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# Macroeconomic effects of corporate default crisis: A long-term perspective ☆

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ABSTRACT

Using an extensive data set on corporate bond defaults in the US from 1866 to 2010, we study the macroeconomic effects of bond market crises and contrast them with those resulting from banking crises. During the past 150 years, the US has experienced many severe corporate default crises in which 20–50% of all corporate bonds defaulted. Although the total par amount of corporate bonds has at times rivaled the amount of bank loans outstanding, we find that corporate default crises have far fewer real effects than do banking crises. These results provide empirical support for current theories that emphasize the unique role that banks and the credit and collateral channels play in amplifying macroeconomic shocks.



## 1. Introduction

In this paper, we use an extensive data set compiled by Giesecke, Longstaff, Schaefer, and Strebulaev (2011) on corporate bond defaults to study the macroeconomic effects of major crises in the corporate bond market. To provide additional perspective, we contrast these effects with those resulting from banking crises.

Our motivation for doing this is threefold. First, while banking crises in the US have been the focus of many studies [important examples include Reinhart and Rogoff, 2009; Schularick and Taylor, 2012], relatively little attention has been given to corporate bond market default crises (corporate default crises, for short) in the literature. The corporate bond market, however, has been a major source of credit in the US during the past 150 years, and the amount of outstanding corporate bonds has occasionally rivaled, or even exceeded, the amount of bank loans outstanding. We focus on the US because, until the latter part of the 20th century, it has been the only country where privately owned corporations issued public debt on a large scale. By studying this important but

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