Safety Nets, Credit, and Investment:

Evidence from a Guaranteed Income Program

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Summary

- Paper studies a really important question, and I congratulate the authors on producing a very nice paper
  - Meaningful welfare program, credible identification, impressive data work
  - Striking results with direct policy implications
  - Also aims to explore mechanisms

- Big Picture Framing: Public vs Development Economics

- Will organize my comments around:
  - Identification, measurement/data, interpretation

Identification

- Comparing landowners vs non-landowners, and uses detailed data from one bank to identify these groups
- Some surprising differences in baseline levels (C > T for income, savings)
  - Goes away with fixed effects, but curious about what this could mean about the composition of the control group
- Parallel trends are also satisfied
- But still have to worry about spill-overs - could be positive or negative
  - Cannot ignore this given the amount of evidence of GE effects in rural Indian labour and credit markets (MNS 2022, Breza & Kinnan 2021)
  - You have a test for this in Table D.1, which suggests that spill-overs do matter (though the treatment effect is still significant and maybe larger)
  - Unfortunately, the Placebo does not help you with this problem
  - So, I suggest dealing with this earlier and upfront (as opposed to a later placebo) because it is quite central to the credibility of what comes later
- Also, may be worth looking at differential impact by land-size (value of grant is bigger deal for the smaller landholders) and the multipliers may be different?

Measurement

- Data is coming from just one bank (albeit a large one) – which provides rich background data on the study sample
- Two limitations:
  - You are likely not capturing even all the transactions in the formal financial system (will affect magnitudes, which is key for multiplier)
  - Have to worry about greater engagement with the formal financial system in the treated group as a result of the treatment (can bias results)
- May be worth getting data from a few other major banks if possible
  - Government should be supportive given policy importance; could try after JM
- Credit should be better since bureau data should capture *all* formal borrowing
  - But you do not include the kisan credit card borrowing (and don't fully explain why)
  - Given the scale of the program and measured impact on credit, can you test if *total* credit in the economy went up or was displaced from other sectors?
- You may want to start with the total output results first (since this is measured as a census with satellite data), and then explore credit, investment, savings
  - May not want to call your formal savings outcome as "income"

Interpretation

- You are pushing the mechanism that the results are driven by credit demand as opposed to credit supply
  - This is mainly based on household survey responses, and finding a change in the rate of credit application but not in the rate of credit approvals
- But there are also good reasons to think that creditworthiness improves as a result of the program, and makes banks more willing to lend
  - Eg. Drechsel (AEJ Macro forthcoming) shows that banks care more about borrowers having cash flow to meet their interest payments than about collateral
- Given what else we know about credit markets in India – combination of credit rationing to borrowers AND banks holding large amounts of government securities (well above SLR) – it would seem that reducing loan risk from the perspective of the lending officer would be key
- It is fine to show and note that the program reduced borrowers anxiety about borrowing, but not clear that you need to rule out action on the lender side
- Overall, an impressive project – but there is a lot going on, and it's important to identify your most important results and do your best to make them stronger