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Exchange-Rate Policy Attitudes: Direct Evidence from Survey Data

Discussion by

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Discussion of:

Exchange-Rate Policy Attitudes: Direct Evidence from Survey Data

by J. Lawrence Broz, Jeffry Frieden and Stephen Weymouth

IMF Jacques Polak Annual Research Conference, Nov. 15 2007

Justin Wolfers

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CEPR, CESifo, IZA and NBER

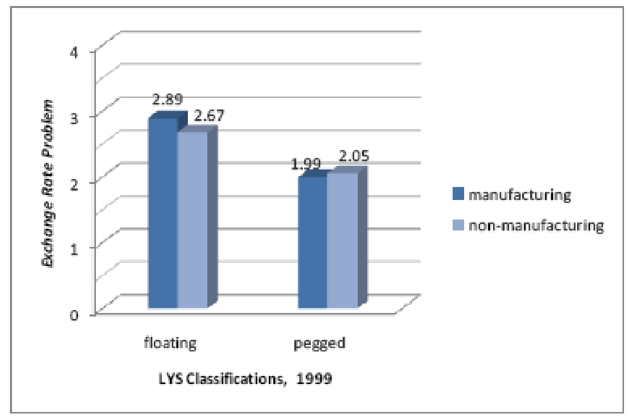
Objectives of the paper

- Motivation:
  - "Exchange rate policy is constrained by contending economic interests and policy preferences, which makes it important to understand those interests and preferences."
- Research question: How does exposure to trade change policy preferences?
  - Exchange Rate Regime
    - "we expect firms with substantial cross-border exposure to be particularly sensitive to currency volatility, and thus to be more satisfied with a fixed exchange rate"
  - Exchange Rate Levels
    - "we expect firms in the tradables sectors to be more satisfied when the currency is weak and more dissatisfied when it is strong"
- Method: Differences-in-differences
  - Are "more exposed" firms "more sensitive" to currency volatility?
  - Are "more exposed" firms "more sensitive" to currency levels?
- Observations
  - Results are replicable
  - Careful treatment of qualitative data and intra-national correlation
  - Novelty: Analysis of stated preferences (cf theory; voter or legislator revealed prefs)

Attitudes to Exchange Rate Regimes

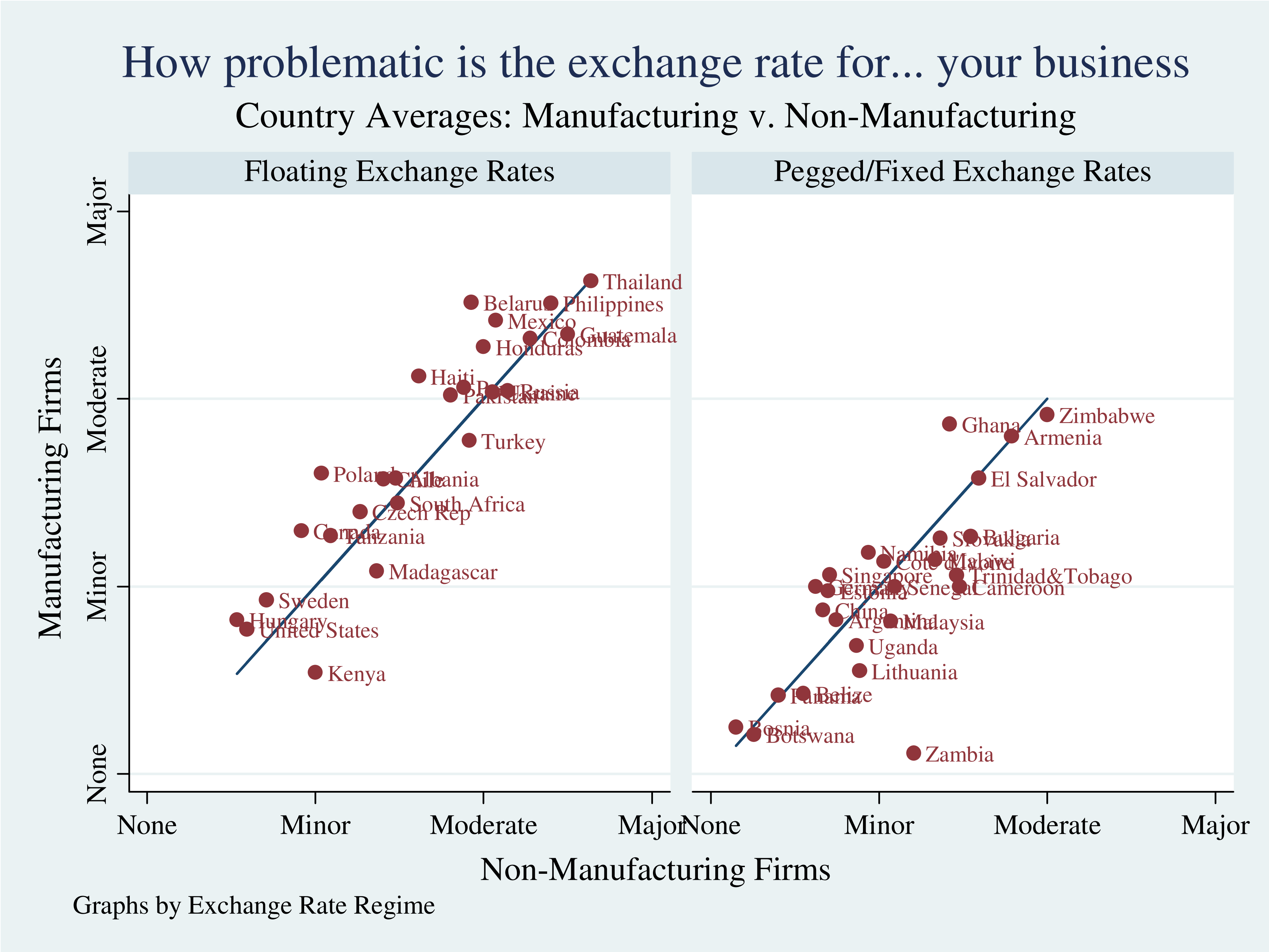
- Hypothesis: Cost of XR volatility | exposed > Cost of XR volatility | not exposed
  - "We want to test the hypothesis that internationally exposed firms prefer greater currency stability"

Figure 3: Manufacturing vs. Non-Manufacturing Average Responses, by Exchange Rate Regime



- Implementation:
  - "internationally exposed firms"
    - Manufacturing firms
    - Tradable = manufacturing + agriculture
    - Exporter: Firm exports some product
  - "prefer"
    - "How problematic is the exchange rate for the operation and growth of your business?" (*Whining*)
  - "greater currency stability"
    - Pegged exchange rate regime (v. floating)
- Method: Simple difference-in-difference

("Whining" | exposed – "Whining" | not exposed)^{Floating} >
("Whining" | exposed – "Whining" | not exposed)^{Peg}
Valid if: Cost of XR volatility ⇔ d "Whining" / dXR regime
Is this stated preference?


How problematic is the exchange rate for... your business
Country Averages: Manufacturing v. Non-Manufacturing
Floating Exchange Rates
Pegged/Fixed Exchange Rates
Manufacturing Firms
Major
Moderate
Minor
None
Non-Manufacturing Firms
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Philippines
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Guatemala
Honduras
Haiti
Turkey
Albania
South Africa
Czech Rep
Tanzania
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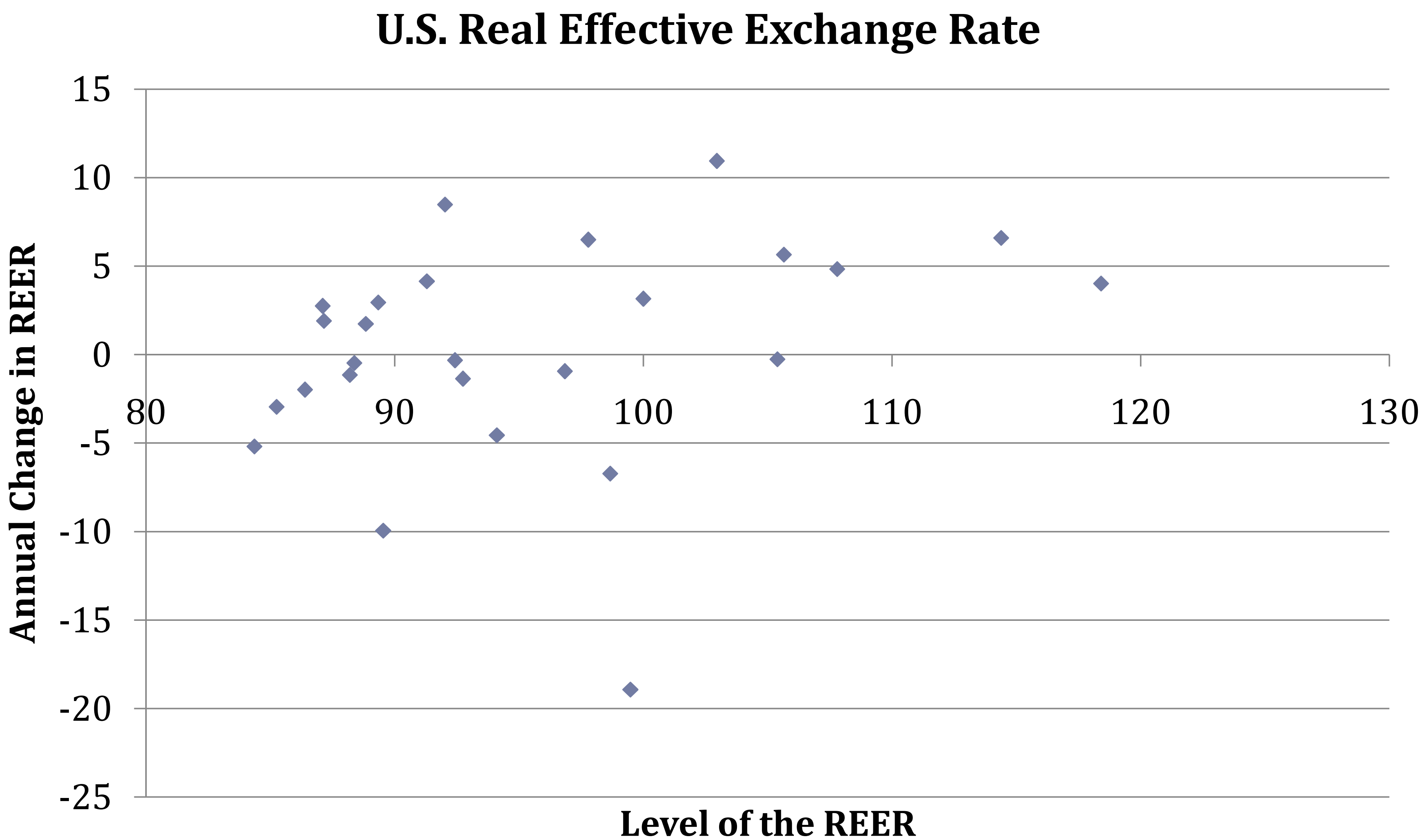
Cameroon
Estonia
China
Malaysia
Uganda
Lithuania
Belize
Panama
Bosnia
Botswana
Zambia
Graphs by Exchange Rate Regime

Attitudes to Exchange Rate Levels

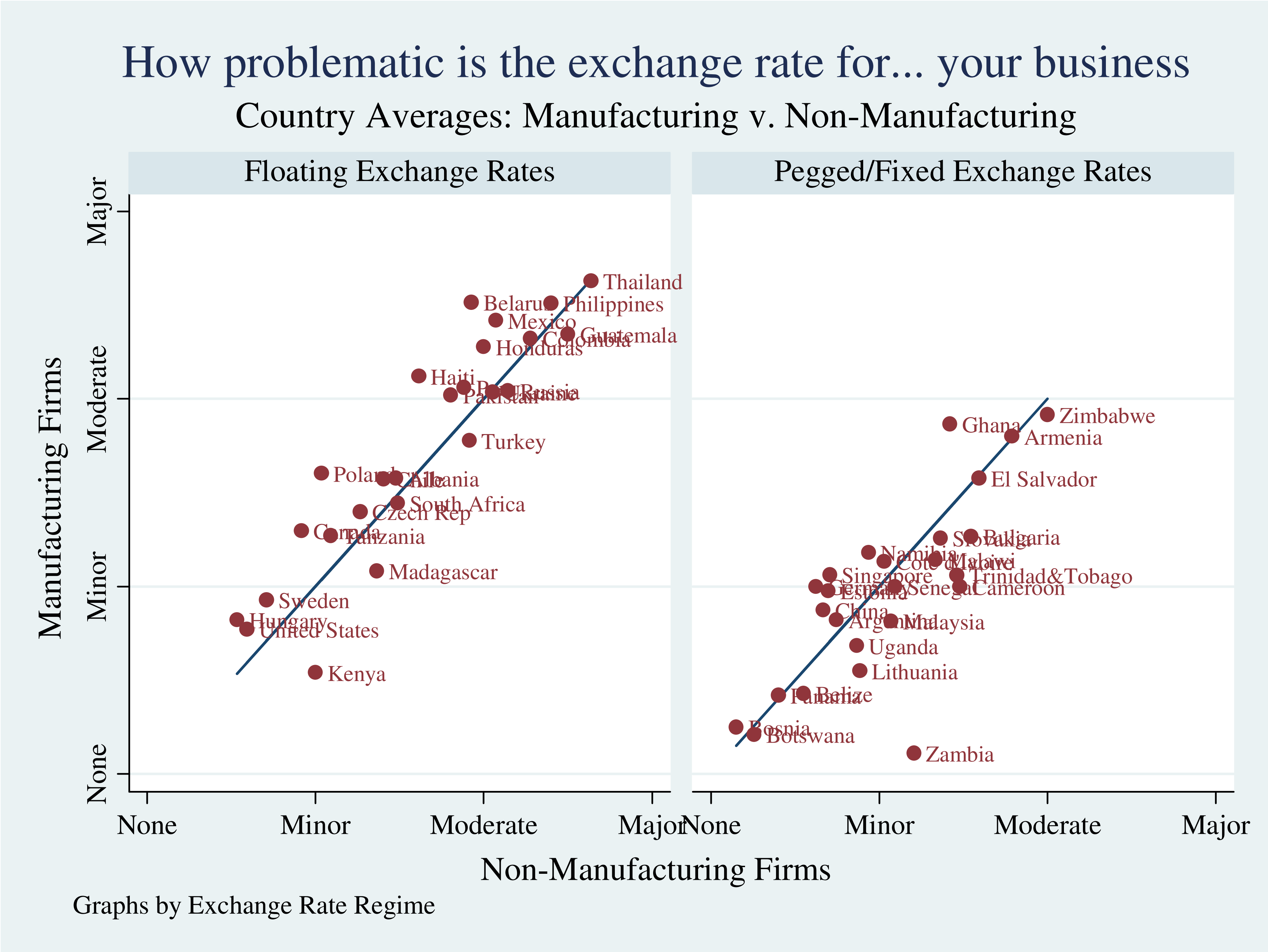
- Hypothesis: dSatisfaction | dREER ^{tradable} > dSatisfaction | dREER $^{non\text{-}tradable}$
  - "we expect firms in the tradables sectors to be more satisfied when the currency is weak and more dissatisfied when it is strong"
- Implementation:
  - "in the tradables sectors"
    - Manufacturing firms
    - Tradable = manufacturing + agriculture
    - Exporter: Firm exports some product
  - "to be more satisfied"
    - "How problematic is the exchange rate for the operation and growth of your business?"
  - "when the currency is weak" / "when it is strong"
    - Annual **change** in real effective exchange rat
      - Claimed to be a proxy for REER level
      - May instead proxy for REER volatility
- Issues: dWhining | dΔREER ^{tradable} > dWhining | dΔREER $^{non\text{-}tradable}$
  - Change v. level of REER
  - Does Whining = Satisfaction?
    - What does it mean for the exchange rate to be "problematic"?
      - "If the exchange rate would rise x%, my profits would rise y%"
      - If dProfit/dREER is constant: Firms in the tradable sector should always whine
      - If d^2Profit / dREER^2 >0: Firms in the tradable sector should whine when REER is high
      - If dProfit/dREER^2 >0: Firms in the tradable sector should whine following REER appreciation

Level and Changes of REER



Dependent Variable: Exchange Rate Problems

- From paper: "How problematic is the exchange rate for the operation and growth of your business?"
- From survey instrument:
  "Please judge on a four point scale how problematic are the following factors for the operation and growth of your business.
  (Please do not select more than 3 obstacles as 'major' (4) and please circle the single most important obstacle):
  a. Financing
  b. Infrastructure (e.g. telephone, electricity, water, roads, land)
  c. Taxes and Regulations
  d. Policy instability / uncertainty
  e. Inflation
  f. Exchange Rate
  g. Functioning of the judiciary
  h. Corruption
  i. Street crime / theft / disorder
  j. Organized Crime / Mafia
  k. Anti-competitive practices by government or private enterprises
  l. Other (Specify constraint)"
  [1 = No Obstacle; 2=Minor Obstacle; 3=Moderate Obstacle; 4=Major Obstacle]



How problematic is the exchange rate for... your business
Country Averages: Manufacturing v. Non-Manufacturing
Floating Exchange Rates
Pegged/Fixed Exchange Rates
Manufacturing Firms
Non-Manufacturing Firms
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Minor
Moderate
Major
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Philippines
Mexico
Guatemala
Honduras
Haiti
Pakistan
Turkey
South Africa
Czech Rep
Tanzania
Madagascar
Sweden
Hungary
United States
Kenya
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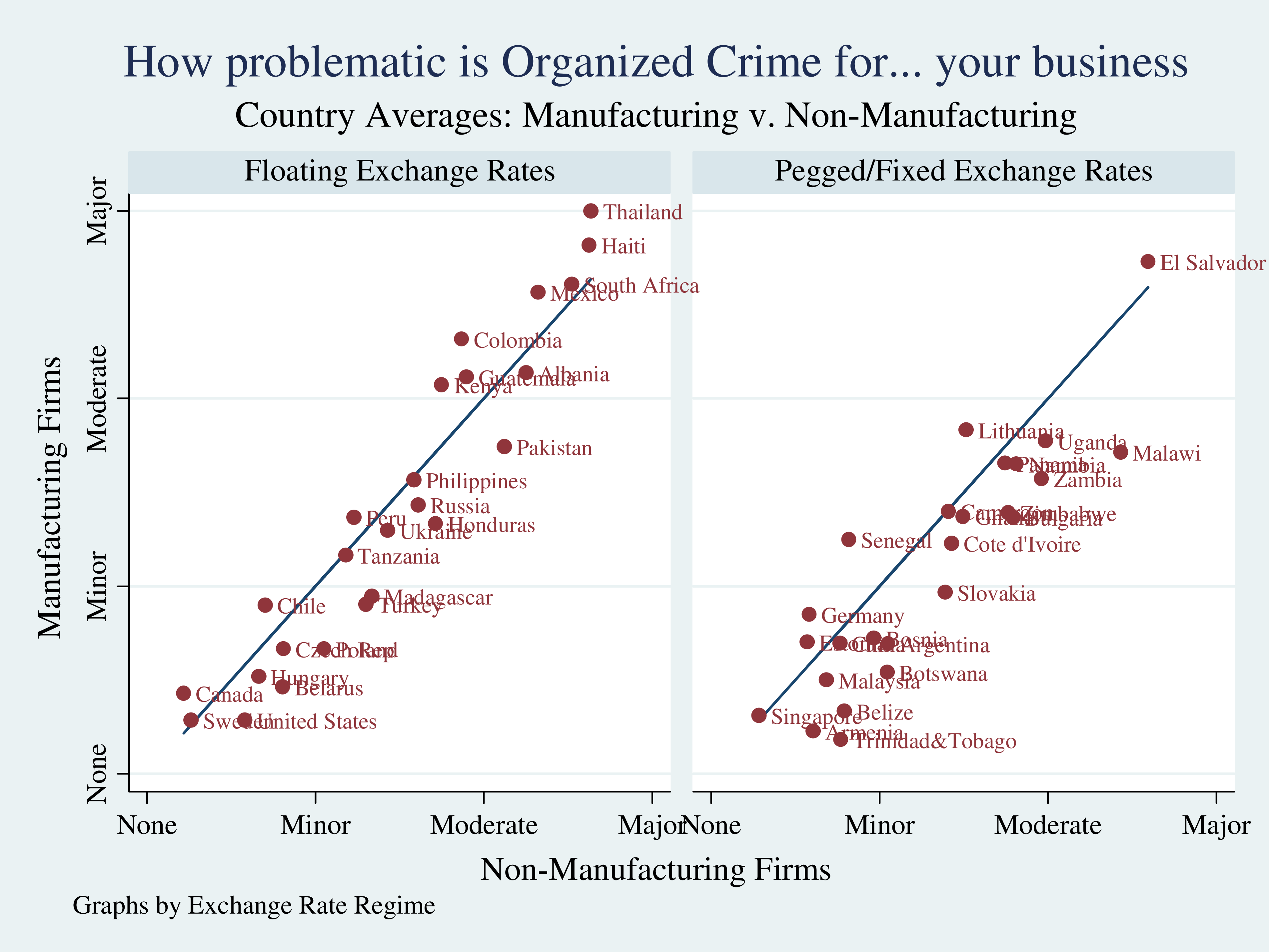
Graphs by Exchange Rate Regime



How problematic is Organized Crime for... your business
Country Averages: Manufacturing v. Non-Manufacturing
Floating Exchange Rates
Pegged/Fixed Exchange Rates
Manufacturing Firms
Major
Moderate
Minor
None
Thailand
Haiti
South Africa
Mexico
Colombia
Guatemala
Albania
Kenya
Pakistan
Philippines
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Bulgaria
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Cote d'Ivoire
Slovakia
Germany
Estonia
Croatia
Bosnia
China
Argentina
Botswana
Malaysia
Belize
Singapore
Armenia
Trinidad&Tobago
Non-Manufacturing Firms
Graphs by Exchange Rate Regime

How problematic is Street Crime for... your business
Country Averages: Manufacturing v. Non-Manufacturing
Floating Exchange Rates
Pegged/Fixed Exchange Rates
Manufacturing Firms
Non-Manufacturing Firms
None
Minor
Moderate
Major
Haiti
Mexico
Guatemala
South Africa
Colombia
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Thailand
Madagascar
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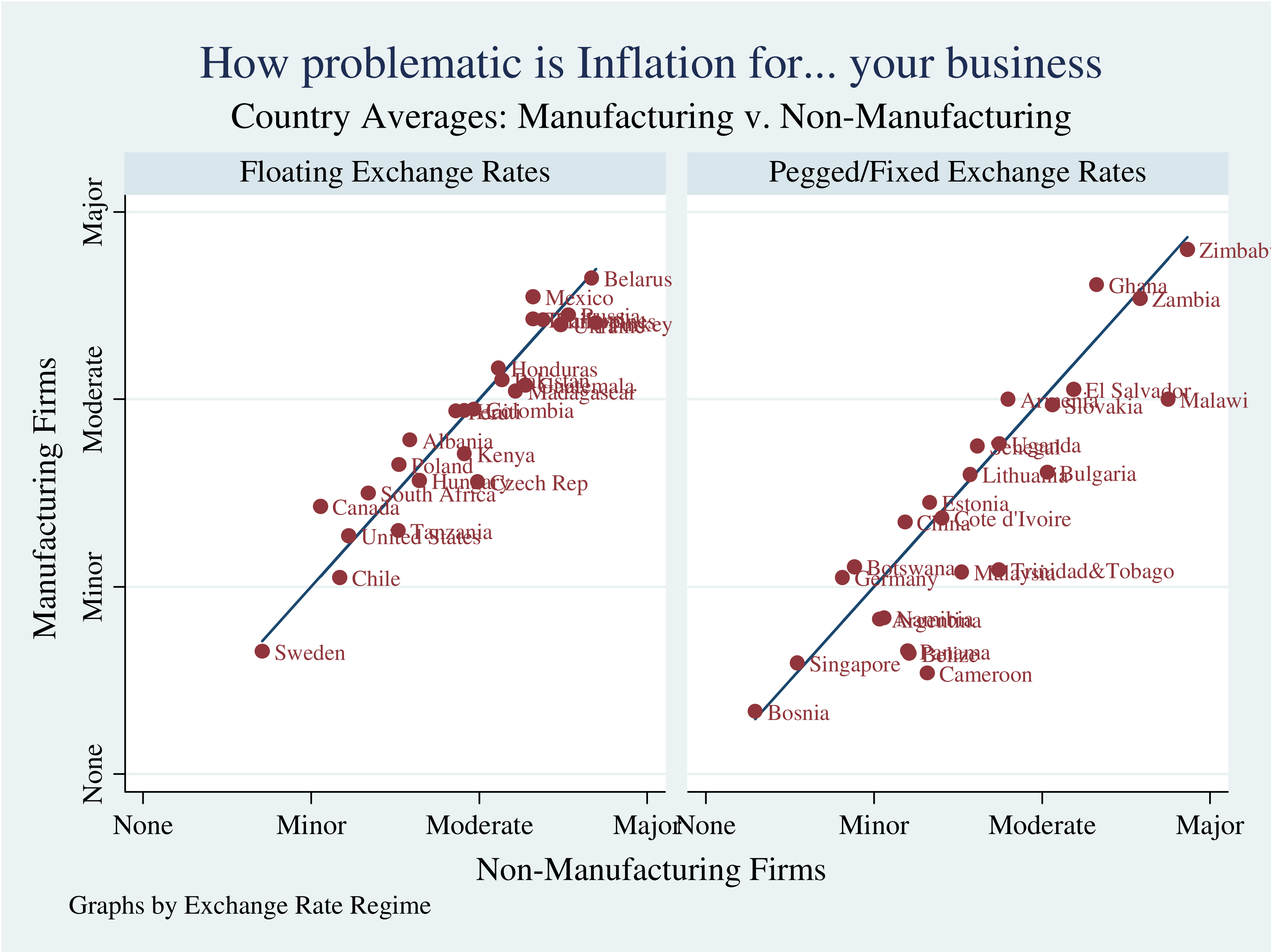
How problematic is Inflation for... your business
Country Averages: Manufacturing v. Non-Manufacturing
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Pegged/Fixed Exchange Rates
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Non-Manufacturing Firms
None
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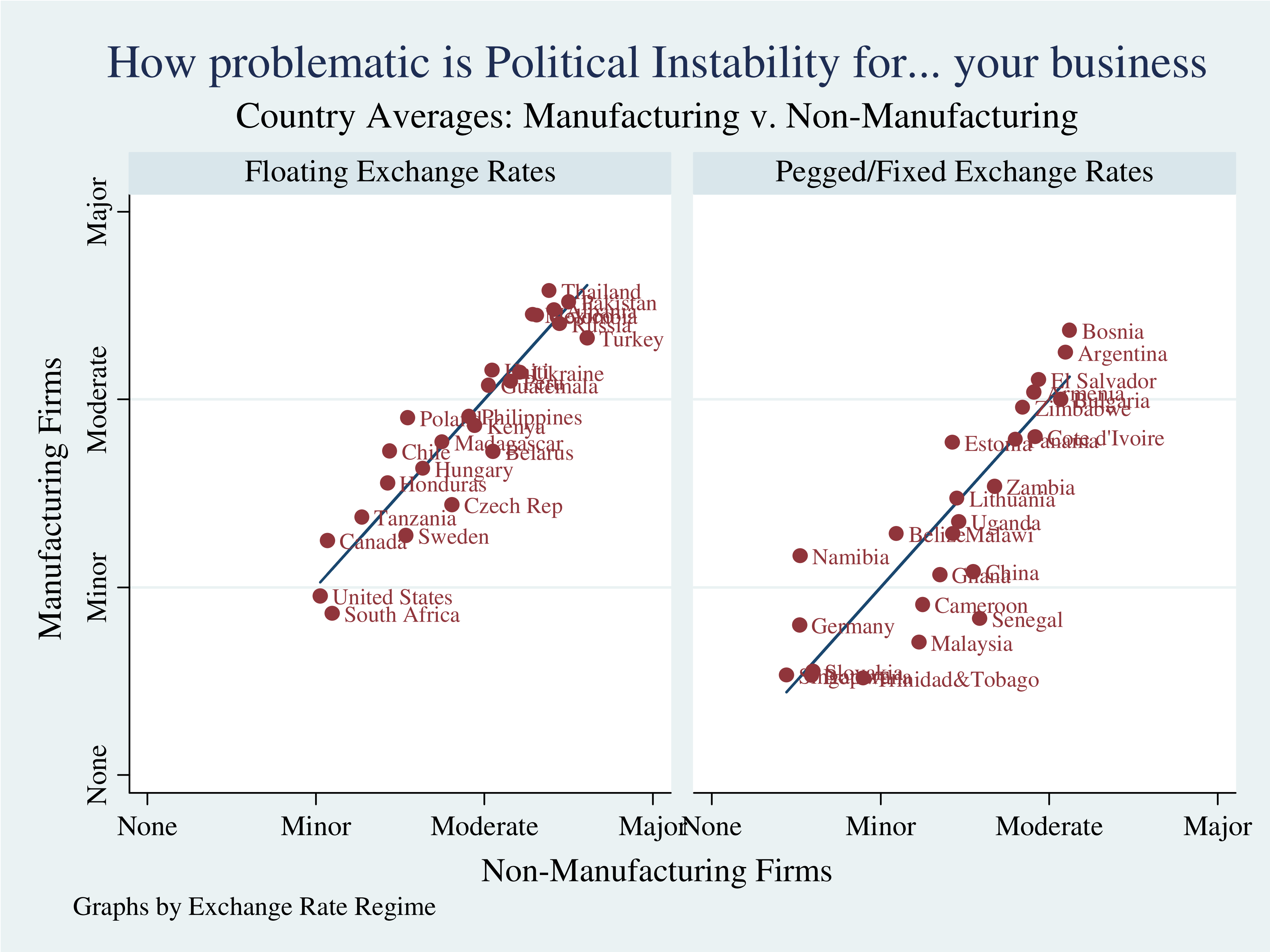
Graphs by Exchange Rate Regime



How problematic is Political Instability for... your business
Country Averages: Manufacturing v. Non-Manufacturing
Floating Exchange Rates
Pegged/Fixed Exchange Rates
Manufacturing Firms
Non-Manufacturing Firms
None
Minor
Moderate
Major
Thailand
Pakistan
Russia
Turkey
Ukraine
Guatemala
Philippines
Kenya
Madagascar
Chile
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Graphs by Exchange Rate Regime

A Complaint About Causal Inference

- Motivation:
  - "Exchange rate policy is constrained by contending economic interests and policy preferences, which makes it important to understand those interests and preferences."
- But the authors aren't concerned with endogeneity
  - "As our dependent variables are responses of *individual* firm owners to a survey question about exchange rates, we are not overly concerned with endogeneity issues – it seems unlikely that such individual responses "cause" government exchange rate policies"
- Alternative interpretation
  - Results reflect differential power of manufacturing v. non-manufacturing sector in determining exchange rate policy

Conclusion

- It is comforting that "stated preferences" are consistent with theory
  - Firms in tradable sector:
    - More likely to list exchange rate as a problem under floating rates
    - More likely to list exchange rate as a problem following real appreciation
- But if they weren't consistent, do we learn about:
  - Political economy: Interest group pressure regarding exchange rates?
  - Behavioral economics: Whether firms understand their self-interest?
  - Survey methodology?
    - How likely is a manufacturing firm in New Jersey to list the exchange rate with Pennsylvania as problematic? (unlikely)
    - How likely is a manufacturing firm in New Zealand to list the exchange rate with Australia as problematic (very likely)
    - This paper would infer that firms in tradable sector prefer fixed exchange rates
    - Alternative inference: Salience of the exchange rate as a concerns depends on its variability