

Discussion of Chari & Henry

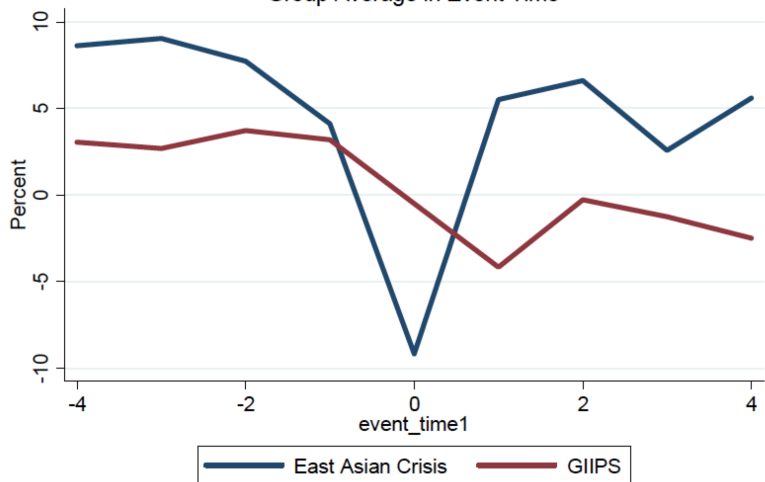
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March 13, 2014

PIIGS did worse than Asia in event time

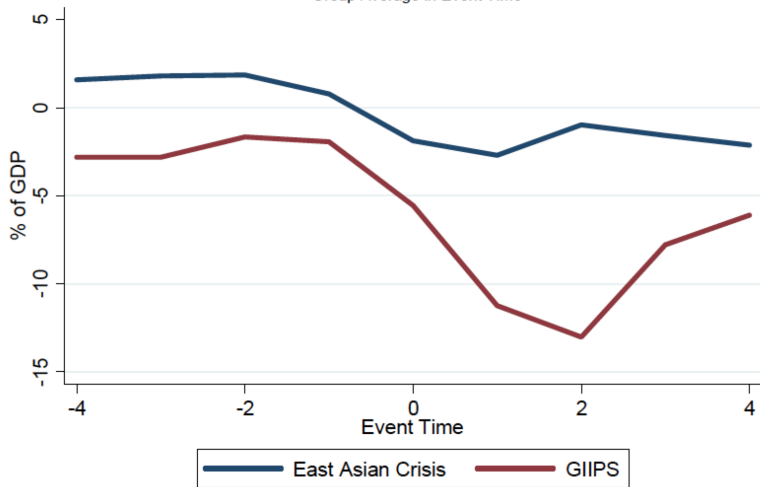
Figure 1: Real GDP Growth
Group Average in Event Time



There was a very different fiscal trajectory

Figure 3b: Primary Fiscal Balance in Event Time

Group Average in Event Time



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.

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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 → loss of human capital → 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.
- ▶ Some got the old IMF medicine. E.g. India 1981, India 1991.
- ▶ 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.