Discussion of Morelli: "Banking crises in the US: the response of top income shares in a historical perspective

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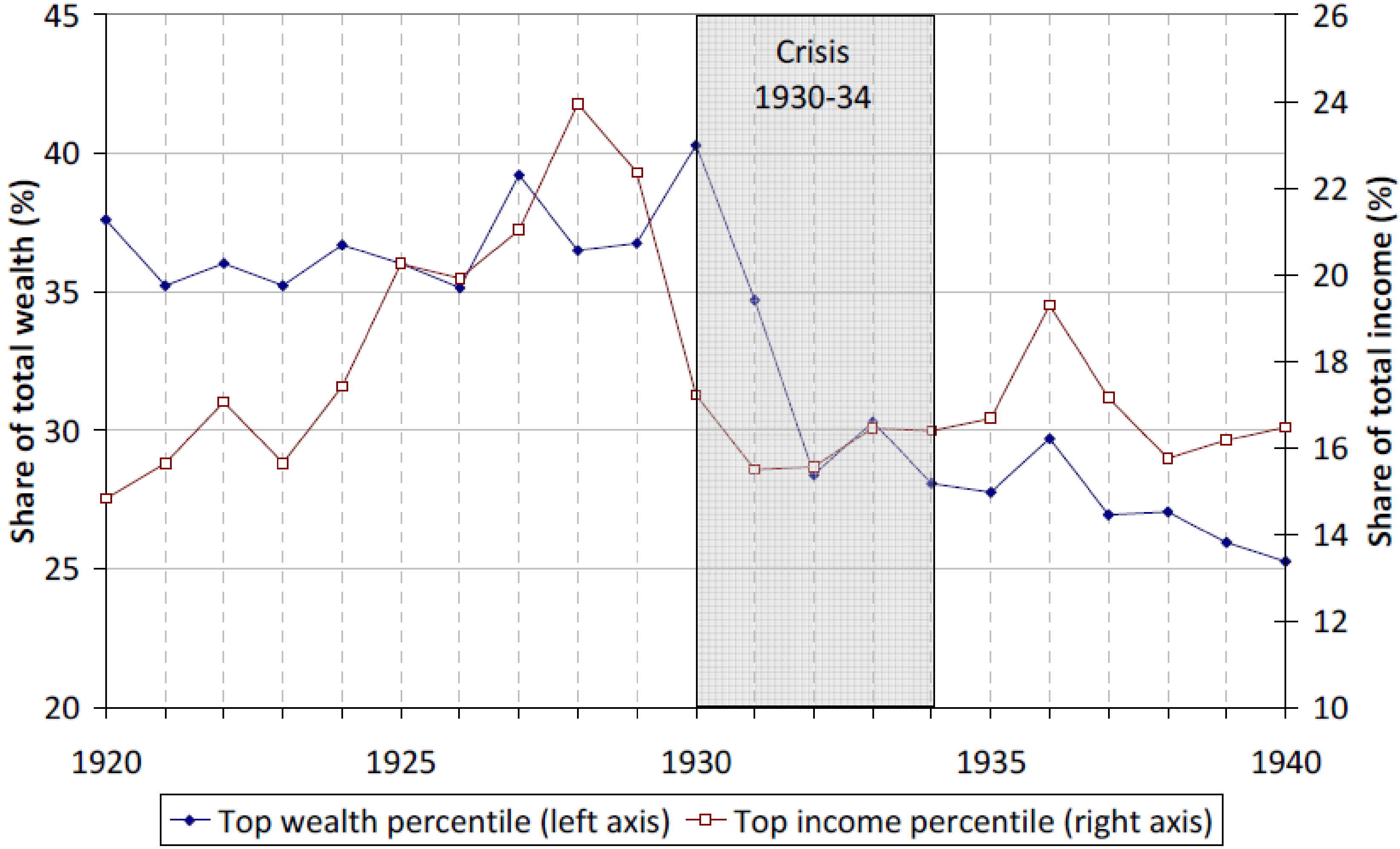
Paper

- Main question: How have banking crises (BCs) in the US affected the country's top income shares?
- Focus on three "systemic" crises:
  - Great Depression, S&L, Great Recession
- Method: Time series analysis
  - "Forecasting" (extrapolation)
    - $\Delta S_t = a + b_i \sum_i \Delta S_{t-i} + ct + e_t$
  - "Macro-econometrics" (regression with lags and exog. vars)
    - $\Delta S_t = a + b_i \sum_i BC_{t-i} + ct + d' X_t + e_t$
- Findings: Overall small impact of BCs on top shares
  - Top 1% share reduced; Top10-5% increases =>Top ineq down.
  - Effects are short-lived; the top restores its position fairly quickly

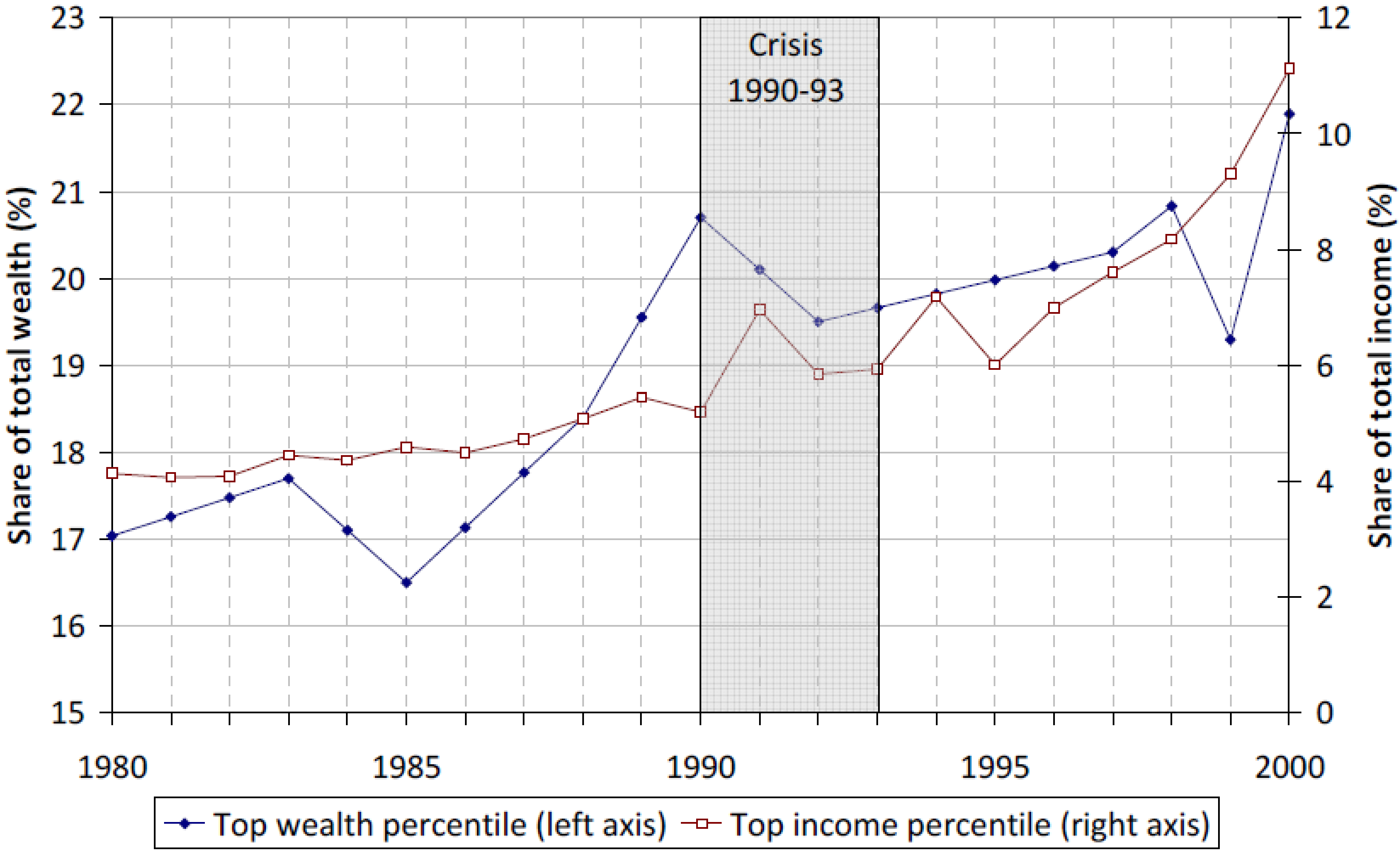
Top income and wealth shares in the US around the Great Depression

Figure 1.4: The rich during the U.S. financial crisis of 1930–1934.



Top income and wealth shares in Swden around the 1990s crisis

Figure 1.5: The rich during the Swedish financial crisis of 1990–1993.



Discussion: Overall and Data

- Overall focus:
  - Why only the US?
  - Why only systemic banking crises?
  - Why only income?
- Data on banking crises
  - The three crises are quite diverse – results generalizable?
    - GD also broad economic crisis, stock market crisis; International
    - S&L pure banking crisis; Domestic
    - GR both banking and fiscal/economic crisis; International
  - Timing of crises can be discussed: S&L 1988?; GR 2007?
  - Crisis dummy vs. continuous intensity measure (year's share of GDP loss/credit losses/bank defaults etc)

Discussion: Method

- Time series approach
  - Relies largely on the series itself; little exogenous variation
  - Estimation of "total crisis effect" vague
    - Strong assumption that BCs influence other macro-/micro developments ending up affecting top income shares
    - Include controls in macro regression
- Assumption about no reverse causality (i.e., does inequality drive BCs?)
  - Currently a hot debate; be humble
    - Including one year lagged BC may not suffice

Discussion: Findings

- Credible result that crises have limited (long-run) effect on top income shares
- Is it the same persons in the top after the crisis?
  - We know little about mobility in the top
  - Either the rich take the hardest hit (large capital owners) or they have enough bufferts to survive (Rosenthal et al, 2007)
- Robustness checks: other crises
  - When would we reject the "main model"?