Micro-Evidence From a System-Wide Financial Meltdown: The German Crisis of 1931

Discussion:
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Main Questions:

- What types of depositors withdraw first?
- How do banks meet withdrawals?
- To the extent that deposits leave the banking system, where do they go?

Novelty

- The paper focuses on runs during a system-wide shock in German banking system
  - previous literature focused on idiosyncratic shocks.

- Absence of regulation, deposit insurance.

- Detailed data on deposits by different types of depositors.

Main results

- Banks are the most informed depositors
  - Withdrawals by banks predicts distress
  - Observable characteristics do not explain withdrawals.
- Wholesale depositors are less well informed.
- Retail depositors are least informed- do not tend to run until there are prominent bank failures.

Main Contribution

- Interbank claim holders tend to withdraw first and this predicts bank distress.

- Has important implications for the role of interbank market.
  - Responding to solvency shocks-private information?--- Disciplining role
  - Actions are due to liquidity hoarding by banks and therefore causing failure?-- LOLR policies

Identification challenges

- Identifying private information- implies interbank markets function well and can provide liquidity to solvent banks.

- Ruling out that withdrawals by banks triggered further liquidity, coordination problems among other depositors resulting in failure.
  - need for central bank to provide liquidity and prevent break down of interbank market.

Further tests

- Relation between bank fundamentals and ex-ante level of interbank claims.
  - Did banks with higher levels of interbank deposits differ in observable characteristics?

- Correlation of change in observable fundamentals of banks to change in interbank deposits
  - does change in interbank deposits predict change in fundamentals?

- Does the ex-ante (pre-crisis) level of interbank deposits to total deposits predict the likelihood of distress.
  - would help understand if banks with high level of interbank claims were more vulnerable to failure due to sudden withdrawals.

- Some banks have very large interbank claims- may be restrict the sample to banks where the ex-ante level of interbank claims is not large (failure unlikely to be triggered by interbank withdrawals
  - and check if interbank withdrawals predicts failure even for this sub-sample

- Is there information on the names of banks/amount of claims held by individual banks in a bank (identity of interbank depositor banks')?

- In Sept 1931- banks with increase in interbank deposits are more likely to fail– need more explanation of this?

- Profitability, ROA, NPA?

- Bank-type as controls in default regressions?
  - Landesbanks could be different from smaller banks

- Shortening of maturity of deposits very interesting.
- Who are the large wholesale depositors?
- Foreigners? Corporations? Are their actions driven by liquidity needs as there is reduction in loans/liquidity available for firms.
- Was there interest rate competition among banks to attract demand deposits?
- More details on the aggregate economic shock to corporations and households.

Deposit insurance?

- Runs by demand deposits limited despite lack of deposit insurance---It would be useful to understand the past experience of depositors with regard to bank failures?
- Beliefs of depositors regarding bailout? Political affiliations
- Ex-post there were quite a few, bailouts and mergers (13 out of 19)- in case of failure did depositors lose money?
- Useful to have more analysis and discussion on deposit reallocation or movement of deposits out of the banking system-- as it is quite a unique setting.

- Overall, very interesting paper.
- Role of interbank markets novel and interesting- disentangle the channel further.
- Thank you