Vincent Bignon

Financial Crises, Business Cycles, and Bankruptcies in the Very Long Run: France during the 19th Century

Obnoxious and wholly inappropriate comments
by

Albrecht Ritschl, LSE

PPP4, Geneva, February 2011

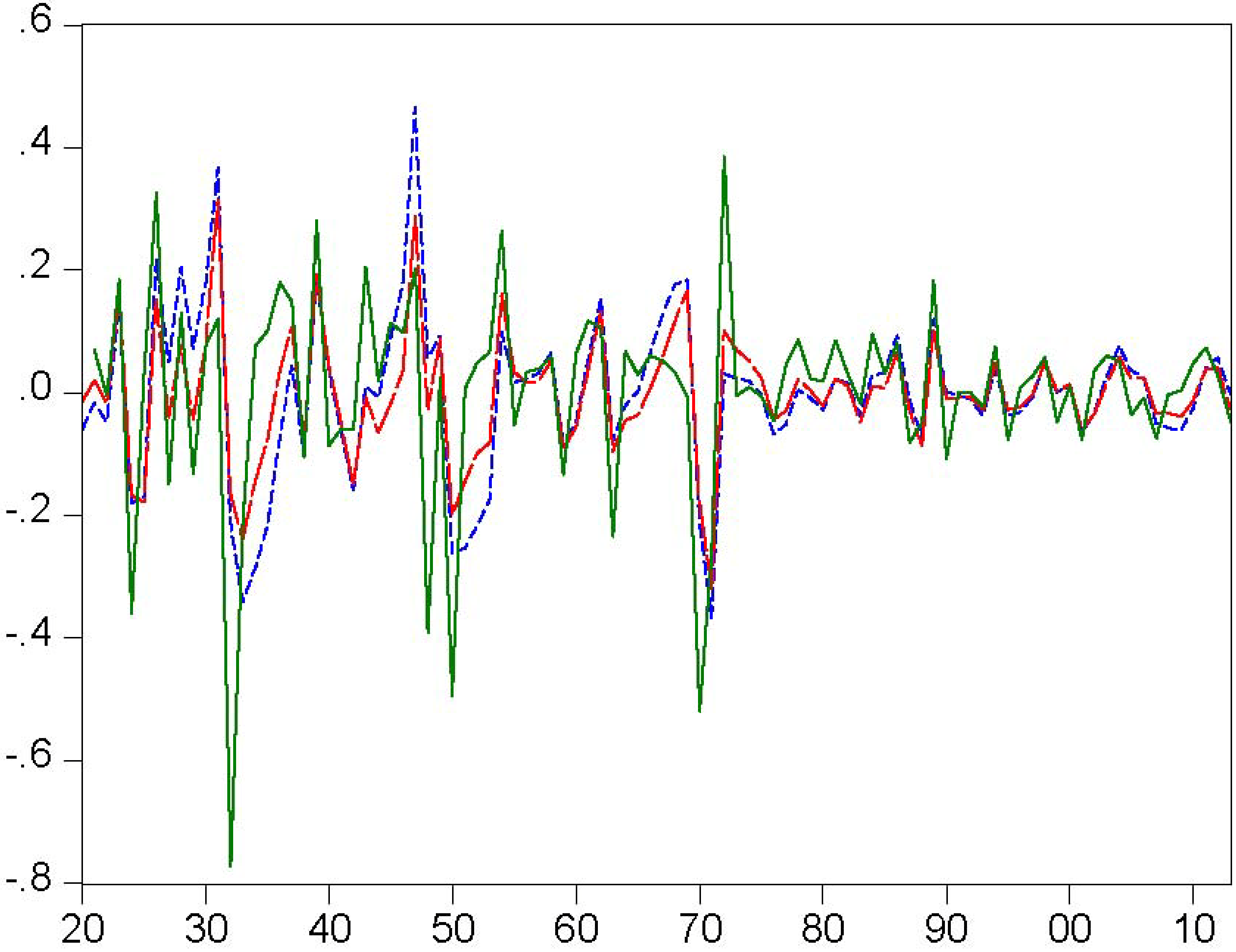
One-slide summary

- Nice, interesting idea
- Overall a plausible story

... but fails to drive home its point

My battle cry: go multivariate !

The starting point: TVAR volatility in the bankruptcy series



The paper's query

1. How much of that is caused by political crises (1830, 1848, 1870/1)?

2. How much can be attributed to monetary & banking conditions?

3. [Can other factors safely be excluded?]

Role of political events

- Paper uses smoothing techniques & subsamples to control for this

BUT

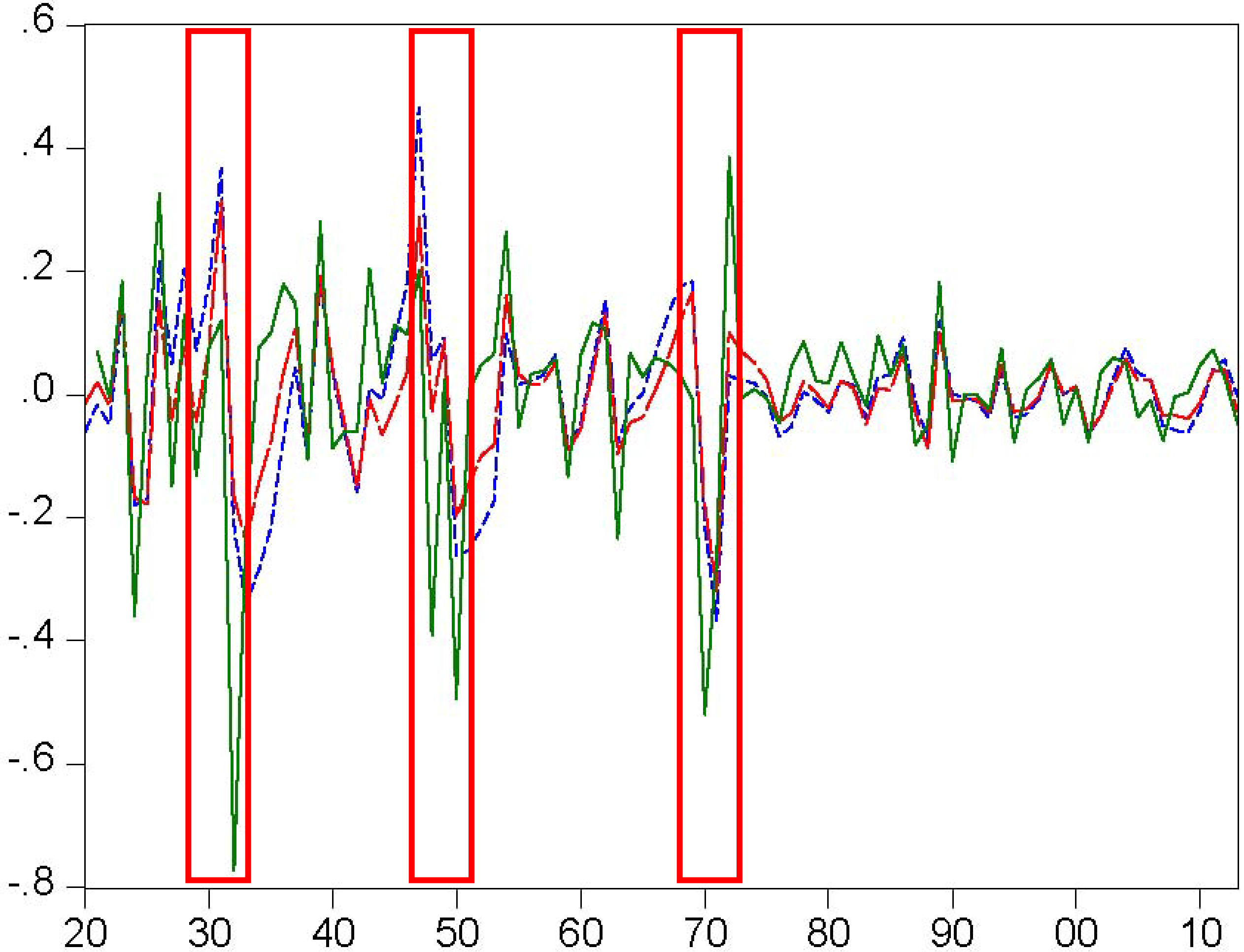
- Results still likely to be contaminated

Suggestion: do it properly!

  – Obtain filtered series for subsamples separately
  – Widen the windows around the events

What's the problem?

Much of the TVAR might carry over from crisis years to others, ca +/- 3yrs



Contamination from crisis years

Possible reasons

- Fundamental: shock to bankruptcy rate might be compensated in later years (overshooting)
  → Try estimating MA2 model of bankruptcy series, simulate!

- Smoothing: HP etc. filters are two-sided, introduce MA components into TS
  → Cut series into subsamples before filtering, experiment with taking out more years around crises, e.g. 1869-1872, 1847-1850 etc.

Can other factors safely be excluded?

- Not much evidence of TVAR volatility in GDP, IP series

→ But this may be by construction

→ Sarferaz & Uebele (Explorations 2009) find quite a bit of business cycle moderation for 19thc Germany from disaggregate evidence

→ That's potentially bad news as Uebele (JfWG 2010) finds strong business cycle comovement between F and D, using similar evidence also for France

→ So there might be underlying TVAR volatility in the French economy that the GDP figures do not show

How much can be attributed to monetary, banking conditions?

- Examines an array of candidate series
- Evidence seems mixed
- Some handwaving is going on

Example: BdF discount rate

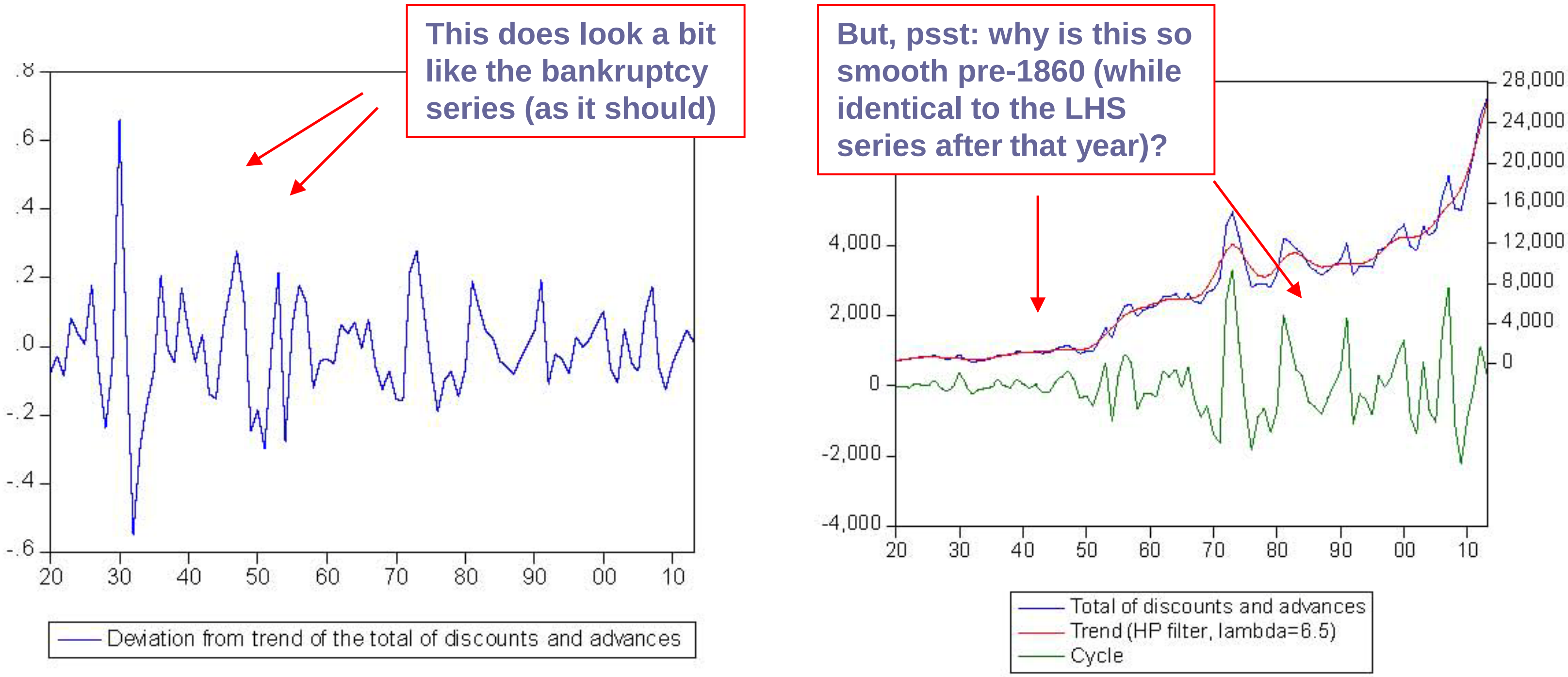


Figure XX: (a) Deviation from trend of discounted bills and advances on securities at the Banque de France (left) and (b) trend and cycle of CB discounts and advances (right)
Sources: INSEE statistical yearbook, 1946, retrospective part (p. 143*-144*)

Monetary & banking conditions

Suggestions:

- Go beyond the univariate exercises
- Obtain common component in multivariate model of bankruptcies and money/banking variables
- Do the same in model with real economy variables
- Best specify a model which includes both, and organize a horse race between the two

Going multivariate

Just do it!

Last & least

- Lengthy discussion of data construction & quality in Section 1, to be relegated to appendix
- Discussion of HP filter seems redundant, seems to reflect author’s thought process more than anything
- Section 4 is a non sequitur but seems central to the paper, so it should be brought forward