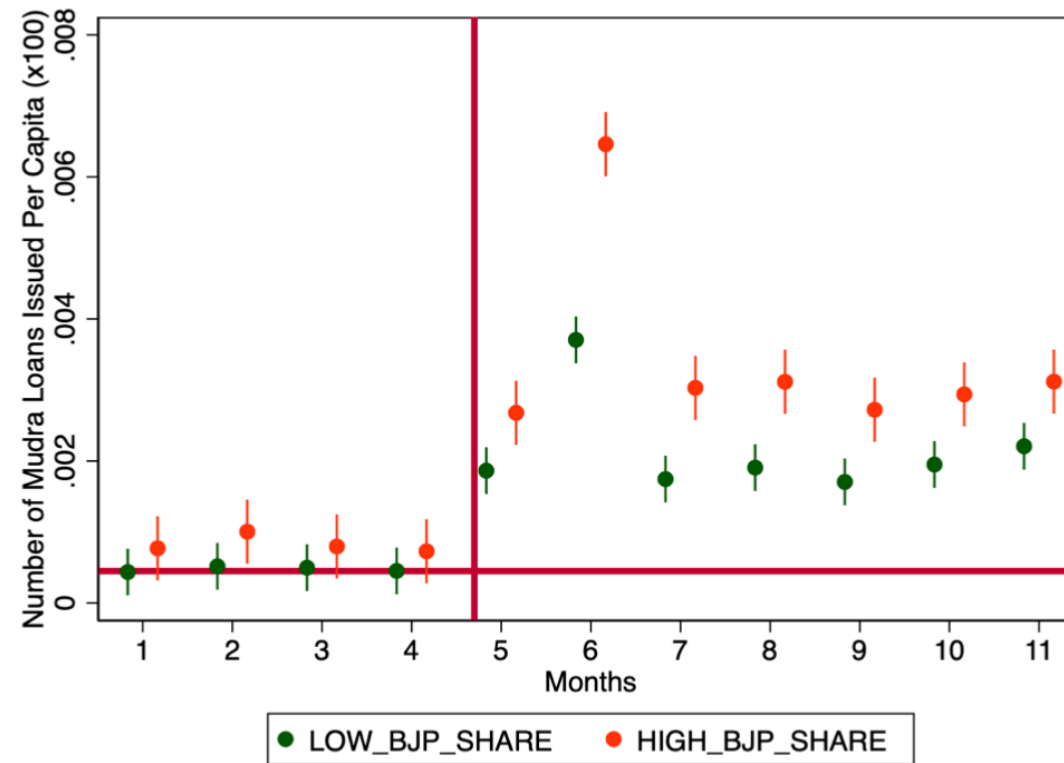
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We study how the politicization of policies designed to correct market failures can undermine their effectiveness. The Patient Protection and Affordable Care Act (ACA) was among the most politically divisive expansions of the US government. We examine whether partisanship distorted enrollment and market outcomes in the ACA insurance marketplaces. Controlling for observable characteristics and holding fixed plans and premiums available, Republicans enrolled less than Democrats and independents in ACA marketplace plans. Selection out of the ACA marketplaces was strongest among Republicans with lower expected healthcare costs, generating adverse selection. Computing enrollment and average cost with and without partisan differences, we find that this political adverse selection reduced enrollment by around three million people and raised average costs in the marketplaces, increasing the level of public spending necessary to provide subsidies to low-income enrollees by around \$105 per enrollee per year. Lower enrollments and higher costs are concentrated in more Republican areas, potentially contributing to polarized views of the ACA.

COMMENT 1: LEVELS VS RATIOS



- High BJP-share districts could be different in other ways leading to different sensitivity to similar awareness shocks
 - For example, more entrepreneurs or potential Mudra borrowers per-capita
- The right empirical model may be multiplicative rather than additive
 - Red dots slightly higher even in the pre-period
 - The gap is bigger in periods when both levels are higher
- *Suggestion:* Examine this on the log-scale

COMMENT 2: THE MAIN STORY NEEDS MORE FLESHING OUT

- (When) Is it optimal for a *standard rational* potential borrower to take a Mudra loan?
 - What are the costs and benefits?
- Mudra loans have **58%** delinquency rates
 - Is this really a loan or more like a handout?
 - What are the costs of being delinquent on such loans?
 - What are the characteristics of borrowers who do and don't pay back the loan?
 - The explanation of why should partisanship should affect take-up would be different for loans and handouts
- Perhaps the supporters of the ruling party expect a low likelihood of the government coming after them if they fail to pay back the loans, but non-supporters expect a higher likelihood
 - Such differences in expectations could be justified or unjustified

COMMENT 3: DELINQUENCY RATES

- No difference in delinquency rates across high and low BJP support districts was a bit surprising to me
 - If BJP supporters take on loans at high interest rates which they cannot afford to repay, this should show up as higher delinquencies
 - If BJP supporters feel that they need to return the loan guaranteed by “their government” then this should show up as low delinquencies
- Perhaps different effects, including supply-side effects, are offsetting each other
- **Suggestion:** Examine heterogeneity in delinquency rates with respect to factors that would vary some but not all of the potential channels, e.g. contested vs non-contested districts, BJP vs non-BJP local government, gender, etc.

COMMENT 4: MORE MUDRA LOAN ISSUANCE; SO WHAT?

- Title of the paper has “transmission of Fiscal Policy”
- If partisanship (support for BJP) increases take-up of Mudra loans, what “real” implications does this have?
- Are these borrowers substituting for other loans they would have taken from the banking system (or the non-banking system)?
 - *Suggestion:* Use RBI data to show impact on aggregate small-lending in districts
 - A discussion of what are the next best available alternatives for Mudra loans, which could potentially be substituted away from, could be useful
- Does this lead to a change in economic activity?
 - If the shock is only to Mudra loans this should allow for identification of knock-on *real effects* on households and economy
 - *Suggestion:* Use individual level data to examine saving at this bank and spending using debit card after receiving an Mudra loan; heterogeneity by ex-post delinquency
 - *Suggestion:* Examine district-level outcome using CMIE Consumer Pyramids data

OTHER COMMENTS

- Reduction in effort of obtaining a Mudra loan: perhaps due to a greater push to reduce hurdles in high BJP support districts
 - *Suggestion:* Examine time from application to approval decision
- Differential awareness across districts
 - The authors find no difference in “Mudra” Google searches but this is not fully convincing evidence of no differential awareness
 - Google-searching-population may not reflect the Mudra-loan-taking population
 - Awareness could be driven by other channels such as local media coverage or through local party workers circulating WhatsApp messages in their networks (who ramp up their activities during the Modi publicity campaign for the program)
- Show results with State x Month fixed effects where possible
 - Compare districts with different BJP support levels in the same state
 - A lot of supply-related shocks operate at the state level

CONCLUDING THOUGHTS

- The paper uncovers strong and interesting empirical patterns
- Promising paper
 - Think more about various interpretations of the uncovered patterns and how one could test them
 - Do borrowers think of Mudra as loans or handouts?
 - What were the “real effects” of these loans?
- The paper is written and a pleasure to read

THANK YOU!