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

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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”

- 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)\textsuperscript{Floating} > (“Whining” | exposed – “Whining” | not exposed)\textsuperscript{Peg}
  - Valid if: Cost of XR volatility \iff d “Whining” / dXR regime
  - Is this stated preference?

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How problematic is the exchange rate for... your business

Country Averages: Manufacturing v. Non-Manufacturing

Floating Exchange Rates

Non-Manufacturing Firms

Manufacturing Firms

None

Minor

Moderate

Major

Non-Manufacturing Firms

Manufacturing Firms

Pegged/Fixed Exchange Rates

Graphs by Exchange Rate Regime
Attitudes to Exchange Rate Levels

**Hypothesis:** \( \text{dSatisfaction} | \text{dREER}^{\text{tradable}} > \text{dSatisfaction} | \text{dREER}^{\text{non-tradable}} \)
- “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:** \( \text{dWhining} | \text{dΔREER}^{\text{tradable}} > \text{dWhining} | \text{dΔREER}^{\text{non-tradable}} \)
- 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 \( \text{dProfit}/\text{dREER} \) is constant: Firms in the tradable sector should always whine
    - If \( \text{d}\Delta \text{Profit}/\text{dREER}^2 > 0 \): Firms in the tradable sector should whine when REER is high
    - If \( \text{dProfit}/\text{dREER}^2 > 0 \): Firms in the tradable sector should whine following REER appreciation

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Level and Changes of REER

U.S. Real Effective Exchange Rate

Annual Change in REER vs. Level of the REER

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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

Non-Manufacturing Firms

Manufacturing Firms

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

Graphs by Exchange Rate Regime
How problematic is Street Crime for... your business

Country Averages: Manufacturing v. Non-Manufacturing

Graphs by Exchange Rate Regime
How problematic is Inflation for... your business

Country Averages: Manufacturing v. Non-Manufacturing

Floating Exchange Rates

Pegged/Fixed Exchange Rates

None  Minor  Moderate  Major

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

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

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