General Discussion: STAUB and SHELDON-MAURER

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Daniel Zuepbüler asks whether regulational details were considered in Sheldon and Maurer's paper. For instance, lending ceilings vis-à-vis cantonal banks are three times higher as vis-à-vis other banks. This would influence the impact of a failure on the system. Hans-Peter Burghof notes that problems may already emerge at positive levels of equity. If a bank has six percent equity instead of the required eight percent, for instance, this may trigger reactions inside the bank as dangerous to the system as a total failure. Similarly, Georg Krayer thinks that systemic risks start earlier than a complete failure. There are externalities on other banks such as loss of trust, which is important for banking. Arturo Estrella points to the fact that the yield curve is the best predictor of recessions in many countries. In Staub’s paper this may be picked up in the regression where lagged yield curve variables are included.

Markus Staub thanks Eva Terberger for her comments and points out that he agrees with most of them. He does not see any apparent contradiction between his and Sheldon and Maurer's paper, in the sense that his paper creates mistrust and the other trust. This is because his focus is on the macro level while the other authors emphasize microeconomic aspects. Staub agrees that big changes in the banking industry may be responsible for the development that was observed. There is even an additional selection bias in his paper, since the sample gets financially better over time because bad banks drop out. This bias, however, is difficult to test and correct for. About the counterintuitive significance of rentability, he explains that additional tests were performed to make sure that this variable does not pick up any significant effects of other variables. He has no problem accepting Terberger's alternative story. His objective, however, was to see whether the yield curve had any robust explanation power, and not to find robust results with other appropriate interpretations. Finally, he says that a correlation between failures and recessions only further supports his paper, since it emphasizes the importance of macro shocks.

George Sheldon agrees that there is room for improvement in their approach. He explains that there were many forks in the road and they always could have gone both ways. Their main objective, however, was to estimate an interbank lending matrix, which to their knowledge has not been attempted before. Further, they would like to get the authorities to fill in those cells. He admits that regulational details have not been included. But linear restrictions could be added to incorporate that and other information. Effects beyond the direct effects of a failure have not been considered. This is because there are no informational asymmetries in the model. There only exists uncertainty with respect to the return on assets.