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

Jayati Gupta S.K. Ritadhi *

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Abstract

Does political alignment affect access to bank credit for households? 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 is unaffected by shifts in politicial 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, we find evidence of greater dispersion in the size of bank loans, 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.

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), or vote-buying (Carvalho, 2014). This is particularly acute in economic systems characterized by state-owned banking networks, which are susceptible to political capture (La Porta et al., 2002). The economic costs of such political interference is massive: Khwaja and Mian (2005) estimated that the misallocation of credit to politically connected firms by state-owned banks in Pakistan generated a deadweight loss equivalent to 1 percent of GDP.

In contrast, there is little work studying how politicians affect access to bank credit for households. This is relevant both in terms of the large impact of credit access on household poverty (Burgess and

*Ashoka University & Occidental College and Ashoka University. We thank Abhay Aneja, Gabriel Tourek, Muhammad Yasir Khan and Siddarth Venkatesh for several useful comments and suggestions.

Pande, 2005), consumption (Kaboski and Townsend, 2012), and labor market choices (Bruhn and Love, 2014; Breza and Kinnan, 2021), and the ability of politicians to shape the allocation of resources through their control over state-owned banks. 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 continues to be 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 volume of credit, the AIDIS offers information on the source of credit, interest charged and repayments made. We use data from the three most recent AIDIS survey rounds conducted in 2003, 2013 and 2019 to assess the relationship between political alignment and households' access to bank credit over a period spanning two decades. Data on household borrowings is combined with information on state-level 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 tenure of 5 years. 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" 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, likely to be balanced along other characteristics. Fundamentally, our empirical strategy compares bank credit access for otherwise comparable households across two seats: one where the ruling party was narrowly victorious (treatment), relative to 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.

[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.

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

(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. Our instrument thereby 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 a several pieces of evidence supporting the validity of the IV design. Along with a robust positive correlation between the share of close elections elections won by the ruling party in the district and the overall share of ruling party wins, we confirm that the share of close elections won by the ruling party is orthogonal to a large number of district covariates. In line with much of the literature, elections are deemed to be "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 positive impact of political alignment on household bank borrowings. The marginal legislator representing the ruling party generated a statistically significant INR 3,425 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 win for the ruling party is one-half in magnitude to the credit expansion studied by Kaboski and Townsend (2012). Separating loans by bank type, we find three-fourths of the increase in bank credit to emerge from increased lending by commercial banks, while the remainder is accounted for by co-operative banks.[4]

Our baseline results are stable to alternate close election threshold of 3, 4 and 6 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. We also confirm the results to be unaltered to omitting districts without a close election involving the ruling party (10 percent of our sample) where the instrument is undefined. Reassuringly, we also find the results to not be driven by any single state.

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 resulted in a INR 3,641 increase in total household borrowings, 94 percent of which is accounted for by banks. There is a small noisy increase in borrowings from non-bank financial corporations, but credit from informal sources 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 either a crowding-out, or a crowding-in of household borrowings from non-bank sources. The expansion in bank credit is mostly for housing loans. Farm and non-farm business loans remain unaffected by variations in political alignment.

The relationship between political alignment and household credit occurs entirely along the intensive margin. There is no evidence of political alignment affecting the fraction of households

[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 Sukhtankar (2012).

with 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 subset of households, at the expense of other households which previously had access to bank credit.

We hypothesize elected politicians aligned with the ruling party to affect bank credit due to politicians' ability to influence the lending decisions of state-owned banks. Consequently, we should expect the positive impact of political alignment on household bank credit to be driven by regions with a relatively high concentration of state-owned banks. As districts with high banking concentration can differ along observable and unobservable dimensions from those with low banking concentration, we consider districts' banking concentration in 1991. The intuition is that the branching decisions of state-owned banks prior to 1991 was driven not by market forces, but regulatory obligations owing to the state-directed push to deepen India's banking infrastructure between 1969 and 1991 (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.

The rise in bank borrowings following a positive shock to political alignment can emanate both through higher credit demand amongst households, or increased credit supply by lenders. We extend the appproach of Khwaja and Mian (2005) and Jimenez et al. (2012) and separate credit supply from demand by comparing how political alignment affects lending from banks, vis-a-vis non-banks, for the *same* household, and in the *same* time-period. Specifically, we exploit the loan-level data of the AIDIS and restrict the sample to 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 tantamount 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. Although we lose 90 percent of our sample and the results are not precisely estimated, the marginal ruling party legislator generates an additional INR 4,450 of bank loans (p-value .116), relative to non-bank sources of credit. Replacing household fixed effects with district fixed effects (not conditioning on credit demand) and re-estimating the specification for the same set of households yields a very similar coefficient, indicating that political alignment affects bank borrowing for households almost entirely through the expansion in bank credit supply, as opposed to higher credit demand.

Exploring mechanisms, we first consider whether the expansion in the supply of bank credit can be attributed to political favouritism. Favouritism would involve credit extensions solely 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 deterioriation 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 no impact of political alignment on bank or non-bank loan deliqnuency. If anything, the point estimates are negative, pointing to an improvement in bank loan repayment in politically aligned areas. Critically, delinquency

rates do not rise in the subsequent electoral cycle, assuaging concerns that loan performance worsens only after the conclusion of local political alignment. Vote buying also serves as an unlikely explanation for the political alignment-induced expansion in bank credit: considering heterogeneity across politician tenure, we find bank credit expansions to occur in both the early and later years of the politician's tenure. If vote-buying was the principal mechanism, we would have expected an increase in bank borrowing only in the latter part of the politician's tenure. Interest rates too are unaffected by shifts in political alignment.

The absence of a worsening in loan performance leads us to explore whether legislators use their local information and networks to refer creditworthy borrowers to banks. With limited data on borrowing histories to assess household credit risk, we use a test proposed by Fisman et al. (2017) to identify whether information frictions eased in response to political alignment. Fisman et al. (2017) proposes that superior information gathering 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. This lends support to the explanation that politicians influence credit allocation as a form of a constituent service, by referring creditworthy borrowers to banks. Lending to these borrowers generate an expansion in bank loans in areas facing a positive shock to political alignment, but is unaccompanied by a worsening in loan performance.

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 asset holdings. In rupee values, 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 sufficient 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 through their capture of 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 banking institutions: namely, credit as a form of constituent service in an environment marked with information frictions. Contrary to most papers studying political interference in credit markets, we find no evidence of a worsening in credit quality in the aftermath of political interference; neither is the expansion in bank credit tied to electoral cycles (Cole, 2009). Instead, we offer evidence indicative of politicians using their local networks to improve lenders' information gathering abilities and facilitate

the issuance of 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 a similar empirical strategy to ours to show local political alignment affected firm returns and night-lights based GDP growth. 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 local demand, but by directly influencing the supply of credit by banks. Taken together with the absence of a worsening in credit quality and the dispersion in bank loan size, we provide evidence of politicians influencing the allocation of bank credit as a constituent service.[5]

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 mechanisms, while 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 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 affect local development through regional favouritism by directing spending towards their constituencies, or boosting local infrastructure, which can be growth-enhancing (Hodler and Raschky, 2014; Burgess et al., 2015). Higher growth in turn can lead to increased 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 affects firm returns in India and promotes local growth.

Alternately, politicians can direct the supply of bank credit, either as a form of favouritism, or 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.,

[5] 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.

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. Influence over the state-owned banking system can also allow politicians to direct banks to expand credit supply in areas where the ruling party is successful, either to reward supporters, or enhance local development. 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.

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). Bardhan (2016), Novosad and Asher (2017) and Aneja and Ritadhi (2022) 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 is spent in meeting citizens – the most after meeting with politicians. Regular interactions with a wide array of citizens is likely to provide politicians with "soft information", which can subsequently be transfered 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. 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 these channels in detail.

3 Data

This section describes the two primary datasets used for the empirical analysis – namely All India Debt and Investment Survey (AIDIS) which offers data on household credit, 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 enquires 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, securitization, loan duration and amount outstanding are included. We combine this information with basic household demographics, and the district in which the household is located. Individual loans are aggregated to

the household and we use information on initial loan values at the time of disbursement as our primary outcome of interest.[6] To adjust for inflation, all monetary values are inflated to INR 2019 using a wholesale price index. 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, with a one year lag.[7] For instance, for households located in the state of Uttar Pradesh and surveyed in 2019, the exposure to political alignment is based on elections conducted in Uttar Pradesh in 2017. Appendix Table **??** provides a full mapping of the AIDIS to state electoral cycles for each of the 3 rounds.

Our 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 total bank credit. 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 is substantially smaller (Sukhtankar, 2012).

Appendix Table B1 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 share of households with a bank loan has steady increased from 16 to 27 percent. However, half of the households in 2019 relied on informal sources for credit.[8] 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, and we see 40 percent of expenditure loans were in the form of housing loans. The annual rate of interest charged by banks was 11 percent, while informal lenders charged in excess of 20 percent.[9]

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 the households reporting some delinquent loan on their balance-sheet. A fifth of households also

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

[7] We opt for a one year lag as we assume that it would take some time for legislators following elections to affect household credit.

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

[9] 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.

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 slightly higher than for banks.[10]

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 our data on household borrowings cover the period between 2003 and 2019, we extract information on state-level elections conducted between 1996 and 2019 for 19 of India's largest and most economically active states.[11] Elections are conducted at the level of electoral constituencies, or seats. Being a multi-party democracy, Appendix Table B2 shows that 11 candidates on average competed for a single seat during this period, either on behalf of major political parties, or as indpendent candidates. The effective number of parties contesting elections however was 3.[12] 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 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 B2 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 a change in regional political alignment affects 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:

[10] Delinquency rates from informal sources needs to be interpreted with caution as the majority of loans issued by friends or family were 0 interest loans, and possibly not subject to a regular repayment cycle.

[11] 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.

[12] 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.

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

The unit of observation in specification (1) is the 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.[13] The coefficient of interest is β, corresponding to the share of legislators in the district belonging to 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 our identification strategy 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 district have high 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) and 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 propose the instrument:

$$ShAlignCloseWin_{dt} = \frac{AlignCloseWin_{dt}}{AlignClose_{dt}} \quad (2)$$

Equation (2) defines the instrument as ratio of the total number of "close" elections won by the ruling party in a district during an electoral cycle, relative to 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 of $ShAlignCloseWin$ around 0.5, owing to additional unanticipated close wins (or losses) by the ruling party. In line with recent studies exploiting the incidence of narrow electoral races, we consider an election to be "close" if the margin of victory is less

[13] We control for a household's location (rural or urban), household size, and dummies for whether the household belonged to the *Dalit* (Scheduled Caste or SC), *Adivasi* (Scheduled Tribe or ST) communities, or the Other Backward Classes (OBC). We also control for district voter-turnout, as well as the effective number of parties contesting elections in the district.

than 5 percent of votes cast (Amodio et al., 2024). 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 strongly correlated with $ShAlignWin$, 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, indicating that the exclusion restriction is not violated.

We begin by confirming no manipulation in the outcome of close races involving the ruling party using the McCrary test in Figure 1 (McCrary, 2008). The confidence intervals overlap, and we are unable to reject the null of no discontinuity at the threshold of 0.[14] 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 purely be 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 equality of predicted and actual close wins is depicted by the 45-degree line and we see actual close wins to be centred around the 45-degree line and closely tracked by predicted close wins.

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 rows show p-values from testing the null hypothesis that the coefficient corresponding to the number of close elections contested by the ruling party is 0.5 and we cannot reject the null in any specification. 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 3 out of 35 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 district banking characteristics also do not predict the share of close

[14] 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.

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 observed district characteristics, we infer that the $ShCloseAlignWin$ is a valid instrument for $ShAlignWin$. Consequently, we identify the impact of political alignment on households' access to bank credit using a two-stage least squares (2SLS) framework with the first stage equation 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 being:

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

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. The IV estimates a local average treatment effect (LATE), with the 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.[15] 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. The critical identifying assumption is that an additional close win for the ruling party only affects household credit 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 evidence in support of the outcome of close elections being as "good as random", the incidence of close elections is most 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 B2 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 subset of districts. Finally, for districts witnessing no close election involving the ruling party during an electoral cycle, the instrument is technically undefined, and we force the instrument to equal 0 in such cases. Thankfully, this occurs in less than 10 percent of

[15] In the IV framework, the "always-takers" are the districts where the ruling party is always successful, while the "never-takers" are districts where the ruling party is never successful. These districts do not contribute to the identification.

districts in our sample and we verify our results to be unaffected if these districts are omitted from the regressions.

4.1 Descriptive Evidence

Appendix Figure B2 shows the unconditional relationship between bank credit and local political alignment. We aggregate household bank borrowing to the district and plot unconditional average district borrowings against the share of close elections won by the ruling party in the district. The figures in the top row depict an upward sloping relationship between bank credit and political alignment. The bottom row shows the unconditional first stage, where the share of wins for the ruling party in the district is plotted against the share of close wins for the ruling party. Reassuringly, we find a strong positive and monotonic relationship between the instrument and the endogenous variable of interest. 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. We also consider mechanisms through which aligned politicians affect 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 involving the ruling party. The even-numbered columns include select household covariates and electoral controls. 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 increased households' access to bank credit by INR 4,200. Columns (3)-(6) disaggregates the source of credit across commercial and co-operative banks. While the coefficient is positive and statistically significant for both, the effect size for commercial banks is an order of magnitude larger, accounting for three-fourths of the overall impact of political alignment on household credit from banking institutions. Appendix B3 shows the corresponding first-stage coefficients for each of 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 due to 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 .28 increase in $ShAlignCloseWin$. Scaling this by the first stage coefficient of .224, the corresponding increase in $ShAlignWin$ equals .06, or 0.84 legislators. This affirms that an additional close win for the ruling party in the district results in only 1

additional legislator from the ruling party being elected.[16] 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 in our sample witnessed 14 elections to the state legislative assembly, the marginal legislator elected through a close win increased households' access to bank credit by INR 3,425 – equivalent to 4 percent of household consumption. As annual household consumption over this period equaled INR 84,819, the resultant credit expansion from an additional close win for the ruling party equals 4 percent. As a quarter of the elections involving the ruling party were close at the 5 percent threshold and ruling parties were successful in winnning 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 credit expansion due to political alignment equaled 6 percent of annual household income, or about half the magnitude of the credit expansion studied in Kaboski and Townsend (2012) in their evaluation of the Million Baht Village Fund Program in Thailand.

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 three-fourths of the overall increase in household 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 and significant at the 10 percent margin. As discussed in Section 4, the OLS coefficient is likely to be biased, and we partially address the endogeneity concern using a rich set of pre-election district covariates. Conditioning on district covariates, column (2) shows a marked attenuation of the OLS coefficient towards 0, and the point estimate is also statistically non-significant. The attentuation of the OLS coefficient following the addition of district covariates point to a downward bias. 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 estimate is less than half in magnitude to the IV estimate in column (6) of Table 1, which again attests to the OLS coefficients being biased downwards.

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

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

would likely be larger in regions with lower economic development and growth. Such areas would also have a 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 and development, 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. Appendix Table **??** shows that politicians contesting close elections are statistically indistinguishable to those contesting non-close elections along key observable characteristics. This offers evidence against the first hypothesis of politicians contesting close elections being positively selected. The results in Appendix Table **??** however should be interpreted with caution as contestants in close elections are likely differ along unobservable characteristics to politicians who do not contest in such races. We however remain unable to reject the second possible 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. Columns (1)-(3) of Appendix Table B6 shows our IV estimates to be stable to altering the threshold of "close" elections to 3, 4 and 6 percent of votes cast. 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 (4) shows our findings to be unaffected upon excluding districts which did not witness a single close contest between a ruling and a non-ruling party. Column (5) shows that excluding the multiplier weights reduce the precision of our findings (p-value .111), but the point estimate remain similar to the baseline result. Column (6) shows that allowing the standard errors to be clustered at the higher level of state does not alter the precision of the coefficients.

Expectedly, column (1) of Appendix Table B7 shows the baseline results to be stable to the inclusion of wide range of pre-election district covariates.[17]. Column (2) considers a restrictive specification with

[17] We use the same set of covariates as used in Panel B of Appendix Table B5

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 the cross-sectional variation in the share of close elections won by ruling parties across districts within a state. 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 slightly in magnitude in column (2), it increases by a sizeable degree in column (3). Column (4) presents our most restrictive specification including district and state-electoral year fixed effects, as well as district-specific time-trends. Using this specification, we attribute a statistically significant INR 4,747 increase in households' access to bank credit in response to an additional close electoral win for the state ruling party in the district. Columns (4) and (5) 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.[18] 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 5,000 – or, 6 percent of households' annual consumption. Household borrowings from informal sources such as money-lenders or community networks however remain unchanged. Instead, there is a small positive impact of political alignment on household borrowings from non-banking financial corporations. The point estimate however is a tenth in magnitude when compared to the increase in bank loans, confirming that the primary increase in household borrowings in response to a positive shock to political alignment is through the banking sector.

5.4 Politician 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 affect the allocation of credit. We explore this hypothesis by testing for heterogeneity in the impact of political alignment on household credit across districts with a relatively high level of banking infrastructure. Specifically, we augment specification (4) to test:

[18] Our outcome variable considers all loans from commercial and co-operative banks, irrespective of the year in which the loan was taken. Across all three surveys rounds, 80 percent of loans are obtained within two years of the survey.

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

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 intreaction with $HighBankPC$. This brings us to the question of measuring banking infrastructure. 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. Contemporaneous measures of banking infrastructure will thereby be tantamount to a "bad control", while lagged measures too can be correlated with other district characteristics.

We address this empirical challenge by exploiting institutional features about India's banking landscape. India's banking network expanded rapidly between 1977 and 1991 as a result of a state-directed push 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 policy 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.

Consistent with our hypothesis, Column (1) of Table 2 confirms that 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 negative, 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 across the nature of operations of state-owned banks. 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 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 is dominated by the SBI or RRBs. The fact that aligned politicians affected household borrowings only in districts with a high density of nationalized banks offers preliminary evidence to the presence of a credit supply channel, as opposed to a credit demand channel, in explaining the relationship between political alignment and households' bank borrowings.

5.5 Separating Credit Supply from Credit Demand

The reduced form increase in household borrowings following a positive shock to political alignment can arise from either an increase credit demand by households, or higher credit supply by lenders. Separating the two is key to understanding the channels through which aligned politicians operate to affect household borrowings. We extend the methodology of Khwaja and Mian (2005) and Jimenez et al. (2012) to separate credit demand and supply for firms, and identify the impact of political alignment on bank credit supply, conditional on household credit demand. Specifically, we exploit the loan-level component of the AIDIS, which informs us about every loan on the household's balance-sheeet at the time of survey. Next, we restrict the sample to households with both bank and non-bank loans and estimate the following specification using household fixed effects:

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

The unit of observation in equation (6) is the individual loan value of the household and α denotes household fixed effects. As the AIDIS is a repeated cross-section, household fixed effects are equivalent to introducing a household-time fixed effects, 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 higher amount of credit being issued by banks relative to non-banks, for a given level of local political alignment. We continue to use our IV strategy to obtain quasi-exogenous variation in local political alignment. Effectively, the empirical strategy in specification (6) compares loan sizes across banks and non-banks for the same household, across varying degrees of political alignment.

The coefficients in 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. The binary indicator $BankCredit$ equals 1 for both commercial and co-operative bank loans in odd-numbered columns, and only commercial bank loans in the even-numbered columns. The interaction term in column (1) indicates that relative to other lenders (and conditioning on household credit demand), a 10 ppt. rise in political alignment increased household borrowings from banks by INR 6,200, albeit imprecisely estimated (p-value .116). The point estimate is very similar in column (2) if we compare commercial bank loans to all other lenders, although the confidence interval widens (p-value .154).

The point estimate is larger than our results with the full sample, but the sample is affected by selection bias as we condition on households with both bank and non-bank loans. To consider the role of credit demand, we re-run the specification in (6) but replace household fixed effects with district fixed effects. The interaction of the bank indicator and political alignment remains virtually unchanged when allowing for variation in households' credit demand. Consistent with the limited effect of political alignment on household borrowing from non-bank sources, the coefficient corresponding to $ShAlignWin$ is negative and statistically non-significant.

The specification tested in Table 3 is highly demanding, both due to the loss in sample size,

and also the fixed effects used. While this possibly affects the precision of the estimation, and the wide confidence intervals should be interpreted with caution, it does suggest that higher household borrowings following a positive shock to political alignment arises from an expansion in bank credit supply, as opposed to higher credit demand from households.

5.6 Political Alignment and Bank Credit Access: Extensive Margin

Our primary outcome of interest is the total volume of credit received by households from banking institutions. The outcome of interest equals 0 for households without any credit from banks. To this effect, the outcome variable captures the impact of political alignment on households' credit access along both the extensive and the intensive margin. To isolate the extensive margin impact, we redefine our outcome variable as a binary equaling 1 if the household has received any bank credit. Column (1)-(3) of Appendix Table **??** shows that political alignment primarily affected household credit along the intensive margin. Political alignment leaves unaffected households' likelihood of having an outstanding loan from banking institutions, or loans from commercial banks. We however identify a noisy positive coefficient corresponding to extensive margin credit access from co-operative banks (p-val: .077) 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 on households' access to bank credit precludes us from ascertaining whether this is comprised of new households gaining entry into the banking system, or existing households receiving additional credit as a result of political alignment.

5.7 Purpose of Borrowing

Columns (1)-(3) of Appendix Table B9 shows that the political alignment-induced increase in household borrowing was driven by an increase in borrowing for the purposes of household expenditures. While the point estimates for both farm loans and non-farm business loans are positive, they are statistically non-significant and the effect sizes are substantially smaller than the coefficient for expenditure loans. The 2013 and 2019 AIDIS surveys disaggregated expenditure loans into loans obtained for the purposes of health and education, housing, and other consumption loans. Column (5) of Appendix Table B9 shows that the rise in bank borrowing was driven entirely by an increase in housing loans. Section 7 explores in greater detail the impact of these loans on asset prices.

Appendix Table B10 separates the purpose of borrowing by loan source. Panel A shows that in response to greater political alignment, households borrowings from commercial banks was almost exclusively for the purpose of housing. The point estimate for non-farm business loans is positive, but an order of magnitude smaller than housing loans, and also not precisely estimated (p-val .164). In contrast, Panel B offers noisy evidence that farm loans, and borrowing for health and education, as well as household consumption from co-operative banks was significantly higher following a positive shock to political alignment.[19] The coefficient corresponding to housing loans is positive, but not significantly

[19] The point estimates in columns (1) and (4) are statistically significant at the 10 percent level.

different from 0.

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

Do all households gain uniformly in terms of bank loans following a positive shock to political alignment? We investigate this by using a variation of equation (5) and test for heterogeneity in the impact of political alignment across household characteristics.

Column (1) of Appendix Table B11 shows that political alignment increased bank credit access for urban households. The $Rural \times ShAlign$ is negative and statistically significant at the 10 percent level. As we can reject the null that the sum of $ShAlign$ and $Rural \times ShAlign$ is significantly different from 0 at the 10 percent level (p-value .052), column (1) implies that while rural households too received higher bank loans following a rise in political alignment, this increase in bank credit was significantly lower than urban households. Column (2) fails to find any heterogeneity in the impact of political alignment across households with at least 1 secondary educated member. While the interaction term is positive, it is statistically non-significant.

Column (3) uses information on households' primary source of income. The omitted category, corresponding to the $ShAlign$ term comprises of households whose primary source of income is from farm activities. While not precisely estimated, the interaction terms in column (3) for households whose primary earnings are from non-farm self-employment and salaried work are positive and large in magnitude. The sum of the coefficients too are statistically distinguishable from 0, confirming that households whose primary earnings were from non-farm self-employment, and salaried occupations, saw the biggest jumps in bank credit following a positive shock to political alignment. The point estimate on the $ShAlign$ term in column (3) is very similar to point estimate obtained from adding $ShAlign$ to $Rural \times ShAlign$ in column (1). This is reassuring as we would expect a large fraction of rural households to draw their earnings from agriculture. Combining the information across column (1) and column (3), we can surmise that political alignment primarily increased urban households' access to bank credit, and this was driven by households engaged in self-employment and salaried work (but not casual labour). Finally, column (4) distinguishes households based on their caste and religion and shows that the positive impact of political alignment on households' access to bank credit was limited to Hindu forward caste and OBC households. Bank credit access for historically marginalized *Dalit* and *Adivasi* households, along with minority Muslim households remained unaffected by the positive shock to political alignment.

5.9 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. Appendix Table B12 shows that the relationship between political alignment and credit is not restricted to any single party. While the triple interaction term corresponding to the

BJP is positive, it is not statistically significant. The uninteracted $ShAlignWin$ remains positive and statistically significant in both columns (1) and (2), indicating that the marginal legislator from the ruling party increases households' access to bank credit, irrespective of whether the ruling party is the INC or the BJP.

6 Mechanisms

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

6.1 Favouritism

Favouritism in credit allocation through the capture of state-owned banks can be a key motivation for politicians' interference in credit markets. Khwaja and Mian (2005) document such favouritism to distort credit allocation to politically connected firms in Pakistan. As seen in Khwaja and Mian (2005), political favouritism however is likely to be associated with a worsening in loan quality, as credit is directed to borrowers for their proximity with politicians, and not because they have the highest marginal return on capital. Consequently, we test for the favouritism channel by identifying the impact of political alignment on bank loan delinquency.

In the absence of administrative data on loan delinquency, we rely on self-reported data on loan repayments and consider a loan to be delinquent if the household reported making no repayment on the loan for a period in excess of 6 months. Table 4 shows no evidence of political alignment worsening loan repayment for either commercial, or co-operative banks.[20] While the standard errors are too wide for us to draw any firm conclusion, the point estimates in columns (1)-(3) for bank loan delinquency are negative, pointing to reduced delinquency following a positive shock to political alignment. Columns (4)-(6) consider non-repayment on loans from non-banking financial corporations, informal sources and overall non-repayment, and reports similar findings. This assuages concerns that borrowers were not meeting their repayment obligations to banks by defaulting on non-bank loans.

Loans often become delinquent over 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. Alternately, loans are ultimately issued by loan officers who in state-owned banks are responsible for a period of 3 years following their transfer (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 contemporaneous electoral cycle is unable to detect a decline in loan quality which only materializes once the loan officer is transfered out of the location.

To examine whether the negative effects of political alignment on loan delinquency is a function of time, the odd-numbered columns identify the impact of a 1 period lag in political alignment on loan delinquency, while the even-numbered columns jointly account for both the present, and the past shock to political delinquency. Columns (1), (3) and (5) of Appendix Table B13 negate concerns

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

that a positive shock to local political alignment leads to a decline in loan quality in later years. The coefficient corresponding to the lagged political alignment term is negative and significant at the 10 percent level. Including both the lagged and the contemporaneous terms in the even-numbered columns improves the precision of the point estimates: the lagged coefficient for political alignment becomes significant at the 5 percent level, while the contemporaneous alignment term is significant at the 10 percent level. Consequently, Tables 4 and Appendix Table B13 negate the favouritism channel as explaining the relationship between political alignment and households access to bank credit. Instead of a deterioration in credit quality, we find instead improvements in repayment behaviour following a positive shock to political alignment. We return to this in Section 6.6 when considering whether political alignment might have instead improved banks' screening abilities and facilitated the selection of creditworthy borrowers.

6.2 Vote Buying

Does expanded access to bank credit signify vote buying by incumbent politicians in an effort to boost their re-election prospects? Cole (2009) and Carvalho (2014) show that politicians are able to 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 politician's tenure. Specifically, we contend that the last two years of a politician's tenure would be most critical in term's of re-election, making politicians most likely to interfere with credit markets during this period (Cole, 2009; Kanz, 2016; Urvoy, 2025). Using a variation of specification (5), columns (1) and (2) of Table 5 negate the vote-buying channel in explaining our results. While the coefficient on the interaction term is not statistically significant, it is negative and between 40 and 50 percent in terms of magnitude of the uninteracted term identifying the impact of political alignment on credit disbursement in the first 3 years. The uninteracted term remains positive and statistically significant, signifying that credit disbursement in response to a shock to political alignment occurs primarily in the first 3 years of a politician's tenure. Columns (4)-(6) redefine the interaction term to only account for the last year of the politician's tenure and reports very similar results. Efforts to engage in vote-buying prior to elections through the banking channel therefore does not explain our findings.

6.3 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 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 individuals loans. Consistent with our expectations, columns (7)-(9) of Appendix Table 5 show that political alignment had no impact on the interest rates charged by commercial or co-operative banks to households.

6.4 Political Alignment and Household Credit: Legislative Channel?

Having ruled out the two most likely explanations between political alignment and credit access, we examine alternate channels which might explain this relationship. As the primary task of elected politicians is to frame laws, we explore whether a legislative channel is at play. The presence of a large state-owned banking network offers Indian states the ability to directly interfere in the banking sector, either through "nationalising banks" (Burgess and Pande, 2005), or classifying select borrowers to be eligible for subsidized credit (Banerjee et al., 2004), 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 discouraged by the central bank, in its role as banking regulator. If states introduced legislative measures which eased credit access for households and information about the scheme was better disemminated through aligned politicians, it would form a plausible explanation for the positive relationship between political alignment and households' bank borrowing.

We investigate this mechanism 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 be linked to the strength of its legislative majority. State government with larger legislative majorities will be better placed to enact legislative and administrative measures. The results in column (3) of Appendix Table B12 however do 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 below 60 percent is positive and statistically significant (p-value: .091). Resultantly, a legislative majority is not a necessary condition for aligned politicians to affect households' access to bank credit.

6.5 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 (4) of Appendix Table B12 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.

6.6 Political Alignment and Information Asymmetry

In the absence of the political favouritism and vote-buying channels, we consider the alternate channel of whether politicians facilitated the selection of creditworthy borrowers. We are motivated to explore

this channel by the results in Table 4 and Appendix Table B13, which showed that instead of a deterioriation in credit quality, political alignment improved bank loan repayment. 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 about creditworthy borrowers could have lowered such costs, and facilitated credit expansions, without a worsening in loan quality. The subsequent sections undertake two tests to explore whether the increase in bank borrowings by households in response to political alignment can be attributed to superior information collection by banks.

6.6.1 Dispersion in Loan Size

Fisman et al. (2017) offers a novel approach for identifying an improvement in lenders' information acquisition by studying the variation in loan sizes. They contend that superior information about borrowers would allow lenders to target loans to individual borrowers, resulting in a greater dispersion in loan sizes. We explore this hypothesis using the loan-level data of the AIDIS to test whether political alignment increased the variance in loan size. Aggregating the data to the district by computing the standard deviation of individual loan amounts, column (1) of Table 6 shows that the marginal legislator aligned with the ruling party resulted in a 6 percent increase in the dispersion of loans obtained from commercial and co-operative banks, albeit significant at the 10 percent level (p-value .066). Column (2) shows this to emanate from a 6 percent increase in the variance of commercial bank loans, and the coefficient is now statistically significant at the 5 percent level. Columns (4) and (5) show no corresponding increase in the disperson of loan size for loans obtained from non-bank financial corporations and informal lenders, negating an overall improvement in information acquisition in districts facing a positive shock to political alignment. Columns (6)-(10) express the outcome variable in natural logs and report very similar results and magnitudes: a positive shock to political alignment, arising from an additional close election won by the ruling party increased the dispersion of bank loan sizes by 5 percent (p-value .057). Combined with the evidence in Table 4 and Appendix Table B13, this supports the contention that political alignment lowered screening costs for lenders and allows them to tailor individual loans to creditworthy borrowers.

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 sufficient 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 7 shows that the marginal legislator aligned with the ruly 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 7, we can as a conservative estimate attribute a fifth of the aggregate increase in household building values following a positive shock to local political alignment to the expansion in bank borrowing.

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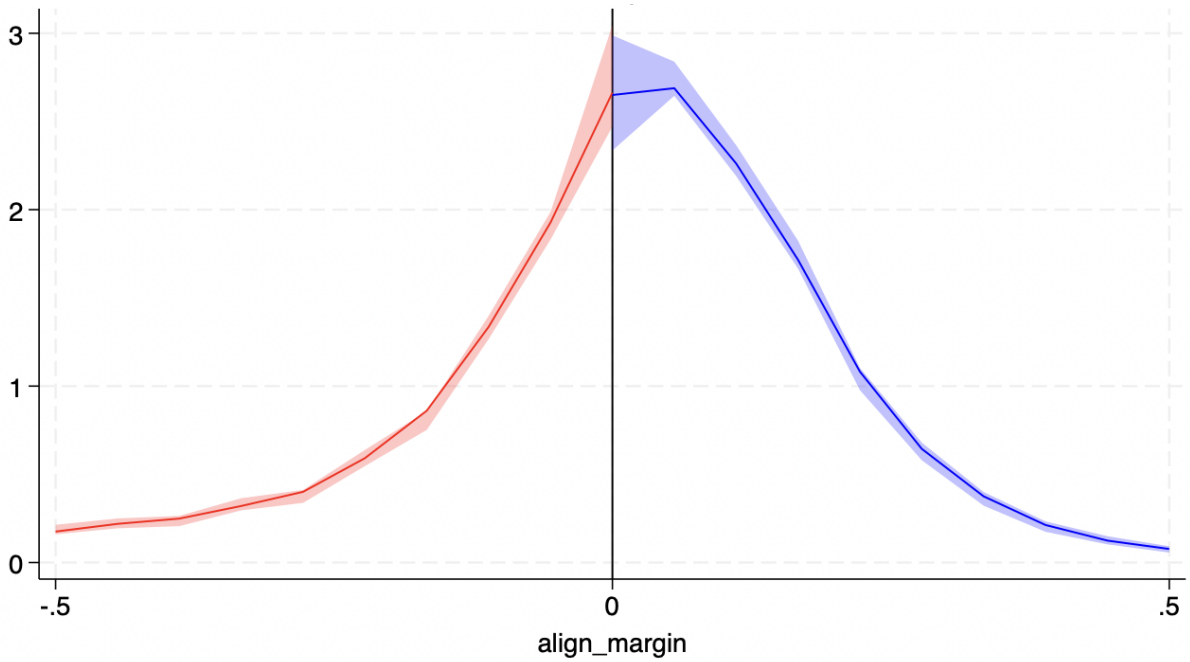
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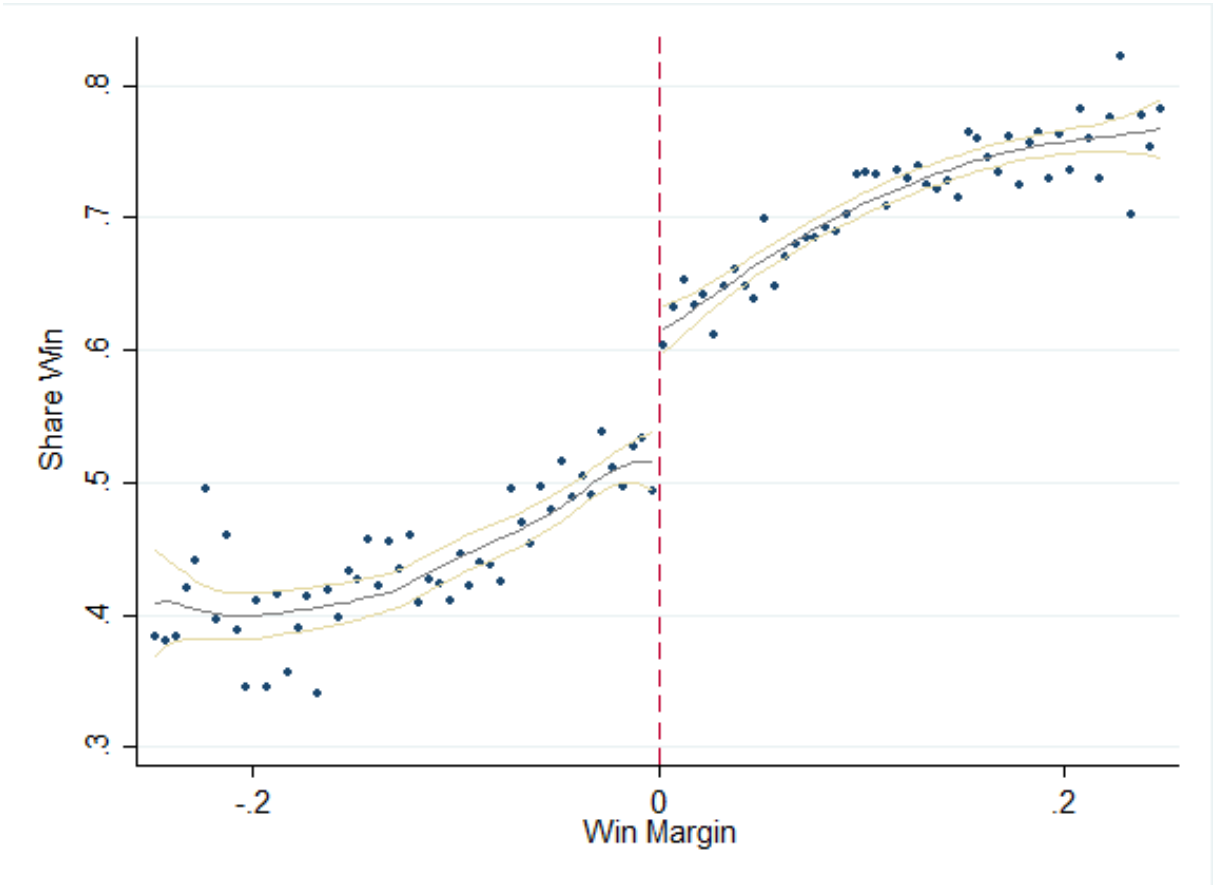
8 Figures

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.

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.

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	42096.957**	47267.080***	31853.373**	36114.634**	10243.583**	11152.446**
	(16703.495)	(16349.894)	(15256.761)	(14571.146)	(4844.581)	(5012.194)
Observations	318062	318062	318062	318062	318062	318062
Dep. Var. Mean	39967.38	39967.38	30081.24	30081.24	9886.14	9886.14
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	-1797.394	57990.197**	-9983.832	90753.811***
	(15376.464)	(27135.689)	(13453.647)	(29180.108)
High Bank × Align Win	91941.538**			
	(38381.675)			
High SBI × Align Win		-21838.623		
		(38867.194)		
High Nationalised Bank × Align Win			138315.278***	
			(50278.112)	
High Regional Bank × Align Win				-102934.978***
				(38204.830)
Observations	318062	318062	318062	318062
Dep. Var. Mean	39967.38	39967.38	39967.38	39967.38

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

	(1)	(2)	(3)	(4)
	Bank Credit Amount (INR)			
Align Win	62293.452		62385.127	
	(39500.807)		(42233.094)	
Comm. Bank × Align Win		65875.075		66791.418
		(46142.555)		(52472.542)
Align Win			-16698.102	-25543.617
			(21347.335)	(24887.803)
Observations	74708	52607	74712	52609
Dep. Var. Mean	74962.77	77149.12	74962.77	77149.12
Household FE	Y	Y	N	N
District FE	Y	Y	Y	Y

Notes: This table compares religious and non-religious conflicts across minority and non-minority concentration districts. The unit of observations is the district. Columns (1)-(2) pertain to religious riots; columns (3)-(4) pertain to non-religious riots; columns (5)-(6) pertain to murders. The outcome of interest in columns (1), (3) and (5) scales riots by the district's population in 2001. All specifications include state and year fixed effects, in addition to a linear polynomial in the running variable. All specifications restrict the sample to a bandwidth of .058 around the discontinuity threshold, and are weighted using a triangular kernel and the district population in 2001. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 4: Political Alignment and Loan Delinquency

	(1)	(2)	(3)	(4)	(5)	(6)
	Pr(Any Delinquent Loan = 1)					
	Bank Loan	Commercial Bank	Co-Operative Bank	NBFC	Informal	Any Source
Align Win	-.072	-.087	-.235	.016	.039	-.076
	(.077)	(.076)	(.152)	(.072)	(.090)	(.072)
Observations	64382	48069	18092	13144	51025	120493
Dep. Var. Mean	.20	.20	.19	.05	.28	.22

Notes: This table shows the impact of political alignment on loan delinquency. The unit of observation is the household. The outcome of interest is a binary equaling 1 if the household has a delinquent loan at the time of survey. Column (1) considers a delinquent loan from either a commercial or a co-operative bank; column (2) considers a delinquent loan from commercial banks; column (3) considers a delinquent loan from a co-operative bank; column (4) considers a delinquent loan from a NBFC; column (5) considers a delinquent loan from informal sources; column (6) considers a delinquent loan 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 5: Political Alignment, Bank Credit and Cost of Credit

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Bank Loan Amount (INR)						Interest Rates		
	Bank Loan	Bank Loan	Comm. Bank	Comm. Bank	Co-Op. Bank	Co-Op. Bank	Bank	Comm. Bank	Co-Op. Bank
Align Win	54736.608**	54313.029***	44129.328**	42967.477**	10607.280	11345.552*	.001	.007	-.009
	(24574.689)	(20862.027)	(21545.970)	(18462.145)	(7351.991)	(6252.985)	(.009)	(.009)	(.014)
Last 2 Yrs × Align Win	-21028.372		-23865.595		2837.223				
	(31572.301)		(28394.958)		(10184.144)				
Last Yr × Align Win		-30936.500		-29731.702		-1204.798			
		(33947.905)		(31737.043)		(8963.538)			
Observations	318062	318062	318062	318062	318062	318062	93248	63636	33125
Dep. Var. Mean	39967.38	39967.38	30081.24	30081.24	9886.14	9886.14	.11	.11	.11

Notes: This table shows the heterogeneity in the impact of political alignment on bank credit across legislator tenure. The unit of observation is the household. The outcome of interest is outstanding loan amount from commercial and co-operative banks. $Last\ 2\ Yrs$ is a dummy equaling 1 if survey is undertaken in the last 2 years of the legislator's tenure; $Last\ Yr$ is a dummy equaling 1 if the survey is undertaken in the last year of the legislator's tenure. 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 6: Political Alignment and Dispersion in Loan Size

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Loan Size Dispersion					Loan Size Dispersion (Log)				
Align Win	141762.987*	189468.019**	63809.147	24170.568	-43508.445**	.494*	.479	.623	-.239	-.477**
	(76831.471)	(84974.463)	(72102.030)	(78991.993)	(18525.762)	(.258)	(.295)	(.551)	(.811)	(.242)
Observations	1082	1081	987	862	1075	1082	1081	987	862	1075
Dep. Var. Mean	248794	275450	133983	165482	70018	248794	275450	133983	165482	70018

Notes: This table shows the impact of political alignment on the dispersion in loan size across various credit sources. The unit of observation is the district. The outcome of interest is the standard deviation in loan size across households, aggregated to the level of district. The outcome of interest is logged in columns (6)-(10). Share of elections won by 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 district covariates. All specifications are weighted using the district's population. The Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table 7: Political Alignment and Residential Real Estate

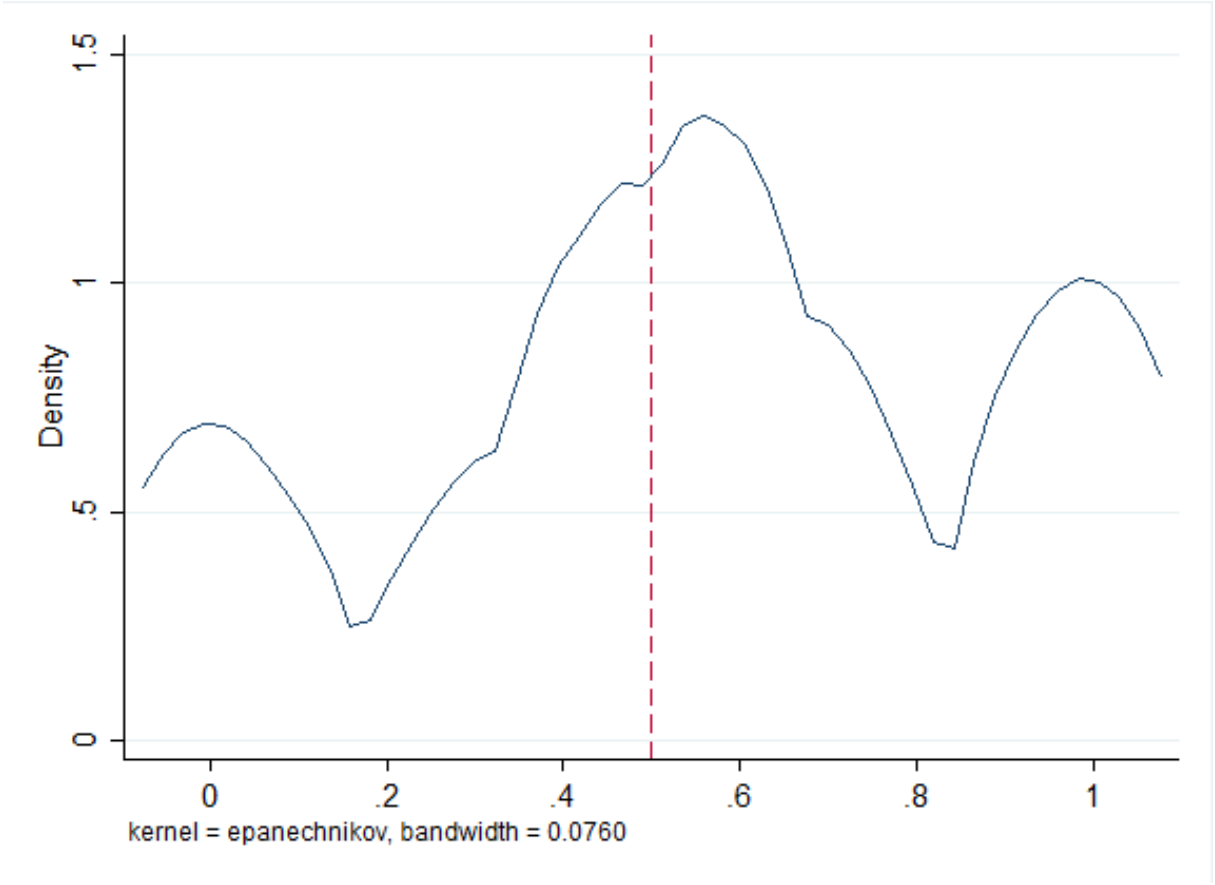
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Real Estate Values (INR)			Real Estate Area (Sq. Ft.)			Assets (INR)
	Residential	Farm	Non Farm	Residential	Farm	Non Farm	Household Assets
Align Win	289106.092**	-1533.312	1778.322	.127	-.001	-.069	545676.724**
	(138315.838)	(2783.197)	(7285.750)	(20.942)	(1.671)	(1.673)	(272185.963)
Observations	318062	318062	318062	318062	318062	318062	318062
Dep. Var. Mean	560991.82	6974.30	9870.57	99.21	5.13	1.21	1160568.36

Notes: This table shows the impact of political alignment on loan delinquency. The unit of observation is the household. The outcome of interest is a binary equaling 1 if the household has a delinquent loan at the time of survey. Column (1) considers a delinquent loan from either a commercial or a co-operative bank; column (2) considers a delinquent loan from commercial banks; column (3) considers a delinquent loan from a co-operative bank; column (4) considers a delinquent loan from a NBFC; column (5) considers a delinquent loan from informal sources; column (6) considers a delinquent loan 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%

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 Number of Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	No. of Close Wins						
No. 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 : *No. 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								
No. Close Elections	.545***	.545***	.544***	.545***	.544***	.545***	.545***	.545***	.543***
	(.058)	(.058)	(.057)	(.057)	(.058)	(.057)	(.057)	(.057)	(.058)
Rural	-.906								
	(.877)								
Female		.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
$H_0 : No.\ Close\ Elections = 0.5$ (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											
No. 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
$H_0 : Cl.\ Elections = 0.5$ (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)
			Share Close Wins			
Turnout	.428					
	(.368)					
Electors						
Reserved Seats		-.268				
		(.334)				
Effective Parties			-.093**			
			(.041)			
Candidates				-.003		
				(.011)		
Share Wins, Lag					.082	
					(.077)	
Share Close Wins, Lag						-.047
						(.047)
Observations	1076	1076	1076	1076	1076	1076
Indep. Var. Mean	.64	.24	2.09	11.51	.59	.50

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; *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. 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 A5: Do District Demographic Factors Predict Close Electoral Wins?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Share Close Wins								
Rural	-.655*								
	(.338)								
Female		.111							
		(.964)							
SC			.180						
			(.298)						
ST				-.016					
				(.390)					
OBC					.139				
					(.210)				
Hindu						-.123			
						(.309)			
Muslim							.139		
							(.340)		
Household Size								.031	
								(.037)	
Female Head									.413
									(.527)
Observations	1076	1076	1076	1076	1076	1076	1076	1076	1076
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. 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 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	-.250											
	(.309)											
Secondary Educated		-.617*										
		(.324)										
LFP			.369									
			(.333)									
Self Employed				-.049								
				(.341)								
Salaried Workers					.248							
					(.541)							
Unemployment						-.109						
						(1.096)						
Farm							.074					
							(.229)					
Manufacturing								.034				
								(.591)				
Trade									-.283			
									(.666)			
Services										-.141		
										(.445)		
Construction											-.176	
											(.554)	
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

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. 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 A7: Do District Bankig Characteristics Predict Close Electoral Wins?

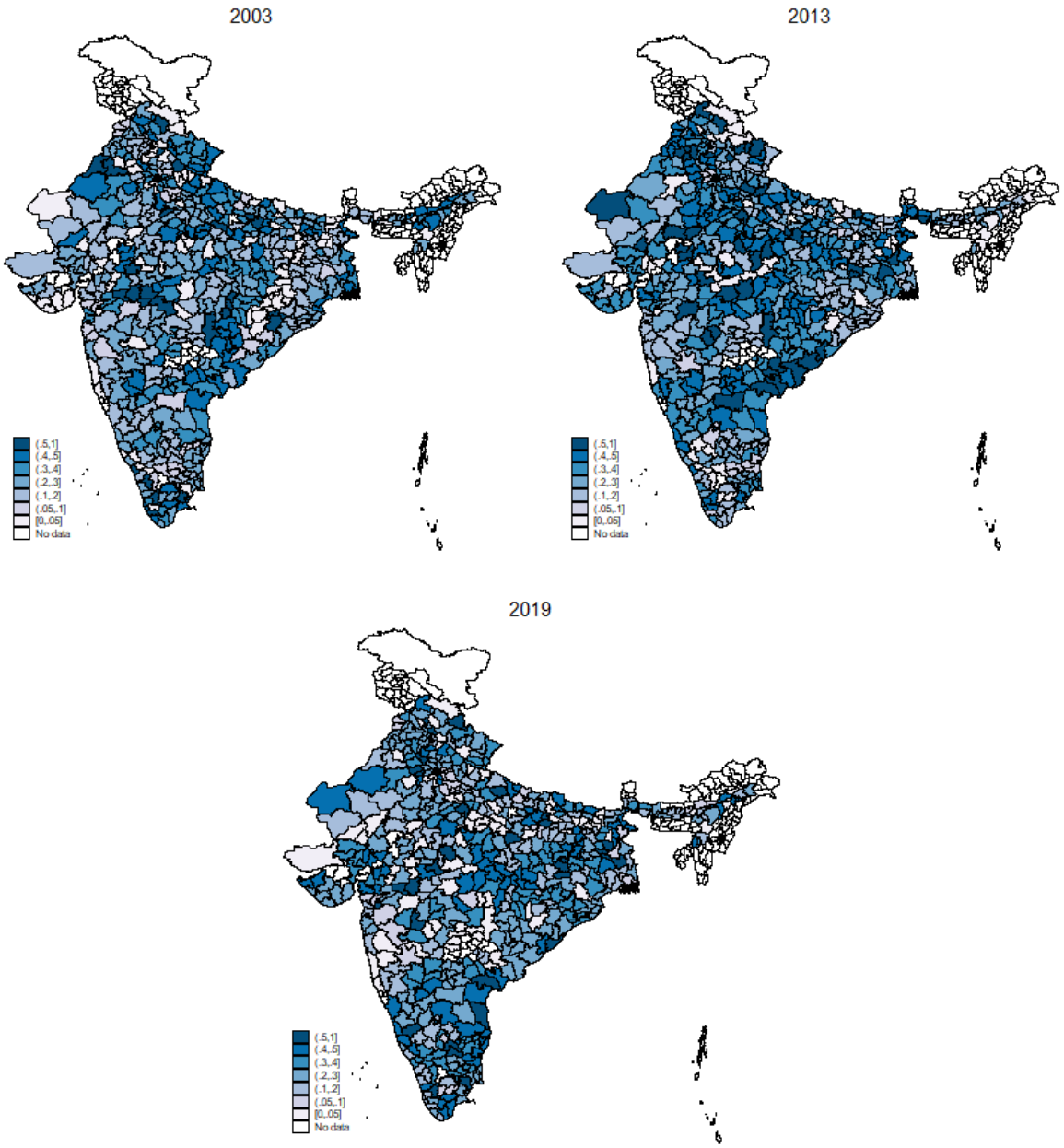
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				Share Close Wins				
Total Branch	-232.099							
	(252.631)							
State-Owned Branch		-349.793						
		(414.967)						
Private Branch			-587.992					
			(579.915)					
Deposits				-.000				
				(.000)				
Total Loans					-.000			
					(.000)			
Farm Loans						-.001		
						(.002)		
Manufacturing Loans							-.000	
							(.000)	
Personal Loans								.000
								(.000)
Observations	1076	1076	1076	1076	1076	1076	1076	1076
Indep. Var. Mean	.00	.00	.00	209.24	175.25	14.34	74.63	27.97

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. 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%

B Appendix: Additional Results

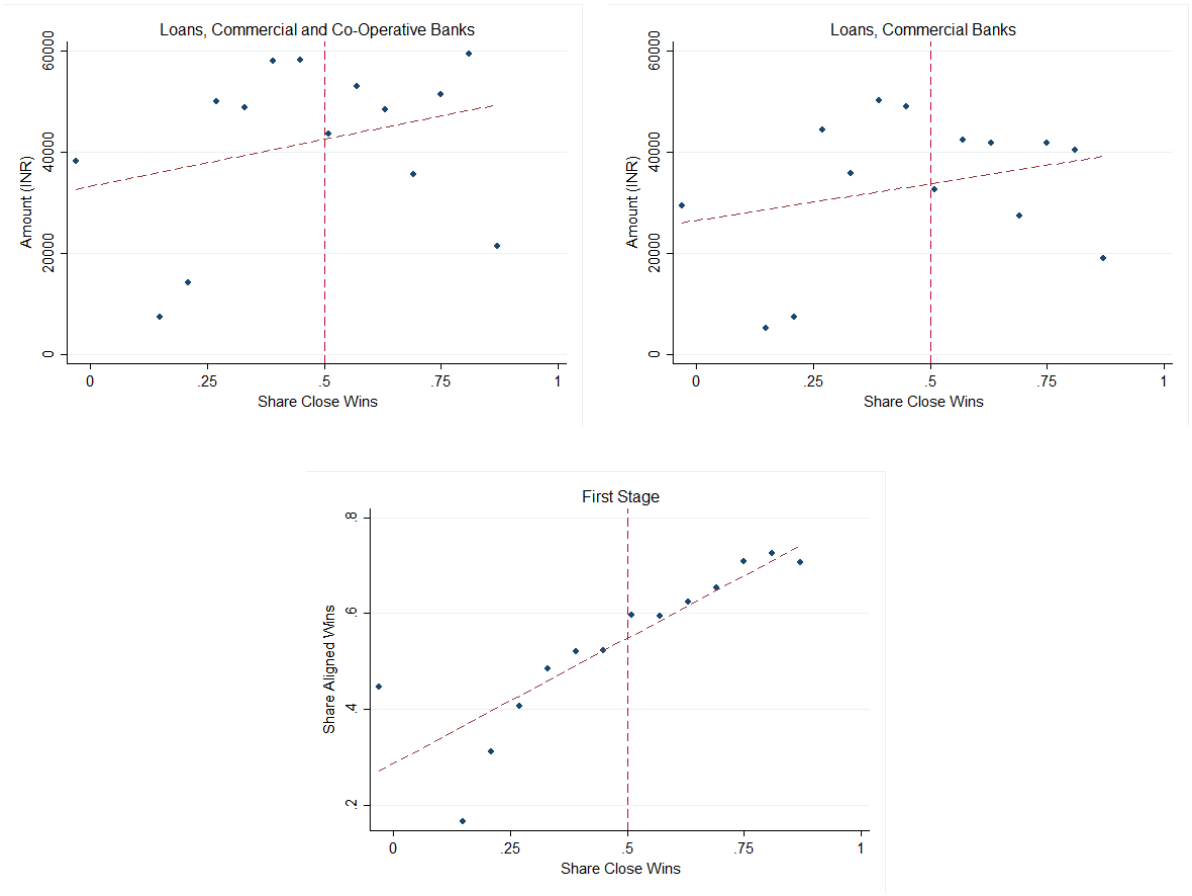
B.1 Figures

Figure B1: Geographical Distribution of Close Elections Involving Ruling Party



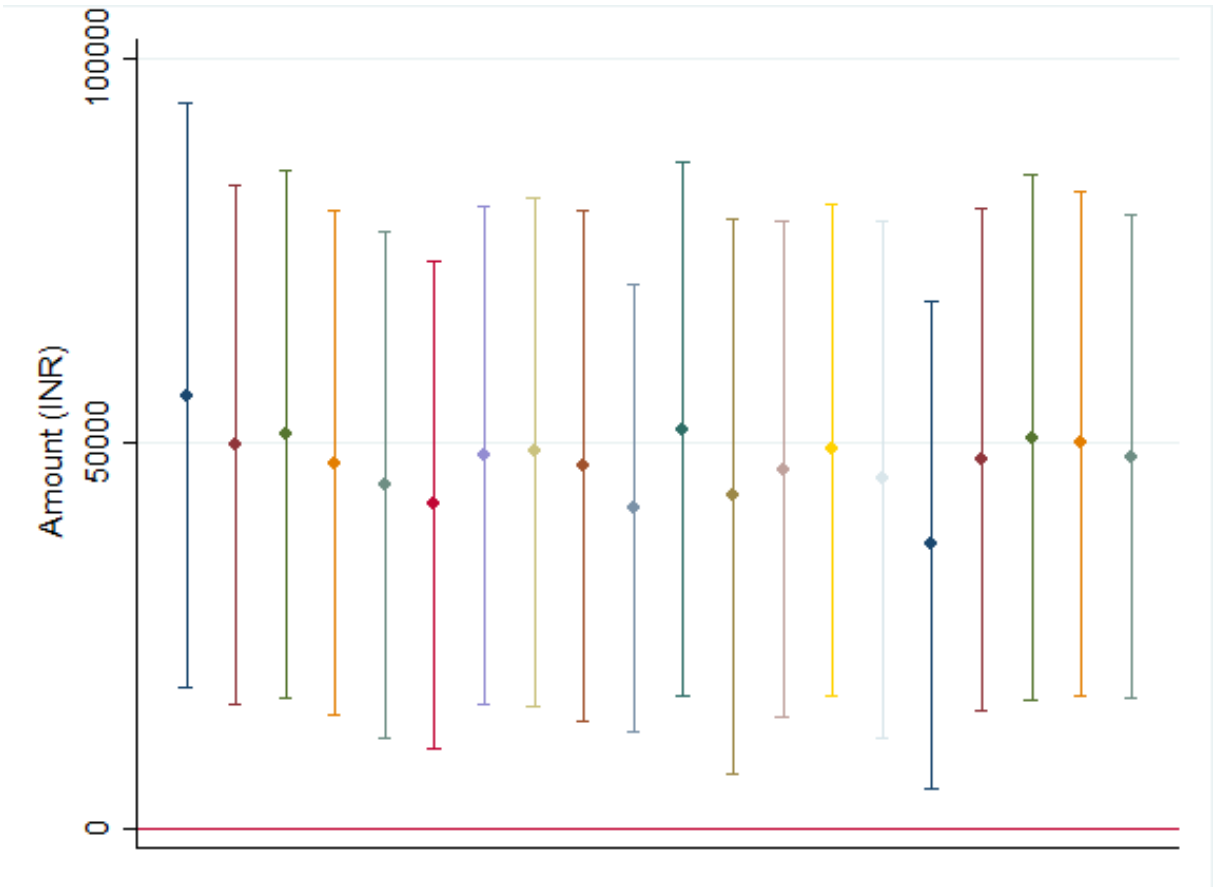
Notes: The above figures show the geographical distribution of close elections involving the ruling party in 2003, 2013 and 2019. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

Figure B2: Unconditional Reduced Form and First Stage Relationships



Notes: The above figure plots the unconditional reduced form and first stage relationship. The unit of observation is the district. The horizontal axis is the share of close elections won by the ruling party in a district. The The top-left panel plots average loan volume from commercial and co-operative banks; the top right panel plots average loan volume from commercial banks. The bottom panel plots share of elections won by the ruling party in a district. The vertical line corresponds to 0.5 on the horizontal access – the value of the instrument (share of close wins for the ruling party) in expectation. Close elections are those where the outcome is decided by less than 5 percent of the votes cast.

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: 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 B2: 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 B3: 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	.232***	.224***	.232***	.224***	.232***	.224***
	(.025)	(.024)	(.025)	(.024)	(.025)	(.024)
Observations	318062	318062	318062	318062	318062	318062
Kleibergen-Paap F-Statistic	84.07	86.08	84.07	86.08	84.07	86.08
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 B4: 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	9773.665***	10601.665***	7395.409**	8100.251***	2378.256**	2501.413**
	(3633.365)	(3396.701)	(3399.875)	(3115.533)	(1065.610)	(1055.468)
Observations	318062	318062	318062	318062	318062	318062
Dep. Var. Mean	39967.38	39967.38	30081.24	30081.24	9886.14	9886.14
			Panel B: OLS			
	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	All Banks		Commercial Banks		Co-Operative Banks	
Align Win	-12844.091*	-888.624	-14761.541**	-5736.967	1917.450	4848.343**
	(7129.366)	(6960.434)	(6737.278)	(6537.045)	(2104.497)	(2070.547)
Observations	318062	314414	318062	314414	318062	314414
Dep. Var. Mean	39967.38	39967.38	30081.24	30081.24	9886.14	9886.14

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 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	9773.665***	10601.665***	7395.409**	8100.251***	2378.256**	2501.413**
	(3633.365)	(3396.701)	(3399.875)	(3115.533)	(1065.610)	(1055.468)
Observations	318062	318062	318062	318062	318062	318062
Dep. Var. Mean	39967.38	39967.38	30081.24	30081.24	9886.14	9886.14
			Panel B: OLS			
	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	All Banks		Commercial Banks		Co-Operative Banks	
Align Win	-12844.091*	-888.624	-14761.541**	-5736.967	1917.450	4848.343**
	(7129.366)	(6960.434)	(6737.278)	(6537.045)	(2104.497)	(2070.547)
Observations	318062	314414	318062	314414	318062	314414
Dep. Var. Mean	39967.38	39967.38	30081.24	30081.24	9886.14	9886.14

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)	(6)
	Bank Credit Amount (INR)					
Align Win	34793.093*	39351.873**	27962.247**	55364.245***	36192.971	47267.080***
	(20941.896)	(16821.681)	(13913.080)	(19148.286)	(22623.262)	(15102.347)
Observations	318062	318062	318062	311612	318067	318062
Dep. Var. Mean	39967.38	39967.38	39967.38	39967.38	39967.38	39967.38
Bandwidth	3pc	4pc	6pc	5pc	5pc	5pc
Weights	Y	Y	Y	Y	N	Y
Sample	Full	Full	Full	Restrict	Full	Full
Clustering	District	District	District	District	District	State

Notes: This table shows robustness of the baseline IV 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. Columns (1)-(3) show robustness to altering the threshold for close elections to 3, 4 and 6 percent of the victory margin. Column (4) omits districts witnessing no close electoral contest involving the ruling party. Column (5) omits household weights; column (6) clusters the standard errors by state as opposed to district. Specifications with the exception of column (5) weights the regressions with the AIDIS provided household multipliers. Standard errors in parentheses, clustered by district in all specifications except column (6). Significant levels: *10%, **5%, and ***1%

Table B7: Political Alignment and Bank Credit: Robustness Checks

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
Align Win	36311.190***	37533.093**	74327.087***	65509.283**	34920.947***	10481.009**
	(12258.889)	(14794.999)	(27572.748)	(26399.097)	(13209.788)	(4529.831)
Observations	314414	318062	318062	318062	318062	318062
Dep. Var. Mean	39967.38	39967.38	39967.38	39967.38	30246.90	10291.72
State-Year Fixed Effects	N	Y	N	Y	N	N
District Time-Trends	N	N	Y	Y	N	N
Loan in Last 3 Yrs	N	N	N	N	Y	N
Loans Per Capita	N	N	N	N	N	Y

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. 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	50980.226**	5747.744*	-3972.008	-4053.788	81.780
	(21586.199)	(3096.102)	(6489.618)	(5952.665)	(2205.310)
Observations	318062	318062	318062	318062	318062
Dep. Var. Mean	61556.13	4004.48	14878.08	10553.05	4325.03

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. 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 B9: Political Alignment and Household Bank Borrowing: Purpose of Borrowing

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	Farm	Non-Farm Business	Expenditure	Human Capital	Housing	Consumption
Align Win	4310.267	871.839	42087.567***	3775.251	49467.876***	3755.520
	(5526.961)	(2508.515)	(13823.285)	(2680.605)	(18467.474)	(3445.413)
Observations	318062	318062	318062	194832	194832	194832
Dep. Var. Mean	10253.96	4202.47	21715.83	2857.14	22001.72	7176.64

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), 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 B10: Political Alignment and Purpose of Bank Borrowing: By Bank Type

Panel A: Commercial Banks

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	Farm	Non-Farm Business	Expenditure	Human Capital	Housing	Consumption
Align Win	876.558	2687.778	34217.437***	2116.206	45088.228**	219.532
	(5111.547)	(1927.164)	(12833.109)	(2600.275)	(18029.254)	(2973.615)
Observations	318062	318062	318062	194832	194832	194832
Dep. Var. Mean	7175.59	3141.47	17037.02	2223.58	18184.30	5603.68

Panel B: Co-operative Banks

	(1)	(2)	(3)	(4)	(5)	(6)
	Bank Credit Amount (INR)					
	Farm	Non-Farm Business	Expenditure	Human Capital	Housing	Consumption
Align Win	3433.709*	-1815.938	7870.130**	1659.045*	4379.648	3535.988**
	(2073.718)	(1513.147)	(3497.367)	(964.346)	(3443.836)	(1609.442)
Observations	318062	318062	318062	194832	194832	194832
Dep. Var. Mean	3078.37	1061.00	4678.81	633.56	3817.43	1572.96

Notes: This table shows the purpose of bank borrowing in response to a positive shock to political alignment, disaggregated by the type of bank. The unit of observation is the household. Panel A considers loans issued by commercial banks; Pael B considers loans issued by co-operative banks. 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), 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)
	Bank Credit Amount (INR)			
Align Win	81581.179***	41316.017**	33067.399**	65801.926*
	(28910.092)	(17188.750)	(15849.134)	(39479.718)
Rural × Align Win	-50966.435*			
	(28632.359)			
Seced. × Align Win		17768.695		
		(25034.439)		
Self-Emp. × Align Win			42266.974	
			(30323.039)	
Casual Labor × Align Win			-25428.408	
			(19910.420)	
Salaried × Align Win			47015.416	
			(33261.726)	
OBC× Align Win				-12516.154
				(38735.528)
SC/ST × Align Win				-44529.934
				(40217.661)
Muslim × Align Win				-52980.787
				(49736.784)
Observations	318062	318062	291053	318062
Dep. Var. Mean	39967.38	39967.38	39967.38	39967.38

Notes: This table compares religious and non-religious conflicts across minority and non-minority concentration districts. The unit of observations is the district. Columns (1)-(2) pertain to religious riots; columns (3)-(4) pertain to non-religious riots; columns (5)-(6) pertain to murders. The outcome of interest in columns (1), (3) and (5) scales riots by the district's population in 2001. All specifications include state and year fixed effects, in addition to a linear polynomial in the running variable. All specifications restrict the sample to a bandwidth of .058 around the discontinuity threshold, and are weighted using a triangular kernel and the district population in 2001. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B12: Political Alignment and Household Bank Borrowing: Heterogeneity by Political Characteristics

	(1)	(2)	(3)	(4)
	Bank Credit Amount (INR)			
Align Win	49511.586**	33857.928*	30184.213*	38873.036**
	(20158.443)	(18619.031)	(17824.240)	(17779.337)
INC × Align Win	-22997.988			
	(39936.492)			
BJP × Align Win		48762.620		
		(41566.123)		
Large Majority × Align Win			46483.692	
			(44036.414)	
High Turnout × Align Win				17623.876
				(27852.726)
Observations	318062	318062	318062	318062
Dep. Var. Mean	39967.38	39967.38	39967.38	39967.38

Notes: This table tests for heterogeneity in political alignment across political characteristics. 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. *INC* is a dummy equal to 1 if the state ruling party is the INC; *BJP* is a dummy equal to 1 if the state ruling party is the BJP. *Large Majority* is a dummy equaling 1 if the ruling party has won in excess of 60 percent of seats in the state. All specifications control for district and year fixed effects, along with the share of close elections contested by the ruling party and district and household covariates. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%

Table B13: Political Alignment and Loan Delinquency: Lagged Effects

	(1)	(2)	(3)	(4)	(5)	(6)
	Pr(Any Delinquent Loan = 1)					
	Bank Loan	Commercial Bank	Co-Operative Bank	NBFC	Informal	Any Source
Align Win	-.132	-.158*	-.320**	-.054	-.060	-.139*
	(.081)	(.084)	(.141)	(.098)	(.118)	(.077)
Align Win, Lag 1	-.246**	-.288***	-.297	-.148	-.378**	-.289***
	(.103)	(.111)	(.207)	(.162)	(.155)	(.104)
Observations	64382	48069	18092	13144	51025	120493
Dep. Var. Mean	.20	.20	.19	.05	.28	.22

Notes: This table compares religious and non-religious conflicts across minority and non-minority concentration districts. The unit of observations is the district. Columns (1)-(2) pertain to religious riots; columns (3)-(4) pertain to non-religious riots; columns (5)-(6) pertain to murders. The outcome of interest in columns (1), (3) and (5) scales riots by the district's population in 2001. All specifications include state and year fixed effects, in addition to a linear polynomial in the running variable. All specifications restrict the sample to a bandwidth of .058 around the discontinuity threshold, and are weighted using a triangular kernel and the district population in 2001. Standard errors in parentheses, clustered by district. Significant levels: *10%, **5%, and ***1%