Comments on “Globalization, Growth and Volatility”

By Kose, Prasad, and Terrones

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A Fun (but Preliminary) Paper

- Searching for role of international integration on the negative effect that volatility has on growth

An Intrinsically Difficult Mission

- Cross-Country growth regressions not in favor
- Difficult to measure integration
- Lack of structural model => empirics necessarily ad hoc

Plausible Results

- Interactive effect; more real integration dampens effect of volatility on growth
    - No luck on financial integration
    - Sensitivity analysis on Ramey-Ramey

Caution #1

- Lots of discussion of (often ambiguous) effects of globalization on *output* growth and volatility ("bad" if high?)
    - Should be more on effects on *welfare* (risk-diversification), especially for financial integration

Caution #2

- Instrumental variables seem suspicious
  - Too many (nine!)
  - Would like to see first stage fit
  - Would like more on institutions
  - Many more plausibly exogenous alternatives (legal systems; mortality rates for clergy and soldiers …)

Caution #3

- Key Results hard to grasp
    - Volatility goes in and out of significance
    - Would like more on volatility/openness relation (scatters?)
    - Some results seem marginal
    - Would like to see (joint) F-tests, not just (marginal) t-tests
    - Panels omit country- and decade-specific effects(!)

An Important Extra/Omitted Reference

- Ranciere, Tornell and Westermann (NBER WP 10,073) show that countries with high credit growth grow faster, but suffer more crises.
- At least an important extra conditioning variable
  - Still, no intrinsic focus on international integration

A few Minor Things

- Rodrik and Rodriguez deserve at least a note
- Despite Fatas' insensitivity, would like different measure of volatility as sensitivity check

Bottom Line

- Good start
- More work needed to convince me completely