Discussion of

Sovereign risk and fiscal (in)attention: US state default 1840s

by Peter Claeys (Vrije Universiteit Brussel)

email peter.claeys@vub.ac.be
LinkedIn es.linkedin.com/in/peterclaeyss/
web https://sites.google.com/site/pclaeyssite/home

Banco de España + BGSE Fiscal Week

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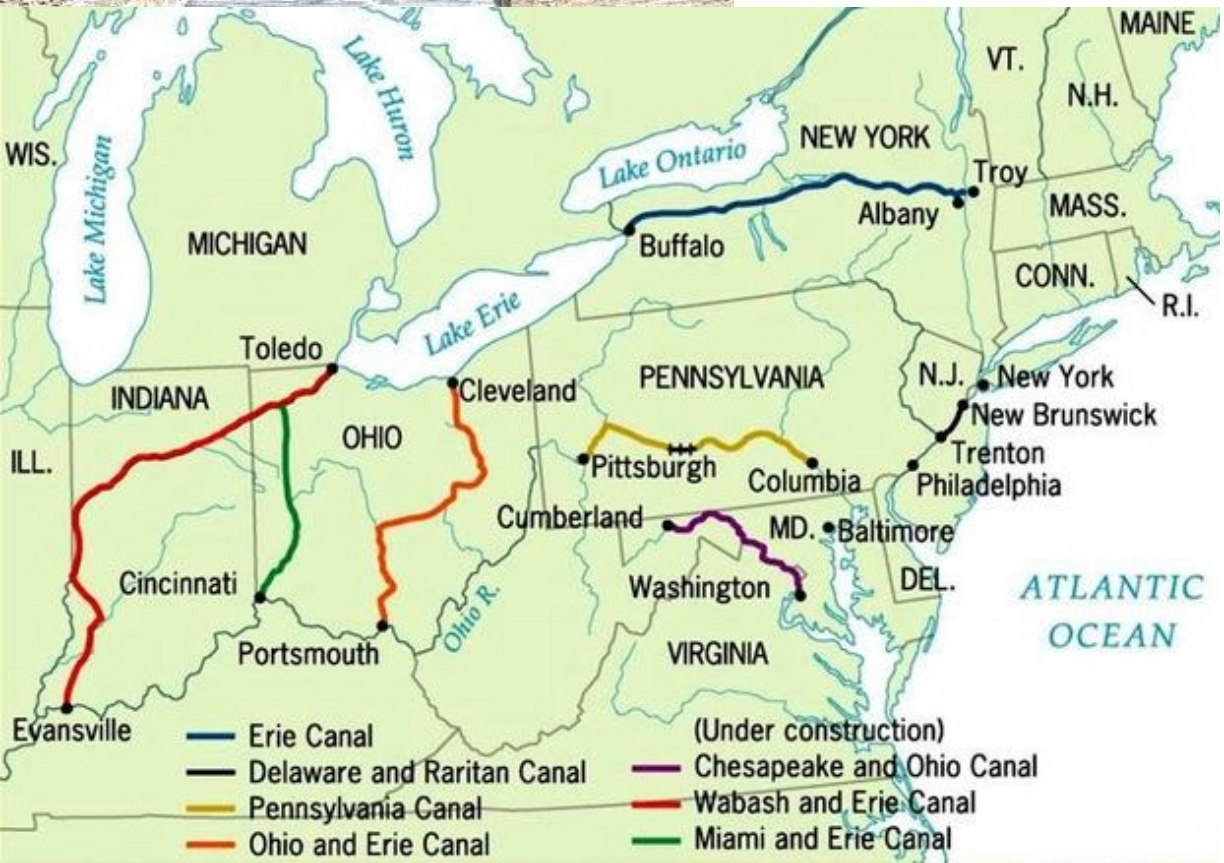
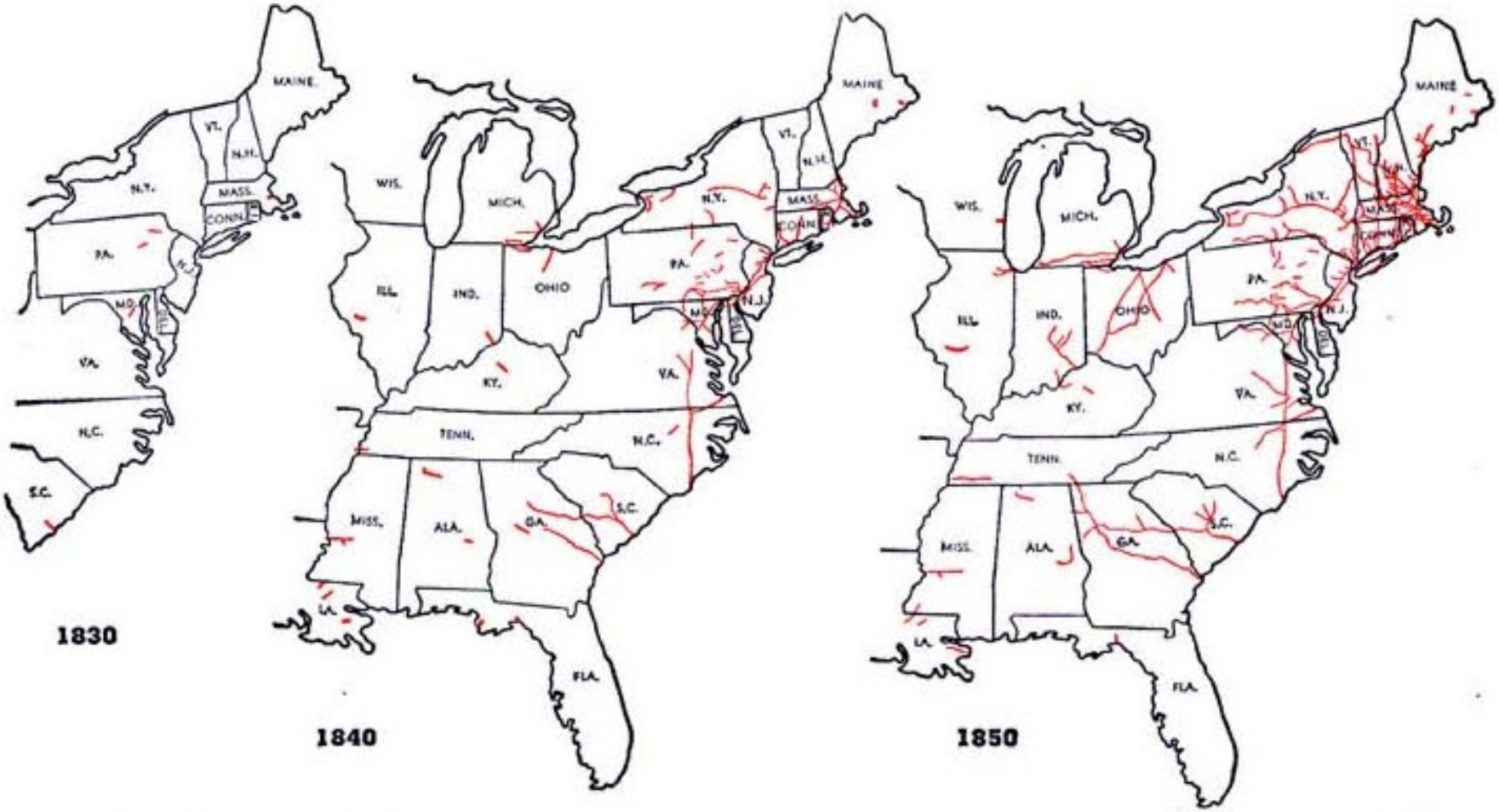
- economic boom
- infrastructure
- inter-state competition
- financing from outside

Canal Mania




MAINE
VT.
N.H.
N.Y.
MASS.
CONN.
PA.
N.J.
MD.
DEL.
VA.
N.C.
S.C.
1830
WIS.
MICH.
ILL.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
LA.
FLA.
1840
1850

- economic boom
- infrastructure
- financing from outside

The 1837 Panic

- policies to stop speculation
- monetary restriction in the UK

- economic bust
- deflation
- falling exports

Is it rational inattention?

fiscal policy not relevant during the crisis till

1. US states to pick up costs

2. only in states late to exploit bubble
   not New York

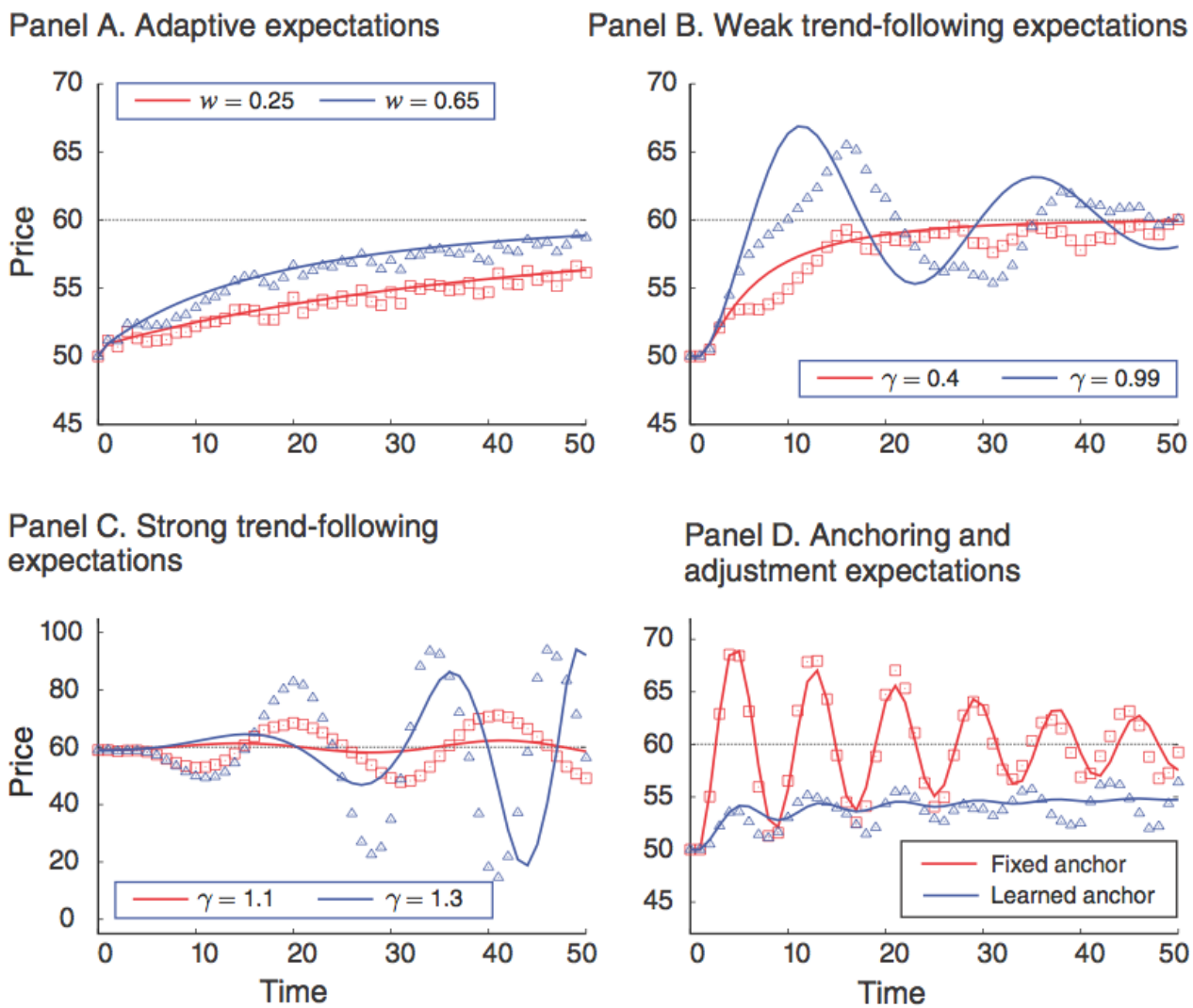
3. shift to federal government
   ➔ expectations of bail-out

Alternative views

models with noisy or sticky information are hard to fit to the data

(Andrade and Le Bihan, 2013; Dovern, 2015)

is it not that agents have different ways of processing information following simple heuristic rules attaching importance to news on fundamentals that matter? (Hommes, 2016)


Panel A. Adaptive expectations
w = 0.25
w = 0.65
Price
Panel B. Weak trend-following expectations
γ = 0.4
γ = 0.99
Panel C. Strong trend-following expectations
γ = 1.1
γ = 1.3
Price
Time
Panel D. Anchoring and adjustment expectations
Fixed anchor
Learned anchor
Time

Econometrics

(1) regime switching model

no return to normal?

why do agents not become inattentive again?

1840s crisis led to balanced budget rules

(see Girnath et al., 1997)

(2) explain bond prices

p = f(index, crisis dummy, lags, controls)

1. is index endogenous
   more news if bond prices fall?
2. lags: persistence in bond price?
   why not a simple AR model as a first attempt
3. different fundamentals matter over time
   Cimadomo et al. (2016)
4. crisis dummy
   but what about the Great Panic?
   is this not an atypical sample period?
4. account for spillover across states
5. account for similarity of creditors

Data

bond prices not available

because no interest? so selection bias

or does it confirm rational inattention?