Wholesale Funding Crises since 1800, by Jamilov et al.

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Discussion by:

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Identifying (types of) banking crises

Traditional approaches:

- **Narrative approaches:** Reinhart-Rogoff, Jorda-Schularick-Taylor, etc.
- **Using policy interventions:** Laeven-Valencia

Helpful to have chronologies that separate out **bank solvency problems** from **funding & liquidity problems** and provide **quantitative measures** of the severity of each:

- **Bank solvency problems**
  - Bank equity declines: Baron-Verner-Xiong
- **Funding & liquidity problems**
  - Systematic narrative evidence: Jalil (regional panics in the US until 1929), Romer and Romer (OECD measure of bank funding distress), Correia-Luck-Verner 2026 (bank-level runs using LLMs & historical US newspapers)
  - Interbank spreads (Krishnamurthy and Muir)
  - Deposit contractions: Bernanke and James (cash/deposit ratio), Jamilov et al. (2024, aggregate deposit contractions)

The prior literature has not found a good **purely quantitative** way to identify and measure bank funding & liquidity problems *across many countries and time periods*

- This paper has the potential to do this—but doesn't do it yet—and should go for it!

Identifying systemic bank runs

Ideal way (theoretically): Find events featuring deposit contractions that are:

1. Large
2. Rapid
3. Observable at the bank level
   - As panics (even 100+ years ago) were mostly deposit transfers from one bank to another, not aggregate outflows
4. Driven by depositor choices (rather than choices of bankers or borrowers to reduce bank assets)

Obviously difficult (or impossible) to get **high-frequency bank-level** deposit data across a large span of countries and time periods

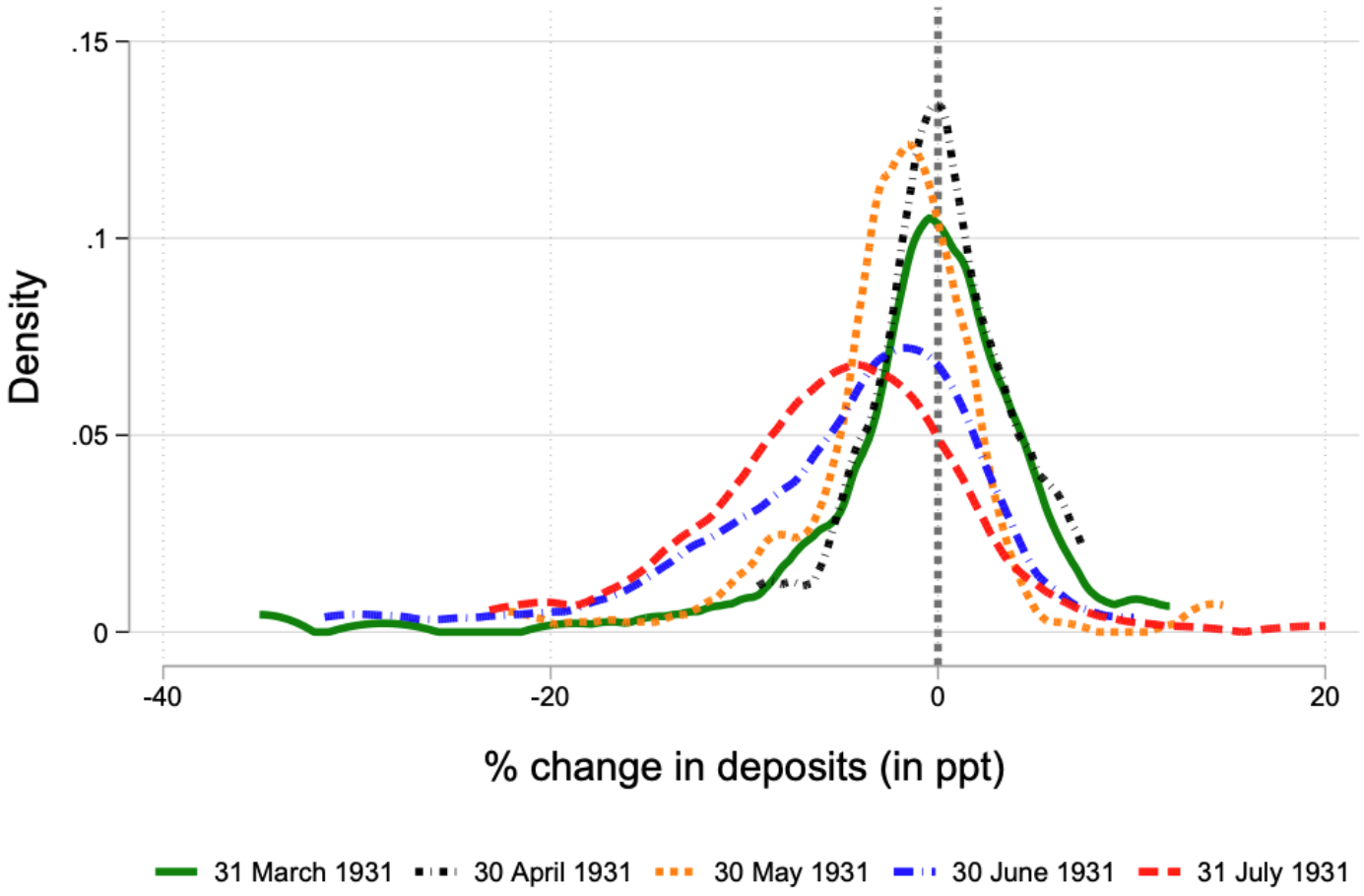
- In large part because banks and policymakers obviously do not want runs to be observable
  - Though available in some instances: e.g., Blickle, Brunnermeier, and Luck 2024 for **Germany's 1931 banking panic**

Aggregate (country-level) deposit contractions over longer times do not necessarily correspond to runs

- Wholesale funding: historically more indicative of runs (Blickle et al., 2024)

Deposit inflows/outflows in the cross-section

Figure 3: *The Cross-section of Deposit Flows through Spring/Summer 1931*



The German 1931 banking crisis, from Blickle, Brunnermeier, and Luck (2024)

Identifying systemic bank runs

- I think this paper can overcome the unsolved measurement issues of the prior literature
  - This paper offers:
    - Monthly data
    - Wholesale funding (as opposed to aggregate deposits), historically more indicative of runs (Blickle et al., 2024)
    - Can focus on two classes of wholesale funding (if simplicity is needed): interbank and foreign

- How I would structure the analysis:
  - Measure changes in the **ratio of wholesale-to-total funding**
  - Emphasize the **continuous quantitative version** of this measure in main regressions, rather an indicator variable
    - One can validate this quantitative measure: show it closely corresponds to the narrative set of wholesale panics
  - Then you can **estimate predictive regressions** of GDP using:
    - Bank equity decline (solvency measure), change in wholesale funding ratio (liquidity measure), their interaction

- What the paper currently does:
  1. **Starts with an initial wide set of events**: 1) all standard crisis chronologies (RR, JST, BVX, LV) ***and*** 2) contractions of wholesale funding >10% year-on-year
  2. **Narrows this list down**: by feeding through LLM to see if there is historical narrative evidence to support wholesale funding runs
  3. Using the resulting LLM output to “conduct our own, manual event classification”

The purely data-driven method

I realize this is easier said than done:

- Data on **Δ**(wholesale funding) is likely noisy:
  - Paper worries that “variation in banking statistics can easily confuse genuine wholesale funding panics with the regular ebb and flow of bank liabilities induced by other real or financial shocks”.
  - Might generate many **false positives** (wholesale funding contractions that do not correspond to narrative wholesale runs) or **false negatives** (narrative wholesale runs that do not have large contractions in wholesale funding)

- And narrative evidence is, in fact, highly informative (so you do not want to omit it)
  - However, the narrative set constrains the analysis to events to those where narrative information is more available
  - Too much emphasis on narrative approach also introduces excessive subjectivity and inertial bias

Three comments

1. I am not completely convinced wholesale runs are getting more frequent over time
   - Could be due to narrative evidence being more available for the more recent part of the sample
   - Bias resulting from the narrative-based method of identifying wholesale runs

2. Causality
   - For the impulse responses, I am not convinced the wholesale runs *cause* the subsequent output declines
   - It could be that banking crises with wholesale runs (relative to those without wholesale runs) were hit harder by fundamental shocks
     - Would help (but not completely solve the issue) to control for the bank equity decline, measures of macro fundamentals

3. What is the mechanism for why deposit insurance is associated with an increased likelihood of a wholesale funding crisis?
   - Not obvious to me how to explain this
   - Deposit insurance might shift the **share** of runs to wholesale runs (by decreasing the frequency of retail runs) but not clear why it increases the **absolute frequency of wholesale runs**
   - Deposit insurance should make retail deposits more attractive to banks relative to wholesale funding (all else equal), so why do we see the opposite?

Concluding comments

Nice paper, important new data and rich possibilities for analysis!

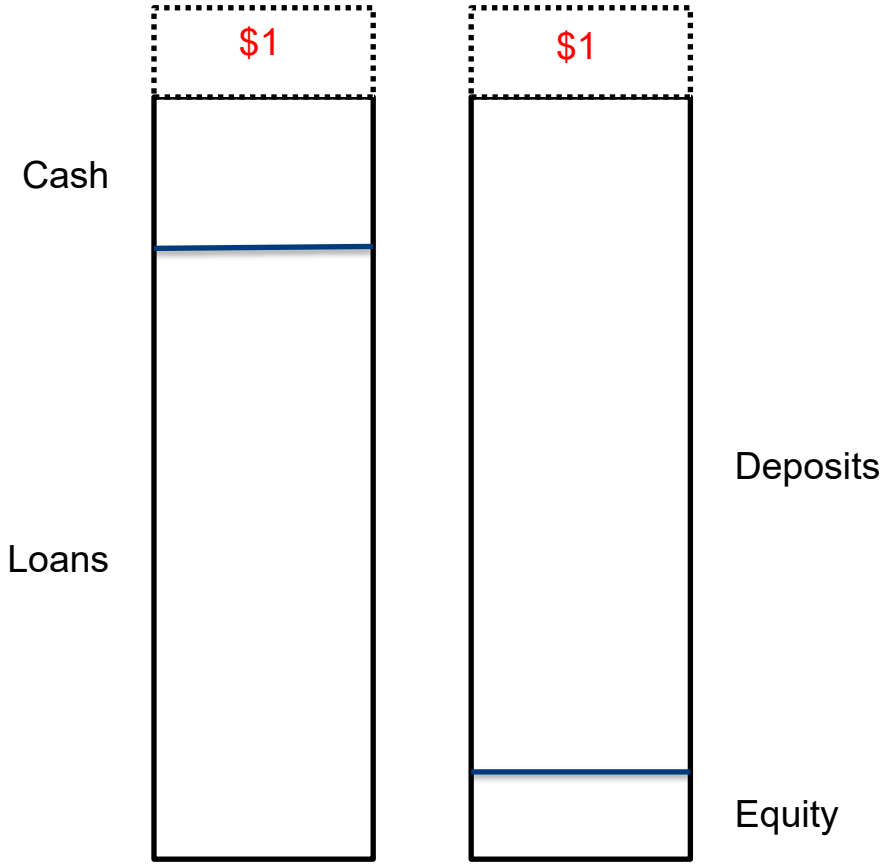
The approach of this paper (analyzing wholesale deposit contractions) has enormous potential to overcome the methodological challenges of the prior literature

Would suggest:

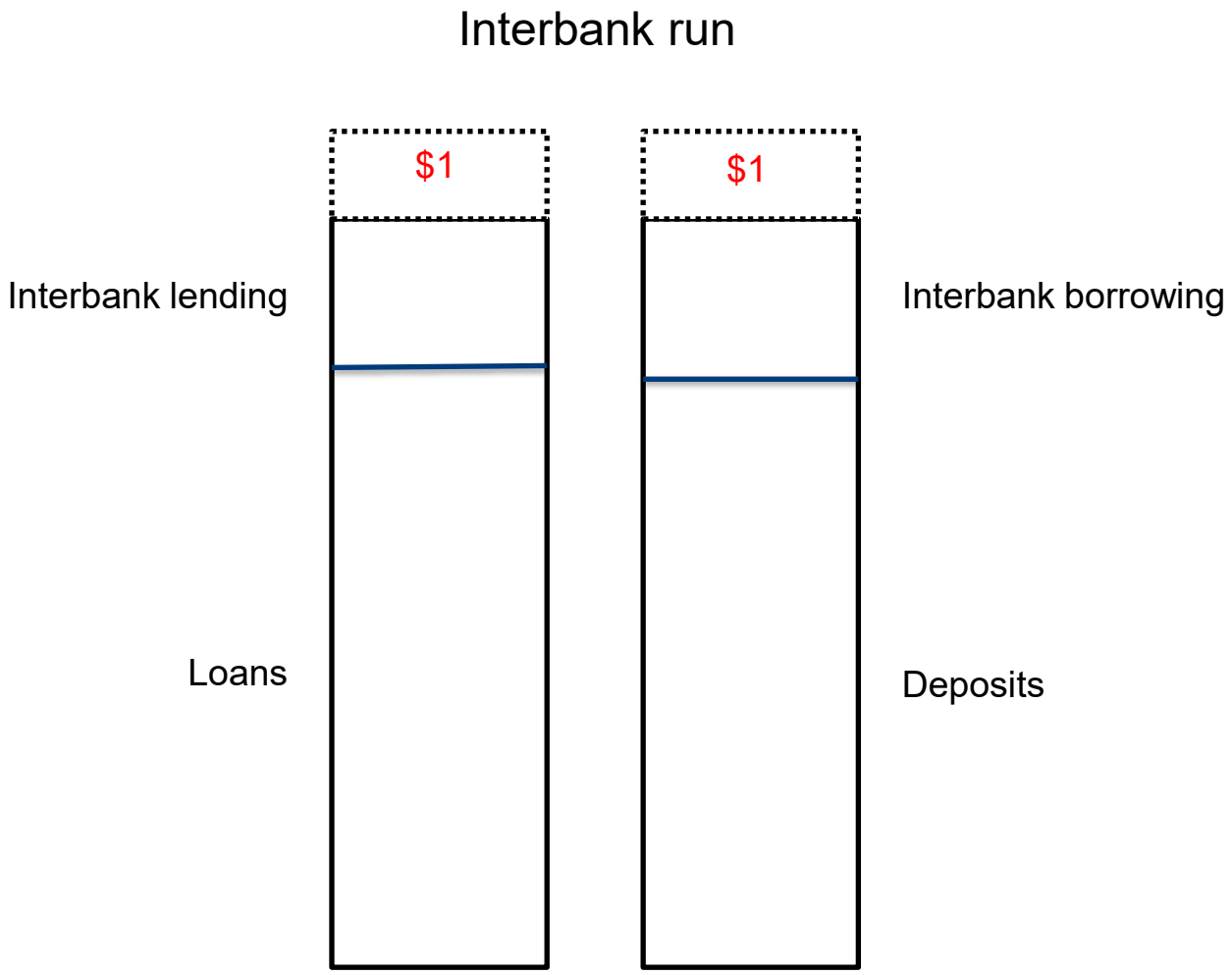
- Data-driven approach to identifying wholesale funding crises (rather than the current more-narrative-based approach)

Forms of deposit contractions

Traditional run (withdrawal of cash or gold from bank)

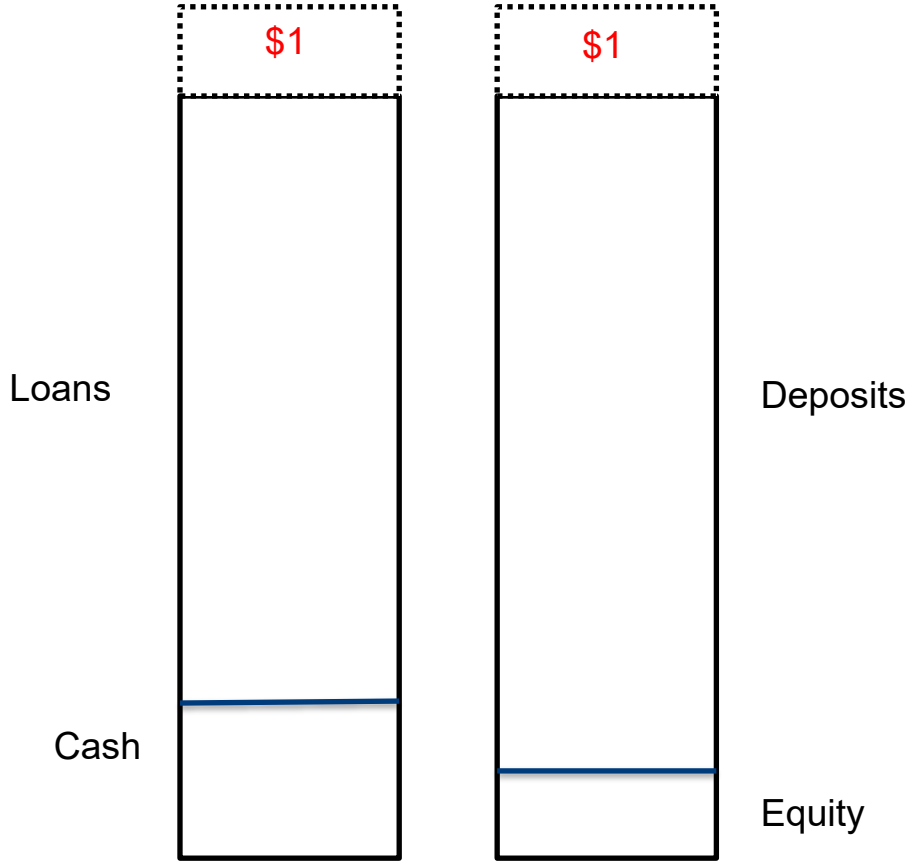


Forms of deposit contractions



Forms of deposit contractions

Bank does not renew loan, or borrower pays off loan (with deposits)



Forms of deposit contractions

Slower disintermediation (savers trade deposits for direct securities purchases)