

Topics on Finance and Growth Policy and Data

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Latin America

- Please note that I am not an expert on Latin America
 - I have read papers and thought about their implications
 - We will talk about some general issues
- Why do some countries grow? What government programs are helpful?

International Trade and Government Programs

- Maybe international trade theory based on comparative advantage is wrong
- Export led
 - Basic idea is that want to have demand
 - Foreigners can buy goods
- Import substitution
 - Basic idea is to substitute local production of technically advanced goods for imports
 - Infant industries with economies of scale, learning by doing
 - Strategic trade models

Government Domestic Programs

- Support increase in production of industries that are likely to be important
 - Claimed to be what Japan, South Korea and Taiwan did
 - Export led
 - Interesting that they did it by capital investment
 - Alwyn Young (QJE August 1995)
- Education – People with more human capital
 - Earn more
 - More likely to innovate
 - Have more opportunity to have a good life, be better citizens
- Property Rights

Government International Programs

- World Bank and IMF these days
 - World Bank more related to infrastructure and microeconomic issues
 - IMF more related to macroeconomic issues
 - IMF has made more longer-term loans since the end of Bretton Woods in 1973
 - Some countries continuously have been on IMF adjustment programs since 1970s

World Bank

- Development loans
 - Loans to governments
 - Help build infrastructure
 - Water
 - Electricity
 - Help build production facilities
 - Diversion of funds to private uses by governments has been a big issue
- Maybe grants would be better so that taxpayers in country do not end up with bill for money that went to those in government and their friends
- Issue of forgiveness of debt

IMF

- Inflation
 - Affects nominal interest rates
 - Volatility
- Budget, which gets into microeconomic issues
 - Food subsidies
 - Other subsidies such as electricity
 - Subsidies to favored industries
 - “Crony capitalism”
 - Indonesia is regarded as an example, as is the Philippines especially under President Marcos
 - Government actions and policies that distort relative prices from production costs

Washington Consensus

- Fiscal discipline
- Tax reform
 - Lower marginal rates and increase base
- Interest rate liberalization
- Competitive exchange rate
- Trade liberalization
- Foreign direct investment
- Privatization
- Deregulation to lower entry barriers
- Secure property rights
- “neoliberal”?

Augmented Washington Consensus

- Corporate governance
- Anti-corruption
- Flexible labor markets
- WTO agreements
- Financial codes and standard
- “Prudent” Capital Account Opening
- Non-intermediate exchange rate regimes
- Inflation targeting by an independent central bank
- Social safety nets
- Targeted poverty reduction

What is wrong with this “consensus”?

- That it is bad advice?
- That it is “imposed” by IMF and World Bank?

Advice for Growth

- “Get relative prices right” is what Easterly thinks that he has learned (*The Elusive Quest for Growth* 2001)
 - Thinks that it is a Chicago lesson
 - Why not “Leave relative prices alone”?
 - Government could get out of the way
- Hernando de Soto (*The Other Path* 1989 and *The Mystery of Capital* 2003)
 - Issue of title to land
 - Distribution of wealth
- De Soto’s argument is related to that by Stanley Engerman and Kenneth Sokoloff
 - Inequality of wealth arose due to institutions and environment – factor endowments
 - Inequality probably contributed to policies that keep the wealth distribution constant, which growth would not do

Government Programs That Can Slow Growth

- No property rights or insecure ones
 - Think of former planned economies
- Policies that reduce the incentive to produce and increase the incentive to not produce or spend resources to get government favors
 - Anne Kreuger
- Policies that prevent people from accumulating wealth from their personal efforts
- Who is in favor of “corruption”?

Issues that Arise in An Empirical Paper

- “Does Opening A Stock Exchange Increase Economic Growth?” (JIMF 2004)
- Data issues
 - Periods covered limited by data
 - We could do something that other people could not do
 - Periods longer than others have
 - Have physical and human capital, not just GDP
 - Can tie more closely to theories and distinguish between them
 - Data on stock exchange openings
 - Found a book summarizing current stock exchanges and some sources on old ones
 - Possible that we do not have them all
 - Do not have failed stock exchanges

Why Not Run Regressions?

- Not enough observations 20 years before and after
- Don't want to deal with existing literature
 - Not everyone else views some things as problems
- Widely divergent periods makes not having other variables less of a problem than it would be otherwise
 - Less likely to have a missing common factor

Actually Examined Central Banks As Well

- Not just because I work at one
 - Central banks help with payments system and clearing
 - Central banks may prevent bank runs
 - Central banks may – or may not – improve inflation rate from monetary policy
- What is a central bank?
 - This was a data question
 - How relate theory to available data?
 - What is the empirical referent of theoretical variable?
 - Not just column of numbers has same name, e.g. “money”
 - We settled on lender of last resort
 - Stop runs on banking system
 - Various sources

Results on Central Banks

- No support for economic growth being affected by central banks
- Editor said “It is a distraction in the paper. Delete it.” So we did.
 - Probably a month of work
 - He was right

Another Empirical Paper

- “Returns to Investors in New Industries”
- Theory says want returns
 - Stock prices
 - Dividends
 - Easily conceptually, hard practically
- What Industries?
 - Read about telegraph and found out no data
 - Read about telephone and figured out the same thing
- Looked in many alternative sources for data
 - Moody’s
 - Newspapers

What Do You Want to Ask Me?

