

*Comments on
Adhikari, Duval, Hu and Loungani's*

“Can Reform Waves Turn the Tide? Some Case Studies Using the Synthetic Control Method”

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2 caveats to start

- I will comment on the paper,
not on the presentation
(which as you could see was excellent)
- I really liked the paper ... a lot

What does the paper do?

- Focus on labor and product markets reforms
- Uses the Synthetic Control Method (SCM)
- Documents heterogeneity in reform effects
- Finds that in 2/3 of cases, refs raise pc GDP

What does the paper do?

- Two additional features I think are noteworthy
- Superb choice of episodes/“waves of reforms”
 - 1990s: NZ, AUS, DK, IRL and Netherlands
 - 2000s: Hartz reforms in Germany
- Identify **weak macro conditions** for instances in which effect is smaller (1/3 of cases; DK and NZ)

I have three main comments

and many tiny ones

- Main comment number 1: Method
- Main comment number 2: Research design
- Main comment number 3: Econometric results

Main comment 1: Method

- I would like the methodological discussion to be more forceful and more balanced
- SCM: "one the most important developments in program evaluation in the last decade" (Athey and Imbens 2016 p. 5)
- In econometrics of program evaluation: "artificial control group" (Imbens and Wooldridge *JEL* 2009 p. 79)
- *Synthetic control methods for causal inference in comparative case studies* or "synthetic counterfactuals" or *SCM*
Abadie et al: *AER* 2003, *JASA* 2009, *AJPS* 2015

More **balanced**:

more extensive discussion of benefits and costs

IMHO, main cost of SCM is inference

Statistical inference: DID followed by SCM?

Main comment 2: Research design

1. Outcomes other than GDP per capita:
of course TFP, exports and FDI (“mechanisms”)
but also inequality
2. Maybe instead of looking at product and labor market reforms *jointly*, examine them *separately* (links to Ch 3 WEO April 2016)
3. Clusters or waves? Germany may help highlight limitations of method, in particular, difficulty to deal with “sequential treatments” “gradual reform” “sequencing”

Main comment 3: Results

- More on results:
 - How heterogeneous are the effects?
 - Size? Dynamics?
- I suggest editing description of case studies:
 - Specifically: I would avoid using bullet points
 - Add economic history references (avoid “dry”)

Some small issues

1. Appendix: Maybe move placebos to Appendix
2. Dynamic p-values are not discussed/explained in paper
3. There is little mention of “globalization”: useful to bring it in to (a) further value SCM and (b) shed further light on results (eg 1990s vs 2000)
4. Little discussion of EMU (or financial globalization): seems to me very important to Irish case and possibly to others
5. On previous point cf. Friedrich, Schnabel and Zettelmeyer, Financial Integration and Growth in Europe, JIE 2013
6. Paper will be of huge interest to EU integration debate: maybe add word Europe to title, somehow?
7. You may want cite previous IMF work on SCM & reforms: Campos&Kinoshita, "Financial Liberalization, Foreign Direct Investment and Structural Reforms," *IMF Staff Papers* 57 (2): 326-365, 2010

In short

Paper on its way to become very influential piece

- 1) My major comments: method
- 2) Design: Exports & TFP as channels; Inequality
- 3) Results: size, dynamics, history