Comments on
*Global Capital Flows and National Policy Choices*
by Tytell and Wei

Andrew K. Rose
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A fine paper!

• Good topic

• Nice model

• Reasonable analysis
  
  o Key is focus on endogeneity of policies

  o Less Important: discreteness and Markov model

• Appropriate caveats
Issue: Link from Capital Flows to Purported Effects

• What’s the tie between inflation and “good policy”?

• Shoe Leather Costs small even for moderate inflation
  o Median inflation <16% for median LDC (Table 2)
  o Standard Deviation irrelevant (cross-country!)
    ▪ Perhaps really care about inflation volatility
      (correlated with level)?
Why Should Foreigner Investors Care About Inflation?

- “Original Sin” (documented by Frank Warnock and others) implies that most foreigners do not hold local-currency developing country debt anyway.

- Local-currency risk relatively easy/cheap to hedge away (FX derivatives)
Are They Really Looking under the Light?

- *Capital taxes* (Rodrik) seem obvious place to look
  - Panel data may not be available
  - But welfare consequences probably higher
  - Also natural domestic benchmark
Another Alternative: Globalization reducing Corruption

• Many authors (Wei!) emphasize importance of corruption

• Could also do institutional reform, non-economic phenomena (human rights, etc.)
Yet one more alternative: use capital $flows$

- More responsive to domestic conditions than $stocks$
Should Developed and Developing Countries be Pooled?

• Effect of foreign flows on domestic policy likely to be MUCH higher in developing countries: why not use this?

• Inflation results should control for existence, depth of debt markets
Redo Estimation Interpretation

- System already over-identified without third equation
  - ER Flexibility and CB Governor as IVs for Inflation
  - Gov’t Changes and Coalitions as IVs for Budget
- Still, idea of using common component of capital flows intriguing
Other Data Issues/Quibbles

• Most striking feature of figures 1, 2 is countries with 0 financial globalization (data clustered to left)

• Many outliers … critical?

• Why not take logs of gross foreign assets? (like inflation!)

• Shouldn’t thresholds for Markov estimation be visually apparent?
Suggestion:

• Focus on interaction between “mood swings” and discipline

  o Does capital that’s “pushed” out of North matter less than capital that’s “pulled” into individual Southern countries?