Discussion of
"Two Centuries of Systemic Bank Runs"

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Introduction

- Very interesting paper!
- Goal of paper: to expand the empirical evidence on bank runs.
- Contributions: (across detailed 79 page main paper and 183 page online appendix)
  - Constructs database identifying retail bank runs across 184 countries and over 200 years,
  - Documents stylized facts about bank runs and their macroeconomic impact.
- My comments:
  1. Helpful to provide clearer rules for the classification scheme,
  2. Would like to better understand results for different financial regulatory regimes, and
  3. The theoretical connections are sometimes imprecise.

Contribution 1: A New Database Identifying Retail Bank Runs

- Authors identify *retail bank runs* based on "narrative evidence" from primary or secondary sources. Provide some examples of how words are interpreted:
  - "Run" (evidence of run)
  - "Sudden deposit withdrawals" (evidence of run)
  - "Panic among depositors" (evidence of run)
  - "Drying up of liquidity" (not evidence of run)
- Authors label the bank run as *systematic* if aggregate *nominal* deposits decrease in the year around run.

Example: Australia (p. 70 in JKMS)

Country	Year	Systemic run	Deposit contraction	Affected deposits	Banking crisis	BVX panic
Afghanistan	2010	No	> 0			
Albania	2008	Yes	-0.7	Demand	No	
Antigua and Barbuda	2009	Yes	-25.1	Demand		
Argentina	1876				No	No
	1890				Yes	Yes
	1914	Yes	-15.7	Total	Yes	Yes
	1934	Yes	-5.1	Total	Yes	Yes
	1980	Yes	-19.1	Demand	Yes	Yes
	1985	No	> 0		Yes	Yes
	1989	No	> 0		Yes	Yes
	1995	Yes	-4.7	Time	Yes	Yes
	2001	Yes	-19.2	Time	Yes	Yes
Australia	1828				Yes	
	1842	Yes	-13.8	Total	Yes	
	1843	Yes	-13.8	Total	Yes	
	1893	Yes	-12.4	Total	Yes	Yes
	1931	Yes	-20.6	Total	Yes	Yes
	1974	Yes	-7.5	Demand	No	No
	1989	No	> 0		Yes	Yes

Example: Australia in 1970s (from Sources)

- Main (secondary) source: Fitz-Gibbon & Gizycki (FGG), 2001 (from RBA reports)
- Context: building societies (different to banks) took losses in property market in early 1970s.
- 1974: *"The failure of a number of property financiers precipitated runs on building societies in several states, particularly in South Australia and Queensland ... The liquidity squeeze of June-September 1974 saw the banks forced to borrow from the Reserve Bank"* (FGG p. 52-54) **(Bank run in JKMS, although no mention of bank runs.)**
- 1979: *"In March 1979, a run on the St. George Permanent Building Society developed following the broadcast of unfounded rumours that it was in danger of imminent collapse. ... St. George contacted the Reserve Bank regarding financial assistance; however, the Bank redirected the society to its banker."* (FGG p. 58) **(Not a Run in JKMS)**
- 1979: *"RBA believes that the Bank of Adelaide cannot meet its obligation to depositors. Following pressure from the Reserve Bank, which sought to smooth the banks exit from the industry the major trading banks agreed to a subordinated loan of $50 million to the Bank of Adelaide. At the same time, the Reserve Bank provides the bank with a $10 million specific liquidity facility ... On 22 May, the ANZ takeover ... "* (FGG p. 59) **(Not a Run in JKMS)**

Comment: Example Highlights Some Classification Difficulties

- Hard to separate runs on banks from runs on non-banks like building societies (non-banks have less access to lender-of-last resort facilities or deposit insurance).
- Unclear if liquidity injection is evidence of retail (or institutional) deposit withdrawal.
- Unclear how to classify deposit suspension and forced sale of a bank.

Would be helpful if the authors provide a clearer classification criteria.

Contribution 2: Stylized Facts

1. The unconditional likelihood of a bank run is 1.2% and that of significant deposit withdrawals 12.7%;
2. Systemic bank runs, are associated with substantially larger output losses than non-systemic runs or deposit contractions alone;
3. Bank runs are contractionary even when they are not triggered by fundamental causes, banks are well capitalized, and there is no evidence of a crisis or widespread failures in the banking sector;
4. In historical and contemporary episodes, depositors tend to run on highly leveraged banks, causing a credit crunch, and a reallocation of deposits across banks; and
5. Liability guarantees are associated with lower output losses after systemic runs, while having a lender of last resort or deposit insurance reduces the probability of a run becoming systemic.

Comment: Most Stylized Facts Average Across Entire Sample

- Data set spans very different financial regulatory regimes.
- Section 4.7. studies the impact of two types of regulation: (i) central banks exist, (ii) bank deposit insurance (explicit or implicit) exists. JKMS argue that:
  - Regulation significantly reduces the probability a retail bank run becomes systemic.
  - But has limited impact on real GDP decline conditional on a retail bank run occurring.
- Q. What does a retail bank run looks in a system with retail bank deposit insurance?
  - Run on a retail non-bank sector without deposit insurance (like in Australian example)?
  - Run where government cannot finance deposit insurance (like in Eurozone)?
  - Run where inflation is high and government can only nominally guarantee deposits?

Would be interesting to see a more nuanced discussion of regulatory impact.

Comment: Theory/Economic Connection Could be Tightened. E.g.

- JKMS: *"the first view is that bank runs are self-fulfilling prophecies (Diamond and Dybvig, 1983). In this regard, our narrative-based approach to bank run identification is very helpful as it can capture the qualitative spirit of this view."* (p. 9)
  - I don't see evidence in the appendix that JKMS specifically identify self-fulfilling runs.
- JKMS: *"As such, our finding suggest that system bank runs are episodes of severe liability-side disruptions of the banking sector that translate into macroeconomic losses even where they are not triggered by fundamental causes."* (p. 34)
  - Authors seem to argue that bank runs not caused by macroeconomic fundamentals must be self-fulfilling runs.
  - But, these runs could also be asset-side disruptions unrelated to macro-fundamentals

Runs unrelated to macro-fundamentals are not necessarily self-fulfilling runs.

Conclusion

- Very interesting paper.
- Overall comments:
  1. Would be helpful to provide clearer rules for the classification scheme,
  2. Would like to better understand results for different financial regulatory regimes, and
  3. The theoretical connections should be tightened.

Thank you