Comments on
"The cyclical behaviour of inventories: European cross-country evidence from the early 1990s recession"

by FabioC. Bagliano and Alessandro Sembenelli

The credit channel or financial accelerator is a very seducing hypothesis because its very mechanism—the deterioration of borrowers' balance sheets when interest rates rise and the subsequent lesser willingness of lenders to lend money—mobilizes the asymmetrical information that is at the heart of the role of banks. However this hypothesis has received until now only scant empirical support and all studies in this framework are welcome additions.

The authors choose to study the impact of the financial accelerator on inventories rather than on investment as in several studies. Inventories are indeed likely to respond faster to the financial situation of the firm than investment that may have been planed longer in advance. Also quite rightly, the authors will concentrate their investigation on the differential impact of interest rate movement on different segments of firms. Taking into account heterogeneity is of course central to the financial accelerator argument.

A panel of firms in France, Italy and the UK is observed from 1989 (1991 for Italy) to 1997 and the set of firms is further split according to size and to age. Both criteria imply different access to external capital. It is expected that younger and smaller firms be more constrained when interest rate rises. Three measures of financial leverage are used in the analysis: total leverage, short-term leverage, and debt maturity.

The estimated model of inventories is a standard buffer-stock formulation where inventories change so as to tend toward the level desired by the firm, given its sales expectations. The financial accelerator argument is present in the model through two parameters. The first one measures directly the effect of leverage on inventories, while the second one, a time effect, measures variations in the behavior of inventories through time.

The model is estimated in first difference by the generalized method of moments. As the results of this method of estimation can be quite sensitive to the choice of instruments, it would be informative to know how robust the results are to different instruments, particularly for those sub samples where the Sargan test doesn't validate the choice of instruments.

In the results for the firms aggregated by country, all three measures of leverage display a significant role in explaining inventories. But to be convincingly supportive of the financial accelerator hypothesis, the effect of leverage should be stronger for weaker firms. However, the estimates of the effect of leverage don't seem significantly different according to the type of firms, except, maybe, for large and old Italian firms where leverage seems to play a lesser role and, on the contrary, for large and young British firms that seem more sensitive to leverage than other types of firm. It would be a nice addition to the paper to formally test the hypothesis of equality of the leverage coefficients across different type of firms and even across countries.

The evolution of the coefficients on time dummies indicates clearly a pro-cyclical component in the behavior of inventories in all three countries beyond what is explained by the model. But, again, it doesn't seem significantly different according to the type of firms, except in the case of large and young British firms. This lack of differentiated response makes it difficult to disentangle a specific financial accelerator mechanism from the direct interest rate channel where all firms would be equally affected.

Finally, the authors observe that the differences across country in inventory behavior are in general larger than differences among different types of firms. This would indicate among others that the different national financial systems don't transmit monetary policy shocks in the same way, independently from the precise transmission mechanism. These asymmetries have important implications that policy makers will want to take into account.

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