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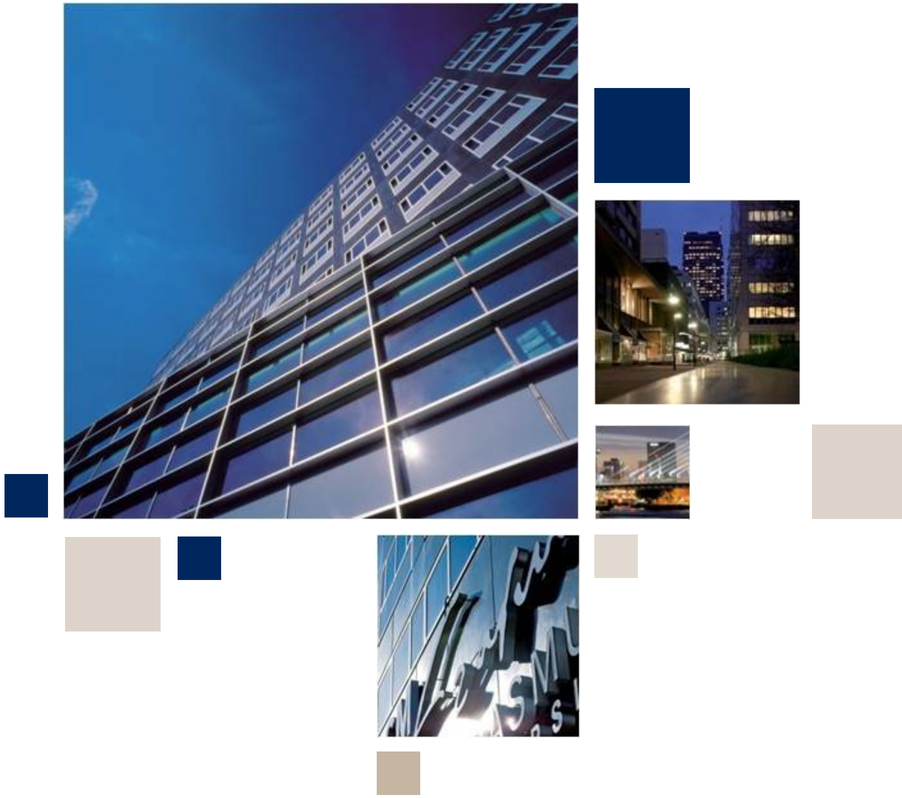
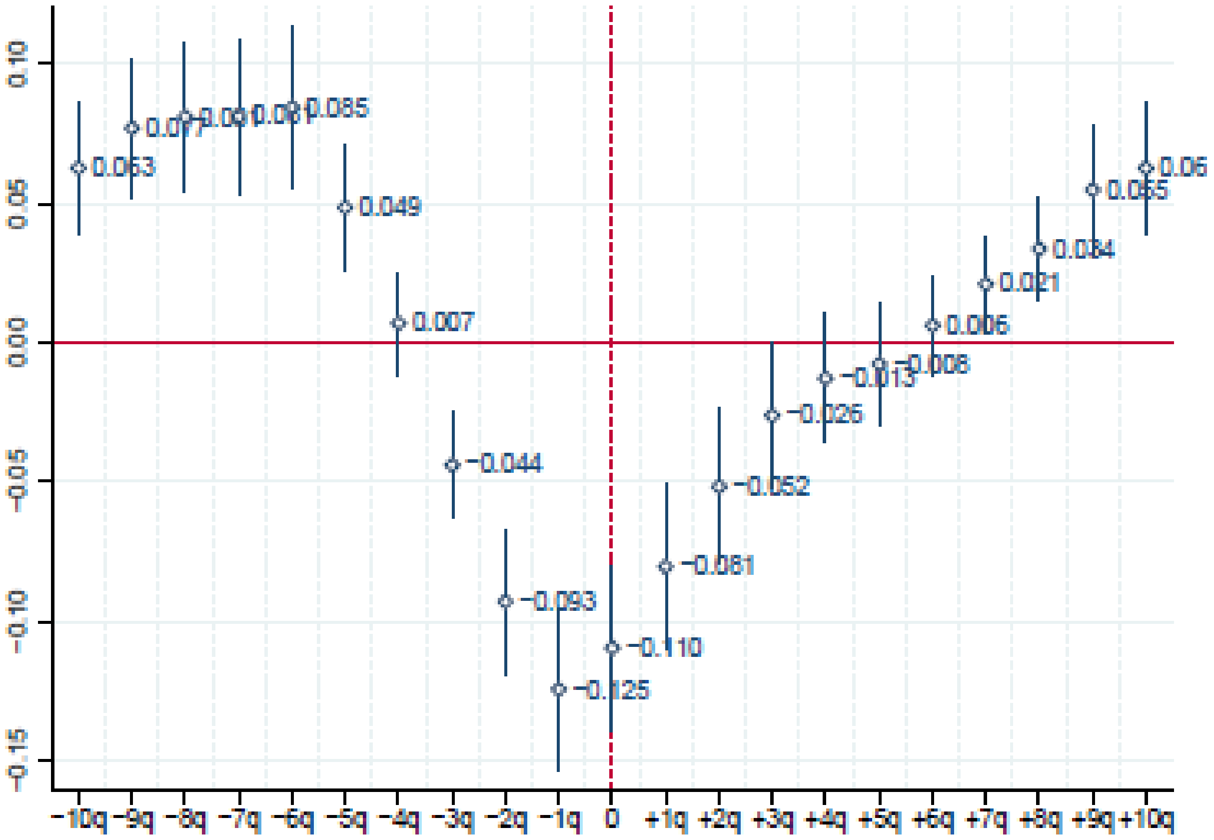


POLITICAL LENDING CYCLES AND REAL OUTCOMES: EVIDENCE FROM TURKEY

Discussion by Thomas LAMBERT

Lenzerheinde 2018

THIS PAPER



(1) State-owned banks reduce their lending around local elections years

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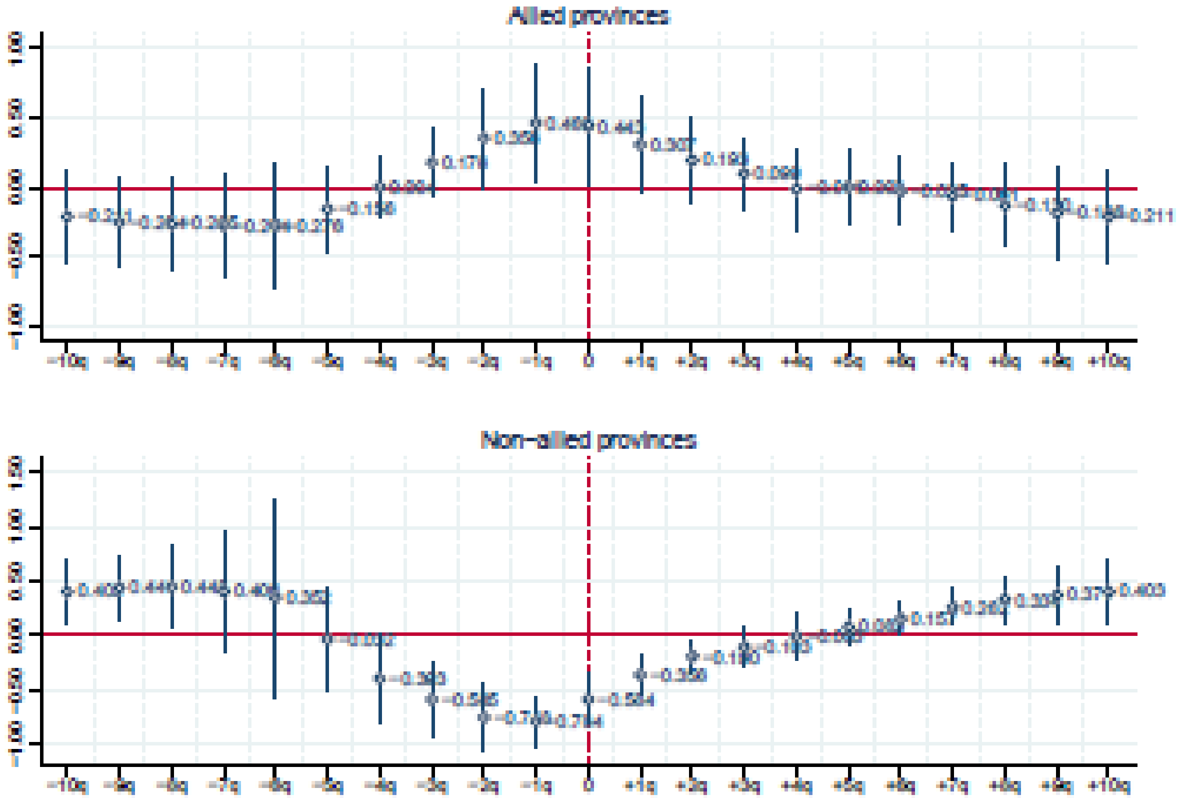
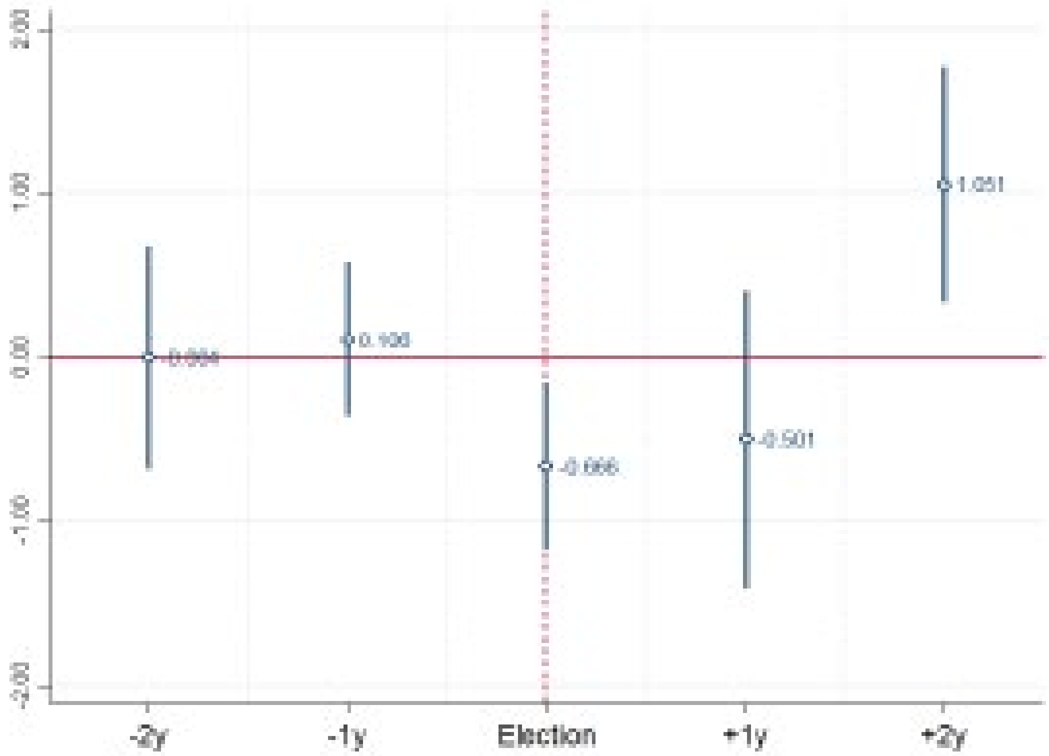


(2) Strategic redistribution in areas with contested or close elections

THIS PAPER (3)



(3) The cost of strategic redistribution is large, standing at 1% drop in total economic output

HOW NEW ARE THE RESULTS?

- A number of papers have also documented the role that banks can play in facilitating political favoritism:
  - E.g. Sapienza (2004) Khwaja and Mian (2005) Dinc (2005) Cole (2009) Dinc and Gupta (2011)
  - See Lambert and Volpin (2017) for a survey

- Strategic redistribution of resources around elections:
  - Bertrand *et al.* (RoF 2018) show that French politically-connected CEOs over-hire and over-invest in mayoral election years, especially in politically contested areas
  - Additional evidence on state-owned banks: Cole (AEJ 2005) Carvalho (JF 2014) Englmaier and Stowasser (JEEA 2017)

- Political favoritism is costly overall:
  - **Private costs** of bank political connections: Duchin and Sosyura (2012) Lambert (2018) Bian *et al.* (2018)
  - **Social costs** of political connections: Khwaja and Mian (2005) estimate at 0.3-1.9% of GDP/year the economy-wide costs of politically-motivated lending

HOW NEW ARE THE RESULTS? (2)

New insights on the large literature on political business cycles (Nordhaus 1975)

- The banking literature shows that state-owned banks **increase** their lending around elections years
  - E.g. Dinc (2005) Cole (2005) Englmaier and Stowasser (2017)

- Bertrand *et al.* (2018), among many others, also document an increase of resources in elections years.

- Here, a large significant **decrease** is documented. Why?

PROVIDE MORE INSIGHTS ON THE FIRST RESULT

What determines (the size of) the political cycle?

- Is it a mechanical effect of the second result?
  - The number of contested (i.e. non-aligned) areas exceeds the number of aligned areas driving the negative result which is in line with **patronage/strategic redistribution** explanations
  - Current tests don't allow to quantify whether it's the case
  - Does a drop in lending occur prior to each election in Turkey?

- **Asymmetric information** between politicians and voters:
  - Politicians manipulate policy tools around elections to fool voters
  - Look at e.g. income per capita, level of education, share of rural population

- Are state-owned banks more sensitive to **political uncertainty**?
  - See Akey and Lewellen (2017)

- Weaker **corporate governance** at state-owned banks?

CLARIFY THE THEORETICAL MECHANISM

- Politicians want to be reelected and thus have a clear incentive to influence lending decisions by banks
  - Lending due to change in the extensive margin may be more effective at gaining new voters

- **What is the incentive of state-owned banks to engage in politically motivated lending?** What do they receive in exchange (tax benefit, preferential treatment in enforcement)?

- First establish the fact that the electorate responds to availability of credit when deciding whether to re-elect an aligned politician
  - Look at the change in the fraction of the votes going to incumbent (aligned) party between the current and last elections

- Otherwise, there would be no incentives for state-owned banks to engage in politically motivated lending

- This would also clarify why do the effect is driven by corporate loans and not consumer loans

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MEASUREMENT OF ELECTORAL COMPETITION

- Your measure of electoral competition is the realized margin of victory/loss of the ruling party AKP in the upcoming election for the two years prior to the election.
- Is it a valid proxy for expected electoral competitiveness?
- Ideally, you would like the poll data indicating the expected margin of victory prior to the election
- As this is the central measure in your paper, you should examine other alternative aspects and measures of electoral competition:
  - Levels of historical entrenchment of the incumbent party (**swing district**)
  - The number of competing parties per election (**political fragmentation**)

CONCLUSION

- There is a lot to like in this paper
- Nice data, interesting analyses
- Important implications

- Provide a broader picture of the **determinants** of political lending cycles
- Examine more in depth the **costs** of political lending cycles
- Strengthen identification of key results/explanation of mechanism
- ➢ This would clarify the novelty of the findings and the contribution

- Good luck with the paper!