

Discussion of

SOVEREIGNS VS. BANKS: CREDIT, CRISES, AND CONSEQUENCES

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Approach

- Question: causes and consequences of financial crises in relation to the *joint* evolution of private and public debt
- International perspective -- 17 advanced economies
- Long, uniform time-series of macroeconomic data on private debt (domestic currency, net bank loans) and public debt (central government debt, without municipalities and social security) – 1870-2011
- *Massive* effort in data collection – precision over time and across countries, statistical power

Results

- Rising debt levels mainly reflect private sector behavior (Fig 1)
- Logit regressions: public debt accumulation does not appear to precede financial crises and then slow recoveries, private sector one does
- Bry-Boschen peak/trough dates: private borrowing is strongly procyclical, public one is mildly countercyclical
- Local projection analysis: private credit induced crises are followed by painful recessions, post-crisis deleveraging and slow recoveries, especially at high levels of public debt (Obstfeld 2013)

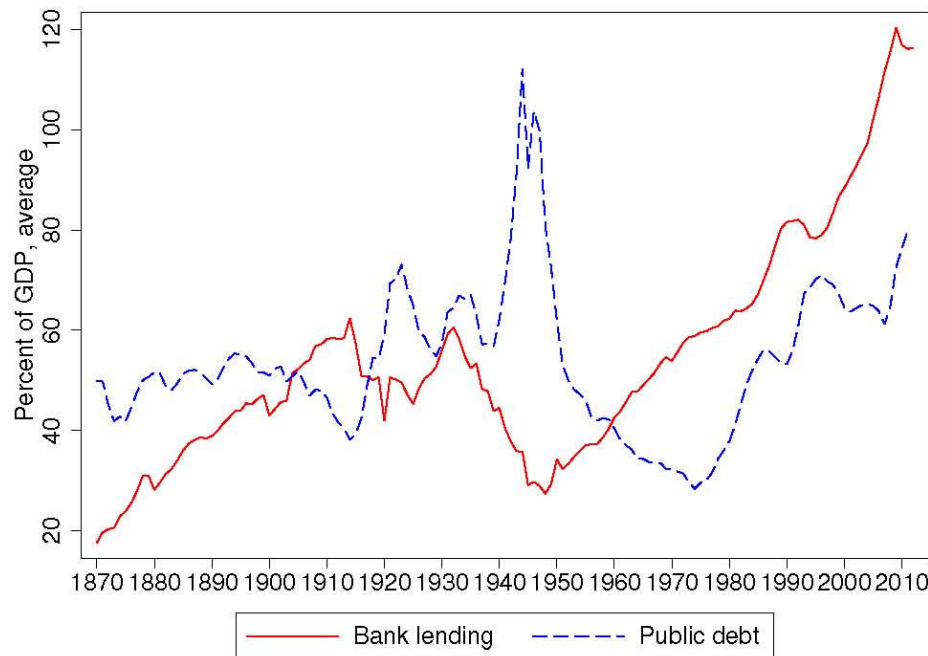
Remarks

1. Interpretation: detailed policy implications but what do we learn from about sources of shocks and (financial) propagation mechanisms in economic fluctuations?
 - trade balance dynamics in Aguiar&Gopinath 2007

2. Post-1970 period (as opposed to post-WW2) appears different

- few and correlated crisis episodes (18 out of 91, 10 in 2008)
- lack of low frequency negative co-movement b/w private and public debt

Figure 1: *Public debt and private bank credit to the private non-financial sector, 1870–2011*



3. Weighted vs. unweighted averages

- Chile (?) vs. Norway

4. Private debt includes interbank lending and securities holding in later part of the sample (Figure 2)