

Discussion

The Puzzling Persistence of Financial Crises

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SUERF

Bocconi

“financial crises recur.

Why is it so hard for us to learn from the past and avoid the severe costs that attend these events?

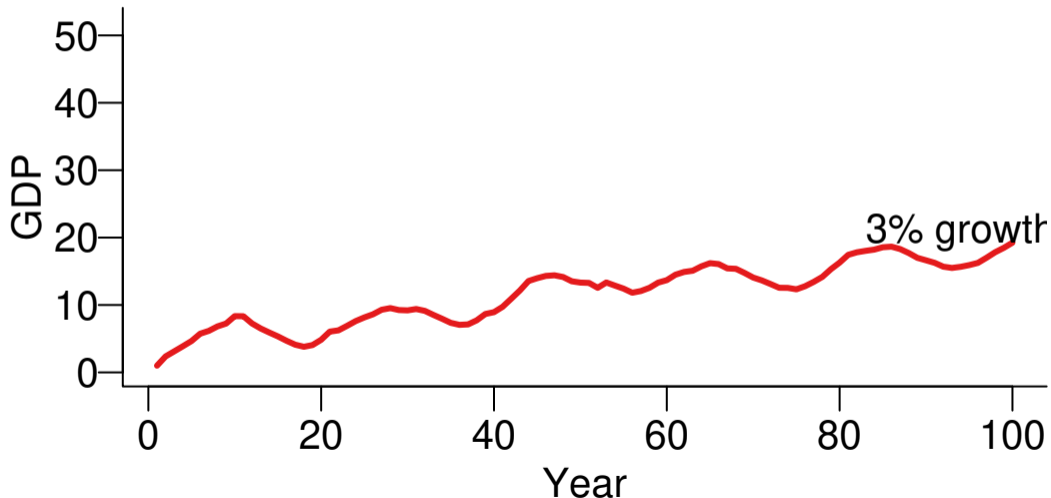
Are crises so unique that we cannot learn usefully from them, or are there other reasons that we fail to do so?”

Crises and costs

- “Crisis defined as time when asset values decline sharply related to change in risk perception”
- “Banking crises see declines of 5.5% of real GDP on average
- “Median fiscal costs associated with resolving distressed banks during crises are about 16% of GDP”

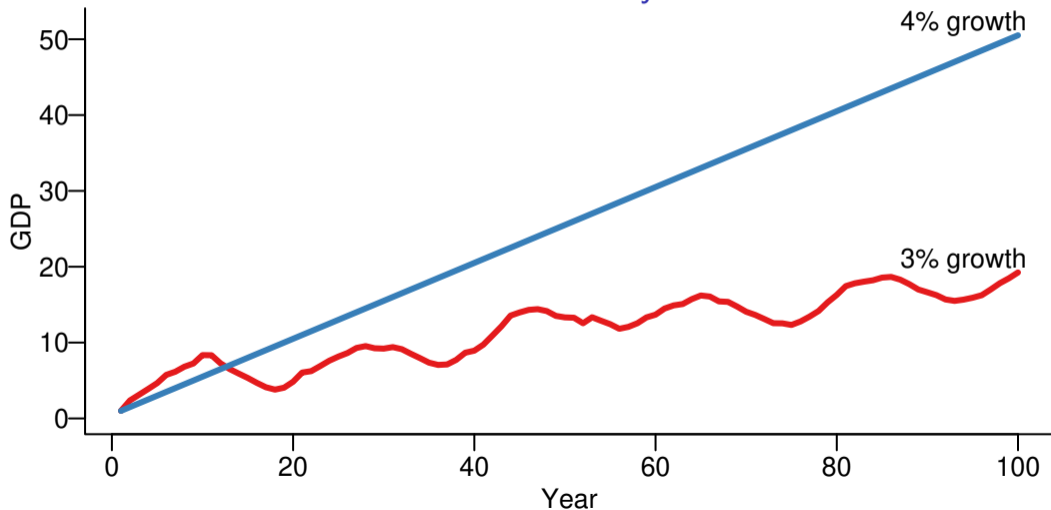
Importance of counterfactuals and static equilibria

GDP over a century



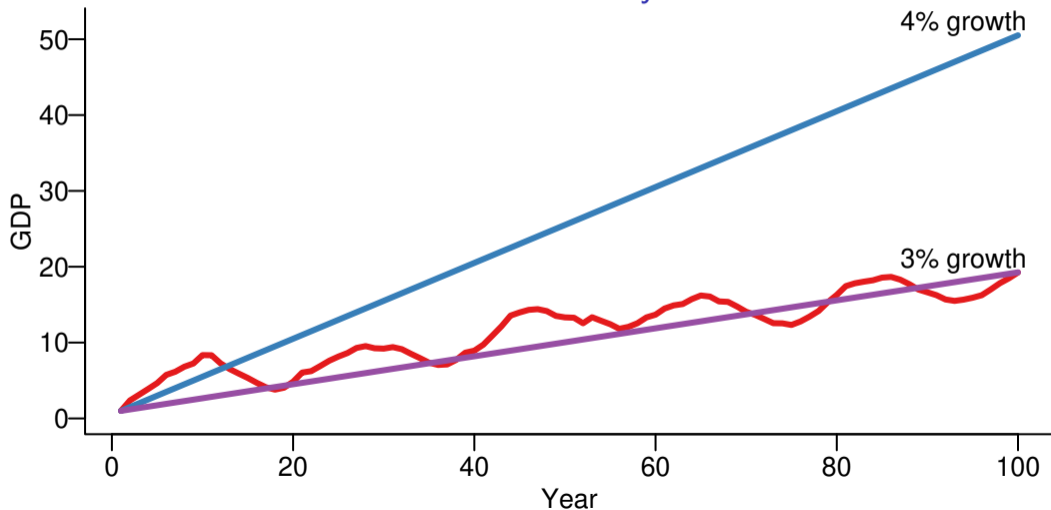
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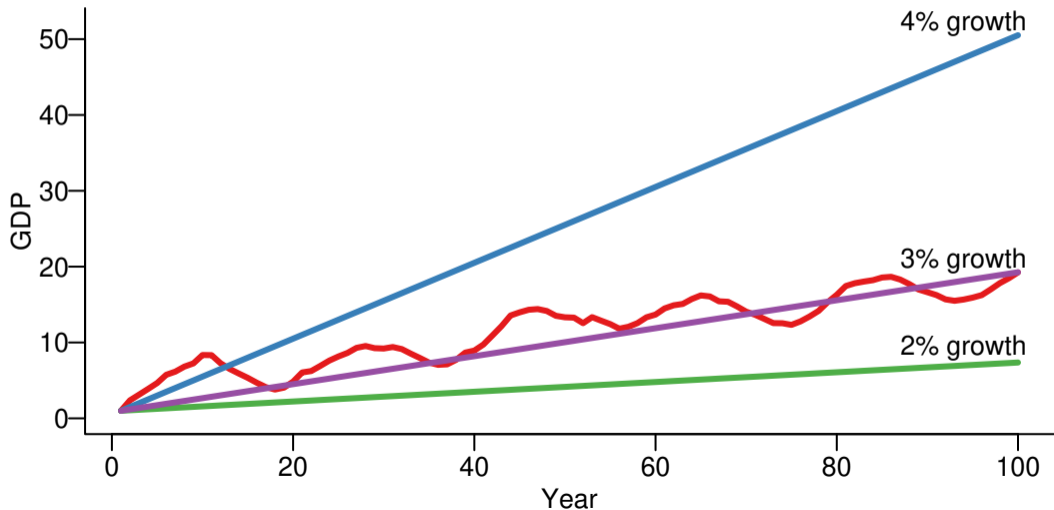
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GDP over a century



Importance of counterfactuals and static equilibria

GDP over a century



Case of Iceland 2008

- Banking crisis, very sharp drop in GDP
- Bubble resulted in strong fiscal surplus and significant domestic investment (public and private) and wealth
- Creditors were predominantly foreign financial institutions
- Crisis and the pre-crisis bubble, means that GDP is higher than it would have been

Korea 1997 and Schumpeterian lessons

- Korean GDP fell sharply in crisis
- It reformed its economy due to the crisis
- If the crisis and the pre-crisis excesses had never happened, would Korea be richer today?

China

- if the Chinese authorities had paid attention to the standard crisis indicators from the early 1990s
- and step up on the brakes
- China might well be much poorer today

Minski, crises and the macro economy

- Danielsson, Valenzuela, Zer, 2018, “Learning from History: Volatility and Financial Crises” Review of Financial Studies
- Danielsson, Valenzuela, Zer, 2023, “The Impact of Risk Cycles on Business Cycles: A Historical View” Review of Financial Studies
- Perceptions of low risk lead to higher economic growth, domestic investments, FDI
- Across the cycle, net benefit except if credit growth is excessive
- Predicts crisis years into the future
- High risk is associated with, but not predictive of, future crises, growth, investments, FDI

Taxonomy of Crises

1. Domestic political economy
2. Geopolitics
3. Learning/innovation advantages
4. Risk may be hard to see ex ante in a free market-based society
5. Market economy/fiat money may create sudden shocks that sometimes contribute to crises