Comments on Lane’s *International Financial Integration and Japanese Economic Performance*

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A Fine Survey

• Detailed set of stylized facts presented
• Sensible analysis linking IFI to domestic developments, especially recent monetary policy
  ○ Exception: Little on Effects of Plaza Agreement, Louvre accord (McKinnon)
• Lots of sensitivity analysis, digging beneath surface
  ○ Ex: different asset classes; short- and long-run analysis
Still, a Basically Negative Verdict

• Relatively weak evidence that Japan’s domestic economic performance has been substantially affected by international financial integration
  
  o Positive Spin: international issues may have affected domestic policy
    
    ▪ Seems untested/wishful thinking
Starkly Expressed

- International Financial Integration had a negligible impact on Japanese Economic Performance
Why is This a Negative Verdict?

• Japan a large important player of intrinsic importance

• Tremendous possibilities for impact given regime switch (transition from fast growth to lost decade)

• Japan has strong international financial presence (reserves! current account! exchange rate! …)

• Few countries liberalized much earlier
Plausible?

- Probably; general presumption is that most macroeconomic developments primarily domestic in nature
- Japan even less likely to be affected by international phenomena given size
  - Possible exceptions on real side (trade), not financial integration
An Important Potential Caveat:
Perhaps Japan just isn’t that financially integrated?

• Consistent with much of the evidence in paper
  (Consumption tests; Feldstein-Horioka; return
cyclicality; etc)

• But in that case should we really be interested in the
effects of IFI?
Still, Most Macroeconomic Effect Still to Come

- Japan experienced earliest, fastest demographic transition (very short baby boom)
- Accordingly, high NFA likely to matter soon
Microeconomic Effects Remain Unclear

• Should foreign bank competition have had bigger positive effect (Lopez and Spiegel)?
• Would bubbles have been smaller with more foreign banks? (or bigger, with more herding?)
Smaller Gripes

- Numerous typos
- Description, source, even frequency of time series data a mystery
- Tables, Figures poorly formatted, noted (should be self-explanatory), out of order
- Surely one can detrend more effectively
- Why is FX currency exposure not aggregated from individual currency positions?
- Demographics could be modeled better (focus on working age relative to total population for Japan and trade competitors.)