“Nascent markets”
Van Dijk et al.

Discussion: Matthieu Chavaz
(Bank of England)

This presentation reflects my own views only
Motivation

1. Number of **national** stock exchanges tripled since **1975**

2. Their success has differed dramatically
   - Extensive margin: # listed firms
   - Intensive margin: trading volume

• **Question**: what explains their **success**?
What the paper does

1. Compares three **measures of success**
   - Descriptive tools (correlations, scatter plots)

2. Is **early success** necessary for success +15y?
   - Necessary Condition Analysis

3. **Determinants** of success +15y.
   - Cross-sectional regressions
   - Panel regressions

• Innovative usage of techniques.
Contribution

- Extensive **micro** research (individual stocks)
  - Price discovery
- Extensive **macro**-development research
  - Important for motivation, less for the paper. If anything, development is an explanatory variable.
- **This paper**: medium-term **market** success
  - Some research on birth/death (Jorgensen et al., 2013)
15th Century: Antwerp and co. (debt only)
1602: first publicly listed company (Dutch East India Company)
18th Century: dominant stock exchanges
This paper: post-WWII “great proliferation”
    – Key, not well-known stage of the spread and development of capitalism worldwide. Impressive data work.
    – My guess: mainly a proliferation of sovereign and/or capitalist countries, e.g. ex-Soviet republics.
        • (Bulk is in 1990-1996 period and transition/fragmented countries)
        • You could discuss the # exchanges/# countries ratio.
Contribution: history
Overall question on the contribution

• Does the paper only teach us about the success of exchanges?
• Or also about the success of countries/transition, and firms/savers within them?
• Tricky to draw the line (OVB), esp. given data.
• Clarifying the interpretation of indicators and results might help.
  – I will make three main suggestions.
I. Measuring market success
1. Measuring market success

- Formally, exchange success = efficient intermediation between buyers and sellers
- Need to hold the characteristics of buyers, sellers, and products fixed
- What do your success metrics capture?
• **# of listed firms**
  - Correlated with attractiveness to firms
  - But also with # of firms, and thus w/ country and firms success, as well as industrial structures (e.g. M&A waves)
  - Use the ratio of listed firms to total firms?

• **Market capitalisation**
  - =number of shares * prices
  - The “right” price would indicate market success (price discovery)
  - But a high price is not necessarily a sign of efficiency (especially if it goes along with high credit growth #macropru).
• **Turnover** is the closest to an indicator of market efficiency in my view
  – For a given number of shares, how much trading?
• Could reflect low transaction costs (e.g. market-making efficiency)
• But that could reflected low inventory or adverse selection costs (Ho and Stoll)
  – Which could reflect low issuer credit risk and opacity, i.e. a partly firm-level story.
Measuring market success

• Summing up: indicators capture different dimensions
  • You could refine the hypotheses and analysis accordingly
• These dimensions are correlated with success, but also with broader features of economies and firms
  – Could consider talking about “growth”, not “success”
• Absolutely unfair point: the London Stock Exchange did probably poorly on all metrics! (e.g. no share issue before 1825, legacy of the South Sea bubble)
2. Main results: start with a ...
2. Banking on the banking result

- In multivariate regressions, **private credit** = best of many potential determinants of success
  - **Note**: often wins horse races! E.g. early-warning literature
- Significant as initial, not dynamic condition in panel regression.
  - Can you clarify why? Mixed-frequency issue?
- Interpretation could also be clearer if you are more explicit about the **channel**
2. Channels of the banking result

1. Demand: abundant domestic savings
   - London and post-industrial revolution UK savings

2. Intermediation technology
   - London and prestigious underwriting (Rothschild etc.)

- Different agents, and policy recommendations
- Which channel do you capture?
  - My guess: variable closer to #1; national savings also seem insignificant; what about their interaction?
  - To get at #2, could measure investment bank presence and market share (Flandreau and Flores JEH)
2. Starting with a bang

• Necessary initial conditions: high # of listings and turnover
  1. Self-reinforcing liquidity; diversification potential + liquidity = virtuous cycle of liquidity
     • Stronger for more diversified economies (domestic investors)
     • Stronger for less correlated economies (foreign investors)
  2. Convergence effect:
     1. High initial activity = many firms and savers were previously constrained by the absence of an exchange
     2. The country was converging to a path of long-term success.
2. Starting with a bang

- Can you exclude alternative stories?
  - Transition countries? (have both initial cond; more later)
  - Privatisation of flagship firm? (e.g. Mongolia)
  - Small country? (you could scale the # firms)
  - Cronyism (small number of politically connected firms)?
  - Time from transition time?
    - It seems that most countries do not wait much after transitioning

- NCA makes it difficult to sort out these stories as they are akin to univariate regressions
  - Initial conditions mostly insignificant in cross-sectional reg
  - Sometimes significant in panel (mixed-frequency issue?)
  - Anything you could do to introduce controls in NCA?
2. Czech this out!

- ~1700 forced voucher firm privatisation.
- 75% delisting in 1997 as firms unsuitable for public ownership exit (Fungacova)
2. Czech this out!

• Maybe not the best graph to start with
• Pattern seems common in transition countries
  – All but 2 have massive decreases in listings and +/- constant market cap
  – All but 2 countries with listing decreases are transition countries
• Is your conclusion robust to:
  – Using the initial+2-3 year conditions?
  – Separating transition countries?
3. Level of analysis

• The paper focuses on national exchanges
  – Not necessarily a steady-state outcome
  – Global (London Stock Exchange ca. 1850-1914)
  – Regional (US had >100 until 1929; UK also had many)
  – Cross-border listing / borrowing (e.g. LatAm)
  – Supra-regional (Euronext)

• Can be made redundant by other exchanges.
  – Does not necessarily mean that domestic stock market activity and firms/savers are constrained
3. Level of analysis

- Identification: initial activity could proxy for
  - Regional / supra-regional activity.
  - Access to international bond markets (e.g. Latin America)
  - More fundamentally: your proxies could mismeasure stock market activity (“zombie” markets; mergers)
    - Do you have any data?

- Could speak to EU and fragmentation if you dig more
3. Level of analysis (II)

• The paper focuses on **formal** exchanges

• Not necessarily steady-state outcome historically
  – Pre-LSE London coffee shops
  – 85% of Czech trades were off-exchange block trades (Claessens JCE)
  – Today: alternative (internet-based) specialised venues
  – These markets can also be quite public and liquid

• Can you control for alternative exchanges?
Conclusion

• I enjoyed reading and thinking about the paper
• Great data and stylised facts about an important stage in the history of capitalism
  – Can also inform policy
• So far the paper is strong on extensive margin
  – Exhaustive number of determinants
• Contribution to literature and policy would grow with additional intensive margin analysis
  – Interpreting the key indicators and results
  – I hope my comments will be useful