

” Financial crises, business cycles, and bankruptcies in the very long run: France during the 19th century”

by Vincent Bignon

Discussion by Øyvind Eitrheim, Norges Bank

Past Present and Policy 4th International Conference: ”The
sub-prime crisis and how it changed the past”

Disclaimer: The views expressed are those of the discussant and do not
necessarily reflect those of my colleagues or the official views of Norges Bank

3 February 2011

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The strategy of the paper

- Detailed discussion about the sources of the bankruptcy rate data over almost a century
- The paper offer new information from a fiscal source (the *Patente*) for the population of firms that may go bankrupt
- Substantial efforts were undertaken to ensure consistency across the broad time period spanning a century
- De-trending bankruptcy rates and other macroeconomic series for the 19th century France
- Indicators of financial and monetary crises
- .. and their link to the bankruptcy rate and monetary and financial variables
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Main findings

- The variance of the short-term component of the bankruptcy rate is declining after 1870 (showing significantly smoother behavior)
- In contrast, before 1860 any financial turmoil drove the business failures to hits.
- This finding is linked to improvements in the central bank's capacity to provide liquidity during crises.

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 - ▶ Do we have all relevant data?
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Bankruptcy rates in France 1820-1913

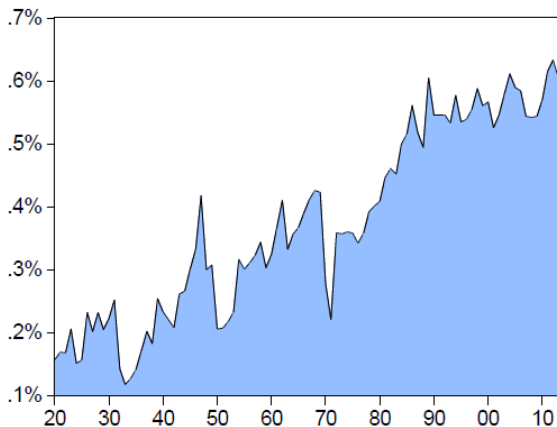


Figure I: Bankruptcy rate in France (1820-1913)

Variance of detrended bankruptcy rates

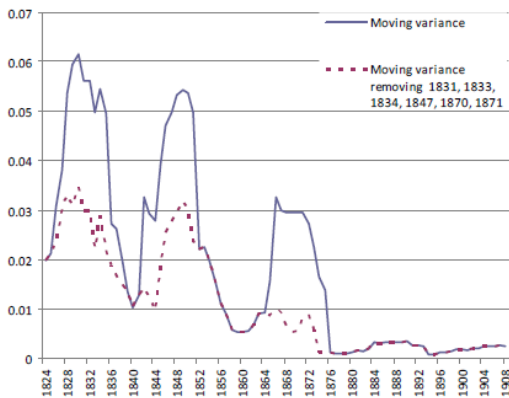


Figure V : Variance of the deviation of the bankruptcy rate from its log trend – i.e. $\log(BR+1)$ – using a moving window of width 10 years. ¹⁸

Source: Author's computations.

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Cf. Conan Doyle (1891, Scandal in Bohemia)

- Bankruptcy rate: corporate structure matters for risk taking (small personal companies vs partnerships vs limited liability corporations), composition effects?
- Money and credit: 19th century France, period with .. greatest financial developments... & monetization, network of branches of BdF, deposit banks etc ?
- Crisis indicator: broad/narrow?, global/local? big/small? selection criterion?
- Role of other macro variables: financial distress may interact with macro disturbances and exacerbate downturns (Bordo and Haubrich, 2010, JME)
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- Comes in handy in periods of crisis
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- Three observations after 1870
 - ▶ Small variability in bankruptcy rates, GDP & IP
 - ▶ Shift to lower interest rates (more expansionary policy)
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Metallic reserves in 19th century France

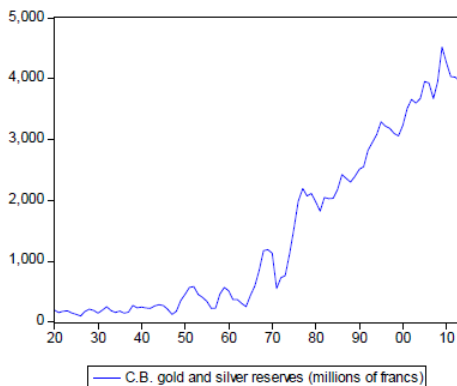


Table XXI: The metallic reserves in the safes of the Banque de France
Source: INSEE, Annuaire statistique de la France 1946, partie retrospective (p. 143-4)

Monetary policy in 19th century France

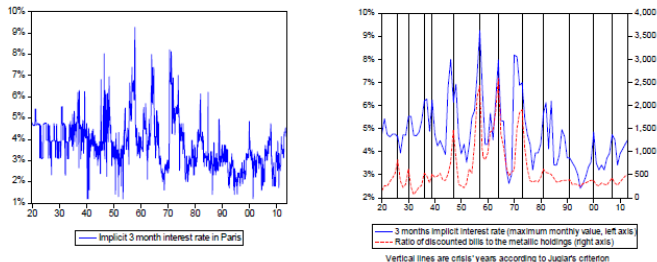


Figure XII: (a) left panel: Monthly observation of the implicit interest rate 3 months; (b) right panel: The implicit 3 month market rate in Paris (annualized by taking the maximum value of each year), the refinancing ratio of the central bank, 1820-1913

Discount ratio in 19th century France

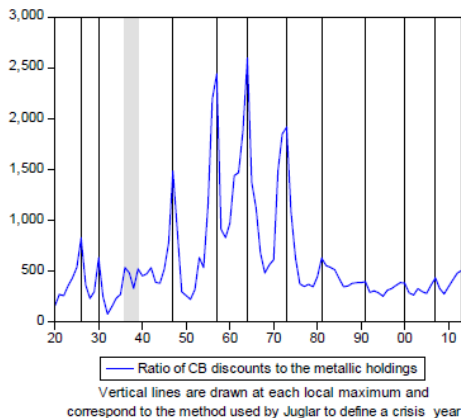


Figure X. Ratio of the refinancing activity of the Banque de France to its metallic holdings

Banknote ratio in 19th century France

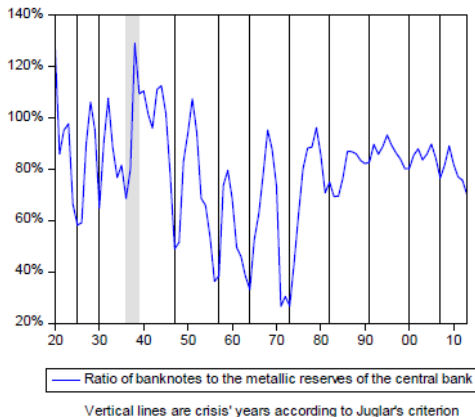


Figure XI. The liquidity ratio of the French central bank
Source: Author's computation using INSEE 1946 statistical yearbook p. 143*-144*

Wrapping up

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- Bankruptcy rates stabilized around 0,6 per cent and variability declined after 1870
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- Post 1870 France was a period of rapid development (from great depression to great moderation?)
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