Discussion of :
Social Collateral

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What's the Basic Idea?

- The authors use a randomized control trial at a bank in Vietnam to:
  - estimate the relevancy of social reputation to delinquency behavior of borrowers, and to
  - explore the microfoundation of these effects:
    - hedonic - social reputations have intrinsic value, or
    - instrumental - social reuptations are a means to accomplishing ends in the social/labor market.
  - and show that borrowers both reduce debt accumulation and default likelihood

Comments Outline

- This is just a really fun paper. RCTs are awesome, and we should all definitely start partnering with Vietnamese banks.
- Outline for my thoughts:
  - Literature backdrop/contribution
  - External Validity/Selection
  - Smaller Thoughts

Literature on Social Reputation and Credit

- There is a well-developed literature exploring the value of social reputation and how social reputation influences consumer/borrower behavior. (e.g., DellaVigna, List & Malmendier, 2012, Liberman, 2016, Bursztyn, Ferman, Fiorin, Kanz & Rao, 2018, Breza & Chandrasekhar, 2019)
- All of the papers have made an argument about the microfoundation of their effect (hedonic vs. instrumental), i.e.
    - DellaVigna, List & Malmendier (2012) have a field experiment that seems to be picking up a hedonic motivation for voting, and
    - Liberman (2016) finds that Chileans care about their reputation because it affects their ability to borrow from "another" bank, which is an instrumental motivation for managing one's social reputation.

Hedonic Versus(?) Instrumental

- The paper argues that because the treatment effect is only for groups that are more sensitive to the future costs of a damaged reputation (e.g., social reference is an employer, borrower is more exposed to the marriage market) that the channel is instrumental. Further, hedonic concerns are assumably equally distributed between control and treatment samples.

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- This is consistent with an instrumental mechanism of social reputation, but the literature has never really wondered about whether there was an instrumental (rational?) explanation for caring about social reputation - the question is whether there were hedonic motivations in a financial context.
  - Also, the insignificant point estimates from when the social reference is a relative are still economically meangingful (it may just be a power issue).
- Most likely a combination of both mechanisms is going on, and it's hard to argue that the sample and tests from this paper are widely applicable to developed credit markets.

Highlighting Where We Can Apply This Paper

- The authors are well aware of the differences between the field experiment's market and other developed credit markets.
- I don't think that this is a liability, but I just want more help in thinking to where I should apply the findings of this paper. To what extent do these findings apply to developed markets? Is this representative of a certain type or stage of a developing economy?

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- I think summary statistics relative to other peer countries/markets/demographic segments would be very helpful.
- The RCT does a good job of randomizing conditional upon people choosing to participate in the study, but can we get a sense of the selection between the population and those that opt into the trial (more on the difference between the C and N groups, not just their delinquency behavior)?

Lucas Critique

- I wonder how markets would respond in equilibrium to lending decisions requiring social references.
- The paper finds very little effect if the reference is a family member. My guess is that requiring social references to be notified of a delinquency would lead to applicants only listing family members/friends where the social fallout of delinquency is mitigated.
- More broadly, I think it's outside of the scope of the paper to pin these GE effects down completely, but I would love a few sentences speculating about the long-term equilibrium where the policy proposals of this paper have been implemented.

Effect Beyond Credit Registry?

- The paper finds that informing borrowers that their delinquencies will be shared with a social reference is as effective as telling them that delinquency is recorded on the national credit registry.
  - What I really want to know is the contribution of social reputation orthogonal to credit report reporting. Answering this question would potentially broaden the impact of the paper to developed economies. I don't think we can answer this question directly without a new study (arg!), but are there demographic groups that are more likely to understand credit registries (those that have borrowed before? those that have had previous delinquencies? older applicants? survey responses about credit registry?), and do we see similar effects within these groups? This would be cool.

Smaller Thoughts

- I want more about the LASSO procedure. How much of the variation in default is explained in the training sample?

Conclusion

- This is a really cool RCT highlighting the importance of social reputation in developing credit markets.
- I don't think it puts to bed the discussion about the hedonic vs. the instrumental mechanism for social reputation mattering for credit markets.
- I'd like more help thinking about how far I can apply the findings of this paper and what they mean for consumer credit markets in equilibrium.

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