Discussion of Chari & Henry

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PIIGS did worse than Asia in event time
There was a very different fiscal trajectory
The key challenge of the paper

- We just don’t have identification.
- We can see correlations between fiscal variates and outcomes.
- But numerous other things could have been going on.
Numerous other things were going on

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1. After 1997, the world economy was strong, and Asia could grow by exporting.
2. After 1997, Asia switched out of fixed exchange rates, and got big depreciations, which supported export-led growth.
3. Asia has flexible labour markets. Europe is going into a spiral of unemployment $\rightarrow$ loss of human capital $\rightarrow$ unemployment for many individuals.
Differences in IMF advice

- In 1997, the IMF was in a mood to give neoclassical advice on fixing economic policy, and Asia took a lot of that advice.
  - E.g. Korea sold its banking system to foreigners, radically transformed business groups, opened the capital account, freed up the exchange rate, and so on.
- In 2013, Olivier Blanchard advocates a judicious blend of exchange rate intervention, capital controls, macroprudential measures and monetary policy in order to pursue exchange rate objectives.
- Can we single out fiscal policy as the decisive factor?
A thought experiment

- Imagine if univariate analysis like this paper had been done focusing on a different treatment: privatisation.
- The IMF of 1997 pushed Asian countries into privatisation while the IMF of 2009 did not.
Is this question FUQed?

- The dataset that can answer these questions may be visible in 20 years.
- We will want to see many countries which got into crisis-like situations.
- Others got the kinder gentler IMF.
- Can we compare the treatment effects?
A first stage project

- Let’s leave the kinder gentler IMF out: it is too soon to tell.
- Can we study countries that got into trouble, and some took IMF programs?
- That will give us causal effects of the old IMF.
Thank you.