

Comments on Frankel's  
“Systematic Managed Floating”

Andrew K. Rose

Berkeley-Haas, ABFER, CEPR and NBER

# Much to Agree With!

- Paper carefully written, full of good ideas and nuance
- In fact, I agree with most everything that's written
  - A few disagreements in the small
- Below, I essentially add another layer “in the large”
  - Mostly interpretation of things beyond scope of paper
  - Some new empirical evidence
    - Same sample of countries, time

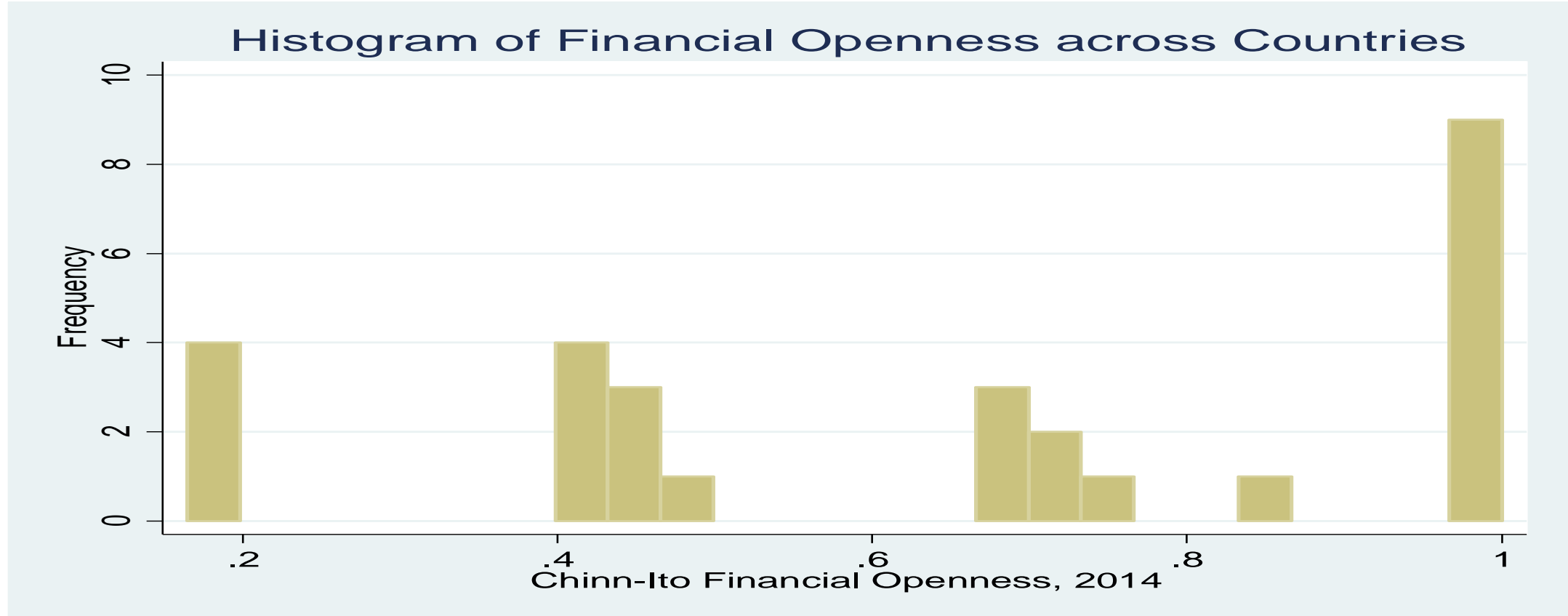
# Apples to Apples: Regimes & Time

- Are countries comparable over the span of time?
- Reinhart-Rogoff exchange rate regime classification:
  - 9 countries remain in same regime 1997-2015
  - But 17 experience at least 3 regimes over same time
  - Potential source of worry?

# Apples to Apples: Financial Openness & Time

- Are countries comparable in terms of capital controls over time?
- Chinn-Ito classification 1997-2015:
  - 11 countries increased financial openness significantly
  - 5 decreased
  - Again, potential source of worry?
- And countries differ at a point in time ...

# Apples to Apples: Financial Openness & Space

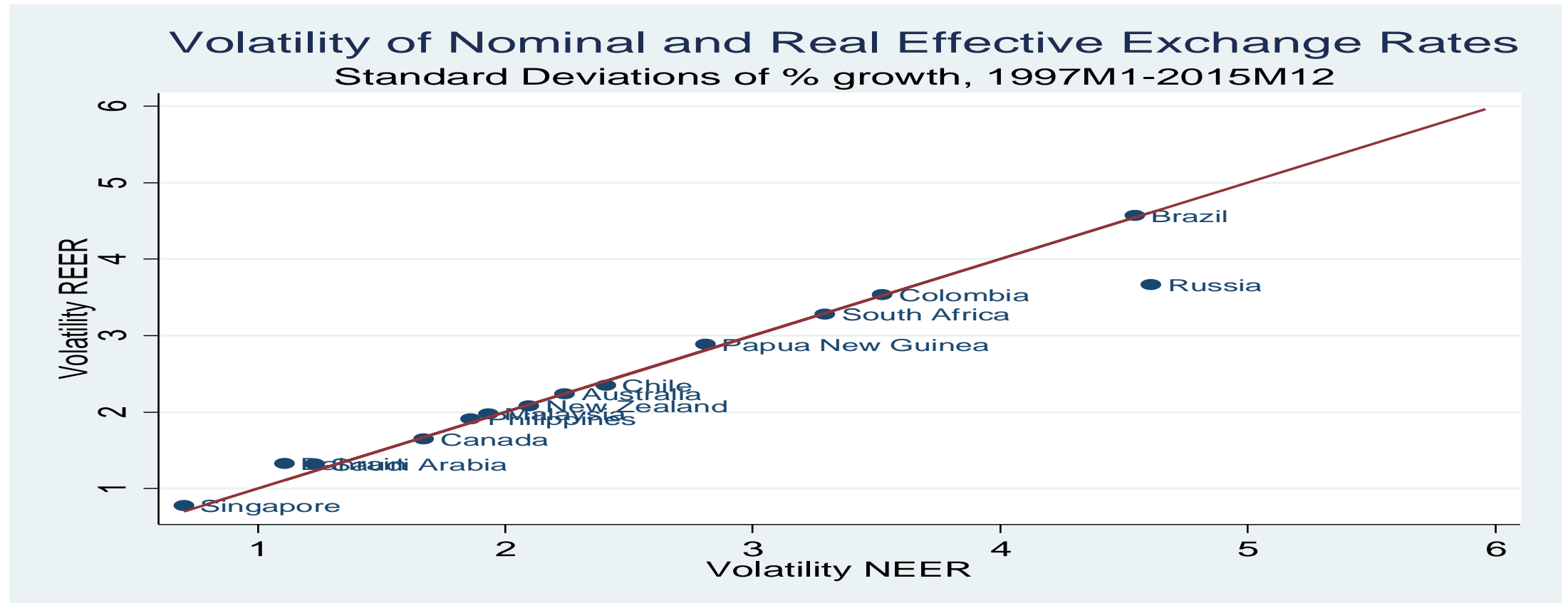


# Just Whining?

- My view: don't do this sort of thing until you're tenured and chaired at Harvard!
- But there *is* a value for Harvard professors to do precisely this sort of thing to move profession forward!

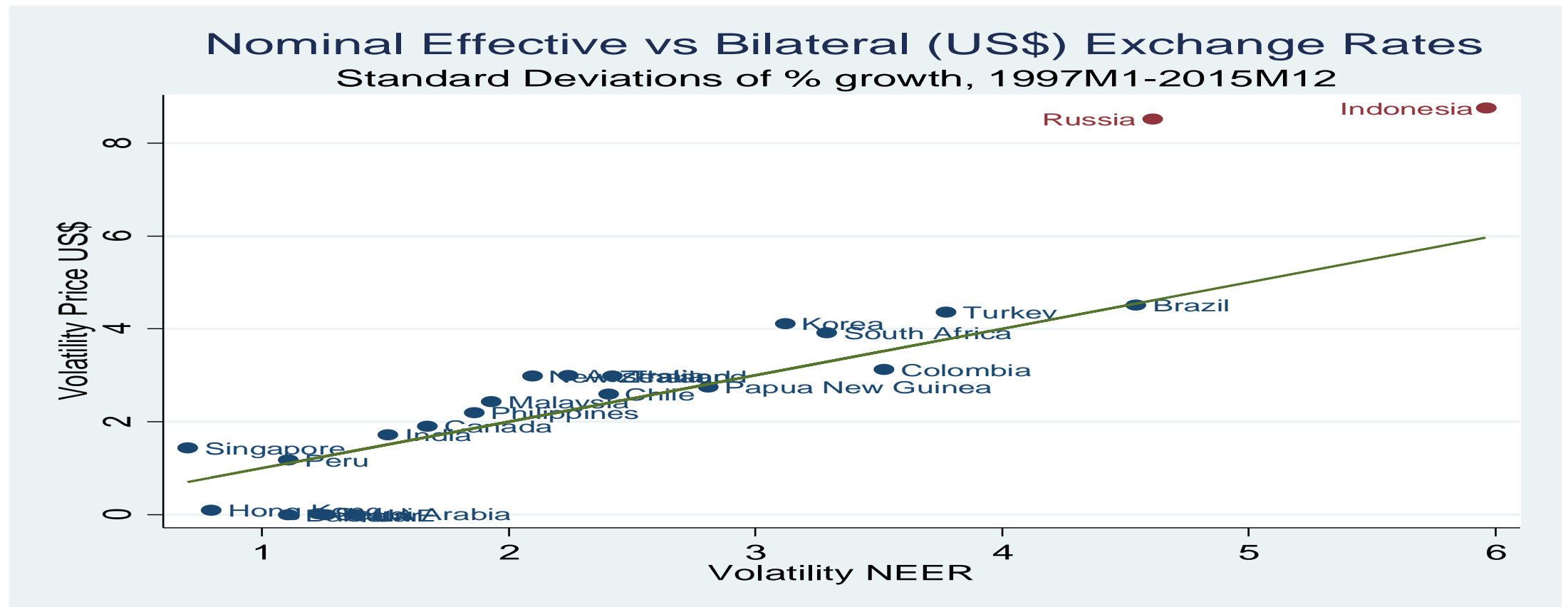
# Switching Gears

# Good News: for Effective Exchange Rates, Nominal $\approx$ Real Volatility, as asserted





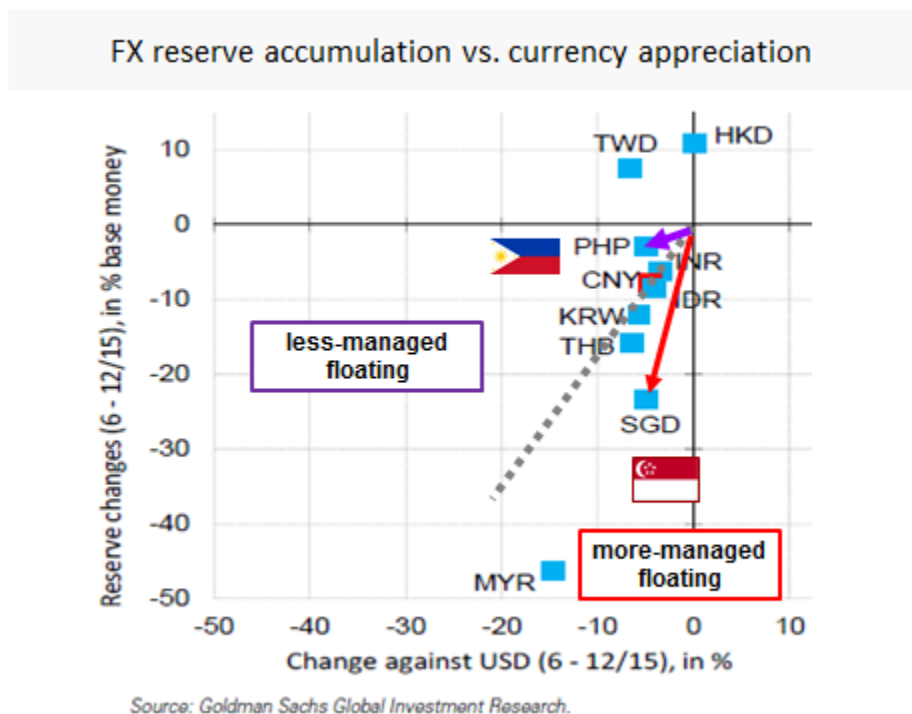
# OK News: Nominal Effective and Bilateral Exchange Rate Volatility



# What about Exchange Rates vs. Reserves?

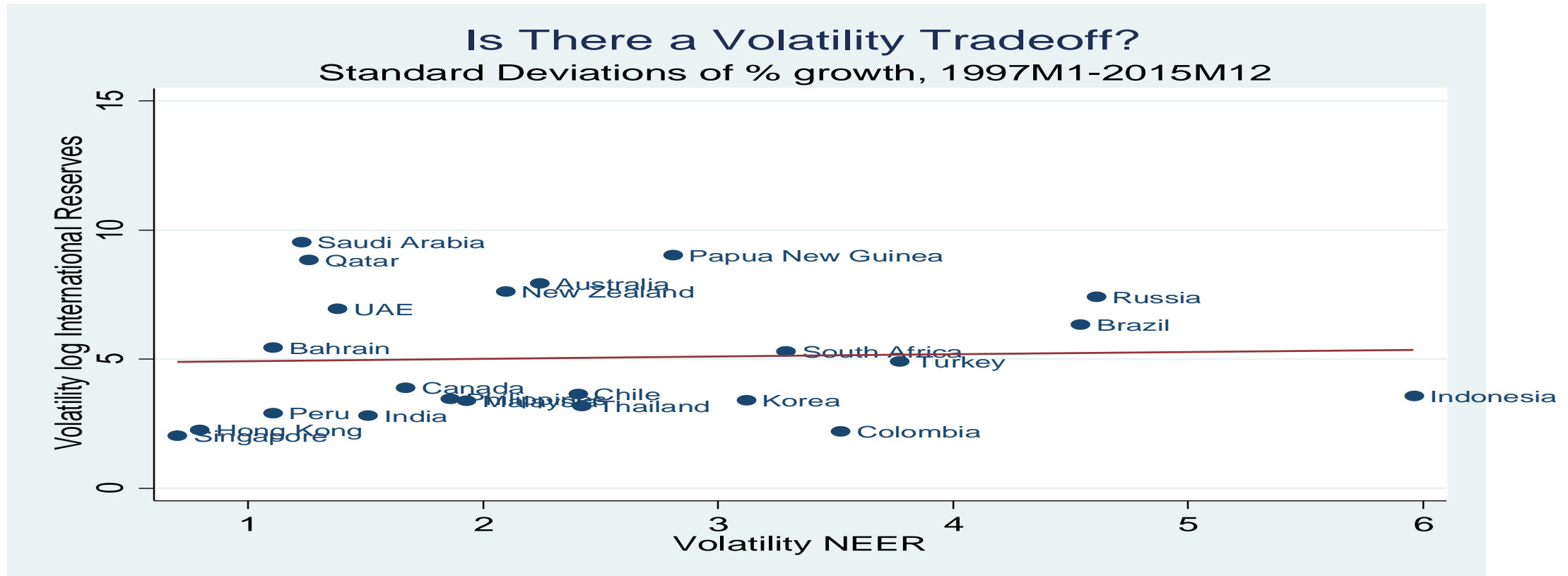
Paper implies (without stating) a tradeoff exists; countries take a shock either via reserves or in the exchange rate. Does it?

# Figure 3 (from the paper, c/o Goldman Sachs)

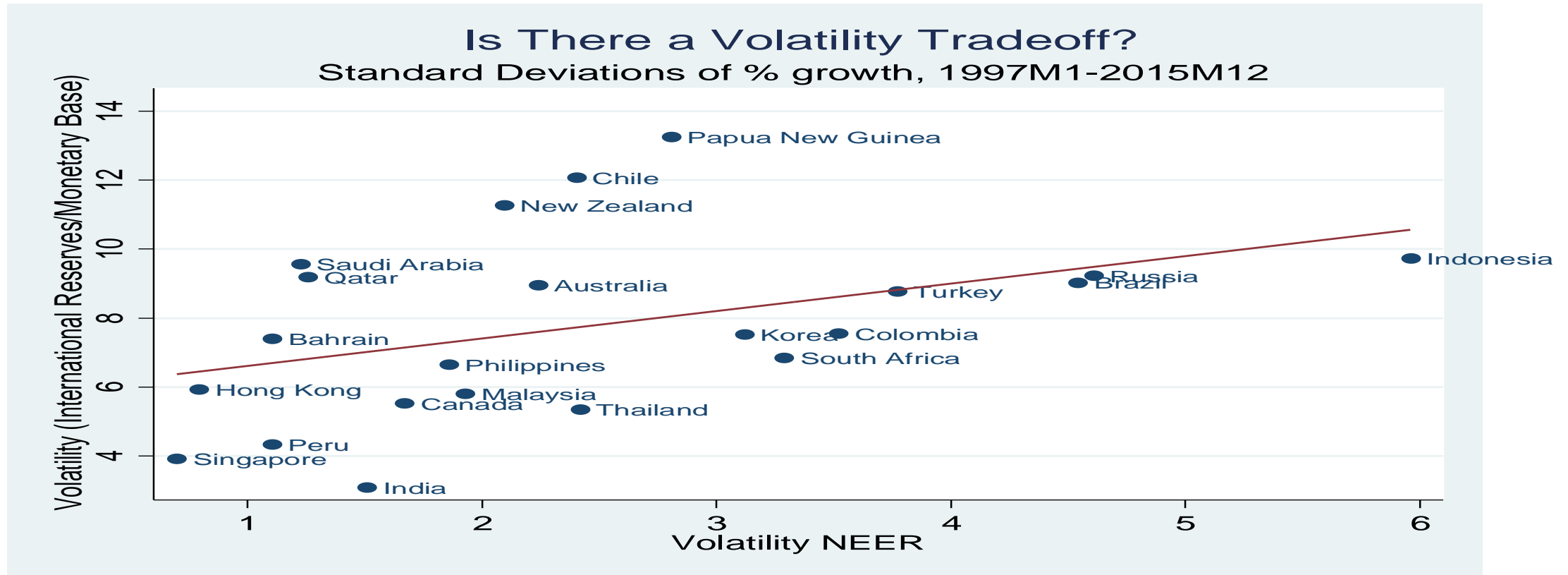


- “Once again, Singapore intervened in the foreign exchange market, while the Philippines took the negative shock more in the form of a depreciation of its currency.”
- But:
  - Dollar depreciation similar for Philippines and Singapore
  - Reserve changes not

# More Generally: Consider Volatility of Reserves and log Nominal Exchange Rate

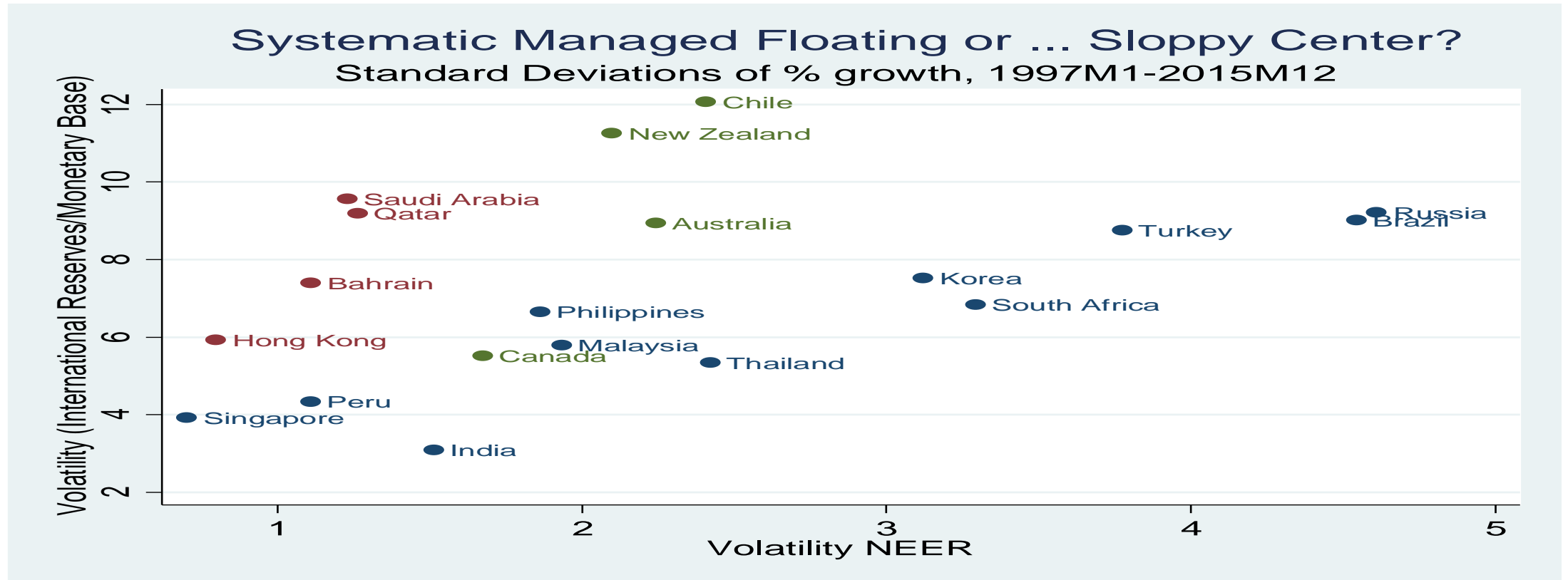


# Reserves over Monetary Base



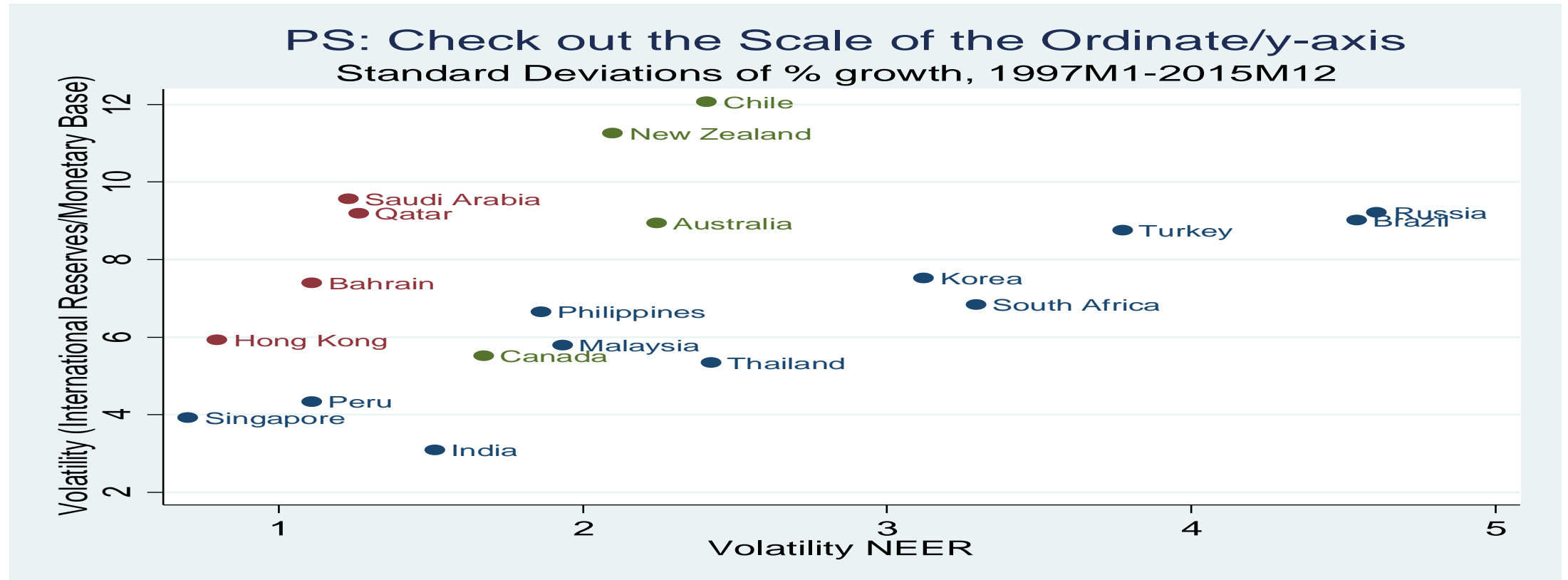
How does the Exchange Rate  
Regime Show up in the Data?

# Fixes, Floats, and Systematic Managed Floats



# Tangent: the Ongoing Mystery of Reserve Volatility

Clean Floats have volatile reserves!





# Why are We Discussing This?

- Unclear to me that there is “Systematic Managed Floating”
- But even if there is, should we care?

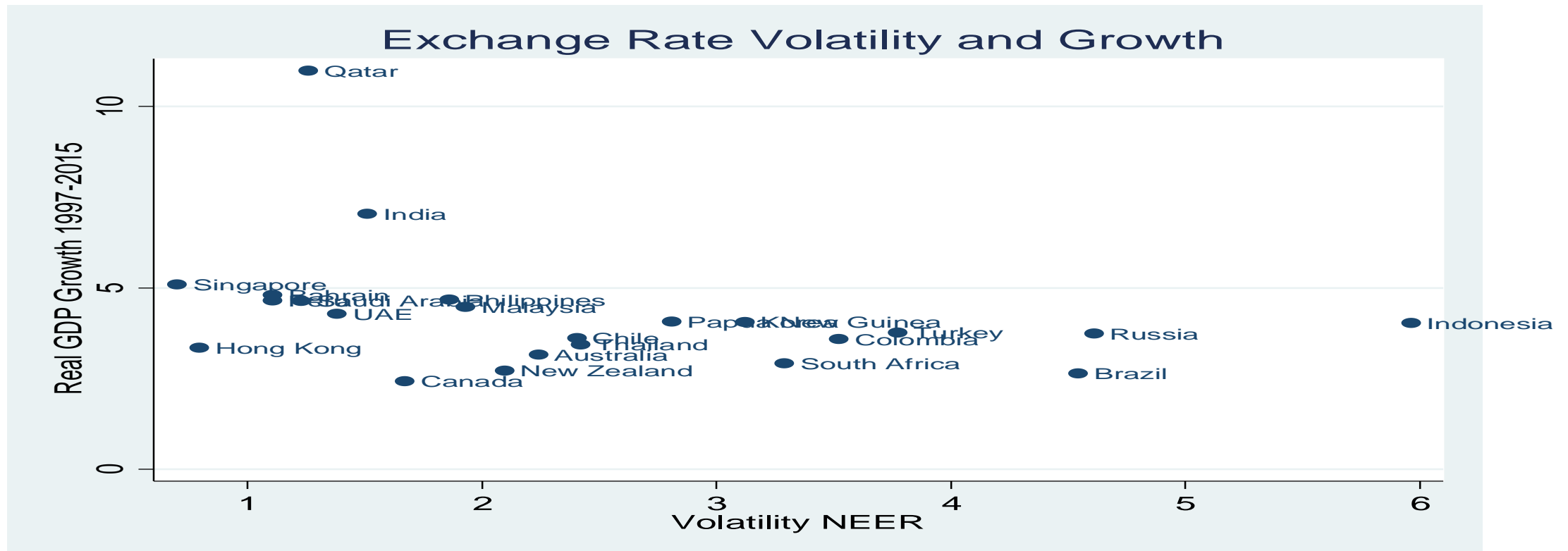
# Defining the Problem Down

- Paper examines consequences of exchange rate regime for (responses to shocks of) *real exchange rates*: **Too Easy!**
  - Conventional wisdom since Mussa/Baxter-Stockman: the one thing that varies across exchange rate regimes is the volatility of both the nominal and real exchange rates
  - “The only systematic regime-specific pattern in the data is higher volatility of the real exchange rate in regimes of floating rates. By way of contrast, the volatility of, for example, output and consumption does not appear to vary systematically with the exchange rate regime.”
    - Frankel and Rose 1995

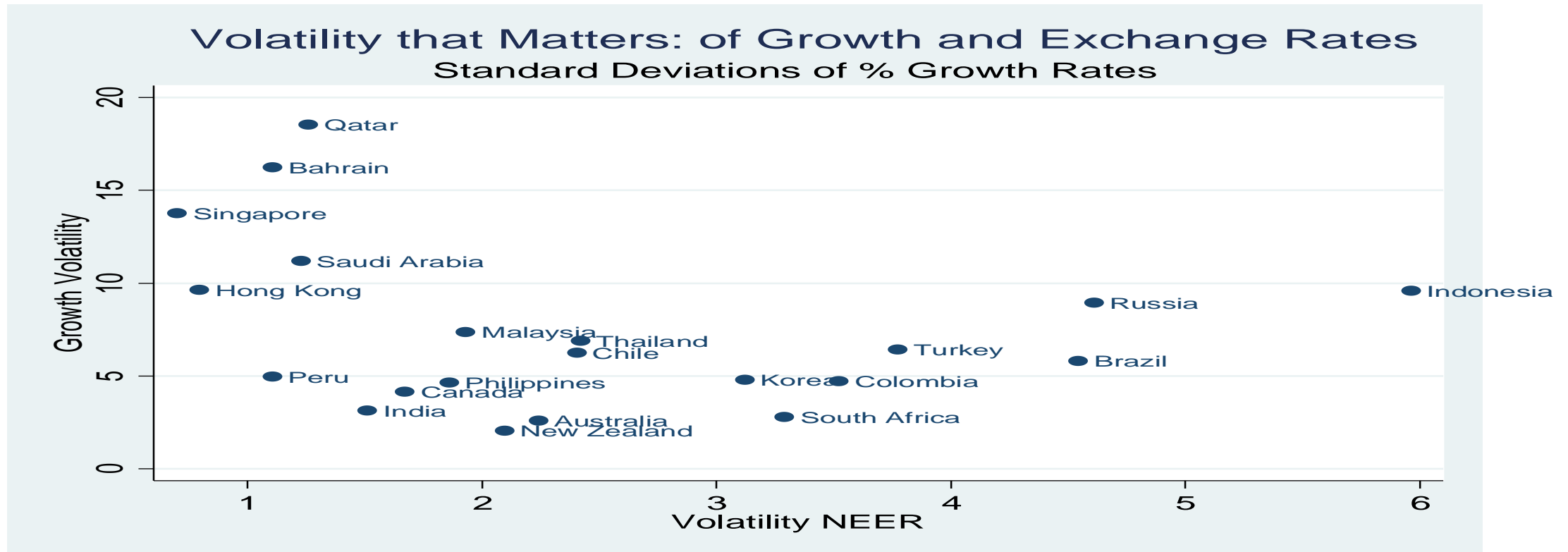
# More Difficult: Show Regimes *really matter*

- Hard to find manifestation of the exchange rate regime in something real (growth/volatility/inflation ...)
  - In passing: a *very* low bar for a “major” monetary policy!
- So even if there is a well-defined intermediate regime, it may have no substantial consequences for inflation, output, or anything we really care about.
- Manifestation of the “Sargent critique”: linking any (macro) price to any price or any quantity to any quantity MAY work, but ... mixing prices and quantities almost always fails

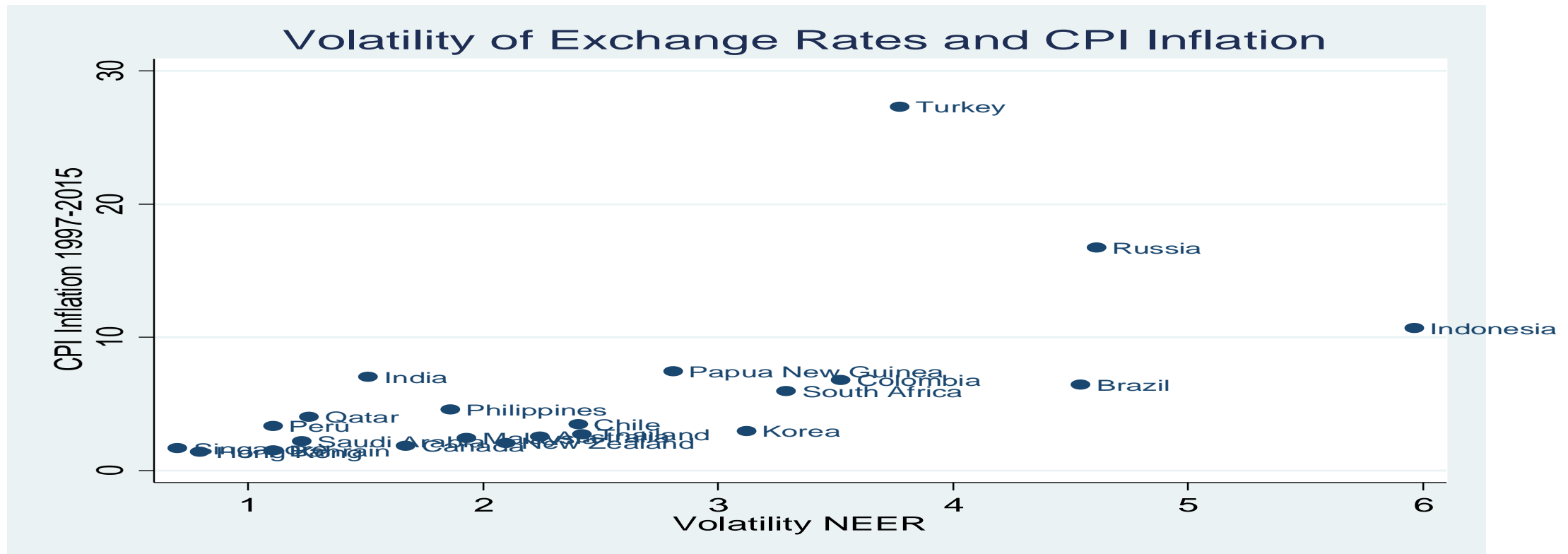
# Exchange Rate Volatility and Real GDP Growth



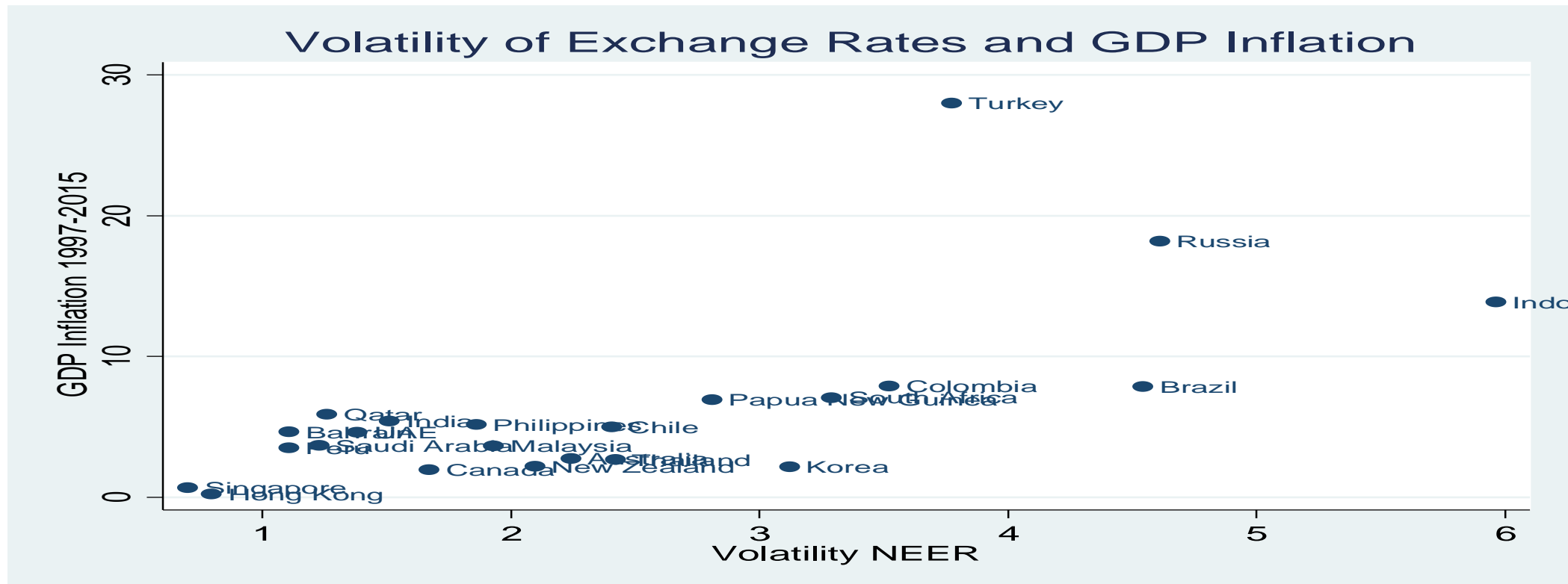
# Exchange Rate Volatility and Output Volatility



# Exchange Rate Volatility and (CPI) Inflation



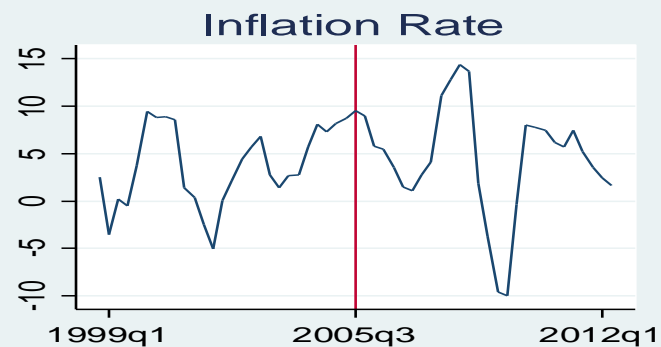
# Exchange Rate Volatility and (GDP) Inflation



# Story in a Slide: Case Study of Malaysia

## Malaysia between the Peg and the Float

Peg Sept 1998 - July 2005; float thereafter





# Conclusion

- Airplane seats and Exchange Rate Regimes
  - Preferences seem irrelevant given that consequences are low
  - Adding middle seats probably adds ... but how much?
- A Conversation Never Heard
- Flaky: eccentric, unreliable, goofy, nutty, odd, wacky
- Exchange Rate Regimes are *Flaky*
  - Simply don't matter for inflation/output/growth/volatility
  - *If* they did, we would *ALL* know it
    - ER Regimes are *not* Communism vs Capitalism
    - ER Regimes are of academic interest

# Small Gripes

- Why ignore interest rates? Standard monetary policy is a completely plausible way to affect the exchange rate
  - Ignored here: ONLY reserves matter
- VIX/Commodity prices seem poor instrumental variables; don't satisfy either requirement for good IV:
  1. Don't satisfy exclusion restriction *as shown!*
  2. Don't seem to be strong IVs, again as shown.
- OLS regressions of exchange rate on VIX/Commodity Prices:
  - Quantitatively Important in ANOVA sense, or just statistically significant?
- *Many* free parameters in empirical work on India, Thailand, Turkey
- Are standard errors Newey-West?