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Discussion of Survival of the Biggest: Large Banks and Financial Crises

by

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Ideal Paper to Discuss

1. On a very important topic
   - Survival of the fittest?
   - Distortion in banking?
2. Amazing new data
   - At least 20 banks from 1880 in 17 countries

3. Interesting new results

4. Not so well established that I do not have anything to say

What Does It Mean to Survive?

- In 1868, the National City Bank of New York was one of the largest banks in the United States.
- Following its merger with the First National Bank in 1955, the bank changed its name to The First National City Bank of New York, then in 1962 shortened it to First National City Bank and in 1974 to Citicorp.
- In April 1998, the Travelers Group merged with Citicorp to form Citigroup.
- In 2002, Citigroup spun off Travelers.
- Did National City Bank survive?

Possible Dynamics

- How does a bank lose its position:

1. It shrinks (or for an extended period of time it grows less than its competitors)
2. It is broken up (antitrust)
3. It is broken up after a bankruptcy
4. It is acquired (who acquires whom)

What Is the Benchmark?

- In 1910, J. McKeen Cattell, a psychology professor at Columbia University, ranked American universities:

1. Harvard
2. University of Chicago
3. Columbia
4. Yale
5. Cornell

- Very stable ranking

Cars

- In 1910, the three largest automakers in America were

1. Ford
2. General Motor
3. Maxwell Motor Company (Chrysler)

- In 2020, Chrysler had become Stellantis

Oil

- In 1911, the U.S. Justice Department ordered the breakup of Standard Oil into 34 companies.
- In 1920 the largest oil companies were

1. Standard Oil (New Jersey)

2 Sinclair Consolidated Oil Corp

3 Standard Oil (New York)

4 Texas Co

5 Gulf Oil

- Stand. Oil NJ + St Oil NY -> ExxonMobil
- Texas co+ Gulf + Stand Oil of Cal -> Chevron

Tobacco

- In 1911, a U.S. Court of Appeals broke up the American Tobacco Company into

1. BAT
2. R.J. Reynolds
3. Liggett & Myers
4. Lorillard

- R.J. Reynolds and Lorillard merged with BAT
- Liggett & Myers merged with Altria

Survival of the fittest?

What Should We Infer From the Survival Analysis?

- Even in nature, we do not have the survival of the fittest
- In economics, even in the absence of government interventions, we can have the survival of the fattest, not the fittest (Zingales, 1998).
- Is the government intervention fixing a problem or creating one (or both)?

Endogeneity of the Crisis

- If I define a crisis in the car industry as a 1-std. dev. decrease in car sales at the aggregate level, it is difficult that the Big-3 are not majorly affected.
- Since drops often occurs after high periods of growths, it is likely that the Big-3 previously experienced high growth.
- What do I infer from it?

Most Interesting Result

- Large banks do not experience a bank run when their equity value drops
- Is it true for car manufacturers too?
- Size is probably an advantage in every sector
- Is it particularly true in banking?
- If so, is it the result of
    1. Specific benefits of size in banking
    2. Government subsidy
    3. Both

Government Subsidy

- Is this efficient or not?
- Two theories of bank regulation

1. Willy Sutton Theory
2. Specialness theory

- Historically, it is hard to distinguish
- Today, the specialness has disappeared
- How long will it take for banks to disappear?

Conclusions

- Very interesting paper
- The economic hypotheses and the welfare implications need to be defined better.