

Discussion of:
**Credit, Labor, and Political Unrest: Evidence
from 1930s China**

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Question and Challenges

Do economic shocks trigger social unrest?

1) Causality can run both ways

Isolate the direction of causality studying a shock in China coming from the U.S. (1933 Silver Purchase program)

2) Often contemporaneous fiscal/monetary interventions

No central bank in China 1930s

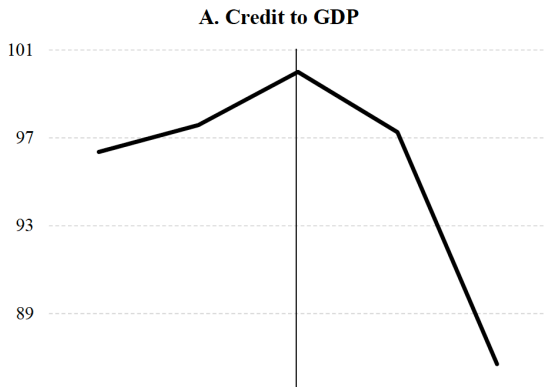
3) Difficult to measure social unrest

One well-defined radical movement in 1930s China:
Communist Party

This Paper

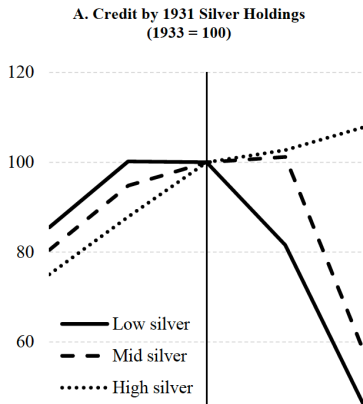
- **Hand-collected archival information on credit, labor relations, and fringe political activity in 1930s China**
 - Chinese credit registry for the period 1931-35,
 - Firm labor unrest episodes (Nanjing, Shanghai, Tianjin)
 - Communist Party penetration at firms located in Shanghai.
 - Underground Communist Party activities in Shanghai.
 - **Exploit cross-sectional exposure of lenders/borrowers**
- Step 1** Does the Silver Purchase shock lead to a credit contraction?
⇒ Exploit bank-level heterogeneity
- Step 2** Does the shock lead to labor unrest episodes
⇒ Exploit firm-level heterogeneity

Credit in 1931-35



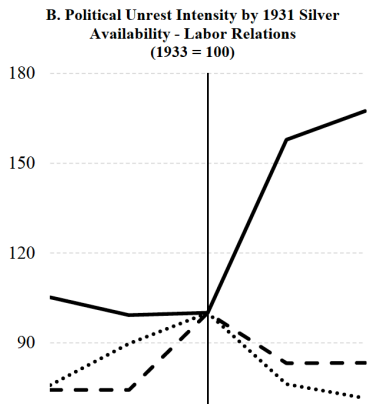
- Ratio +3% in 1931-33 and -15% in 1933-35

Effect of the Shock on Credit



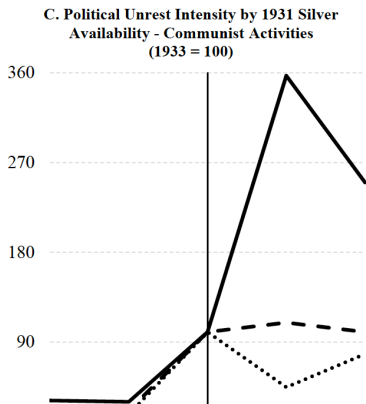
- Driven by banks with lower pre-1933 silver reserves
- Well established (Khwaja and Mian, 08; Paravisini, 08; Chava and Purnanandam, 11; Schnabl, 12; Iyer et al., 14)

Effect of the Shock on Labor Unrest



- Firms borrowing from these banks face increased unrest...
- Contribution!

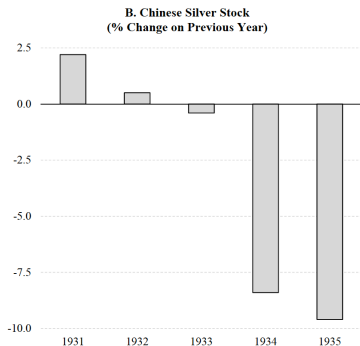
Effect of the Shock on Communist Party Penetration



- ... and increased Communist party penetration
- Contribution!

Identification

- **Banks can issue currency up to 60% reserve requirement**
 - Draw on excess reserves or purchase silver to back a loan
- **The Silver Purchase program shock**
 - U.S. buys silver, price doubles, drained silver from China
 - ! In 1928-32, the price of silver dropped by 30%
 - ⇒ Was this a *positive* shock?



Step I: Shock \Rightarrow Bank Lending

$$\Delta L_b = \delta + \gamma Silver_{b,1931} + \mu' \Delta x_b + \epsilon_b$$

- ***Silver* not randomly assigned**
 - ✓ Parallel circulation copper-backed currency
 - \Rightarrow Show sumstats for low- and high-reserves banks
Useful to detect other channels (e.g., currency appreciation)
- **Sample and distribution of *Silver***
 - 87 banks that issue banknotes and 51 that do not
 - 54 (62%) banks have exactly 60 per cent reserves
 - 33 banks have reserves $\in [60, 100]$
 - ▶ Only 80 and 46 banks in baseline regression
- **Within firm estimation to control for demand**
 - (Representative?) sample with only 32 banks and 527 loans
 - Distribution of *Silver* here?

Step II: Bank Lending \Rightarrow Unrest

$$\Delta Unrest_f = \alpha + \beta SilverPool_f + \mu' \Delta x_f + \epsilon_f$$

- **Data only available for Shanghai (\approx 1000 unrest episodes)**
 - Mainly layoffs (56%) and salary disputes (21%)
 - Communist activity from internal reports of police force
- ***SilverPool* index of local silver reserves**
 - Authors use distance to link firms to banks
 - ▶ Why not use actual relationships? They use them in table 5, but RHS variable is still distance instead of *indirect Silver*

Trade-Off: External Validity Vs. Identification

▶ Can we do better using current data?

- Shock to banks (e.g., Lehman, run of US MMFs in Europe)
- Detailed bank data, credit data
- Detailed data on voting

☺ Better identification

- Silver shock very likely exogenous
- Better measurement of unrest?

☹ External validity

- ▶ Are China 1930s labor unrest and communist activity informative about today's protest votes?
- Limited data, difficult to obtain even internal validity
- We now live in a world with policy interventions

To Sum Up

- Excellent, very polished paper
- Impressive data work, clever identification
- My comments:
 - Is there a positive shock before?
 - How does *Silver* correlate with observables?
 - Discuss external validity