# Discussion of Private Credit under Political Influence by A-L. Delatte, A. Matray and N. Pinardon-Touati

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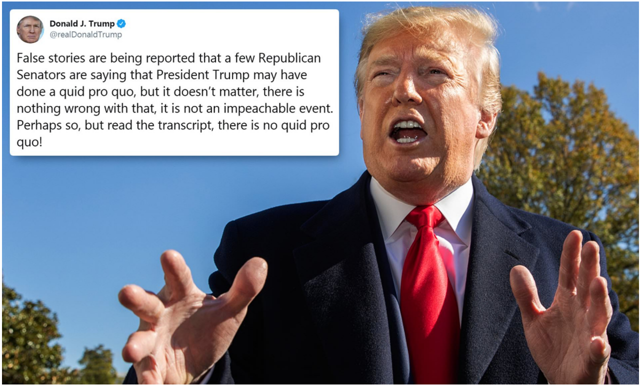
# Introduction

- Authors examine potential political interference both private lending markets and the market for public entity debt in France
- More credit is granted to the private sector:
    - when an important politician is in an uncertain race
    - which flows to less efficient industries
- Banks that have "extra" lending have better access to public debt markets
    - but not if the incumbent loses!

# WHERE'S THE QUID PRO QUO?!




**Found by Delatte, Matray, and Pinardon-Touati in France...**

# Overall

**Maturing literature showing the (firm) benefits of political connections**

- **Access to bailouts**: Faccio Masulis and McConnell (2007); Duchin and Sosyura (2012); Bian, Hasselman, Kick and Vig (2018)
- **Favorable procurement access and terms**: Goldman, Rocholl, and So (2013), Brogaard, Denes, and Duchin (2020)
- **Regulatory forbearance**: Mehta, Srinivasan and Zhao (2020); Akey, Heimer and Lewellen (2021); Heitz, Wang, and Wang (2021); Bourveau, Coulomb and Sangnier (2021); Baker, Frydman and Hilt (2021)

**Smaller literature showing the costs of political connections**

- **Increased employment**: Faccio and Hsu (2017); Bertrand, Kramarz, Schoar and Thesmar (2018)
- **Increased support**: Babenko, Fedaseyeu and Zhang (2020); Bertrand, Bombardini, Fisman, and Trebbi (2020); Neretina (2021);

**Few papers are able to show both sides of a relationship as cleverly!**

- Careful analysis makes a strong case for both "quid" and "quo"

# What about demand?

**Chanel focuses on increased supply of credit to firms. What about demand?**

1. **Increased uncertainty?**
   - Many studies have shown that (close) elections increased (economic policy) uncertainty, which has a diverse set of consequences on economic activity
     - E.g., Boutchkova, Doshi, Durnev and Molchanov (2012); Julio and Yook (2012, 2016); Baker, Bloom and Davis (2015) Jens (2018); Chen, Cihan, Jens and Page (2020)
   - Economic uncertainty affects households' portfolio and spending decisions. Could change their borrowing behavior. Depending on how banks allocate capital there could be spillover effects on corporate market
     - E.g., Giavazzi and McMahon (2012), Agarwal, Aslan, and Ren (2018), Di Maggio, Kermani, Ramcharan, Yao and Yu (2020))

**Does the composition of loans applications change (not necessarily the level)? Do banks have fewer profitable projects to invest in?**

# Economic conditions around political cycles

- First step to look at potential demand changes would be look more closely at economic activity change around elections
  - How does investment or employment generally vary with elections
    - Election/non-election; close/non-close elections
  - Do mortgage applications or real estate prices fluctuate with the electoral cycle?
- Independently useful to examine identifying assumptions of main analysis
- Authors have convincing tests that rely on winners/losers of the elections that suggest the effect is not entirely demand driven, but looking at how much could be coming from other forces like changing demand seems important to understand magnitudes
  - Comparisons of banks that have or do not have public debt are helpful, but they could have different sensitivities to policy uncertainty

# What about demand?

2. **A consequence of politically motivated operating decisions?**
    - Political election cycles induce firms to change their operating policies (inefficiently) when they share educational ties to the politicians (Bertrand, Kramarz, Schoar, and Thesmar (2018))
        - Higher job and plant creation; lower profitability

**Are these firms financing increased expansion with borrowing?**

- Could explain some of the cross-sectional results on loans being made in declining industries and being concentrated in short-term lending
- Exclude or separately estimate loans made by connected firms
    - Results in either or both subsamples would add interesting context current results

# Links between banks and politicians?

- Authors have information about board members; do banks that share educational ties with the politicians standing for reelection disproportionately respond?
  - Several papers study the role of boards in establishing political connections
    - E.g., Goldman Rocholl and So (2009); Do, Lee, Nguyen and Nguyen (2021)
- If connected banks are differntially changing their behavior it would suggest a quid pro quo mechanism that is not present in industrial firms (Bertrand et al (2018))
- If connected banks are not differentially changing their behavior it suggests that manipulation in this market is different than in other sectors

# Who is better off?

**There seem to be several countervailing forces**

1. Banks make loans that are riskier and probably lower quality
   - But pricing of the loan could also be changing...
2. Banks get access to a lucrative segment of the economy

**What is the net effect on bank profitability?**

**Are incumbents more likely to be reelected?**

- Can you estimate a credit/vote elasticity?

# Conclusion

- Authors provide convincing evidence on an exchange of favors between banks and politicians
  - Banks boost credit to help politicians in tight reelections campaigns
  - Banks are allowed to access profitable market for local public entities
- Authors test a variety of ex ante and ex post outcomes that help rule out most alternative interpretations
- Offered a few suggestions to tighten the analysis in a few places