DISCUSSION OF

Ilzetzki, Reinhart, Rogoff

Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?

Harris Dellas

Univ. of Bern

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This paper provides a 60 year history of the evolution of world

- Exchange rate arrangements
- International role of a currency (through the lenses of ”revealed anchor” currency)
- Exchange rate restrictions-capital controls

Main findings regarding "statistical" patterns in the data

- No significant switch towards greater flexibility. A move towards the middle of the range of categories (managed float)
- No diminution of the global role of the USD
  1. as anchor in exchange rate targeting
  2. as currency of choice for CB reserves
  3. in goods-assets invoicing
- Lower incidence of capital controls

Main findings regarding "economic" properties of the data

- Policy trilemma: Foreign reserves as a substitute for capital controls in exchange rate stabilization
- The practice of inflation targeting (Taylor rules) has proved compatible with various types of exchange rate regimes

In the literature: No shortage of classifications of exchange rate regimes; also lots of measures of official impediments to international capital flows. What is **novel**?

- Global role of a currency: Use de jure preference of monetary authoritys choice of anchor currency as compelling indicator of the global role of a currency (rather than just invoicing, CB reserve positions etc)
- Exchange rate regime front:
    1. Evaluation against 10 benchmark currencies
    2. Taking into account role of inflation targeting regime
- Foreign exchange restrictions front:
    1. Use of de facto rather than de jure criteria
    2. Incorporation of info about parallel market

Evaluation

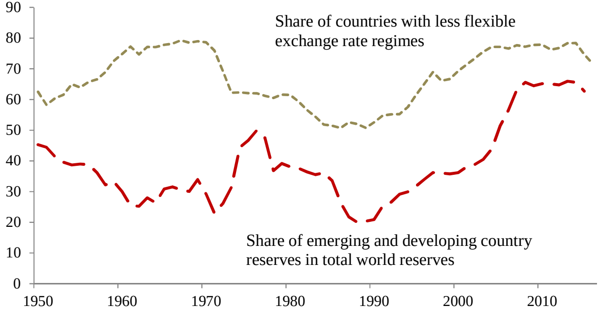
- The assumptions made by the authors are careful, reasonable and –mostly– well reasoned
- They try to rely less on art and more on science
- The key issues:
  1. How robust are the documented patterns?
  2. How useful are the generated classifications for addressing interesting economic policy questions/helping evaluate competing theories?

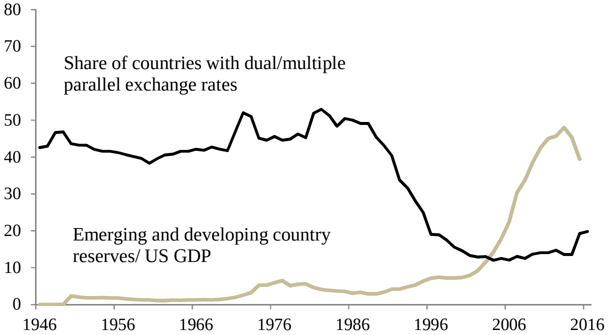
Robustness

- Results on asset market liberalization are compelling
- More is needed on the other fronts
- Examples. Global role of USD
  1. Fig 8 What is the correlation if you used R(L)/Y(L) instead of R(L)/R(T) ?
  2. Fig. 9 What if used R(L)/Y(L) instead of R(L)/Y(US)?
  3. Do individual groups/countries exert disproportionate influence on the results?
  4. China; What if the EZ were treated as a single country? (Is it N times the same data point post 1998?); How plausible is that EU was a floater 50-70? How much does this matter for the main results?

Figure 8: Reserves and Two Sides of the Impossible Trinity, 1950-2015

The incidence of limited exchange rate flexibility





Share of countries with dual/multiple parallel exchange rates
Emerging and developing country reserves/ US GDP
80
70
60
50
40
30
20
10
0
1946
1956
1966
1976
1986
1996
2006
2016

- Going beyond visual patterns: Quantitative info and conditional patterns
  1. How much has the change in exchange rate flexibility + lifting of capital controls contributed to the accumulation of foreign reserves?
  2. More conditional
- For instance, variation within exch. regime category (say, managed float) regarding the other categories (say, capital controls), rather than just LDCs and rich
- or relation between exch. rate arrangement and frequency of inflation targeting for different sub-groups

Next step

- Implications of their classification of exchange rate regimes and capital controls for standard variables: macroeconomic volatility, inflation etc).
- Do they differ from rival classifications?
- Consistency between flexibility and volatility: Construct world index of exchange rate volatility (vis a vis some reference currency). Compute its correlation with paper's measure of the degree of exch. rate regime flexibility

Making sense of what the classifications imply

- A peg and a loosely managed float may both have the dollar as anchor but mean very different things for role of usd and transmission of US monetary policy
- A fixed regime with capital controls is a very different animal (in terms of what it implies for domestic monetary policy conduct) that a fixed without any capital controls.
- Would multidimensional objects be more informative?

What about the future?

- The title: Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?
- But the paper is completely backward looking. How to use the documented patterns to project forward in time?
- For this we need to undestand the economic properties of the documented endogenous patterns?

Concluding remarks

- A lot of careful, nice work
- Considerable value added relative to existing literature
- Need to examine robustness, produce more quantitative and conditional information
- Try to assess economic implications of findings. If necessary, construct composite measures
- Take a shot at explaining the patterns observed in the data
- Use the past to try to answer the question raised in the the title