Bank Credit as a Constituent Service? Evidence from Indian State Legislators

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Abstract

Does political alignment affect households' access to bank credit? Exploiting the incidence of tight electoral races between ruling and non-ruling parties in India's state-level elections, we find the marginal legislator representing the ruling party to generate a substantial increase in household bank borrowings. Borrowings from informal sources remain unaffected by shifts in political alignment and the increase in bank loans is driven by areas with a high concentration of state-owned banks. Comparing loans across bank and non-bank sources for the same household, the expansion in bank credit in response to political alignment can be attributed entirely to greater credit supply by lenders, as opposed to increased credit demand. Bank credit expansions are unaccompanied by a worsening in loan quality, negating political favouritism as a channel. Higher bank lending is also not restricted to periods before elections, ruling out a vote-buying motive. Instead, there is evidence of greater dispersion in bank loan sizes, suggesting an improvement in banks' local information gathering in response to political alignment. The results suggest that politicians combine local informational advantages with their influence over state-owned banks, and direct loans to creditworthy borrowers as a form of constituent service.

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1 Introduction

Politicians have been shown to affect firm outcomes through their ability to influence the allocation of credit. Political interference in credit markets has primarily been attributed to the dual motives of rent extraction (Khwaja and Mian, 2005), and vote-buying (Carvalho, 2014). This is particularly acute in economic systems characterized by state-owned banks which are susceptible to political capture (La Porta et al., 2002). The economic costs of such political interference can be massive: Khwaja and Mian (2005) estimated credit misallocation to politically connected firms by state-owned banks in Pakistan to generate a deadweight loss equivalent to 1 percent of GDP.

In contrast, there has been lesser work on how politicians affect bank credit access for households. This is relevant both in terms of the large impact of credit access on household poverty (Burgess and Pande, 2005), consumption (Kaboski and Townsend, 2012), and labor market choices (Bruhn and Love, 2014; Breza and Kinnan, 2021), as well as the ability of politicians to shape resource allocation through their influence on banks' lending decisions (Khwaja and Mian, 2005; Cole, 2009; Chavaz and Rose, 2019). The present paper sheds light on this by studying how locally influential politicians affect households' access to bank credit in an emerging market. We focus on state-level legislators aligned with the state ruling party in India's multi-party democracy. India serves as an appropriate context to study this question. Regular sub-national elections offer rich cross-sectional variation in regional political alignment over multiple time-periods. While the economy is bank-dependent and basic financial inclusion is relatively high, half of the households in 2019 relied on informal sources for credit, and the banking landscape is dominated by state-owned banks which are prone to political capture (Banerjee et al., 2004; Cole, 2009).

To examine how local politicians aligned with the ruling party affect household borrowings, we use data from multiple rounds of the All India Debt and Investment Survey (AIDIS) – a nationally representative household survey offering extensive information on household assets and liabilities. Household liabilities in the AIDIS are recorded in the form of a loan-level survey, covering every outstanding loan on the household's balance-sheet at the time of survey. In addition to the initial and outstanding volumes of credit, the AIDIS offers information on the source of credit, interest charged and repayments made. We assess the relationship between political alignment and households' access to bank credit over two decades, using data from AIDIS survey rounds conducted in 2003, 2013 and 2019. Data on household borrowings is combined with state elections conducted between 1996 and 2018. Elections are won by candidates securing the maximum votes in an electoral constituency ("seat"), with the winning candidate representing the seat for a fixed 5-year tenure. Regional political alignment is defined as the share of legislators in a district[1] representing the political party which becomes the ruling party in the state.[2]

To address the classic endogeneity of local unobservables being correlated with both households' access to bank credit and electoral support for the sub-national ruling party, we consider "close"

[1] Districts form the third tier of administration in India, below the federal and the state.

[2] A simple majority of seats is required to form the government in the state. A coalition of parties can also combine to form the state government.

electoral wins for the ruling party. As candidates and parties cannot precisely control their vote shares, the outcome of elections decided by an arbitrarily small number of votes are considered to be "as good as random" (Eggers et al., 2015). Comparable levels of electoral support for both the ruling and non-ruling party candidates imply that the electorate is "balanced" on political preferences, and by extension, are likely to be balanced along other characteristics. Fundamentally, our empirical strategy compares bank borrowings for otherwise comparable households across two seats: one where the ruling party narrowly won (treatment), vis-a-vis the seat where the ruling party narrowly lost (control).

A second empirical challenge is that the AIDIS only provides district identifiers for households, while elections are conducted at the lower administrative level of seats.[3] We overcome this using an instrumental variables (IV) framework akin to Bhalotra and Clots-Figueras (2014), Bhalotra et al. (2014), and Aneja and Ritadhi (2022) and instrument the share of elections won by the ruling party in a district with the share of close elections won by the ruling party in the district. If the outcome of a narrowly contested race is "as good as random", parties would be expected to win half the close elections they contest. Resultantly, the instrument equals 0.5 in expectation and identification is derived from the marginal legislator in the district, elected through an additional unanticipated close win for the ruling party.

We offer several pieces of evidence supporting the validity of the IV design. Along with a robust positive correlation between the share of close elections won by the ruling party and the overall share of ruling party wins in a district, we confirm that the share of close elections won by the ruling party is orthogonal to a large number of district covariates. Elections are deemed "close" if the difference in victory margin is less than 5 percent of the votes cast.

Conditional on district and electoral year fixed effects, our IV strategy idenitifies a significant positive impact of political alignment on household bank borrowings. The marginal legislator representing the ruling party generated a statistically significant INR 4,300 increase in bank loans, equivalent to 4 percent of households' annual consumption. Assuming a household savings rate of 25 percent, the bank credit expansion induced by an additional close electoral win for the ruling party is one-half in magnitude to the credit expansion in Indonesia studied by Kaboski and Townsend (2012). Separating loans by bank type, we find three-fourths of the increase in bank credit emerged from commercial banks, while the remainder was accounted for by co-operative banks.[4]

Our baseline results are stable to a number of alternate close election thresholds ranging between 3 and 6.5 percent. We also show robustness to alternate specification choices: our most restrictive specification includes state-survey round fixed effects along with district-specific linear time-trends and yields comparable coefficients. The former in particular absorbs time-varying state-level policies which could affect households' demand for bank loans. We also confirm the results to be unaltered by the omission of districts not witnessing a close election involving the ruling party (10 percent of our sample) where the instrument is undefined. Our findings are also robust to the omission of individual states.

[3] The average district comprises of 14 seats to the state legislature.

[4] Distinct from commercial banks, co-operative banks have smaller scale of operations and typically serve select sectors in terms of credit. These banks are jointly regulated by the central bank and state governments, making them prone to both political influence and capture (Arya, 2013; ETBFSI, 2025).

Access to bank credit following a positive shock to political alignment resulted in an overall expansion in household borrowings: an additional close win for the ruling party in the district increased aggregate household borrowings by INR 5,300, over 80 percent of which is accounted for by banks. While the coefficient corresponding to borrowings from non-bank financial corporations (NBFCs) is positive, it is imprecisely estimated (p-value .172), and credit from informal sources also do not respond to shifts in local political alignment. Overall, the expansion in bank borrowings for households following a positive shock to political alignment is unaccompanied by a crowding-out of household borrowings from non-bank sources. The expansion in bank credit is mostly driven by housing loans.

The relationship between political alignment and household credit occurs entirely along the intensive margin. There is no evidence of political alignment affecting households' likelihood of having an outstanding bank loan. As the AIDIS is a repeated cross-section and not a panel, we are unable to ascertain whether this implies that households with existing banking relations were receiving higher credit, or whether shifts in political alignment accorded bank credit access to a new group of households, at the expense of other households which previously enjoyed access to bank credit.

We hypothesize elected politicians aligned with the ruling party to affect bank credit through their ability to influence the lending decisions of state-owned banks. Consequently, we expect the positive impact of political alignment on household bank credit to be driven by regions with a relatively high concentration of state-owned lenders. As regional banking concentration is endogenous to district characteristics, we consider districts' banking concentration in 1991. The intuition is that branching decisions of state-owned banks prior to 1991 was not driven by market forces, but regulatory obligations owing to the state-directed push to deepen India's banking infrastructure (Burgess and Pande, 2005; Gupta and Dehejia, 2021). In line with our expectations, we find the impact of political alignment on households' access to bank credit to be driven entirely by districts with a relatively high concentration of state-owned banks.

A positive shock to local political alignment can increase bank borrowings either by increasing households' demand for bank credit, or through an expansion in credit supply by lenders. We extend the approach of Khwaja and Mian (2005) and Jimenez et al. (2012) and separate credit supply from demand by comparing how political alignment affects bank borrowings, relative to non-bank borrowings for the *same* household, in the *same* time-period. Specifically, we exploit the loan-level data of the AIDIS and focus on households with loans from both banks and non-banks. We next regress loan size on political alignment for this subset of households, using household fixed effects to control for credit demand. As the AIDIS is a repeated cross-section, household fixed effects are equivalent to a household-time fixed effect. Our empirical strategy now compares loan sizes across banks and non-banks for the same household in the same time-period, across districts with varying levels of political alignment.

Despite losing 80 percent of our sample, the marginal ruling party legislator generates an additional INR 13,971 of bank loans, relative to non-bank lenders. Replacing household fixed effects with district fixed effects (not conditioning on credit demand) and re-estimating the specification for the same set of households, we infer that 80 percent of the impact of political alignment on household bank borrowings stemmed from an expansion in bank credit supply, as opposed to higher credit demand. Admittedly, banks are markedly different from non-bank lenders such as NBFCs and money-lenders,

and the variation in loan size can be a mechanical consequence of banks being able to finance larger loans. To this effect, we show our results to be invariant to omitting the top 5% of loan values, or limiting the sample to non-housing loans, or loans obtained for the purpose of agriculture or non-farm businesses. This assuages concerns that our findings reflect banks' ability to support larger loans.

Exploring mechanisms, we first consider whether bank credit expansions can be attributed to political favouritism. Favouritism would involve credit extensions only because households share a connection with the local legislator aligned with the ruling party. As such loans are extended irrespective of the borrower's creditworthiness, we would expect a deterioration in loan quality if political favouritism was the primary channel driving the relationship between political alignment and bank credit. Using self-reported data on loan repayments in the AIDIS, we find political alignment did not worsen bank loan delinquency along either the extensive or intensive margins. Neither do we find any evidence of political alignment leading to higher loan write-offs. Repayment on non-bank loans also did not deteriorate following a positive shock to political alignment, ruling out that households repaid bank loans by defaulting on non-bank creditors. Importantly, delinquency rates do not rise in the subsequent electoral cycle, ruling out a worsening in loan performance upon the termination of political alignment.

The absence of a worsening in loan performance leads us to explore whether legislators utilize local information networks to refer creditworthy borrowers to banks. With limited data on borrowing histories to assess household credit risk, we first use a test proposed by Fisman et al. (2017) to identify whether information frictions eased in response to political alignment. Fisman et al. (2017) contend that superior information collection by lenders would lead to greater dispersion in loan sizes as lenders are better able to assess the credit needs of individual borrowers. We find evidence in support of this hypothesis: the standard deviation of bank loan amounts is significantly larger in areas witnessing a positive shock to political alignment. Our results hold even after omitting housing loans from the sample or excluding the top 5 percent of loan values, alleviating concerns that higher loan size dispersion is arising from the increased supply of housing loans by banks in aligned areas.

We offer two additional pieces of evidence consistent with influential and well-networked politicians easing information frictions in credit markets. First, if politicians were aiding banks with "soft information" about borrowers, we would expect the relationship between political alignment and bank borrowings to be stronger in districts where information frictions are more likely to bind. Using data from the Indian Human Development Survey (IHDS) conducted in 2004-05, we obtain measures for households' networks and the prevalence of local conflicts. Our hypothesis is that households with stronger local networks will be less reliant on legislator referrals when approaching banks for credit. Similarly, we hypothesize information flows would be dampened in the presence of neighbourhood conflicts which can diminish trust amongst communities. Our results agree with both assertions: the marginal legislator aligned with the ruling party has substantially larger impacts on bank borrowings in districts where a relatively low share of households are acquainted with a government officer who don't belong to their caste; in districts where households have relatively weak social networks; and in districts where households are more likely to report frequent neighbourhood conflicts. As social networks and neighbourhood conflicts can be correlated with other district characteristics, these findings should be

interpreted as suggestive, but are directionally consistent with the explanation that political alignment is more impactful in areas where information frictions are also more likely to bind.

Second, we explore persistence in the impact of political alignment on bank borrowings. If the "soft information" supplied by political alignment was substitutable with "hard information" collected by banks through relationship lending, we would expect persistence in the impact of political alignment, even after the conclusion of the legislature's tenure. There is however little evidence of persistence – lagged political alignment does not affect household bank borrowings. Conditioning on lagged political alignment, the impact of contemporaneous political alignment on household bank borrowings remains unchanged in magnitude and statistical significance. This indicates that the incremental soft information brought forth by politicians was not easily substitutable through building a relationship history.

We rule out six competing explanations to our empirical findings. First, we negate the vote-buying channel by showing that the expansion in bank borrowings in response to political alignment is not driven by loans issued in years immediately prior to elections. If anything, households' bank borrowings were lower in the period immediately prior to elections. We also show that our results are not a manifestation of partisanship: there is no evidence of heterogeneity for either the centre-left Congress (INC), or the right-wing Bharatiya Janata Party (BJP) being the ruling party. We also rule out that the impact of political alignment varies by the legislative majority enjoyed by the ruling party, or local voter awareness. The effects of local political alignment are aslo visible when the state ruling party is unaligned with the federal ruling party. Bank interest rates too are unaffected by political alignment.

As the expansion in bank credit is driven by housing loans, we use the AIDIS data on asset ownership to identify the impact of political alignment on housing values. In line with the increase in housing loans from banks, we find the marginal legislator aligned with the ruling party to increase the value of residential real estate by 3 percent. There is however no corresponding increase in the area of real estate owned by households, indicating that households used bank loans to upgrade existing properties, as opposed to expanding their holdings of real estate. In rupee terms, the appreciation in real estate values is five times the size of housing loans, suggestive of substantial improvements in real estate quality which is not fueled solely by credit growth. As real estate values can be considered a summary statistic for local public amenities (Beach et al., 2024), our results point to an overall improvement in neighbourhood quality in areas facing a positive shock to political alignment.

Our paper primarily contributes to the literature studying the political economy of finance. Existing studies have shown politicians to influence the allocation of society's resources by capturing banking institutions, either for the purposes of vote-buying (Carvalho, 2014), or rent extraction (Khwaja and Mian, 2005). The ensuing distortion in credit allocation in turn affects firm operations by directing credit away from firms with the highest returns to capital. Our paper differs from these studies along two aspects: first, we focus on political alignment and credit access for households, as opposed to firms. Second, our paper uncovers a distinct channel for the operation of political interference in formal credit markets: namely, credit as a form of constituent service in an environment marked with information frictions. Related work by Mian et al. (2010) show legislators use their legislative powers to protect constituents from residential foreclosures, while Akey et al. (2021) shows powerful politicians allow lenders to circumvent regulations directing credit towards disadvantaged borrowers. Following the

2007-09 financial crisis, Chavaz and Rose (2019) show banks benefiting from the federal bailout to expand mortgage lending in the districts of influential politicians, but such lending was accompanied by higher defaults. Contrary to most of these papers, we find no evidence of a deterioration in credit quality in the aftermath of political interference.[5] Neither is the expansion in bank credit tied to electoral cycles (Cole, 2009). Instead, we offer evidence consistent with influential politicians using their local networks to improve lenders' information gathering and extend loans to creditworthy borrowers.

Studying the impact of political alignment on household credit access also links our paper to the literature on regional favouritism and clientelism. Hodler and Raschky (2014) and Burgess et al. (2015) showed political leaders promoted local growth and the provisioning of public goods, primarily as a form of regional favouritism. In the Indian context, Novosad and Asher (2017) apply an empirical strategy similar to ours to show local political alignment affected firm returns and night-lights based GDP growth.[6] Our paper differs from Novosad and Asher (2017) along two dimensions: first, we study how political alignment affects households, as opposed to firms. Second, we offer evidence that political alignment impacted household borrowings not through the creation of credit demand, but through an expansion in the supply of bank credit. Taken together with the absence of a worsening in credit quality, increased dispersion in bank loan sizes, and heightened disbursement of bank credit in areas most likely to face higher screening costs, we provide evidence of politicians influencing the allocation of bank credit as a constituent service.[7]

The remainder of the paper is organized as follows: Section 2 sketches the pathways through which legislators can affect household borrowings and lays out testable hypotheses. Section 3 describes key data sources used in the paper, while Section 4 details our empirical strategy. Section 5 discusses our main findings and Section 6 offers mechanisms. Section 7 shows the aggregate effects of political alignment in terms of asset prices.

2 Background

This section sketches out the pathways through which politicians aligned with the sub-national ruling party can affect households' access to credit. Laying out the key channels allows us to set up testable hypotheses which we take to the data to understand the specific mechanisms through which political alignment affects credit access.

Broadly, the literature studying politics and finance have documented that politicians can affect the allocation of credit by altering both credit demand, and credit supply. In terms of the former, legislators can promote local development through regional favouritism by directing spending towards their constituencies, or boosting local infrastructure, which can be growth-enhancing (Hodler and

[5] A notable exception is Akey et al. (2021) who shows an improvement in credit allocation from an efficiency perspective following a change in the Senate Committee chair.

[6] Recently, Mahadevan (2024) showed how local political alignment in India leads to distortion in the pricing of electricity for residential consumers, generating large deadweight losses.

[7] Novosad and Asher (2017) show state-level politicians in India to affect local growth by facilitating regulatory clearances for local firms. Aneja and Ritadhi (2022) showed legislators representing caste-based ethnic parties in India to expand access to subsidized food grains as a constituent service.

Raschky, 2014; Burgess et al., 2015). Higher growth in turn can enhance credit demand from households. As India follows a federal structure of governance, much of the responsibility for regional development lies with the state. This makes state legislators aligned with the state ruling party well-placed to lobby the sub-national government to expand spending to constituencies represented by them. Novosad and Asher (2017) empirically documents how regional favouritism increase firm returns in India and stimulates local growth.

Alternately, politicians can direct the supply of bank credit, either as a form of favouritism, or to exploit credit markets for the purpose of vote-buying. This is particularly relevant in emerging markets with a proliferation of state-owned banks, which are susceptible to political capture (La Porta et al., 2002). Cole (2009) and Carvalho (2014) documented how incumbent politicians influence state-owned lenders to expand credit prior to elections, with Cole (2009) showing such credit expansions to be targeted to areas more likely to witness tight electoral contests. Khwaja and Mian (2005) contend that the capture of state-owned lending institutions is possible as politicians possess considerable influence over the career trajectories of bank officials. Extensive legislative and regulatory powers of politicians provide them leverage over bank credit supply, even in the financial system is not dominated by state-owned banks. In the U.S. for instance, Akey et al. (2021) showed that a change in the chairmanship of Senate committees led banks to reduce credit to disadvantaged groups as they expected to be subjected to lower regulatory oversight. Along the favouritism channel, Chavaz and Rose (2019) showed that banks benefiting from the federal bailout following the 2007-09 financial crisis increased lending to areas represented by politicians who voted in favour of the bailout package.

Aside from these well-explored channels, we propose and test for an alternate channel: namely the role played by politicians to alleviate information asymmetries and refer eligible borrowers to lending institutions. Credit market frictions arising due to high costs of screening and monitoring in emerging markets are well-documented (Banerjee and Duflo, 2010). On the other hand, Bardhan (2016), Novosad and Asher (2017), Aneja and Ritadhi (2022) and Muralidharan (2024) note that local legislators often act as "political fixers", offering constituent services to voters. Bussell (2019) in an extensive survey of 84 state and federal legislators report that a quarter of their work time goes towards meeting citizens – the most after meeting with politicians. Regular interactions with a wide array of citizens is likely to provide politicians with "soft information" about their constituents, which can be transferred to banks. If access to credit is a key voter demand, and screening costs are high, legislators can combine both their local information advantages, as well as influence over banks to nudge lenders to issue loans to creditworthy borrowers.

Empirically, we seek to distinguish between these mechanisms by studying how political alignment affects loan delinquency, and the timing of credit expansions. If favouritism or rent extraction is at play, we would expect a rise in bank loan delinquency in regions where a larger share of local legislators are aligned with the ruling party.[8] Alternately, if politicians use bank credit as a form of vote-buying, we would expect credit expansions towards the latter period of the legislator's tenure. Section 6 examines

[8] For instance, Khwaja and Mian (2005), Cole (2009) and Chavaz and Rose (2019) report a deterioration in loan performance.

these channels in detail.

3 Data

This section describes the two primary datasets used for the empirical analysis – the household credit data from the All India Debt and Investment Survey (AIDIS), and the electoral data hosted by the Election Commission of India (ECI).

3.1 AIDIS Data

Data on household balance-sheets is sourced from the AIDIS – a nationally representative household survey conducted by the National Sample Survey Organisation (NSSO), offering extensive information on household assets and liabilities. We use three rounds of the AIDIS conducted in 2003, 2013 and 2019. Household liabilities in the AIDIS are recorded as a loan-level database, where the survey inquires about every outstanding loan at the time of survey. Detailed information on the initial amount borrowed, source of credit, purpose of borrowing, cost of credit, repayments made, and amount outstanding are included. We combine this with information on household demographics, and the district in which the household is located. Individual loans are aggregated up to the household and we use data on initial loan values at the time of disbursement as our primary outcome of interest.[9] To adjust for inflation, all monetary values are inflated to INR 2019 values. For households with multiple loans, we compute a loan-volume weighted average cost of credit.

To map household credit outcomes to elections, we match households to the electoral cycle in the state closest to the survey year, after accounting for a one year lag.[10] For instance, for households located in the state of Uttar Pradesh and surveyed in 2019, exposure to political alignment is based on elections conducted in Uttar Pradesh in 2017. Appendix Table B1 provides a full mapping of the AIDIS to state electoral cycles for each of the 3 rounds.

The primary outcome of interest is the household's aggregate borrowings from commercial and co-operative banks. We also separately consider commercial and co-operative bank borrowings. During the period of analysis, state-owned banks accounted for over 60 percent of loans issued by commercial banks. Distinct from state-owned banks, co-operative banks form a key feature of India's banking landscape, and are jointly regulated by the central bank and state governments. These banks are equally, if not more, susceptible to political capture as state-owned banks, although their scale of operations are substantially smaller (ETBFSI, 2025; Arya, 2013).

Appendix Table B2 shows that average household borrowing from banks equaled INR 40,000, which is equivalent to 50 percent of households' annual consumption. Expectedly, commercial bank loan sizes were substantially larger, accounting for three-fourths of average bank credit. Along the extensive margin, a fifth of the households in our sample had some outstanding loan from commercial or co-operative banks, with commercial banks accounting for two-thirds of such loans. Over time, the

[9] This means that the variable measuring credit volumes is unaffected by capitalized interest.

[10] We opt for a one year lag under the assumption that it would take some time for legislators following elections to affect household credit.

share of households with a bank loan has risen steadily from 16 to 27 percent. Nonetheless, over half of the households with an outstanding loan in 2019 continued to rely on informal sources for credit.[11] Overall, while 40 percent of households reported some outstanding loan, the share of households with a loan from both an informal source and a bank was 7 percent, suggesting that banks and informal lenders formed two distinct credit markets. Borrowing for household expenditures accounted for half of bank borrowings, while farm loans accounted for a quarter of bank borrowings. The last two rounds of the AIDIS disaggregates household expenditure loans into housing, consumption and human capital spending, with housing loans accounting for 40 percent of expenditure loans. The annual rate of interest charged by banks was 11 percent, while informal lenders charged in excess of 20 percent.[12]

We use the information on repayments in the AIDIS to infer about loan quality. Using information on whether the household made any payments towards the loan over the past 6 months, we classify a loan to be delinquent if no such payment has been made. Overall, delinquency rates were high with a fifth of households reporting some delinquent loan on their balance-sheet. A fifth of households also reported having a loan from a commercial or co-operative bank on which no repayment had been made over the past 6 months. Delinquency rates from informal sources were higher than bank delinquency rates.[13]

3.2 Elections Data

India follows a federal structure with elections being conducted to both the federal and state legislatures every 5 years. Each state follows its own electoral cycle, with about 5 states witnessing elections in each calendar year. As the data on household borrowings covers the period between 2003 and 2019, we extract information on state elections between 1996 and 2019 for 19 of India's largest and most economically active states.[14] Elections are conducted at the level of electoral constituencies, or seats. Being a multi-party democracy, Appendix Table B3 shows that 11 candidates on average competed for a single seat during this period, either on behalf of major political parties, or as independent candidates. The effective number of parties contesting was 3.[15] Electoral outcomes are determined using the first-past-the-post-principle, with the candidate winning the maximum number of votes being declared the winner. The winner subsequently represents the electoral constituency for a period of 5 years. The party which wins the most number of seats in a state forms the state government. Multiple parties can also combine to form a coalition government. The two dominant parties during this period were the Indian National Congress (INC) and the Bharatiya Janata Party (BJP). Across

[11] Informal lenders include both traditional money lenders and input suppliers, as well as friends, relatives and landlords.

[12] The interest rate for informal lenders is a lower bound as a large number of loans issued by friends and relatives are non-interest bearing loans. When restricted to professional money-lenders, the interest rate rises to 36 percent.

[13] Delinquency rates from informal sources need to be interpreted with caution as the majority of loans issued by friends or family were non-interest bearing loans, and possibly exempt from a regular repayment cycle.

[14] These are Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttarakhand, Uttar Pradesh and West Bengal.

[15] Effective number of parties is defined as $1 - \frac{1}{\sum vs_i^2}$ where vs_i refers to the vote share received by party i in the election.

58 state-electoral cycles covered in our data, the INC was the ruling party on 24 occasions, followed by the BJP (21 occasions).

The AIDIS only offers information about the district in which the household is located, and not the electoral constituency. As districts are at a higher administrative level with the average district witnessing 14 elections in an electoral cycle, we aggregate constituency-level electoral outcomes to the district. Appendix Table B3 shows that over the period of study, ruling parties received 38 percent of the popular vote and won 60 percent of the elections in a district. Popular participation in elections was high, with turnout exceeding 65 percent.

4 Empirical Strategy

Our empirical strategy identifies how changes in regional political alignment affect households' access to credit. Section 3.1 noted that the AIDIS only provides location identifiers for households at the coarser administrative level of district. This precludes a direct mapping of legislators to households, leading us to consider a common district-wide shock to political alignment for all households within a district. A naive OLS specification would estimate:

$$BankCredit_{hdt} = \alpha_d + \delta_t + \beta ShAlignWin_{dt} + \gamma \mathbf{X}_{hdt} + \epsilon_{hdt} \tag{1}$$

The unit of observation in specification (1) is household h, residing in district d, where the most recent elections to the state legislative assembly were conducted in year t. α denotes district fixed effects, accounting for regional time-invariant factors which explain variation in household bank borrowings across districts. δ is a dummy for every election year, accounting for secular changes to household credit in any given year. $\mathbf{X}$ contains select time-varying household and district covariates. The coefficient of interest is β, corresponding to the share of legislators in the district representing the ruling party. All specifications are weighted using household weights, which make the survey data nationally representative. As our identification strategy exploits district-level variations in political alignment, standard errors are clustered at the level of district.

The primary concern with specification (1) is that political alignment is not randomly assigned across districts. For instance, if there is a "wave" in favour of a political formation and voters in certain districts have greater political awareness and prefer to be aligned with the ruling party, higher political alignment can be correlated with greater financial sophistication or business acumen, leading to increased demand for credit. This would cause an upward bias in the estimated β in specification (1). Alternately, the lack of alignment might hinder economic development, resulting in districts which are negatively selected on observables to have a greater preference to side with the political formation most likely to be victorious in the state.

We follow Bhalotra et al. (2014), Bhalotra and Clots-Figueras (2014) and Aneja and Ritadhi (2022) to address this classic endogeneity challenge using an instrumental variables approach, exploiting the incidence of close electoral contests. As parties are unable to precisely control their vote shares (Eggers et al., 2015), the outcome of elections decided with a narrow vote margin (as a share of total votes cast) are considered to be quasi-random. We consider variations in the share of wins by candidates aligned

to the ruling party in tight electoral races to isolate quasi-exogenous variation in our independent variable of interest. Formally, we define the instrument as:

$$ShAlignCloseWin_{dt} = \frac{AlignCloseWin_{dt}}{AlignClose_{dt}} \tag{2}$$

Equation (2) defines the instrument as a ratio of the total number of "close" elections won by the ruling party in a district, scaled by the total number of "close" electoral contests involving the ruling party. If the outcome of elections with arbitrarily small victory margins are indeed drawn from a stochastic process, we would expect the instrument to equal 0.5 in expectation. Our identification strategy relies on variations in $ShAlignCloseWin$ around 0.5, owing to additional unanticipated close wins (or losses) for the ruling party. In line with recent studies exploiting the incidence of narrow electoral races in the context of India, we consider an election to be "close" if the margin of victory is less than 5 percent of the votes cast (Novosad and Asher, 2017; Aneja and Ritadhi, 2022).[16] We verify in Section 5.2 that the results are robust to alternate thresholds of close elections.

To be a valid instrument, $ShAlignCloseWin$ should be predictive of $ShAlignWin$, and also satisfy the exclusion restriction: namely, that conditional on the fixed effects and controls, $ShAlignCloseWin$ should only affect household credit through its impact on $ShAlignWin$. We offer empirical evidence of a strong first stage and show that district observables are orthogonal to the instrument, suggesting that the exclusion restriction is not violated.

Figure 1 uses the McCrary test (McCrary, 2008) to rule out any manipulation in the outcome of close races involving the ruling party. The confidence intervals overlap, and we are unable to reject the null of no discontinuity at the threshold of 0.[17] Next, Figure 2 offers a graphical depiction of the first stage by plotting the share of elections won by the ruling party in a district as a function of the ruling party's victory margin. We see a sharp discontinuous jump in the share of ruling party victories as the ruling party's victory margin switches from being negative (ruling party loss) to positive (ruling party win). If the outcome of close elections are indeed "as good as random", the number of close elections won by the ruling party in a district should be solely determined by the number of close elections contested by the ruling party in the district. Appendix Figure A2 shows this descriptively by plotting actual close wins against predicted close wins, where predicted close wins for the ruling party equals half the number of close elections contested by the ruling party in the district. The 45-degree line shows the equality of predicted and actual close wins. We find actual close wins to be centred around the 45-degree line and closely tracked by predicted close wins. Finally, Figure 3 shows a strong positive correlation between the share of close wins for the ruling party in the district, and the overall share of elections won by the ruling party.

[16] We are unable to use the optimal bandwidth selection procedure recommended by Calonico et al. (2020) as we are not using a sharp RD comparing ruling party close wins to ruling party close losses. We thereby opt to use the bandwidth used by Novosad and Asher (2017) to study the impact of local political alignment, which is 5.1 percent. Recent papers by Bhalotra and Clots-Figueras (2014), Aneja and Ritadhi (2022), Amodio et al. (2024) and Mahadevan (2024) have used the margins of 3.5, 5, 20 and 4 percent to define close electoral races for state legislative assembly elections in India.

[17] Victory margin of the ruling party is defined as the difference between the ruling party vote share and the vote share of the runners up in the event of a ruling party victory. In the event of a ruling party loss, the victory margin is defined as the difference between the vote share of the winner and the vote share of the ruling party.

Empirically, Appendix Tables A1-A3 regresses total close wins individually against district characteristics, conditional on district and election year fixed effects, as well as the total number of close elections involving the ruling party in the district. For the exclusion restriction to be satisfied, observable district characteristics should be orthogonal to the number of close wins for the ruling party once we condition on the number of close elections contested by the ruling party. Moreoever, the coefficient corresponding to the number of close elections contested by the ruling party should equal 0.5. Across Appendix Tables A1-A3, no district covariate significantly predicts the number of close wins for the ruling party, conditional on the number of close elections contested. The bottom row shows p-values from testing the null hypothesis that the coefficient corresponding to the number of close contests involving the ruling party is 0.5. Reassuringly, we cannot reject the null hypothesis in any the specifications. Appendix Tables A4-A7 replicates this exercise for the share of close elections won by the ruling party, conditional on the share of close elections contested by the ruling party (and the fixed effects) and offer identical findings: only 4 out of 38 covariates significantly predict the share of close elections won by the ruling party, attesting to the inherently stochastic nature of the instrument. Importantly, columns (5) and (6) of Appendix Table A4 show that lagged electoral victories, and victories in close elections for the ruling party do not predict the share of close elections won by the ruling party in the current electoral period. Appendix Table A7 show that the volume of bank loans in a district also do not predict the share of close elections won by the ruling party, assuaging concerns that politicians might be able to manipulate the outcome of close electoral races through credit markets.

As an additional victory in a tight race for the ruling party is strongly correlated with an additional electoral win for the ruling party in the district, and the fraction of close elections won by the ruling party is orthogonal to district observables, we infer $ShCloseAlignWin$ to be a valid instrument for $ShAlignWin$. Consequently, we identify the impact of political alignment on household bank borrowings using a two-stage least squares (2SLS) framework with the first stage being:

$$ShAlignWin_{dt} = \alpha_d + \delta_t + \theta ShAlignCloseWin_{dt} + \phi ShAlignClose_{dt} + \gamma \mathbf{X}_{dt} + \epsilon_{dt} \tag{3}$$

and the second stage:

$$BankCredit_{hdt} = \alpha_d + \delta_t + \beta \widehat{ShAlignWin}_{dt} + \phi ShAlignClose_{dt} + \gamma \mathbf{X}_{hdt} + \epsilon_{hdt} \tag{4}$$

In the 2SLS framework described above, the share of elections won by the ruling party in a district is instrumented by the share of close elections won by the ruling party in the district. We estimate a local average treatment effect (LATE), with identification arising from "switcher" districts where the share of elections won by the ruling party changes due to an additional close election won by the ruling party.[18] Accordingly, our empirical strategy identifies how a positive shock to local political alignment, induced through an additional close win for the ruling party, impacts households' access to bank credit. A critical identifying assumption is that an additional close win for the ruling party only

[18] In this IV framework, the "always-takers" are districts where the ruling party is always successful, irrespective of the incidence of close races, while the "never-takers" are districts where the ruling party is never successful. These districts do not contribute to the identification.

affects household outcomes by increasing the number of legislators aligned with the ruling party in the district by 1. We provide evidence in support of this assumption in Section 5.1 while discussing the first-stage coefficient.

While we offer empirical evidence consistent with the outcome of close elections being as "good as random", the incidence of close elections is likely to be correlated with a number of observable and unobservable district characteristics. Consequently, we control for the share of close elections involving the ruling party in the district in all specifications. Appendix Table B3 shows that over the sample period, a quarter of elections in the district involving the ruling party were "close" – difference in victory margin between the winner and the loser being less than 5 percent of the votes cast. Appendix Figure B1 depicts the regional variation in the distribution of close elections involving the ruling party across the three rounds of the AIDIS. We see no definite geographical pattern in the incidence of close elections involving the ruling party. This bodes well for our 2SLS framework as it alleviates concerns about identification being sourced from a select sub-sample of districts. Finally, for districts witnessing no close election involving the ruling party in an electoral cycle, the instrument in equation (2) is undefined, and we force the instrument to equal 0 in such cases. Thankfully, this occurs in less than 10 percent of districts in our sample and we verify our results to be unaffected if these districts are omitted from the regressions.

Descriptive Evidence

Figure 4 presents a non-parametric graphical depiction of our reduced form relationship.[19] We find a strong positive and monotonic relationship between the share of close elections won by the ruling party and household bank borrowings. The subsequent section uses our 2SLS framework to rigorously study the relationship between political alignment and household credit.

5 Results

This section uses our IV specification to estimate how the marginal legislator aligned with the ruling party affects bank credit access for households.

5.1 Baseline Results

Our baseline findings are shown in Table 1. The odd-numbered columns include no other covariates except for district and electoral year fixed effects, and the share of close elections in the district contested by the ruling party. The even-numbered columns include select household and district covariates.[20]

[19] The binned scatter-plot conditions on time-invariant district characteristics.

[20] We systematically select covariates using a double-selection Lasso regression. Based on the double-selection Lasso, all our regressions control for (i) whether the head of the household is female; (ii) whether the household belongs to socially disadvantaged Scheduled Caste (SC), Scheduled Tribe (ST), or Other Backward Class (OBC) communities; (iii) total household members aged over 60; (iv) total household members aged less than 35; (v) total working aged (18-60) females; (v) whether the household is from the Muslim community; (vi) per capita private bank branches in the district. In addition to the covariates predicted by the Lasso regression, we add the following four district covariates which were predictive of the share of close elections won by the ruling party in the district: (i) the share of secondary educated adults

The inclusion of covariates do not affect either the magnitude or the precision of the IV point estimates and we focus on the results with covariates.

Column (2) of Table 1 shows that a 10 ppt. increase in the share of aligned legislators in the district increased household bank borrowings by INR 6,100. Columns (3)-(6) disaggregates the source of credit across commercial and co-operative banks. The effect size for commercial banks is an order of magnitude larger, accounting for 80% of the overall impact of political alignment on household credit from banking institutions.[21] Appendix B4 shows the corresponding first-stage coefficients for the baseline IV results. In each instance, the instrument is positive and statistically significant at the 1 percent level or better, and the Kleibergen-Paap F-statistic exceeds 50 in each instance, assuaging concerns about weak instruments.

We can use the first stage coefficient to estimate the number of ruling party legislators elected through an additional close win for the ruling party. With the average district witnessing 14 elections and a quarter of the elections involving the ruling party deemed close at the 5 percent margin, an additional close electoral win for the ruling party amounts to a 0.28 increase in $ShAlignCloseWin$. Scaling this by the first stage coefficient of 0.224, the corresponding increase in $ShAlignWin$ equals .054, or 0.76 legislators. This affirms that an additional close win for the ruling party in the district results in only 1 additional legislator being elected from the ruling party.[22] This lends credence to our instrument and alleviates concerns about close electoral wins for the ruling party representing "wave elections", with a close electoral win for the ruling party generating positive spillovers for other candidates contesting on behalf of the ruling party in the area.

The IV specification estimates how a change in the share of aligned legislators in a district, induced by an additional close win for the ruling party, affects households' access to credit from banking institutions. As the average district witnessed 14 elections, the marginal legislator elected through a close win increased households' access to bank credit by INR 4,369 – equivalent to 4 percent of annual household consumption.[23] As a quarter of the elections involving the ruling party were close at the 5 percent threshold and ruling parties were successful in winning half of these close elections, each district had on average 2 additional legislators elected through close elections, amounting to an average credit expansion equal to 8 percent of household consumption. Assuming a household savings rate of 25 percent, a back of the envelope calculation implies that the political alignment induced credit expansion equaled 6 percent of annual household income, or about half the magnitude of the credit expansion studied by Kaboski and Townsend (2012) in their evaluation of the Million Baht Village Fund Program in Thailand.

in the district workforce; (ii) effective number of parties contesting elections; (iii) per capita bank branch density in the district; (iv) per capita bank branch density for state-owned banks in the district. We also include control for district voter-turnout as shifts in turnout can affect the incidence of close elections. For all district-level characteristics, we use data from the year/survey round prior to the most recent elections.

[21] The point estimates for co-operative banks are statistically significant at the 10% level.

[22] To exactly equal 1, the first stage coefficient would have to equal .254, which is within the 95% confidence interval.

[23] Annual household consumption over this period equaled INR 92,267.

5.1.1 OLS and Reduced Form

Appendix Table B5 shows the OLS and reduced form coefficients corresponding to the baseline IV results in Table 1. Unsurprisingly, Panel A shows the reduced form coefficients are positive and statistically significant, with the reduced form impact on credit from commercial banks accounting for over 80 percent of the overall increase in household bank credit access. Controling only for district and time fixed effects and the share of close elections involving the ruling party in the district, the OLS coefficient in column (1) is negative, but non-significant. As discussed in Section 4, the OLS coefficient is likely to be biased, and we partially address this endogeneity concern using a rich set of pre-election district covariates. Conditioning on the district covariates, the point estimate in column (2) is now positive but continues to remain statistically non-significant. The OLS coefficient thereby are biased downwards. This is seen across columns (3)-(6) when we disaggregate overall bank lending into loans obtained from commercial and co-operative banks. For co-operative bank loans, the OLS coefficient is positive and becomes statistically significant upon the inclusion of controls. The point estimate is less than half in magnitude to the IV estimate in column (6) of Table 1, which again attests to the downward bias of the OLS coefficients.

There are two possible explanations for the downward bias in the OLS coefficients: first, a vote for the ruling party might signify a vote against under-development. For instance, if over the period of study, voters are biased against the incumbent owing to unfulfilled aspirations, then this bias is likely be larger in regions with lower economic development and growth. Such areas would also have lower dissemination of credit from financial institutions, generating a downward bias between political alignment and household credit. Alternately, as the IV estimates capture changes in alignment induced through an additional victory in a tight election for the ruling party, it can be indicative of the characteristics of legislators elected through close elections.

We consider two explanations to the latter channel: first, while the empirical evidence in Appendix A confirm that the outcome of close elections are likely to be "as good as random", the same cannot be said for the incidence of close elections. Indeed, if parties can anticipate which races would be tight, they can strategically assign better candidates to close contests. Superior legislators can be more pro-active in terms of providing constituent services or promoting local growth, which can explain the rise in bank credit. Second, legislators winning close races can exert greater effort following their victory to expand their win margin for the upcoming election. In both instances, the IV coefficients would serve as an upper bound of the impact of political alignment on households' access to credit.

Empirically, we examine the first hypothesis using public affidavits of politicians contesting elections. Since 2003, contestants to India's elections are mandated to declare their assets and liabilities through sworn affidavits, in addition to other characteristics such as educational qualifications and pending criminal charges. Panels A and B of Appendix Table A8 offer little evidence that candidates contesting close elections differ from those contesting non-close elections along key observable characteristics. Column (3) suggests that contestants in tight races are less likely to have completed secondary education, although the coefficient is small in magnitude. From column (10), we find that contestants in such elections also had a higher number of criminal convictions against them. However, there is no difference in candidate assets, liabilities, age (proxy for experience) or criminal cases. Limiting the sample in

Panel B to candidates in the top two positions also do not alter the results. This offers evidence against the first hypothesis of politicians contesting close elections being positively selected. The results however should be interpreted with caution: while we condition on constituency and district-year fixed effects, the close election dummy can be correlated with unobservable candidate characteristics, precluding us from assigning a causal interpretation to the *Close* coefficient. If politician effort or ability is orthogonal to observed characteristics such as education or assets, we would be unable to detect whether more competent politicians contest close races. This disallows us from wholly rejecting the second explanation that legislators elected through close elections exert additional effort following their electoral victory, possibly to consolidate their position.

5.2 Robustness

We verify the robustness of our baseline findings to alternate specifications and sample choices. Appendix Figure B2 shows our IV estimates to be stable to alternate thresholds of close elections, ranging from 3 to 6.5 percent of votes cast.[24] Section 4 stated that the instrument is undefined in the absence of close elections and we force the instrument to equal 0 in such instances. Column (1) of Appendix Table B6 shows the findings to be robust to separately adding a binary indicator for districts without a close election involving the ruling party, while column (2) shows the point estimate to be unaffected upon excluding such districts. Column (3) shows the results to be stable to the omission of multiplier weights. To standardize household multiplier weights across the three rounds of the AIDIS, we adjusted the weights such that total household bank borrowings equaled the value of outstanding farm and personal loans in the administrative database hosted by India's central bank.[25] Column (4) shows the IV estimate to be unaltered if we use the raw multiplier weights from the AIDIS. Column (5) shows the precision of our results to be unaltered upon clustering the errors at the higher administrative level of state.

Expectedly, column (1) of Appendix Table B7 shows the baseline results to be stable to the inclusion of a wide range of pre-election district covariates.[26]. Column (2) considers a restrictive specification with state-survey round fixed effects, while column (3) adds district-specific linear time-trends. Including state-survey round fixed effects limits our comparison to households in the same state and survey period. The identification now relies solely on cross-sectional variation in the share of close elections won by ruling parties across districts within a state in a given electoral cycle. This specification accounts for time-varying state-level factors affecting household credit demand such as state-level GDP growth or public investments. State-specific expansions in credit supply linked to state electoral cycles too would be accounted for in this specification. Reassuringly, our results are unaltered for both specifications. While the point estimate declines in magnitude in columns (1) and (2), it

[24] At the 3 and 3.5 percent thresholds, the p-values corresponding to the share of aligned wins are .098 and .118 respectively.

[25] India's central bank – the Reserve Bank of India – publishes the Basic Statistical Returns (BSR), which offers information on key banking statistics, covering all commercial banks in India. The BSR data provides data on outstanding bank credit across various sectors. We adjust the household weights in the AIDIS so that total outstanding loans in the AIDIS matches the sum of farm and personal loans in the BSR in each of the three rounds.

[26] We use the same set of covariates from Panel B of Appendix Table B5

increases by a sizable degree in column (3). Column (4) presents our most restrictive specification including district and state-electoral year fixed effects, as well as district-specific linear time-trends. Using this specification, we attribute a statistically significant INR 3,698 increase in households' access to bank credit in response to an additional close electoral win for the ruling party in a district. Columns (5) and (6) consider robustness to alternate outcome variables – our findings are not sensitive to restricting the dependent variable to bank loans received within three years of the survey date, or scaling the value of bank credit by household size.[27]

The outcome variable equals 0 in the absence of bank borrowing. As only 20 percent of households have a bank loan, the outcome variable has a large mass centred at 0. We verify this excess mass at 0 does not bias our findings by estimating a Poisson Maximum Likelihood reduced form specification with district and time fixed effects. Column (7) of Appendix Table B7 reports a positive and statistically significant coefficient using the Poisson MLE. Finally, Appendix Figure B3 shows the stability of the IV estimates to dropping each state. This alleviates concerns that the impact of political alignment on household credit is being confounded by policies or factors specific to a single state.

5.3 Political Alignment and Other Sources of Credit

Did political alignment lead to households substituting non-bank credit with bank credit, or did it result in an aggregate expansion in household borrowings? Using information from the AIDIS on household credit from various sources, column (1) of Appendix Table B8 reports an overall increase in household borrowings: the marginal legislator aligned with the state ruling party increases overall household borrowings by INR 5,349 – 6 percent of households' annual consumption. Household borrowings from non-bank financial corporations (NBFC) and informal sources such as money-lenders or community networks however remain unaffected by shifts to political alignment.[28] This confirms that the increase in household borrowings in response to a positive shock to political alignment is driven primarily through the banking sector. Taken together with the overall increase in household borrowings, the lack of a substitution of non-bank credit in the aftermath of households receiving access to bank credit points to the presence of credit constraints (Banerjee and Duflo, 2014; Cai and Szeidl, 2024), which are relaxed by the positive shock to political alignment.

5.4 Political Alignment and Household Credit Access: Role of State-Owned Banks

Section 2 argued that Indian politicians could exploit the banking infrastructure dominated by state-owned banks and influence the allocation of credit across borrowers. We explore this hypothesis by testing for heterogeneity in the impact of political alignment across districts with relatively high banking infrastructure. Specifically, we augment specification (4) and estimate

$$BankCredit_{hdt} = \alpha_d + \delta_t + \beta_1 ShAlignWin_{dt} + \beta_2 ShAlignWin_{dt} \times HighBankPC_d + \delta \mathbf{X}_{hdt} + \epsilon_{hdt} \quad (5)$$

[27] Our outcome variable considers all loans from commercial and co-operative banks obtained within 8 years of the survey date. Across all three surveys rounds, 80 percent of loans are obtained within two years of the survey year.

[28] The point estimate corresponding to NBFC and informal borrowings is positive, but not statistically significant at any of the conventional levels of significance.

In equation (5), $HighBankPC$ is a dummy equaling 1 for districts with relatively "high" banking infrastructure. β_1 identifies the impact of political alignment on households' credit access in districts with relatively low banking infrastructure, while β_2 tests for a differential effect in districts with relatively high banking infrastructure. As there are two endogenous variables, we use two instruments – namely the share of close elections won by the ruling party, and its interaction with $HighBankPC$. As politicians have an incentive to promote local growth, they can lobby banks to open branches in their constituencies, which in turn can fuel credit expansions. This makes contemporaneous measures of banking infrastructure tantamount to a "bad control", while lagged measures are likely to be correlated with other district characteristics.

We address this by exploiting institutional features about India's banking landscape. India's banking network expanded rapidly between 1977 and 1991 following the nationalization of the country's largest banks (Burgess and Pande, 2005). During this period, banking regulators implemented a 1:4 rule, whereby banks had to open 4 additional branches in "unbanked" locations for every additional branch opened in a "banked" location. This branching rule was set aside in 1992 with banks being accorded the freedom to open branches as dictated by market forces. As a number of state-owned bank branches prior to 1992 were opened not in response to market forces, but to satisfy a regulatory directive, a district's bank branch density in 1991 can be considered to be quasi-exogenous to district characteristics (Gupta and Dehejia, 2021). Resultantly, we define the binary indicator *HighBankPC* to equal 1 for districts whose bank branch density in 1991 exceeded the median value across all districts. As there were only a handful of private banks operating in India prior to 1991, *HighBankPC* is based on the density of state-owned bank branches in a district.

Consistent with our hypothesis, column (1) of Table 2 confirms that the positive impact of political alignment on households' access to bank credit is driven entirely by districts with a relatively high density of state-owned bank branches. The β_1 coefficient is statistically non-significant, and attenuated towards 0, while the β_2 coefficient is positive and statistically significant. While private and foreign banks had limited operations prior to 1991, there was some heterogeneity in the type of state-owned banks. Administratively, state-owned banks in India can be classified into three sub-categories: namely the State Bank of India (SBI), which is the largest bank group in India; other nationalized banks; and regional rural banks (RRB), which cater to rural locations and have a much smaller scale of operations than either the SBI or other nationalized banks. Columns (2)-(4) shows that the positive relationship between political alignment and household borrowings emanated from districts with a relatively high concentration of nationalized banks, and not districts where the banking network was dominated by the SBI or RRBs.

5.5 Separating Credit Supply from Credit Demand

The increase in household borrowings following a positive shock to political alignment can originate from two sources: higher credit demand by households, or increased credit supply by lenders. Separating the two is key to understanding the channels through which elected legislators affect household borrowings. We extend the methodology of Khwaja and Mian (2005) and Jimenez et al. (2012) to identify the impact of political alignment on bank credit supply, conditional on households' credit demand. Specifically, we

exploit the loan-level component of the AIDIS, which informs us about every outstanding loan on the household's balance-sheet at the time of survey. Next, we restrict the sample to households with both a bank, and a non-bank loan, and estimate the following specification using household fixed effects:

$$Credit_{hldt} = \alpha_{ht} + \beta_1 Bank_{hldt} + \beta_2 Bank_{hldt} \times ShAlignWin_{dt} + \delta \mathbf{X}_{hldt} + \epsilon_{hldt} \quad (6)$$

The unit of observation in specification (6) is the individual loan l obtained by household h and the outcome of interest is loan amounts. α denotes household fixed effects. As the AIDIS is a repeated cross-section, household fixed effects are equivalent to a household-time fixed effect, which effectively controls for a household's credit demand. The binary indicator $Bank$ equals 1 if the loan is sourced from a commercial or co-operative bank, and is interacted with the local shock to political alignment. Conditional on households' credit demand, $\beta_2 > 0$ implies a differentially larger amount of credit being issued by banks (relative to non-banks), following an additional close election won by the ruling party. Effectively, the empirical strategy in specification (6) compares loan sizes across banks and non-banks for the same household in the same time period, across varying degrees of political alignment.

The coefficients in Panel A of Table 3 offer evidence consistent with politicians aligned with the ruling party nudging banks to expand credit supply, as opposed to creating additional credit demand. Our sample declines to 27,000 households (a sixth of our full sample) who have loans from both bank and non-bank sources.[29] Column (1) classifies both loans from commercial and co-operative banks as bank credit and identifies a positive and statistically significant differential impact of political alignment on bank lending. An additional close election won by the ruling party leads to an additional INR 13,971 of household borrowings from banks, conditional on households' credit demand (p-value $< .01$). Column (2) only considers loans from commercial banks and yields very similar findings.

The results in columns (1) and (2) of Table 3 are not directly comparable to our baseline results in Table 1 as they are based on a selected sample of households with both bank and non-bank loans. To distinguish between the demand and supply channels, Panel B re-estimates specification (6) for the same set of households, but replaces household fixed effects with district and time fixed effects. This estimates the impact of political alignment for households with both a bank and a non-bank loan, but allowing for both demand and supply side effects to drive the estimation. Comparing the coefficients on the $Bank \times AlignWin$ interaction term, we infer that over 80 percent of the impact of political alignment on household bank borrowings was driven by an expansion in the supply of bank credit, as opposed to higher credit demand from households.[30]

The use of firm-time fixed effects to isolate credit demand has been widely used to distinguish credit supply responses across different bank types for firms.[31] Our comparison of supply responses across banks, relative to non-banks, leads to a potential concern with the estimates in columns (1)

[29] To further isolate household credit demand, the sample is restricted to loans taken in the year of the survey, or the year prior to the survey.

[30] We infer this by dividing the $Bank \times AlignWin$ coefficient in Panel A (isolating supply), with the coefficient corresponding to the interaction term in Panel B (incorporating both demand and supply).

[31] For instance, Khwaja and Mian (2005) compare state-owned and private banks; Jimenez et al. (2012) compares banks with varying levels of capital.

and (2) of Table 3, as these two groups of lenders might be servicing entirely different types of loans.[32] For instance, it is possible that a borrower with both a bank and a non-bank loan might be aware of banks' ability to support larger loans and only approach non-banks with smaller loan applications. This would lead to a mechanical increase in the size of bank loans issued, which we would misinterpret as an expansion in the supply of bank credit.

While all our specifications control for loan characteristics[33] such as duration, interest rate, securitization and purpose, columns (3)-(5) explores this concern in two ways. First, we compare bank and non-bank loans for similar purposes of borrowing, under the assumption that loan sizes for the same purpose will be comparable across banks and non-banks. As housing loans are typically the largest in size, column (3) re-estimates specification (6) after excluding housing loans. In column (4), we limit the sample to farm loans and loans obtained for the purpose of non-farm business. Finally, column (5) omits the top 5 percent of loan values from our sample. Comparing the $Bank \times AlignWin$ coefficients across all columns (3)-(5) in Panels A and B, we continue to find the credit supply channel to be explaining 80 percent of the overall increase in bank credit following a positive shock to local political alignment.[34] This alleviates concerns that our results might be a mechanical manifestation of larger loan sizes offered by banks owing to a larger scale of operations.

5.6 Political Alignment and Bank Credit Access: Extensive Margin

Our primary outcome of interest is the total amount of credit received by households from banking institutions. The outcome of interest equals 0 for households without any bank loans. To this effect, the outcome variable captures the combined impact of political alignment on households' credit access along both the extensive and the intensive margin. To isolate the extensive margin impact, we re-define the outcome variable as a binary equaling 1 if the household has received any bank credit. Columns (1)-(3) of Appendix Table B9 show that political alignment primarily affected household credit along the intensive margin. There was no impact on households' likelihood of having an outstanding loan from banking institutions, or loans from commercial banks. We identify a positive coefficient (p-value .076) for extensive margin credit access from co-operative banks, which however is small in magnitude relative to the outcome variable mean.[35] Consequently, political alignment does not lead to an overall expansion in the number of households receiving access to bank credit, particularly from commercial banks, but increases the volume of loans received by households. The absence of panel data precludes us from ascertaining whether this is comprised of new households gaining entry into the banking system, or existing households receiving additional credit following political alignment.

[32] Our ideal specification would have been to test for a differential impact of political alignment on loans issued by state-owned banks, for households with loans from both state-owned and private banks. Unfortunately, the AIDIS data does not allow us to distinguish between state-owned and private banks.

[33] Our results are very comparable in magnitude and precision to the omission of these covariates.

[34] The point estimates are between 60 and 80 percent in magnitude when compared to the point estimate in column (1).

[35] The point estimate suggests that a 10 ppt. increase in political alignment increases the likelihood of having a loan from a co-operative bank by 0.5 ppt., relative to the outcome variable mean of 8 percent during this period.

5.7 Purpose of Borrowing

Columns (1)-(3) of Appendix Table B10 shows that the political alignment-induced increase in bank credit was driven by increased borrowings for household expenditures. While the point estimates for both farm loans and non-farm business loans are positive, they are statistically non-significant. The 2013 and 2019 AIDIS surveys disaggregate expenditure loans into health and education, housing and consumption loans. Column (5) of Appendix Table B10 shows that the rise in bank borrowing was driven majorly by housing loans, although column (6) shows that in the aggregate, non-housing loans from banks too were significantly larger following a positive shock to political alignment. Section 7 explores in greater detail the impact of housing loans on local asset prices.

5.8 Political Alignment and Household Bank Borrowings: Who Receives Credit?

Do all households gain uniformly following a positive shock to political alignment? Our particular interest is to identify whether political alignment increases borrowings for households likely to face higher screening costs and binding credit constraints. We investigate this using a variation of equation (5) and test for heterogeneity in the impact of political alignment across household location, source of earnings, presence of educated members, and social group.

Column (1) of Appendix Table B11 shows that political alignment affected bank credit for both rural and urban households. The $Rural \times AlignWin$ term is negative but not statistically significant. The sum of the coefficients are significantly different from 0, indicating that bank borrowings by rural households also increased following a positive shock to political alignment. Columns (2) and (3) explore heterogeneity by households' primary source of earnings. While the point estimates are not precisely estimated, the coefficients suggest that self-employed households – in particular, rural self-employed households – saw the largest gains in terms of bank borrowings following a positive shock to political alignment.[36] Consistent with the point estimates in columns (1) and (2), column (4) shows that households with no secondary educated member also saw a significant increase in bank borrowings following a positive shock to political alignment. As households with no secondary educated member are also more likely to have lower earnings, it suggests that poorer households were not excluded from the political alignment-induced increase in bank borrowings. Finally, column (5) shows no evidence of heterogeneity across social and religious minorities. While the interaction terms are all positive, the standard errors are too large to rule out a null effect. Collectively, Appendix Table B11 offers suggestive evidence that political alignment increased bank credit access for self-employed households, as well as poorer households. These households would also be expected to face higher screening costs.

6 Mechanisms

This section explores the various channels explaining the relationship between political alignment and households' access to bank credit.

[36] The corresponding p-values on the interaction terms for self-employed and rural self-employed are .124 and .125 respectively.

6.1 Favouritism

Preferential allocation of credit through the capture of state-owned banks can serve as a key motivation for political interference in credit markets. Khwaja and Mian (2005) documents such favouritism to distort the allocation of credit towards politically connected firms in Pakistan. As political favouritism distorts credit allocation by disbursing credit to borrowers solely for their proximity to select politicians, we would expect a deterioriation in credit quality if the political favouritism channel is at play. Lacking data on households' relationship with politicians or political preferences, we use information on loan repayments to gauge whether bank credit expansions following local political alignment was driven by political favouritism.

In the absence of administrative delinquency data, we rely on self-reported data on loan repayments and consider a loan to be delinquent if the household reported making no repayment towards the loan for a period in excess of 4 months. For any delinquent loan on the household's balance-sheet, we also obtain the outstanding loan amount to measure the total value of delinquent loans owed by each household. Table 4 shows loan repayment to be unaffected by shifts in political alignment, along both the extensive, and the intensive margins.[37] While the standard errors are too wide to draw any firm conclusion, the point estimates in columns (1)-(3) corresponding to the amount of delinquent bank loans are negative, pointing if anything to improvements in loan repayment following a positive shock to political alignment. Columns (4) and (8) show political alignment left unimpacted non-bank loan delinquency. This alleviates concerns about borrowers meeting their repayment obligations towards banks by defaulting on non-bank loans.

Defaults are often a function of time and it is possible that insufficient time has lapsed between political alignment-induced loan disbursement and the survey for non-repayment to kick in. If ruling party politicians were nudging banks to extend loans to select borrowers, it is possible that they were also favouring such borrowers through other means such as government contracts to facilitate repayment. If such additional earnings opportunities are critical for loan repayment and emanate solely due to political alignment, we would expect a worsening in credit quality once political alignment concludes in the following electoral cycle. Moreover, loans are ultimately issued by loan officers who in state-owned banks are responsible for loan repayment for a period of 3 years following their transfer out of the branch (Fisman et al., 2017). If the favouritism channel is at play and loan officer tenure overlaps with that of the elected politician, it is possible that the mapping of loan characteristics to the nearest electoral cycle would be unable to detect a decline in loan quality if it materializes only after the loan officer has been transferred out of the location.

To examine whether the negative effects of political alignment on loan delinquency is a function of time, Appendix Table B12 estimates the impact of lagged political alignment on loan delinquency. Reassuringly, we find no evidence of a worsening in loan performance once political alignment concludes, either for bank or non-bank loans. In addition to repayments, the AIDIS also enquires about loan write-offs. Appendix Tables B13 and B14 uses this data to rule out a rise in writeoffs for either bank, or non-bank loans, following a positive shock to contemporaneous or lagged political alignment.

[37] Sample sizes are smaller as we can only observe repayment behaviour for households with an outstanding loan.

6.2 Political Alignment and Information Asymmetry

The expansion in bank credit following a positive shock to political alignment without any accompanying deterioriation in credit quality leads us to explore whether local politicians facilitate the selection of creditworthy borrowers. Section 2 noted that politicians are influential and well-networked individuals who possess information about local constituents. If lenders faced high costs of screening, information sharing by powerful well-networked politicans about creditworthy borrowers could have lowered such costs, and facilitated credit expansions, without an accompanying worsening in loan quality. This would also be consistent with the findings in Section 5.8 which showed that self-employed and farm households, and households lacking a secondary educated member received higher bank credit following a shock to political alignment. We explore this hypothesis over the following two sections.

6.2.1 Political Alignment and Loan Size Dispersion

Fisman et al. (2017) offers a novel approach for detecting an improvement in lenders' information acquisition by studying the variation in loan sizes. They contend that superior information about borrowers would allow lenders to better target loans to individual borrowers, resulting in a wider dispersion in loan sizes. We explore this hypothesis using the loan-level AIDIS data and test whether the variation in bank loan size increased following a positive shock to political alignment. We aggregate the loan-level data to the district by computing the standard deviation of individual loan amounts. Column (1) of Table 5 shows that an additional close win for the ruling party does increase the dispersion in the size of bank loans. The point estimate is both positive, and statistically significant at the 5% level (p-value .024). Columns (3) and (5) show that the higher dispersion in loan sizes is driven by commercial bank loans (p-value .086).[38] Taken together with the lack of a deterioration in the quality of bank credit, an increase in the dispersion of loan sizes supports the contention that political alignment improved information available to lenders and allowed them to better tailor individual loans to creditworthy borrowers.

A potential concern with these regressions is that the distribution of bank loan sizes could have widened mechanically due to increased housing loans provided by banks. To this extent, columns (2) and (5) show that we continue to identify higher dispersion in bank loan sizes even after limiting the sample to farm loans and loans obtained for the purpose of non-farm businesses. The point estimates remain positive and statistically significant at the 10 percent level (p-values .076 and .051). Moreover, column (3) identifies a positive impact of political alignment on the dispersion in bank loan sizes even after omitting the top 5 percent of loan amounts. This assuages concerns that larger housing loans, or larger loans in general, mechanically increased the variance of bank loans.

Columns (6) and (7) show no corresponding increase in the disperson of loan size for loans sourced from NBFCs and informal lenders, negating an overall improvement in information acquisition in districts facing a positive shock to political alignment.

[38] While the point estimate corresponding to co-operative banks is positive, the wide confidence intervals do not permit us to rule out a null effect.

6.2.2 Salience of Political Alignment: Districts with Higher Costs of Financial Intermediation

The previous section showed that political alignment led to increased dispersion in bank loan sizes. We interpret this as a loosening of adverse selection, which allows banks to assess a borrower's credit needs with greater accuracy. We now offer evidence consistent with political alignment being more effective in areas where the costs of financial intermediation would be expected to be higher. We contend that if ruling party politicians combined their influence over state-owned lenders with local information networks and refered creditworthy borrowers to banks, such referrals would be most effective in areas where households have limited social networks and alternate modes of effecting such referrals.

In the absence of administrative data on loan repayments or the ability to track households over time, it is challenging to gauge the screening costs faced by households. Resultantly, we use district-level information on the strength of social networks and local conflicts as a proxy for the costs of financial intermediation. We contend that information acquisition – in particular, the acquisition of "soft information" – would be more challenging in areas with limited social networks and greater neighbourhood conflicts. The former restricts the flow of information across community members, while the latter reduces trust within the community.

To gauge district-level social networks and community conflicts, we use data from the nationally representative Indian Human Development Survey (IHDS) conducted in 2004-05. We capture social networks using three measures: first, whether households know any government officer; second, whether households are acquainted with government officers who do not belong to their caste; and third, a standardized index of local community networks based on the presence of savings groups, NGOs, co-operative and caste associations in the household's neighbourhood.[39] We split our sample using the sample median across districts and estimate the impact of political alignment on bank credit within each sub-sample.

Columns (1)-(4) of Appendix Table B15 show that the positive impact of political alignment on household bank credit is driven by districts where information frictions are more likely to bind – either due to limited social networks, or due to higher conflicts and limited trust.[40] In contrast, columns (5)-(8) show that in areas with stronger social networks and lower conflicts, the impact of political alignment on bank credit is an order of magnitude smaller and no longer statistically significant.

As the strength of social networks or the incidence of civil conflicts might be proxying for other district characteristics, the findings in columns (1)-(8) of Appendix Table B15 should be interpreted as suggestive. Nevertheless, the results are consistent with the explanation that the positive impact of

[39] The IHDS enquires whether there are (i) savings or credit groups; (ii) caste groups; (iii) religious groups; (iv) agricultural or milk co-operatives; (v) local NGOs in the household's neighbourhood. We construct a standardized index for each of these variables, and then sum them to create a composite index of social networks in the area. The standardization is done using the state average and standard deviation. Similarly, local conflicts is also the sum of two standardized indices: the first asks whether there is a lot of conflict in the neighbourhood in general, while the second asks whether there is a lot of conflict amongst community and caste groups.

[40] As the indices for the heterogeneity tests are constructed using data from the 2004-05 IHDS survey, we restrict our sample to the latter two AIDIS surveys conducted in 2013 and 2019. The IHDS also does not cover all districts in India so the regression estimates are based on a smaller sample of districts common to both the AIDIS and IHDS.

local political alignment on household bank borrowings is driven by areas which are also likely to be afflicted by higher screening costs.

6.2.3 Persistence in Political Alignment?

A second test we propose to gauge whether ruling party legislators aid in the acquisition of "soft information" is to examine persistence in the impact of political alignment. If political alignment eased entry barriers to formal credit markets and banks could substitute "soft information" with "hard information" through relationship banking, we would expect to see persistence in political alignment. Alternately, if the information provided by political alignment was not easily substitutable, we would expect the positive impact of political alignment on household borrowings to conclude with the end of the legislature's tenure. We test this hypothesis by identifying the impact of a 1 period lag in local political alignment. Column (9) shows that lagged political alignment does not affect bank borrowings. The point estimate is negative, almost a tenth in magnitude to the baseline coefficient, and statistically non-significant. Column (10) includes both the current shock to political alignment and a 1 period lag. The 1 period lag continues to be statistically non-significant and is a fourth in magnitude to the impact of contemporaneous political alignment, which remains very similar to the baseline estimate in both magnitude and precision. This indicates that any "soft information" provided by ruling party legislators pertaining to borrower quality is not substitutable by lenders with observable "hard information", with such information being lost once political alignment ends.

6.3 Ruling Out Alternate Explanations

Our preferred explanation for the increase in bank borrowings following a positive shock to local political alignment is that ruling party legislators used their local networks to refer healthy borrowers to banks, while simultaneously using their political clout over state-owned banks to expand credit disbursement in their constituencies. The marginal legislator was more effective in areas where households were less likely to have alternate social networks to access bank officials, and for households which were also more likely to suffer from adverse selection. This section rules out six alternate explanations for our findings: namely, vote-buying, partisanship, legislative initiatives, voter awareness, federal alignment, and the cost of credit.

6.3.1 Vote Buying

A plausible channel explaining our findings is politicians capturing banks for the purposes of vote-buying. Cole (2009) and Carvalho (2014) showed that politicians exert their influence on state-owned banks to expand lending prior to elections. We explore this hypothesis by identifying heterogeneity in the impact of political alignment over the initial and latter years of a legislator's tenure. Specifically, we contend that the last two years of a legislator's tenure would be the most critical in terms of re-election, making politicians most likely to interfere with credit markets during this period (Cole, 2009; Kanz, 2016; Urvoy, 2025). Extending specification (5), columns (1) and (2) of Table B16 negate the vote-buying channel. Regardless of whether we consider the last 2 years of a legislator's tenure, or the last year,

the triple interaction term is negative. On the contrary, the uninteracted term identifying the impact of political alignment on credit disbursement in the first 3 or 4 years remains positive and statistically significant, signifying that credit disbursement following political alignment occurs primarily in the first 3 years of a politician's tenure. Efforts to engage in vote-buying prior to elections through the banking channel therefore does not explain our findings.

6.3.2 Political Alignment and Partisanship

Is the positive relationship between political alignment and household bank credit driven by specific parties? We extend specification (5) to identify whether political alignment is confounded by partisanship. We define two binary variables – $INCAlign$ and $BJPAlign$, which equal 1 if the ruling coalition in the state is led by the INC, or the BJP – the two dominant political parties during the period of analysis. Column (3) of Appendix Table B16 rules out any differential impact of political alignment stemming from either the BJP or the INC. The triple interaction terms are negative and statistically non-significant, while the uninteracted $ShAlignWin$ remains positive and statistically significant.

6.3.3 Political Alignment and Household Credit: Legislative Channel?

As the primary task of elected politicians is to frame laws, we explore whether a legislative channel might be explaining our results. Legislators in India have attempted to influence the allocation of credit through "nationalising" (Burgess and Pande, 2005), classifying select borrowers to be eligible for subsidized credit (Banerjee et al., 2004; Banerjee and Duflo, 2014), or more recently, lowering the cost of credit by offering debt-relief for loans obtained from state-owned and co-operative banks (Kanz, 2016; Vadlpatla, 2024). Such interventions have often been linked to vote-buying and is actively discouraged by India's central bank.[41] If states introduced legislative measures which eased credit access for households and information about such schemes were better disemminated through aligned legislators, it would form a plausible explanation for the positive relationship between political alignment and households' bank borrowings.

We investigate this by identifying heterogeneity across the degree of legislative majority available to the state government. At the level of state, the ruling party is mandated to have a simple majority in terms of legislators. However, its ability to enact legislation will depend on the strength of its legislative majority and governments with larger legislative majorities will be better placed to enact legislative and administrative measures. Column (4) of Appendix Table B16 does not lend support to this hypothesis. While the interaction term is positive, it is statistically non-significant. The uninteracted coefficient identifying the impact of the marginal legislator on households' bank borrowings in states where the ruling party has a legislative majority with 60 percent or less legislators is positive and statistically significant. Resultantly, a legislative majority is not a necessary condition for aligned politicians to affect households' access to bank credit.

[41] India's central bank also doubles up as the regulator of all commercial banks in India.

6.3.4 Voter Responsiveness

Our identification relies on the incidence of closely contested races between ruling and non-ruling party candidates. It is possible that districts witnessing tight races between candidates also have greater voter awareness. A responsive citizenry can hold politicians accountable and be in a better position to extract benefits from elected legislators. Consequently, we explore whether the positive impact of political alignment on bank borrowings stems from higher voter responsiveness in regions witnessing close electoral contests. Using voter turnout as an indicator of voter responsiveness, column (5) of Appendix Table B16 shows no differential impact of the marginal legislator aligned with the ruling party in districts with a relatively high (above median) voter turnout. Thereby, higher voter responsiveness in districts witnessing close races is unlikely to serve as a channel explaining the relationship between political alignment and household credit.

6.3.5 Federal Alignment

Our empirical strategy shows that the marginal legislator representing the ruling party in the state has a positive impact on bank borrowings for households, and this is accentuated in areas with a higher concentration of state-owned banks. As the federal government is the majority stake-holder in state-owned banks, it is possible that the federal government directs state-owned banks to expand lending to politcally aligned states, and our IV results are in fact identifying the impact of federal alignment as opposed to local alignment with the state ruling party. We explore this in column (6) by testing for heterogeneity across states where the state ruling party is aligned with the federal ruling party. The triple interaction term is positive and large in magnitude, although not statistically significant (p-value .329). This indicates that local political alignment was more effective if the state ruling party was also aligned with the federal ruling party. However, the uninteracted *Align Win* term identifying the impact of the marginal legislator in states where the state ruling party unaligned with the federal ruling party also remains positive, albeit imprecisely estimated (p-value .130). The point estimate corresponding to *Align Win* in column (6) remains sufficiently large in magnitude – 56% of the baseline coefficient. We thereby cannot rule out that the marginal legislator representing the state ruling party positively affected household bank borrowings, even when the state ruling party was unaligned with the federal ruling party.[42]

6.3.6 Political Alignment and Cost of Credit

Does political alignment affect the pricing of bank loans? At the outset, this is unlikely as loan applications and disbursement are managed by individual branches, but interest rates are determined at the level of the district (Fisman et al., 2017). Individual branches thereby have limited leeway in adjusting the price of loans. Consistent with our expectations, columns (6) of Appendix Table B16

[42] Replacing the outcome variable with loans from commercial banks leads to the uninteracted *Align Win* term being statistically significant at the 10% level (p-value .052), with the precision of the triple interaction term falling further (.540), indicating no differential effect. This (unreported) result further substantiates our contention that our results are driven by the legislators aligned with the state ruling party, as opposed to federal alignment.

show political alignment to have no impact on the cost of credit.

7 Political Alignment and Asset Prices

As housing loans was the primary purpose for which households borrowed in response to political alignment, we conclude our empirical analysis by considering the impact of political alignment on asset prices. The AIDIS has extensive information on households' ownership of real estate, including both property values, and the area of property owned. Identifying the impact of political alignment on asset prices also allows us to understand the broader impacts of political alignment on the local economy, with home values serving as a possible summary statistic for local amenities (Beach et al., 2024).

Housing loans in the AIDIS include both loans obtained to purchase new properties, and also loans to upgrade existing properties. If political alignment facilitated the purchase of new properties through improved access to housing credit, we would expect an increase in both the area and the value of real estate owned by households. Combining residential land and buildings, column (1) of Table 6 shows that the marginal legislator aligned with the ruling party results in a statistically significant 4 percent increase in the value of residential land and buildings owned by the household. Columns (2)-(3) show no change in the value of farm and non-farm buildings owned. Importantly, columns (4)-(6) show that the shock to political alignment leaves unaffected the area of housing assets owned. In line with residential real estate accounting for half of overall household assets, column (7) finds the marginal legislator aligned with the ruling party to generate a 3 percent increase in overall household assets.

While the impact of the marginal legislator on household real estate is very similar to the impact on household bank borrowings in percentage terms, it is 5 times larger in rupee terms. This indicates that the increase in residential asset values is not solely fueled by the increase in bank credit. In the absence of an expansion in the area of real estate owned, households are possibly using housing loans to upgrade the quality of existing structures, which can result in higher asset values. A second factor would be an overall improvement in civic amenities and local development as an upshot of political alignment. Novosad and Asher (2017) document that firms in politically aligned areas exhibited higher stock market returns, while night-lights based economic growth too was higher in such areas. Higher local growth can result in an overall appreciation in local asset prices, independent of the increase in bank credit. Consequently, comparing the coefficients in Table 1 and Table 6, we can as a conservative estimate attribute a fifth of the aggregate increase in residential real estate values in response to a positive shock to local political alignment to the expansion in bank borrowings.

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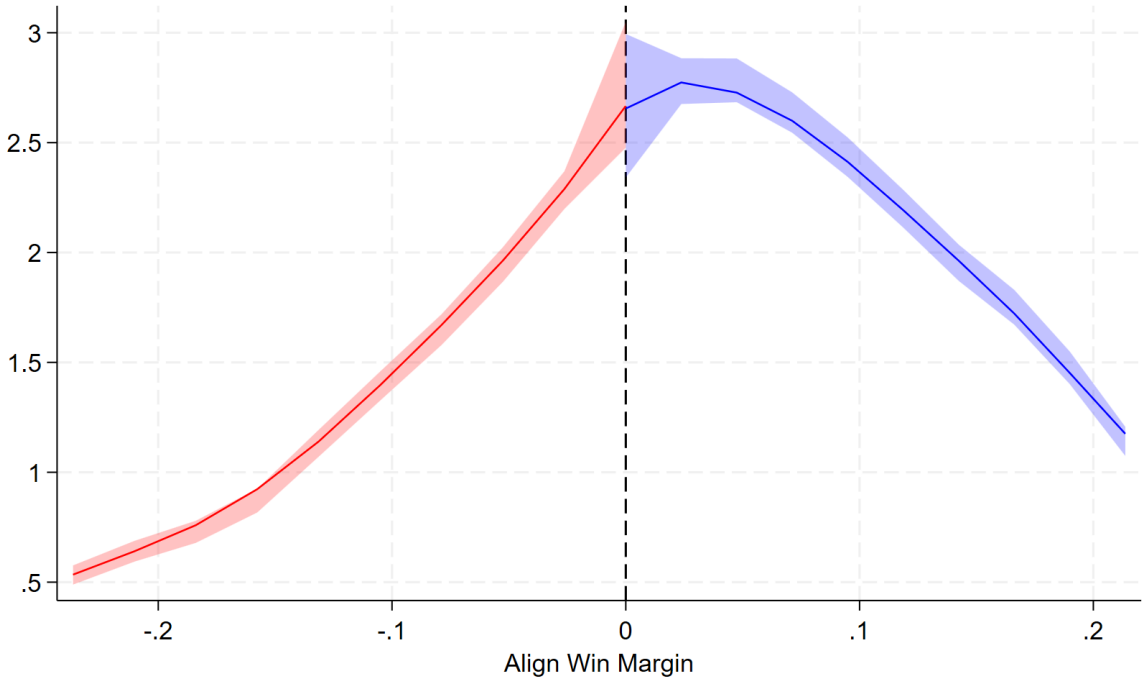
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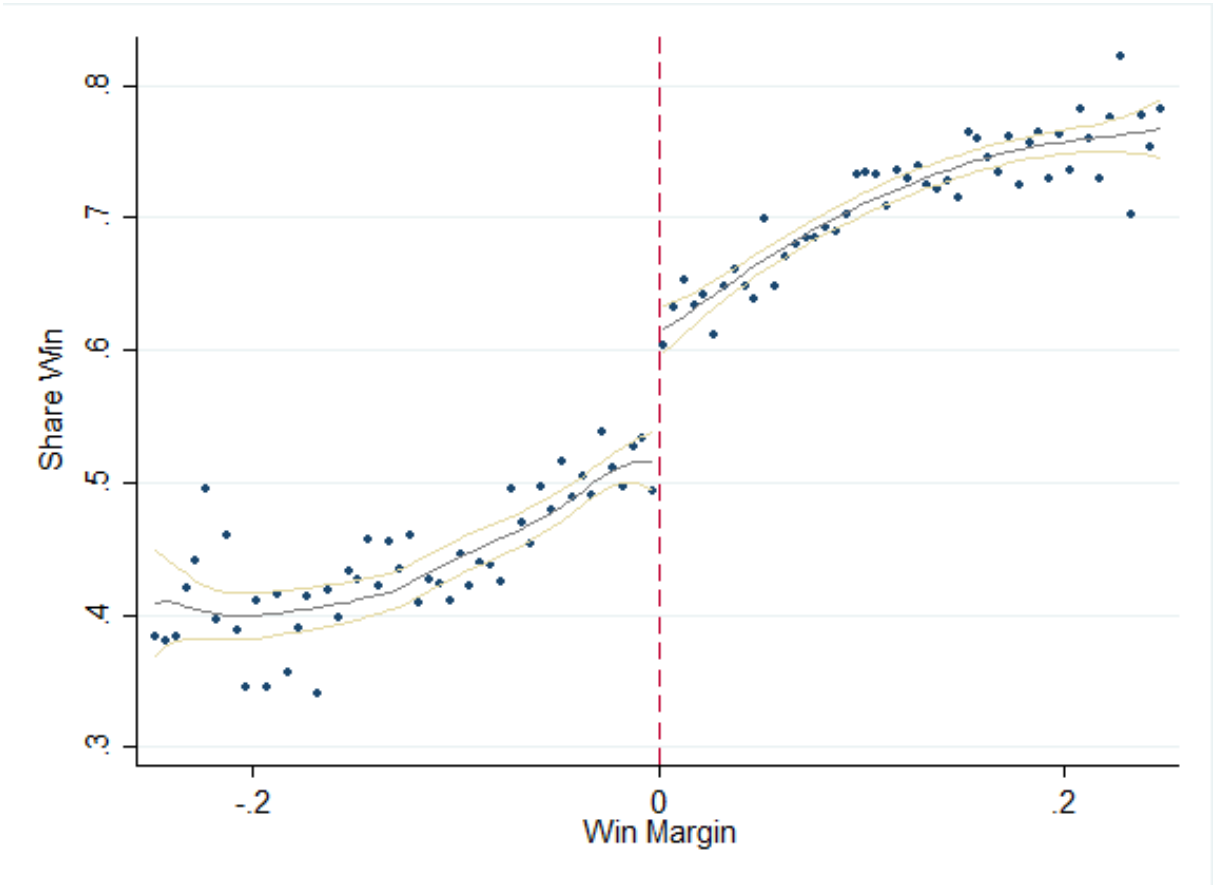
8 Figures

Figure 1: Testing for Discontinuity in Ruling Party Victory Margin



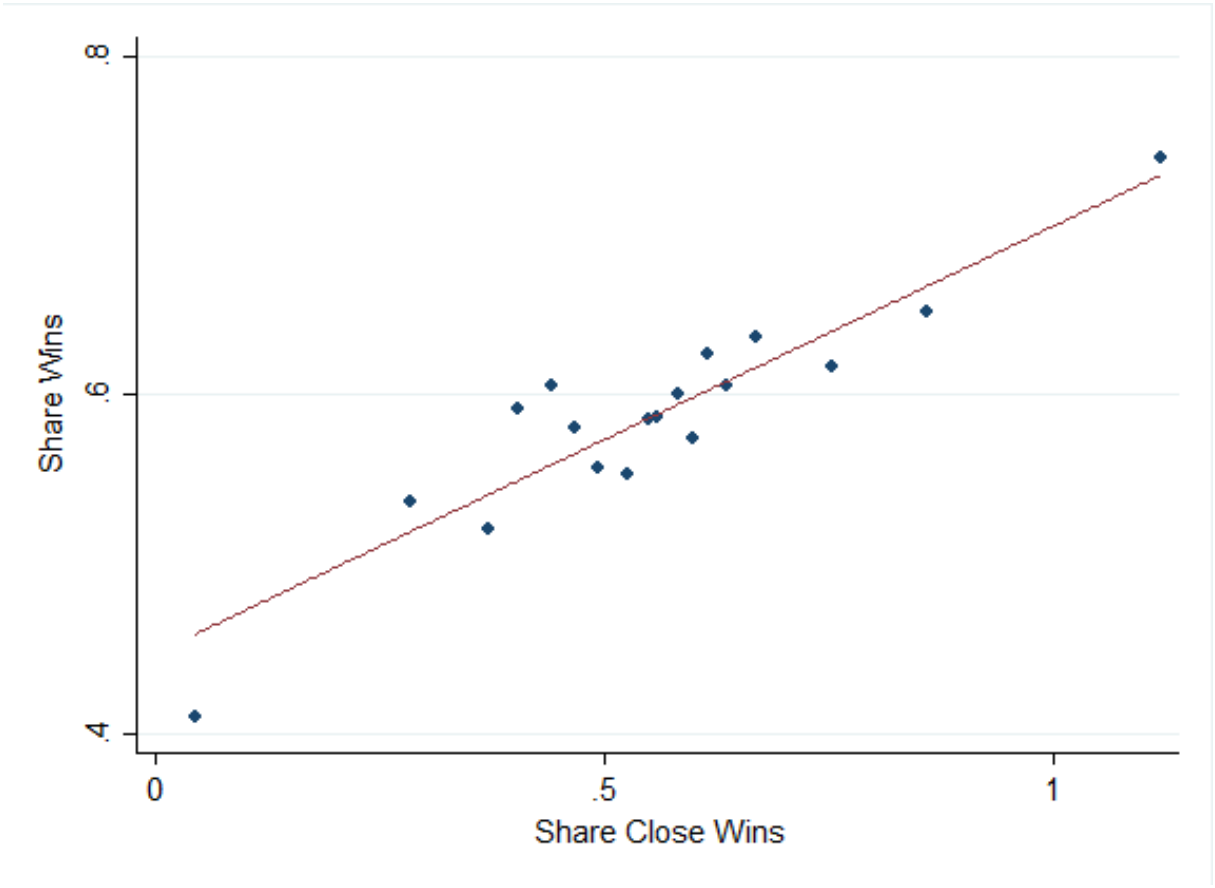
Notes: The above figure visually depicts the McCrary density test testing for a discontinuity in the victory margin of the ruling party (McCrary, 2008). The shared region depicts 95% confidence intervals. The p-value for the null hypothesis of no discontinuity at 0 is .670.

Figure 2: Distribution of Ruling Party Victory Margin and Share of Wins



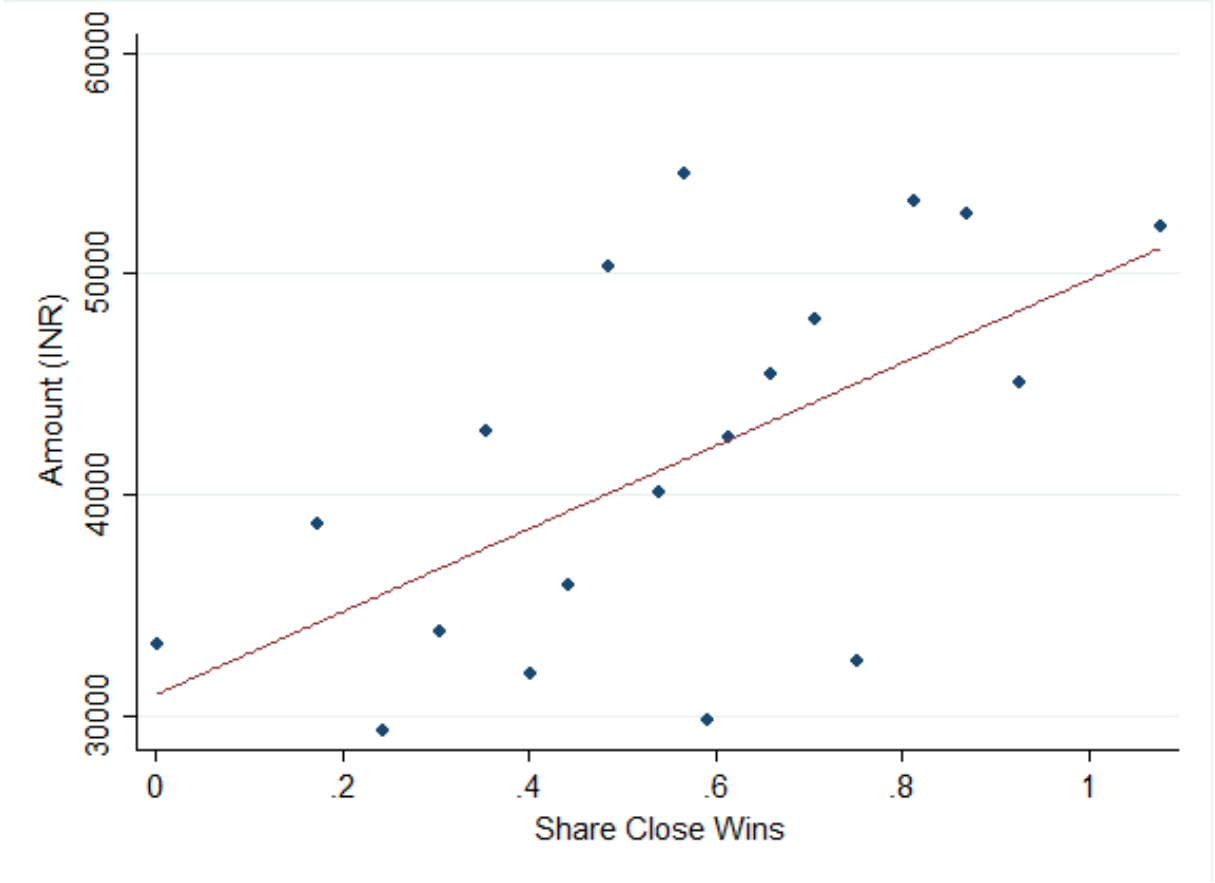
Notes: The above figure plots victory margin for the ruling party against the share of wins for the ruling party in a district. The horizontal axis is divided into 50 equally spaced intervals between victory margins of -0.25 and 0.25. Each point depicts the the unconditional share of wins for the ruling party across districts, corresponding to that interval. The vertical line shows the victory margin of 0 when the outcome flips from a ruling party defeat to a ruling party victory. 95% confidence intervals are plotting on either side of the threshold 0.

Figure 3: Predicting Ruling Party Wins with Ruling Party Close Wins



Notes: The above figure plots the first stage relationship between the share of elections won by the ruling party in a district, and the share of close elections won by the ruling party in the district. The unit of observation is the district and the relationship conditions on district dummies. The horizontal axis is the share of close elections won by the ruling party. The vertical axis is the share of elections won by the ruling party. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

Figure 4: Political Alignment and Household Bank Borrowings: Reduced Form Relationship



Notes: The above figure plots the reduced form relationship between household borrowings and the share of close elections won by the ruling party. The unit of observation is the household and the relationship conditions on district dummies. The horizontal axis is the share of close elections won by the ruling party in a district. The vertical axis is the value of household borrowings from commercial and co-operative banks. Each point represents average household bank borrowings for the corresponding share of close elections won by the ruling party. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

9 Tables

Table 1: Political Alignment and Bank Credit: Baseline IV Estimates

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	All Banks		Commercial Banks		Co-Operative Banks	
Align Win	53757.436**	61169.707***	43178.595**	50212.162**	10578.841*	10957.544*
	(21744.760)	(21561.905)	(19941.773)	(20237.510)	(5889.586)	(5712.616)
Observations	318062	316934	318062	316934	318062	316934
Dep. Var. Mean	42339.85	42339.85	32496.98	32496.98	9842.873	9842.873
Covariates	N	Y	N	Y	N	Y

Notes: This table shows the impact of political alignment on households' access to bank credit. The unit of observation is the household. The outcome of interest is credit from banking institutions. Columns (1) and (2) consider both commercial and co-operative bank loans; columns (3) and (4) consider commercial bank loans; columns (5) and (6) consider co-operative bank loans. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, and also include district and election year fixed effects. Columns (2), (4) and (6) also include district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 2: Political Alignment and Household Bank Borrowing: Heterogeneity by State-Owned Bank Network

	(1)	(2)	(3)	(4)
	Bank Credit Amount (INR)			
Align Win	2719.565	65314.747**	-9019.577	100344.822***
	(15384.913)	(30456.596)	(13525.698)	(33111.318)
High Bank × Align Win	90740.923**			
	(41170.663)			
High SBI × Align Win		-27361.355		
		(41209.881)		
High Nationalised Bank × Align Win			147872.017***	
			(56220.999)	
High Regional Bank × Align Win				-115072.476***
				(43511.589)
Observations	318062	318062	318062	318062
Dep. Var. Mean	42339.85	42339.85	42339.85	42339.85

Notes: This table shows the heterogeneity in the impact of political alignment on bank credit across districts' concentration of state-owned banks. The unit of observation is the household. The outcome of interest is outstanding loan amount from commercial and co-operative banks. *High Bank* is a dummy equaling 1 if the district had a relatively high density of state-owned bank branches in 1992; *High SBI* is a dummy equaling 1 if the district had a relatively high density of bank branches operated by the State Bank of India in 1992; *High Nationalized* is a dummy equaling 1 if the district had a relatively high density of non-SBI nationalized bank branches in 1992; *High RRB* is a dummy equaling 1 if the district had a relatively high density of regional rural bank branches in 1992. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 3: Political Alignment and Household Bank Borrowing: Separating Credit Demand from Credit Supply

Panel A: Supply					
	(1)	(2)	(3)	(4)	(5)
	Loan Amount (INR)				
	All		Non Housing	Non Exp.	Drop Large
Bank × Align Win	195597.580***		143119.260***	163142.576**	116809.982***
	(71624.554)		(45424.013)	(73692.157)	(34627.159)
Comm. Bank × Align Win		295211.831***			
		(92925.789)			
Observations	74303	52410	49652	17264	69048
Dep Var Mean	74994.50	77169.54	67784.47	93593.51	59618.90
Panel B: Demand and Supply					
	(1)	(2)	(3)	(4)	(5)
	Loan Amount (INR)				
	All		Non Housing	Non Exp.	Drop Large
Bank × Align Win	231375.298***		150524.156***	179773.578**	110981.717***
	(85550.199)		(48526.185)	(81319.992)	(33083.071)
Comm. Bank × Align Win		328383.580***			
		(117504.623)			
Align Win	-76098.530*	-106055.150**	-41136	-15890.009	-53012.060***
	(44446.738)	(50609.061)	(31084.492)	(73300.289)	(20204.633)
Observations	74303	52410	49652	17264	69048
Dep Var Mean	74994.50	77169.54	67784.47	93593.51	59618.90

Notes: This table shows political alignment affects household bank borrowings by increasing the supply of bank credit, as opposed to higher demand for bank loans. The unit of observation is the household. The outcome of interest is the loan size. The sample is restricted to households an outstanding loan from both a bank, and a non-bank. The specifications in Panel A conditions on household credit demand by including household fixed effects. The specifications in Panel B includes both supply and demand side effects, and includes district and year fixed effects. *Non Housing* in column (3) excludes loans obtained for the purpose of housing; *Non Exp.* in column (4) limits the sample to farm loans and loans taken for the purpose of non-farm business. Column (5) excludes the top 5% of loan values from the sample. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, along with district and household covariates. All specifications are weighted using AIDIS assigned household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 4: Political Alignment and Credit Quality

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Delinquent Loan Amount (INR)				Pr(Any Delinquent Loan = 1)			
	All Banks	Commercial Banks	Co-Operative Banks	Non Bank	All Banks	Commercial Banks	Co-Operative Banks	Non Bank
Align Win	3003.222	-5822.316	-5955.938	10646.602	-.004	-.021	-.193	-.167
	(22057.487)	(15877.341)	(43834.802)	(21023.057)	(.103)	(.088)	(.193)	(.118)
Observations	93225	63602	33139	80683	90658	61633	32257	78381
Control Mean	41038.13	39899.22	37529.72	34609.55	.423	.363	.517	.425

Notes: This table shows the impact of political alignment on credit quality. The unit of observation is the household. The outcome of interest in columns (1)-(4) is the value of delinquent loans; in columns (5)-(8), a binary equaling 1 if the household has a delinquent loan at the time of survey. The value of delinquent loans is computed as the sum of outstanding amount on all delinquent loans for the household. Columns (1) and (5) consider loans from commercial or a co-operative banks; column (2) and (6) consider loans from commercial banks; column (3) and (7) consider loans from co-operative banks; column (4) and (8) consider loans from non-bank lenders. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 5: Political Alignment and Dispersion in Loan Size

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Var(Loan Size)							
	Commercial and Co-Operative Banks			Commercial Bank		Co-Operative Banks	Non-Bank	
	All	Non Expenditure	Drop Large	All	Non Expenditure	All	NBFC	Informal
Align Win	257975.834**	118040.049	45771.138	163862.097*	173568.159*	98218.304	-101647.850	-31803.631*
	(107250.178)	(76722.889)	(22989.799)	(89315.179)	(100387.864)	(72280.382)	(113621.088)	(17628.131)
Observations	1076	1074	1076	1075	1067	983	859	1069
Dep. Var. Mean	120124.36	108429.25	53807.379	146969.82	129937.48	76652.61	164147.31	32502.38

Notes: This table shows the impact of political alignment on the disperion in loan sizes. The unit of observation is the district. The outcome of interest is the standard deviation in loan size. Columns (1)-(3) include all loans from commercial and co-operative banks; columns (3) and (4) only include commercial bank loans; column (5) only includes co-operative bank loans; column (6) includes loans issued by non-bank financial corporations (NBFCs); column (7) includes loans issued by informal lenders. Columns (2) and (4) only consider farm loans and loans taken for the purpose of non-farm business. Column (3) excludes the top 5 percent of bank loans in terms of size. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district covariates. Regressions are weighted using the district's population. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 6: Political Alignment and Residential Real Estate

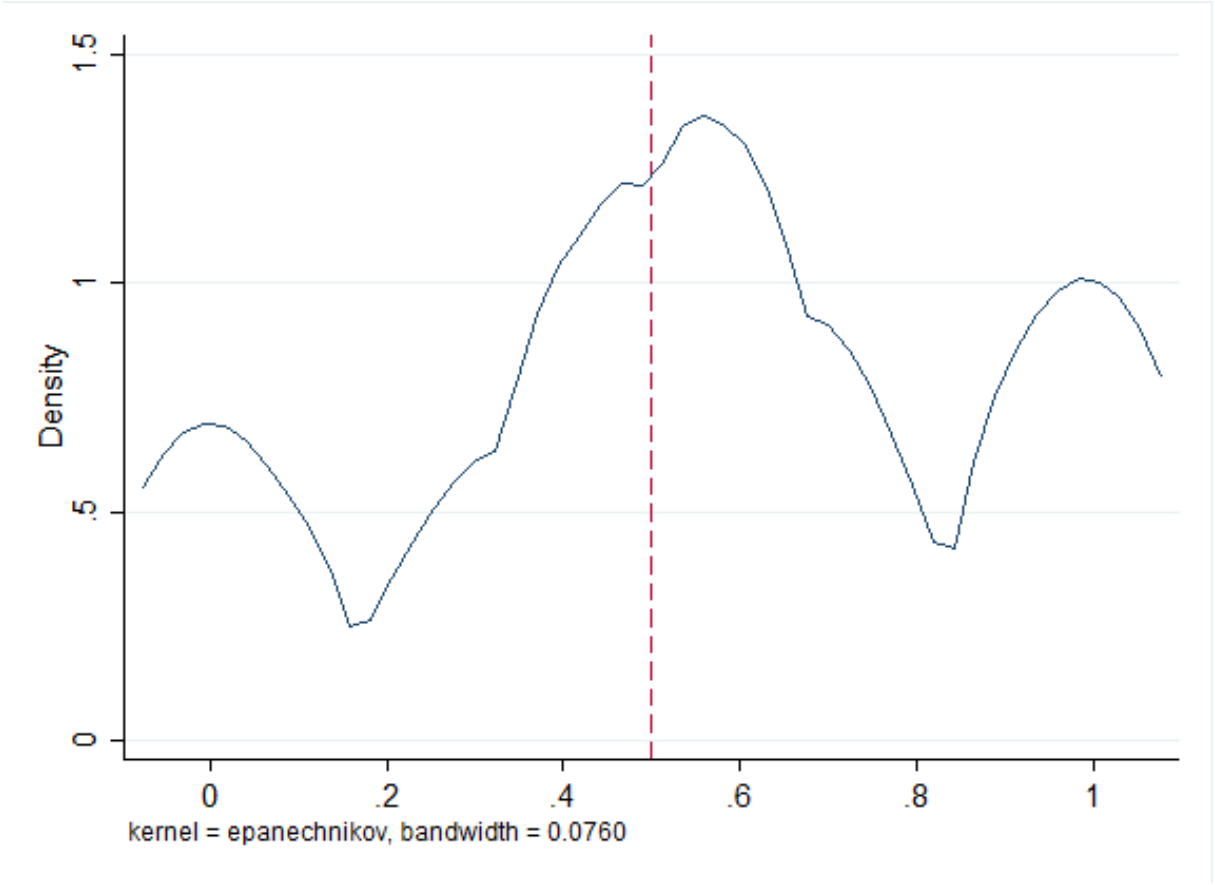
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Real Estate Values (INR)			Real Estate Area (Sq. Ft.)			Assets (INR)
	Residential	Farm	Non Farm	Residential	Farm	Non Farm	Household Assets
Align Win	268581.469**	-1343.083	1096.881	3.010	.063	.059	550562.047**
	(131371.321)	(2804.889)	(7543.769)	(20.375)	(1.667)	(1.600)	(273521.147)
Observations	315073	315073	315073	315073	315073	315073	315073
Dep. Var. Mean	590756.828	7063.880	9959.902	100.348	5.154	1.184	1223805.308

Notes: This table shows the impact of political alignment on real estate values. The unit of observation is the household. The outcome of interest in columns (1)-(3) is the value of real-estate owned; in columns (4)-(6), the square footage of real estate owned; in column (7), the value of household assets. Columns (1) and (4) consider residential real estate; columns (2) and (5) consider farm buildings; columns (3) and (6) consider non-farm buildings. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

A Appendix: Balance Checks

A.1 Figures

Figure A1: Distribution of Share of Close Wins



Notes: The above figure shows the distribution of close wins for the ruling party in a district, as a share of close elections contested by the ruling. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

Figure A2: Expected and Actual Close Wins for Ruling Party



Notes: The above figure plots expected and actual number of close wins for the ruling party in a district. Expected close wins is defined as half the number of close elections contested by the ruling party in the district. The broken line shows the best linear fit; the unbroken line depicts the 45 degree line when actual close wins equal expected close wins. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

A.2 Tables

Table A1: Do Electoral Covariates Predict the Number of Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
				Number of Close Wins			
# Close Elections	.510***	.545***	.543***	.545***	.546***	.543***	.545***
	(.047)	(.057)	(.058)	(.057)	(.058)	(.057)	(.059)
Turnout			.475				
			(.921)				
Reserved Seats				-.099			
				(.687)			
Effective Parties					-.060		
					(.106)		
Candidate						.013	
						(.030)	
Electors							-.000
							(.000)
Observations	1076	1076	1076	1076	1076	1076	1076
Indep. Var. Mean	1.00	1.00	.64	.24	2.09	11.51	3314500
H_0 : *# Close Elections* = 0.5 (*p-val*):	.83	.44	.46	.43	.43	.45	.44

Notes: This table shows that the number of close wins for the ruling party in a district is not predicted by district electoral characteristics. All specifications control for the number of close elections contested by the ruling party in the district. Column (1) includes no controls; columns (2)-(7) include district and election year fixed effects. *Turnout* refers to district voter turnout; *Effective Parties* refer to effective number of parties contesting elections in the district. All specifications are weighted by the district population. The bottom row of the table shows p-values from testing the null hypothesis that the coefficient corresponding to the number of close elections contested by the ruling party equals 0.5. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A2: Do Demographic Covariates Predict Number of Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	No. of Close Wins								
# Close Elections	.545***	.545***	.544***	.545***	.544***	.545***	.545***	.545***	.543***
	(.058)	(.058)	(.057)	(.057)	(.058)	(.057)	(.057)	(.057)	(.058)
Rural	-.906								
	(.877)								
Female Head		.129							
		(2.572)							
SC			.416						
			(.787)						
ST				.469					
				(.967)					
OBC					-.207				
					(.516)				
Hindu						-.335			
						(.798)			
Muslim							.008		
							(.826)		
Household Size								.017	
								(.087)	
Female Head									1.513
									(1.858)
Observations	1076	1076	1076	1076	1076	1076	1076	1076	1076
Indep. Var. Mean	.74	.49	.19	.08	.42	.83	.12	4.59	.07
H_0 : *# Close Elections* $= 0.5$ (*p-val*):	.44	.44	.44	.44	.44	.44	.44	.44	.44

Notes: This table shows that the number of close wins for the ruling party in a district is not predicted by district demographic characteristics. All specifications control for the number of close elections contested by the ruling party in the district as well as district and election year fixed effects. *Female Head* is the share of female headed households in the district. All specifications are weighted by the district population. The bottom row of the table shows p-values from testing the null hypothesis that the coefficient corresponding to the number of close elections contested by the ruling party equals 0.5. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A3: Do District Economic Covariates Predict Number of Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	No. of Close Wins											
# Close Elections	.545***	.545***	.545***	.545***	.545***	.545***	.544***	.545***	.545***	.545***	.544***	.546***
	(.057)	(.057)	(.057)	(.057)	(.058)	(.058)	(.058)	(.056)	(.057)	(.058)	(.058)	(.057)
Literate	-.394											
	(.763)											
Secondary Educated		-1.473										
		(1.027)										
LFP			-.085									
			(.881)									
Self Employed				.819								
				(.759)								
Salaried Workers					.264							
					(1.206)							
Unemployment						1.003						
						(3.236)						
Farm							-.282					
							(.721)					
Manufacturing								.280				
								(1.929)				
Trade									-.219			
									(1.580)			
Services										.062		
										(1.137)		
Construction											.296	
											(1.257)	
Consumption												-.000
												(.000)
Observations	1076	1076	1076	1076	1076	1076	1076	1076	1076	1076	1076	1076
Indep. Var. Mean	.63	.39	.65	.33	.15	.02	.54	.11	.09	.16	.08	1045.75
# Cl. Elections = 0.5 (p-val):	.44	.43	.44	.43	.44	.45	.42	.43	.44	.44	.44	.42

Notes: This table shows that the number of close wins for the ruling party in a district is not predicted by district economic characteristics. All specifications control for the number of close elections contested by the ruling party in the district in addition to district and election year fixed effects. *Literate* and *Secondary Educated*. refers to the share of adults aged between 15-60 who are literate, or have completed secondary education; *Self-Employment*, *Salaried Workers*, *Unemployment*, *Farm*, *Manufacturing*, *Trade*, *Services* and *Construction* are expressed as a share of working-aged adults participating in the labour force. *Consumption* is average monthly per capita consumption for households in the district. All specifications are weighted by the district population. The bottom row of the table shows p-values from testing the null hypothesis that the coefficient corresponding to the number of close elections contested by the ruling party equals 0.5. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A4: Do Electoral Covariates Predict Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Share Close Wins								
Turnout	.049								
	(.275)								
Reserved Seats		-.360							
		(.305)							
Effective Parties			-.065*						
			(.036)						
Candidate				-.002					
				(.010)					
Federal Aligned					.060				
					(.049)				
INC Winner						-.019			
						(.054)			
BJP Winner							.010		
							(.058)		
Share Wins, Lag								.089	
								(.073)	
Close Win, Lag									-.026
									(.052)
Observations	1079	1079	1079	1079	1079	1079	1079	1079	1079
Indep. Var. Mean	.64	.24	2.09	11.53	.51	.32	.35	.59	.38

Notes: This table shows that the share of close wins for the ruling party in a district is not predicted by district electoral characteristics. All specifications control for the share of close elections contested by the ruling party in the district in addition to district and election year fixed effects. *Turnout* refers to district voter turnout; *Reserved Seats* is the share of constituencies reserved for SC or ST candidates; *Effective Parties* refer to effective number of parties contesting elections in the district; *Candidates* is average number of candidates contesting elections; *Federal Aligned* is whether the state ruling party is also the ruling party in the federal government; *INC Winner* is whether the state ruling party is the Indian National Congress (INC); *BJP Winner* is whether the state ruling party is the Bharatiya Janata Party (BJP) *Share Wins, Lag* is the share of wins for the ruling party in the district in the previous electoral cycle; *Share Close Wins, Lag* is the share of close wins for the ruling party in the previous electoral cycle. All specifications are weighted by the district population. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A5: Do District Demographic Factors Predict Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Share Close Wins								
Rural	-.430								
	(.295)								
Female		.232							
		(.894)							
SC			.184						
			(.289)						
ST				.079					
				(.358)					
OBC					.242				
					(.179)				
Hindu						-.081			
						(.281)			
Muslim							.037		
							(.309)		
Household Size								.021	
								(.034)	
Female Head									.282
									(.501)
Observations	1079	1079	1079	1079	1079	1079	1079	1079	1079
Indep. Var. Mean	.74	.49	.19	.08	.42	.83	.12	4.59	.07

Notes: This table shows that the share of close wins for the ruling party in a district is not predicted by district demographic characteristics. All specifications control for the share of close elections contested by the ruling party in the district in addition to district and election year fixed effects. *Female Head* is the share of female headed households in the district. All specifications are weighted by the district population. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A6: Do District Economic Factors Predict Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Share Close Wins											
Literate	-.408											
	(.275)											
Secondary Educated		-.640**										
		(.293)										
LFP			.465									
			(.297)									
Self Employed				-.024								
				(.326)								
Salaried Workers					.210							
					(.482)							
Unemployment						.143						
						(1.041)						
Farm							.137					
							(.210)					
Manufacturing								-.198				
								(.573)				
Trade									-.405			
									(.573)			
Services										.071		
										(.391)		
Construction											-.321	
											(.485)	
Consumption												-.000
												(.000)
Observations	1079	1079	1079	1079	1079	1079	1079	1079	1079	1079	1079	1079
Indep. Var. Mean	.63	.39	.65	.33	.15	.02	.53	.11	.09	.16	.08	1049.70

Notes: This table shows that the share of close wins for the ruling party in a district is not predicted by district demographic characteristics. All specifications control for the share of close elections contested by the ruling party in the district in addition to district and election year fixed effects. *Literate* and *Secondary Educated*. refers to the share of adults aged between 15-60 who are literate, or have completed secondary education; *Self-Employment*, *Salaried Workers*, *Unemployment*, *Farm*, *Manufacturing*, *Trade*, *Services* and *Construction* are expressed as a share of working-aged adults participating in the labour force. *Consumption* is average monthly per capita consumption for households in the district. All specifications are weighted by the district population. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A7: Do District Banking Characteristics Predict Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Share Close Wins							
Bank Branch	-1125.845*							
	(622.506)							
State-Owned Bank Branch		-1831.535**						
		(802.351)						
Private Bank Branch			-617.464					
			(1889.345)					
Deposits				-.000				
				(.000)				
Total Loans					-.000			
					(.000)			
Farm Loans						-.013		
						(.008)		
Manufacturing Loans							-.000	
							(.000)	
Personal Loans								.001
								(.001)
Observations	1079	1079	1079	1079	1079	1079	1079	1079
Indep. Var. Mean	.00	.00	.00	30.88	23.55	3.32	8.64	4.52

Notes: This table shows that the share of close wins for the ruling party in a district is not predicted by district demographic characteristics. All specifications control for the share of close elections contested by the ruling party in the district in addition to district and election year fixed effects. All independent variables are scaled by district population. All specifications are weighted by the district population. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table A8: Comparing Candidate Characteristics Across Close and Non-Close Elections

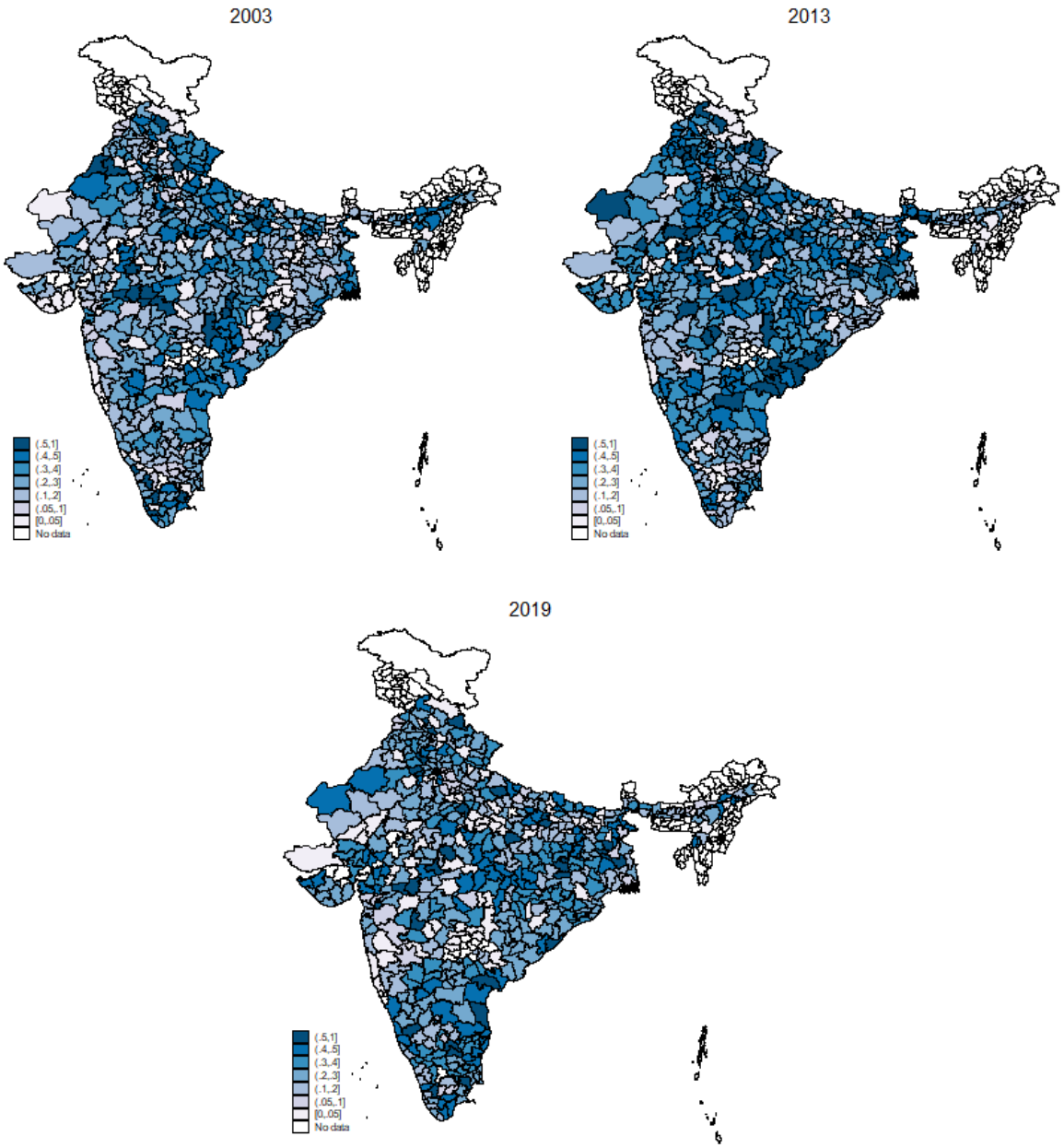
					Panel A: Top 3 Candidates					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Male	Age	Seced.	College	Assets (Log)	Liabilities (Log)	Any Crime	Crimes	Any Conviction	Convictions
Close, 5pc	.006	-.206	.002	-.003	.032	-.003	.001	-.027	.008	.422*
	(.006)	(.220)	(.006)	(.010)	(.032)	(.057)	(.011)	(.061)	(.009)	(.254)
Observations	21562	21509	20551	20551	20551	12365	20551	20551	20237	20237
R^2	.33	.35	.37	.36	.60	.52	.38	.44	.46	.39
Control Mean	.912	49.463	.902	.352	15.871	13.781	.336	1.366	.163	2.783
					Panel B: All Candidates					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Male	Age	Seced.	College	Assets (Log)	Liabilities (Log)	Any Crime	Crimes	Any Conviction	Convictions
Close, 5pc	.001	.061	-.013**	.004	.049	.029	.010	-.001	.009	.321*
	(.005)	(.195)	(.007)	(.008)	(.034)	(.048)	(.008)	(.042)	(.006)	(.165)
Observations	34930	34799	33060	33060	33060	18214	33060	33060	32666	32666
R^2	.21	.21	.22	.24	.43	.40	.26	.35	.35	.28
Control Mean	.915	47.826	.862	.312	15.212	13.516	.285	1.034	.132	2.207

Notes: This table compares observable characteristics across candidates contesting close elections. The unit of observation is the electoral constituency. An election is deemed close if the margin of victory is less than 5 percent of the votes cast. The outcome of interest in columns (1), (3), (4), (7) and (9) are binaries. *Seced.* refers to candidates who have completed secondary education. *Crimes* refer to criminal cases lodged against candidates; *Conviction* refers to whether the candidate has been convicted in a criminal case. All specifications include constituency and district-year fixed effects, in addition to constituency and candidate covariates. All specifications are weighted using the number of registered voters in the constituency. Standard errors in parentheses, clustered by constituency. Significant levels: *10%, **5%, and ***1%

B Appendix: Additional Results

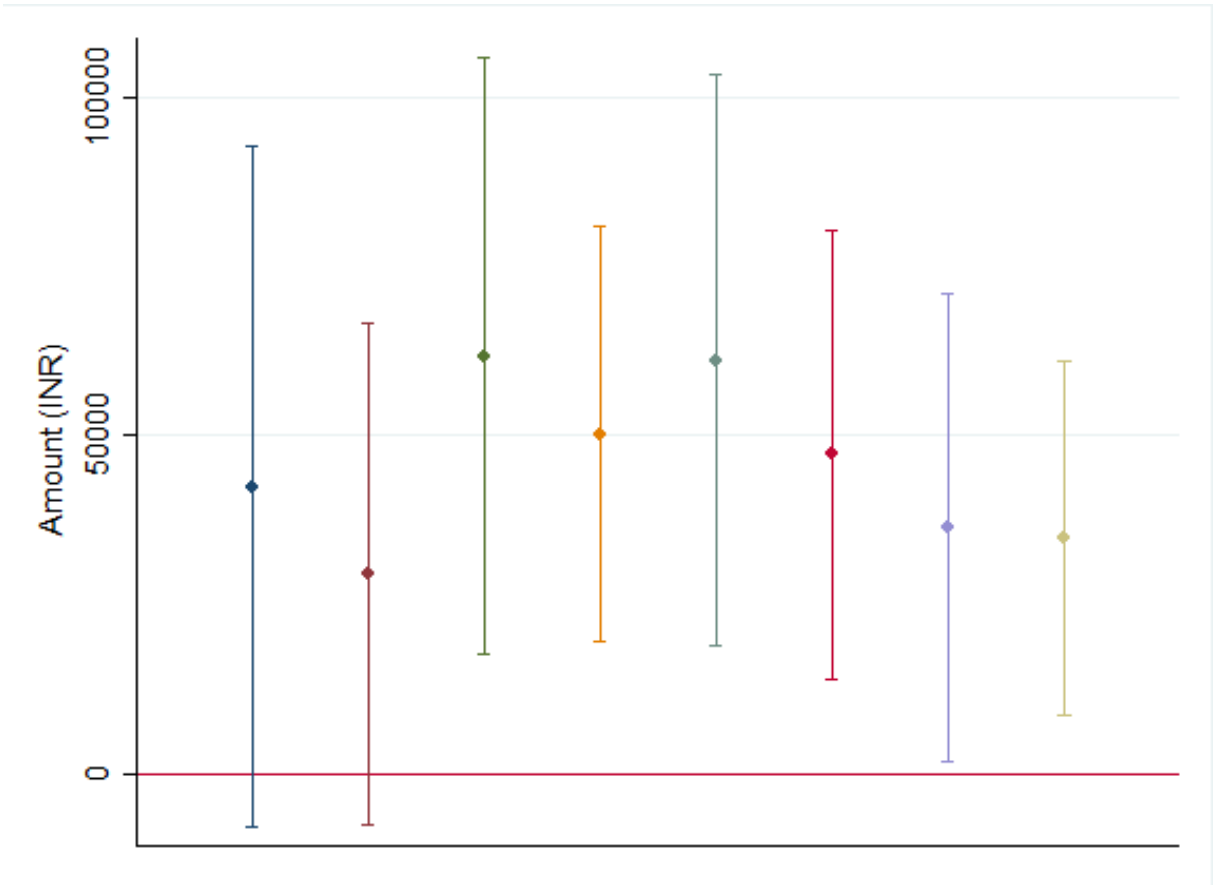
B.1 Figures

Figure B1: Geographical Distribution of Close Elections Involving Ruling Party



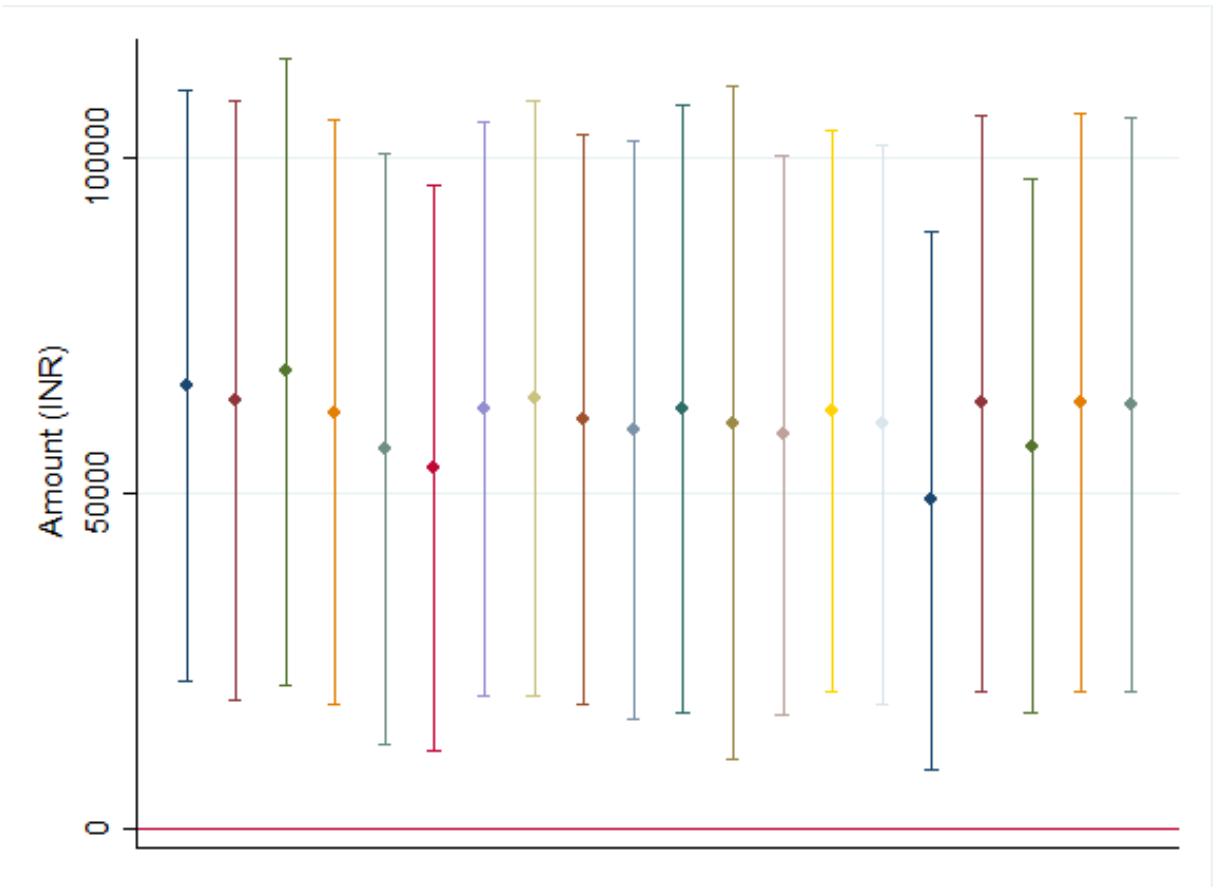
Notes: The above figures show the geographical distribution of close elections involving the ruling party in 2003, 2013 and 2019. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

Figure B2: Robustness to Alternate Thresholds of Close Elections



Notes: This figure shows robustness of the baseline results in Table 1 to alternate thresholds of close elections. The unit of observation is the household. The share of elections won by the ruling party is instrumented by the share of close elections won by the ruling party. All specifications include district and year fixed effects, the share of close elections contested by the ruling party, and district and household covariates. The vertical lines show 95% confidence intervals. The first coefficient corresponds to close elections being defined as races determined by less than 3 percent of the votes cast. Subsequent regressions increase the threshold by a margin of 0.5. The last regression considers an election to be close if the outcome is determined by a margin less than 6.5 percent of the votes cast. Standard errors are clustered by the district.

Figure B3: Robustness to Dropping Individual States



Notes: This figure shows robustness of the baseline results in Table 1 to dropping individual states. The unit of observation is the household. The share of elections won by the ruling party is instrumented by the share of close elections won by the ruling party. All specifications include district and year fixed effects, the share of close elections contested by the ruling party, and district and household covariates. One state is dropped from the sample in each specification. The vertical lines show 95% confidence intervals. Standard errors are clustered by the district.

B.2 Tables

Table B1: Mapping AIDIS Rounds to State Electoral Cycles

State	Survey Round	Election Year
Andhra Pradesh	59	1999
Andhra Pradesh	70	2009
Andhra Pradesh	77	2014
Assam	59	2001
Assam	70	2011
Assam	77	2016
Bihar	59	2000
Bihar	70	2010
Bihar	77	2015
Chhattisgarh	59	1998
Chhattisgarh	70	2008
Chhattisgarh	77	2013
Gujarat	59	1998
Gujarat	70	2007
Gujarat	77	2017
Haryana	59	2000
Haryana	70	2009
Haryana	77	2014
Himachal Pradesh	59	1998
Himachal Pradesh	70	2007
Himachal Pradesh	77	2017
Jharkhand	59	2000
Jharkhand	70	2009
Jharkhand	77	2014
Karnataka	59	1999
Karnataka	70	2008
Karnataka	77	2013
Kerala	59	2001
Kerala	70	2011
Kerala	77	2016
Madhya Pradesh	59	1998
Madhya Pradesh	70	2008
Madhya Pradesh	77	2013
Maharashtra	59	1999
Maharashtra	70	2009
Maharashtra	77	2014
Orissa	59	2000
Orissa	70	2009
Orissa	77	2014
Punjab	59	2002
Punjab	70	2012
Punjab	77	2017
Rajasthan	59	1998
Rajasthan	70	2008
Rajasthan	77	2013
Tamil Nadu	59	2001
Tamil Nadu	70	2011
Tamil Nadu	77	2016
Telengana	77	2014
Uttarakhand	59	2002
Uttarakhand	70	2012
Uttarakhand	77	2017
Uttar Pradesh	59	2002
Uttar Pradesh	70	2012
Uttar Pradesh	77	2017
West Bengal	59	2001
West Bengal	70	2011
West Bengal	77	2016

Notes: This table shows the mapping of AIDIS survey rounds to election years.

Table B2: Summary Statistics: Household Loan Characteristics

	N	Mean	SD
Bank Loan Amount	318062	39967.379	210503.075
Commercial Bank Loan Amount	318062	30081.240	195015.834
Co-operative Bank Loan Amount	318062	9886.139	75627.916
NBFC Loan Amount	318062	4004.480	53587.500
Informal Loan Amount	318062	14878.077	58991.814
Total Loan Amount	318062	61556.126	237798.531
Any Bank Loan	318062	0.216	0.412
Any Commercial Bank Loan	318062	0.144	0.351
Any Co-operative Bank Loan	318062	0.083	0.276
Any NBFC Loan	318062	0.033	0.180
Any Informal Loan	318062	0.234	0.424
Any Loan	318062	0.418	0.493
Farm Loan Amount	318062	10253.958	69550.500
Non-Farm Business Loan Amount	318062	4202.468	69503.337
Household Expenditure Loan Amount	318062	21715.831	173963.017
Any Delinquent Bank Loan	64382	0.197	0.398
Any Delinquent Commercial Bank Loan	48069	0.197	0.398
Any Delinquent Co-operative Bank Loan	18096	0.191	0.393
Any Delinquent NBFC Loan	13151	0.047	0.211
Any Delinquent Informal Loan	51025	0.279	0.448
Any Delinquent Loan	120493	0.222	0.416
Interest Rate, Bank Loan	93248	0.112	0.048
Interest Rate, Commercial Bank Loan	63636	0.111	0.049
Interest Rate, Co-operative Bank Loan	33126	0.112	0.049
Interest Rate, NBFC Loan	15147	0.166	0.086
Interest Rate, Informal Loan	121964	0.211	0.214
Interest Rate	187088	0.177	0.179

Notes: This table shows the summary statistics for household loan characteristics from three rounds of the AIDIS, conducted in 2003, 2013 and 2019. The unit of observation is the household. All estimates are weighted using AIDIS provided household weights.

Table B3: Summary Statistics: Electoral Characteristics

	N	Mean	SD
Total Elections	1083	13.802	8.746
Registered Voters	1083	3033011.678	2142921.436
Candidates	1083	11.124	4.142
Effective Number of Parties	1083	2.318	1.554
Share of Reserved Seats	1083	0.237	0.171
Turnout	1083	0.655	0.113
Share of Align Wins	1083	0.597	0.257
Ruling Party Vote Share	1083	0.389	0.097
Aligned Close Elections, 3pc	1083	0.159	0.129
Aligned Close Elections, 4pc	1083	0.207	0.144
Aligned Close Elections, 5pc	1083	0.258	0.165
Aligned Close Elections, 6pc	1083	0.305	0.179
Aligned Close Wins, 3pc	1083	0.415	0.388
Aligned Close Wins, 4pc	1083	0.469	0.373
Aligned Close Wins, 5pc	1083	0.502	0.354
Aligned Close Wins, 6pc	1083	0.524	0.336

Notes: This table shows the summary statistics for electoral characteristics between 1996 and 2018. The unit of observation is the district. All estimates are weighted using the district population.

Table B4: Political Alignment and Bank Credit: First Stage Corresponding to Baseline IV Estimates

	(1)	(2)	(3)	(4)	(5)	(6)
	Share Align Wins					
	All Banks		Commercial Banks		Co-Operative Banks	
Sh. Align Close Win	.209***	.194***	.209***	.194***	.209***	.194***
	(.027)	(.026)	(.027)	(.026)	(.027)	(.026)
Observations	318062	316934	318062	316934	318062	316934
Kleibergen-Paap F-Statistic	61.83	55.76	61.83	55.76	61.83	55.76
Covariates	N	Y	N	Y	N	Y

Notes: This table shows the impact of political alignment on households' access to bank credit. The unit of observation is the household. The outcome of interest is credit from banking institutions. Columns (1) and (2) consider both commercial and co-operative bank loans; columns (3) and (4) consider commercial bank loans; columns (5) and (6) consider co-operative bank loans. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, and also include district and election year fixed effects. Columns (2), (4) and (6) also include district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B5: Political Alignment and Household Bank Borrowing: Reduced Form and OLS

Panel A: Reduced Form

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	All Banks		Commercial Banks		Co-Operative Banks	
Align Close Win	11220.824***	11852.020***	9012.696**	9728.926***	2208.128*	2123.094**
	(4185.800)	(3888.388)	(3956.032)	(3751.403)	(1147.084)	(1044.617)
Observations	318062	316934	318062	316934	318062	316934
Dep. Var. Mean	42339.85	42339.85	32496.98	32496.98	9842.87	9842.87

Panel B: OLS

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	All Banks		Commercial Banks		Co-Operative Banks	
Align Win	-11457.314	2709.854	-13947.632**	-2126.388	2490.318	4836.243**
	(7123.549)	(6844.983)	(6712.071)	(6431.478)	(2134.619)	(2148.433)
Observations	318062	316934	318062	316934	318062	316934
Dep. Var. Mean	42339.85	42339.85	32496.98	32496.98	9842.87	9842.87

Notes: This table shows the reduced form and OLS specifications estimating the impact of political alignment on household credit. The unit of observation is the household. Panel A shows the reduced form specification where the independent variable of interest is the share of close elections won by the ruling party; Panel B shows the OLS specification where the outcome of interest is the share of elections won by the ruling party. The outcome of interest in columns (1)-(2) is the amount of credit from commercial and co-operative banks; in columns (3)-(4), amount of credit from commercial banks; in columns (5)-(6), amount of credit from co-operative banks. All specifications include district and electoral year fixed effects along with the share of close elections involving the ruling party; columns (2), (4) and (6) also include district and household covariates. All specifications are weighted by AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B6: Political Alignment and Bank Credit: Robustness Checks

	(1)	(2)	(3)	(4)	(5)
	Bank Credit Amount (INR)				
Align Win	44850.121**	52214.446**	54366.548**	85231.554***	58374.588***
	(19600.862)	(22459.220)	(23108.862)	(28346.370)	(14468.959)
Observations	316934	232433	316939	316934	316934
Dep. Var. Mean	42339.85	42339.85	42339.85	42339.85	42339.85
Control No Close Election	Y	N	N	N	N
Weights	Y	Y	N	Org.	Y
Sample	Full	Restrict	Full	Full	Full
Clustering	District	District	District	District	State

Notes: This table shows robustness of the baseline results to alternate specification choices. The unit of observation is the household. The fraction of elections won by the ruling party in the district is instrumented by the fraction of close elections won by the ruling party in the district. Column (1) includes a binary control for districts without any close electoral contests involving the ruling party. Column (2) omits districts witnessing no close electoral contest involving the ruling party. Column (3) omits household weights; column (4) uses the unadjusted household weights from the AIDIS; column (5) clusters the standard errors by state as opposed to district. Specifications with the exception of column (3) weights the regressions with the AIDIS provided household multipliers. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. Standard errors in parentheses, clustered by district in all specifications except column (5). Significant levels: *10%, **5%, and ***1%

Table B7: Political Alignment and Bank Credit: Robustness Checks

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Bank Credit Amount (INR)						
Align Win	44890.295***	45530.555**	77169.590**	51776.117*	46630.484***	13737.496**	
	(15633.957)	(19818.062)	(37003.718)	(26689.484)	(17782.382)	(6011.605)	
Align Close Win							.089**
							(.041)
Dep. Var. Mean	42339.85	42339.85	42339.85	42339.85	32131.23	10945.99	42339.85
State-Year Fixed Effects	N	Y	N	Y	N	N	N
District Time-Trends	N	N	Y	Y	N	N	N
Loan in Last 3 Yrs	N	N	N	N	Y	N	N
Loans Per Capita	N	N	N	N	N	Y	N
Specification	2SLS	2SLS	2SLS	2SLS	2SLS	2SLS	Poisson MLE

Notes: This table shows robustness of the baseline IV estimates to additional controls and alternate outcome variables. The unit of observation is the household and the outcome of interest is loans from commercial and co-operative banks. Share of ruling party victories in a district is instrumented by the share of close elections won by the ruling party in the district. All specifications include district and year fixed effects, and also controls for household covariates and the share of close elections contested by the ruling party in the district. Column (1) includes additional district-level pre-election covariates; column (2) adds state-round fixed effects; column (3) adds district-specific linear time-trends; column (4) includes both district-specific linear time-trends, and the state-year fixed effects; column (5) limits the outcome variable to loans obtained within 3 years prior to the survey; column (6) scales the outcome variable by household size. Column (7) uses a Poisson maximum likelihood estimator instead of a two-stage least squares estimator to identify the impact of political alignment on household credit. The outcome of interest in column (7) is the share of close elections won by the ruling party in the district. All specifications are weighted using AIDIS provided household multipliers. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B8: Political Alignment and Non-Bank Sources of Household Credit

	(1)	(2)	(3)	(4)	(5)
	Credit Amount (INR)				
	Total	NBFC	Informal	Money Lender	Community Networks
Align Win	74983.723***	5295.779	4346.616	4756.908	-410.292
	(28222.497)	(3870.288)	(6336.971)	(5287.668)	(2758.702)
Observations	316934	316934	316934	316934	316934
Dep. Var. Mean	64632.92	4233.67	15392.44	10825.08	4567.36

Notes: This table shows the impact of political alignment on non-bank sources of credit. The unit of observation is the household. The outcome of interest in column (1) is total loans irrespective of source; in column (2), loans from non-banking financial corporations; in column (3), loans from informal sources; in column (4), loans for money lenders; in column (5), loans from community networks.In each specification, the share of legislators aligned with the ruling party in the district is instrumented using the share of close elections won by the ruling party in the district. All specifications include district and year fixed effects, in addition to the share of close elections contested by the ruling party in the district, and also household and district covariates. All specifications are weighted using AIDIS provided household multipliers. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B9: Political Alignment and Credit Access: Extensive Margin

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Pr(Any Loan = 1)							
	Banks	Commercial Banks	Co-Operative Banks	NBFC	Informal	Money Lenders	Community Networks	Any Source
Align Win	.005	-.031	.048*	.034	.043	.078	-.022	.058
	(.050)	(.047)	(.027)	(.025)	(.060)	(.050)	(.033)	(.064)
Observations	316934	316934	316934	316934	316934	316934	316934	316934
Dep. Var. Mean	.222	.152	.081	.036	.232	.150	.090	.419

Notes: This table shows the impact of political alignment on credit access along the extensive margin. The unit of observation is the household. The outcome of interest is a binary equaling 1 if the household had a loan from the source mentioned. Column (1) considers loans from commercial or co-operative banks; column (2) considers loans from commercial banks; column (3) considers loans from co-operative banks; column (4) considers loans from non-bank financial corporations (NBFCs); column (5) considers loans from informal lenders; column (6) considers loans from money lenders; column (7) considers loans from community networks; and column (8) considers loans from any source. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B10: Political Alignment and Household Bank Borrowing: Purpose of Borrowing

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Bank Credit Amount (INR)						
	Farm	Non-Farm Business	Expenditure	Human Capital	Housing	Non Housing	Consumption
Align Win	6021.012	1214.241	52653.181***	4369.130	50423.194**	23007.634*	3827.372
	(7024.536)	(3378.282)	(19235.137)	(3100.479)	(23006.561)	(13237.837)	(4207.172)
Observations	316934	316934	316934	193814	193814	193814	193814
Dep. Var. Mean	10830.51	4343.12	23105.10	2861.54	22045.72	34012.00	7287.25

Notes: This table shows the purpose of bank borrowing in response to a positive shock to political alignment. The unit of observation is the household. The outcome of interest in column (1) is the amount of farm loans; in column (2), non-farm business loans; in column (3), household expenditure loans; in column (4), loans for health and education; in column (5), loans for housing; in column (6), non-housing loans; in column (7), loans for consumption. The disaggregation of household expenditure loans into human capital, housing and consumption is only available for rounds 70 and 77. In each specification, the share of legislators aligned with the ruling party in the district is instrumented using the share of close elections won by the ruling party in the district. All specifications include district and year fixed effects, in addition to the share of close elections contested by the ruling party in the district, and also household and district covariates. All specifications are weighted using AIDIS provided household multipliers. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B11: Political Alignment and Household Bank Borrowing: Heterogeneity by Household Characteristics

	(1)	(2)	(3)	(4)	(5)
	Bank Credit Amount (INR)				
Align Win	99275.507**	29948.980	29721.610	73555.059***	43554.163
	(49960.015)	(21749.568)	(21917.249)	(25269.024)	(72297.097)
Rural × Align Win	-55060.896				
	(51673.621)				
Self-Emp. × Align Win		79268.633			
		(51344.577)			
Wage × Align Win		39099.571			
		(37859.218)			
Rural Self-Emp. × Align Win			65486.268		
			(51461.454)		
Urban Self-Emp. × Align Win			63011.075		
			(69466.160)		
Rural Wage Rural × Align Win			19940.009		
			(36096.678)		
Urban Wage × Align Win			-29855.761		
			(21833.014)		
Seced. × Align Win				-1422.586	
				(36619.19)	
OBC× Align Win					24165.313
					(74776.717)
SC/ST × Align Win					14959.522
					(78334.039)
Muslim × Align Win					26728.632
					(76664.504)
Observations	316934	316934	289993	289993	316934
Dep. Var. Mean	42339.85	44252.32	44252.32	42339.85	42339.85

Notes: This table identifies heterogeneity in the impact of political alignment on household bank borrowings across household characteristics. The unit of observation is the household. The outcome of interest is household bank borrowings. *Self. Emp* is a binary equaling 1 if the household's primary source of earnings is from non-farm self-employment; *Wage* is a binary equaling 1 if the household's primary source of earnings is from non-farm wage work; *Seced* is a binary equaling 1 if the household has any secondary educated member. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B12: Political Alignment and Loan Delinquency: Lagged Effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Delinquent Loan Amount (INR)				Pr(Any Delinquent Loan = 1)			
	All Banks	Commercial Banks	Co-Operative Banks	Non Bank	All Banks	Commercial Banks	Co-Operative Banks	Non Bank
Align Win, Lag 1	-6950.961	6537.021	-17978.494	-11201.949	-.008	-.118	.045	.052
	(28905.018)	(30277.254)	(48851.773)	(19753.091)	(.139)	(.138)	(.252)	(.128)
Observations	93225	63602	33139	80683	90658	61633	32257	78381
R^2	.01	.01	.01	.01	.05	.04	.04	.02
Control Mean	41038.13	39899.22	37529.73	34609.55	.423	.363	.517	.425

Notes: This table shows the impact of political alignment on credit quality. The unit of observation is the household. The outcome of interest in columns (1)-(4) is the value of delinquent loans; in columns (5)-(8), a binary equaling 1 if the household has a delinquent loan at the time of survey. The value of delinquent loans is computed as the sum of outstanding amount on all delinquent loans for the household. Columns (1) and (5) consider loans from commercial or a co-operative banks; column (2) and (6) consider loans from commercial banks; column (3) and (7) consider loans from co-operative banks; column (4) and (8) consider loans from non-bank lenders. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B13: Political Alignment and Loan Write-Offs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Write-off Amount (INR)				Pr(Any Write-off = 1)			
	All Banks	Commercial Banks	Co-Operative Banks	Non Bank	All Banks	Commercial Banks	Co-Operative Banks	Non Bank
Align Win	971.524	398.408	1476.816	-807.880	.005	-.023	.068*	-.018
	(1201.314)	(1308.202)	(1502.137)	(801.249)	(.020)	(.020)	(.035)	(.023)
Observations	93221	63602	33135	80680	93221	63602	33135	80680
Control Mean	653.32	609.70	645.64	161.16	.017	.014	.023	.009

Notes: This table shows the impact of political alignment on loan write-offs. The unit of observation is the household. The outcome of interest in columns (1)-(4) is the value of amount of loans written off; in columns (5)-(8), a binary equaling 1 if the household had a loan written off at the time of survey. Columns (1) and (5) consider loans from commercial or a co-operative banks; column (2) and (6) consider loans from commercial banks; column (3) and (7) consider loans from co-operative banks; column (4) and (8) consider loans from non-bank lenders. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B14: Lagged Political Alignment and Loan Write-Offs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Write-off Amount (INR)				Pr(Any Write-off = 1)			
	All Banks	Commercial Banks	Co-Operative Banks	Non Bank	All Banks	Commercial Banks	Co-Operative Banks	Non Bank
Align Win, Lag 1	-2336.569	-3759.589	486.110	-255.505	.016	.014	-.004	-.018
	(2029.540)	(2992.650)	(1680.838)	(590.257)	(.023)	(.027)	(.038)	(.019)
Observations	93221	63602	33135	80680	93221	63602	33135	80680
Control Mean	653.32	609.70	645.64	161.16	.017	.014	.023	.009

Notes: This table shows the impact of lagged political alignment on loan write-offs. The unit of observation is the household. The outcome of interest in columns (1)-(4) is the value of amount of loans written off; in columns (5)-(8), a binary equaling 1 if the household had a loan written off at the time of survey. Columns (1) and (5) consider loans from commercial or a co-operative banks; column (2) and (6) consider loans from commercial banks; column (3) and (7) consider loans from co-operative banks; column (4) and (8) consider loans from non-bank lenders. The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B15: Political Alignment and Bank Credit: Heterogeneity by Cost of Information Acquisition

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Bank Loan Amount (INR)									
	High Friction				Low Friction				Lagged Alignment	
Align Win	75213.654***	82451.446**	84791.538	70813.159**	26027.551	-25627.048	14992.617	19590.904		60367.167***
	(25294.734)	(33372.478)	(53901.941)	(28934.218)	(47399.079)	(24143.731)	(29288.246)	(34152.042)		(20905.695)
Align Win, Lag 1									-5939.235	16844.482
									(24299.967)	(30071.668)
Observations	74307	76759	79903	79374	81095	78643	75499	76028	316934	316934
Dep. Var. Mean	38582.64	49782.30	49277.94	51314.56	52600.25	42811.17	42716.32	40721.34	42339.85	42339.85
Gov. Off.	✓				✓					
Gov. Off., Non-Caste		✓				✓				
Networks			✓				✓			
Conflict				✓				✓		

Notes: This table offers evidence consistent with political alignment reducing information asymmetry in formal credit markets. The unit of observation is the household. Columns (1)-(4) identify the impact of political alignment on household bank borrowings in districts where the information frictions are likely to bind; columns (5)-(8) identify the impact of political alignment on household bank borrowings in districts where screening costs are expected to be lower. Columns (9) and (10) identify whether lagged political alignment affects contemporaneous household bank borrowings. Columns (1) and (5) measure information frictions using households' acquaintance with government officers; columns (2) and (6) measure information frictions using households' acquantance with government officers who are not from their caste; columns (3) and (7) measure information frictions using a standardized index of household social networks. Columns (4) and (8) measure information frictions using a standardized index of local neighbourhood conflicts. Data on households' social networks and local conflicts are obtained from the 2004-05 Indian Human Development Survey (IHDS). The independent variable of interest – share of legislators aligned with the ruling party – is instrumented in each specification with the share of close elections won by the ruling party in the district. All specifications condition on the fraction of close elections contested by the ruling party in the district, along with district and election year fixed effects, as well as district and household covariates. All specifications are weighted using AIDIS provided household weights. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B16: Political Alignment and Bank Credit: Ruling Out Alternate Explanations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Bank Credit Amount (INR)						Interest Rate
Align Win	68363.968**	82930.090***	76583.089**	46137.221**	59460.659**	34280.448	.003
	(34054.239)	(29644.918)	(35623.914)	(20631.775)	(28875.781)	(22590.617)	(.010)
Last 2 Yrs × Align Win	-26362.937						
	(61884.970)						
Last Yr × Align Win		-152141.634					
		(101745.286)					
INC Gov. × Align Win			-11871.350				
			(39728.442)				
BJP Gov. × Align Win			-40597.038				
			(89331.576)				
High Maj. × Align Win				31870.064			
				(45892.378)			
High Turnout × Align Win					2169.745		
					(40332.278)		
Fed. Align × Align Win						56761.555	
						(58081.354)	
Observations	316934	316934	316934	316934	316934	316934	92974
Dep. Var. Mean	42339.85	42339.85	42339.85	42339.85	42339.85	42339.85	.110

Notes: This table rules out alternate mechanisms linking political alignment to household bank borrowings. The unit of observation is the household. The outcome of interest in columns (1)-(6) is the amount of household bank borrowings; in column (7), the interest rate faced by households on bank loans. The independent variable of interest – share of elections won by the ruling party in a district – is instrumented by the share of close elections won by the ruling party in the district. All specifications include district and year fixed effects, and also controls for district and household covariates, and the share of close elections contested by the ruling party in the district. *High Maj* is a binary equaling 1 if more than 60 percent of the legislators in the state legislature are aligned with the ruling party. *Fed. Align* is a binary equaling 1 if the state government is also aligned with the federal ruling party. All specifications are weighted using AIDIS provided household multipliers. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%