Discussion of Chakraborty and Deckle's 'Productivity Shocks, Global Financial Integration, and the U.S. Current Account'

Nelson Mark
University of Notre Dame and NBER

1 Explanations for U.S. Current Account

Productivity gap

Twin deficits

Saving imbalance

Asset valuation

Financial Globalization: Chakroborty and Deckle

2 CD Approach

- Take two-country RBC model. Ask what the costs of international investment (ϕ_H for ROW to invest in U.S.) will rationalize/explain the U.S. current account 1980-2003.

- $\downarrow \phi_H \Longrightarrow$more financial integration.
  - Yes ϕ_H probably goes up and down.
  - Extensive literature attempts to measure degree of integration.

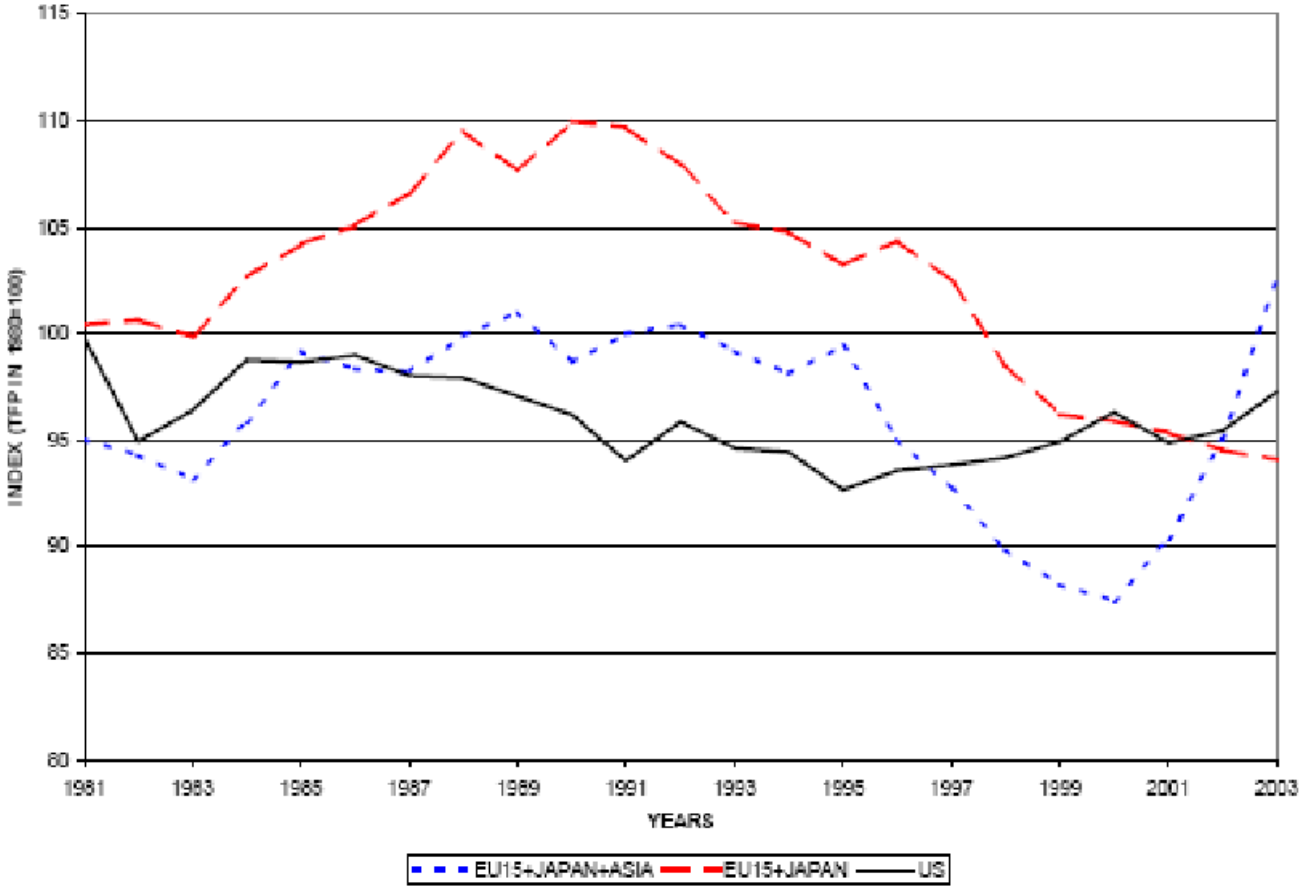
3 CD facts

TABLE 3: GROWTH RATE OF PRODUCTIVITY

	Home *(EU15+Japan)*	**Home** *(EU15+Japan+Asia)*	**Foreign** *(US)*
1980 : 1986	.84% (1.21)	−.24% (3.06)	−.14% (2.53)
1986 : 1991	.87% (1.64)	.15% (1.57)	−.79% (.88)
1991 : 2000	−1.35% (1.41)	−1.18% (1.88)	.02% (1.41)
2000 : 2003	−.56% (.23)	3.88% (3.67)	.62% (1.5)

Note: Change in TFP measured as $\frac{\triangle A_{it}}{A_{it}}$ where A_{it} is measured as a Solow Residual. "Home" includes EU15 and Japan or EU15, Japan along with emerging Asia while "Foreign" represents US. For each subperiod, we provide the average growth rate of A_{it} and the standard deviations are in brackets.

FIGURE 3-A: TOTAL FACTOR PRODUCTIVITY AT HOME FOREIGN COUNTRY (U.S.)



4 Challenge

- 1981-1991: $A_{ROW} - A_{USA}$ humped shaped.
  - $\uparrow A_{ROW} - A_{USA} \Longrightarrow \uparrow I_{ROW} \downarrow I_{USA} \Longrightarrow$U.S. surplus.
  - Can attenuate with investment adjustment costs, consumption smoothing motive $\uparrow$ROW saving.
- 1991-2003: $A_{ROW} - A_{USA}$ falling$\Longrightarrow$U.S. deficit.

FIGURE 1-B: CURRENT ACCOUNT AS A SHARE OF GDP: US TOTAL AND US BALANCE WITH INDIVIDUAL COUNTRIES

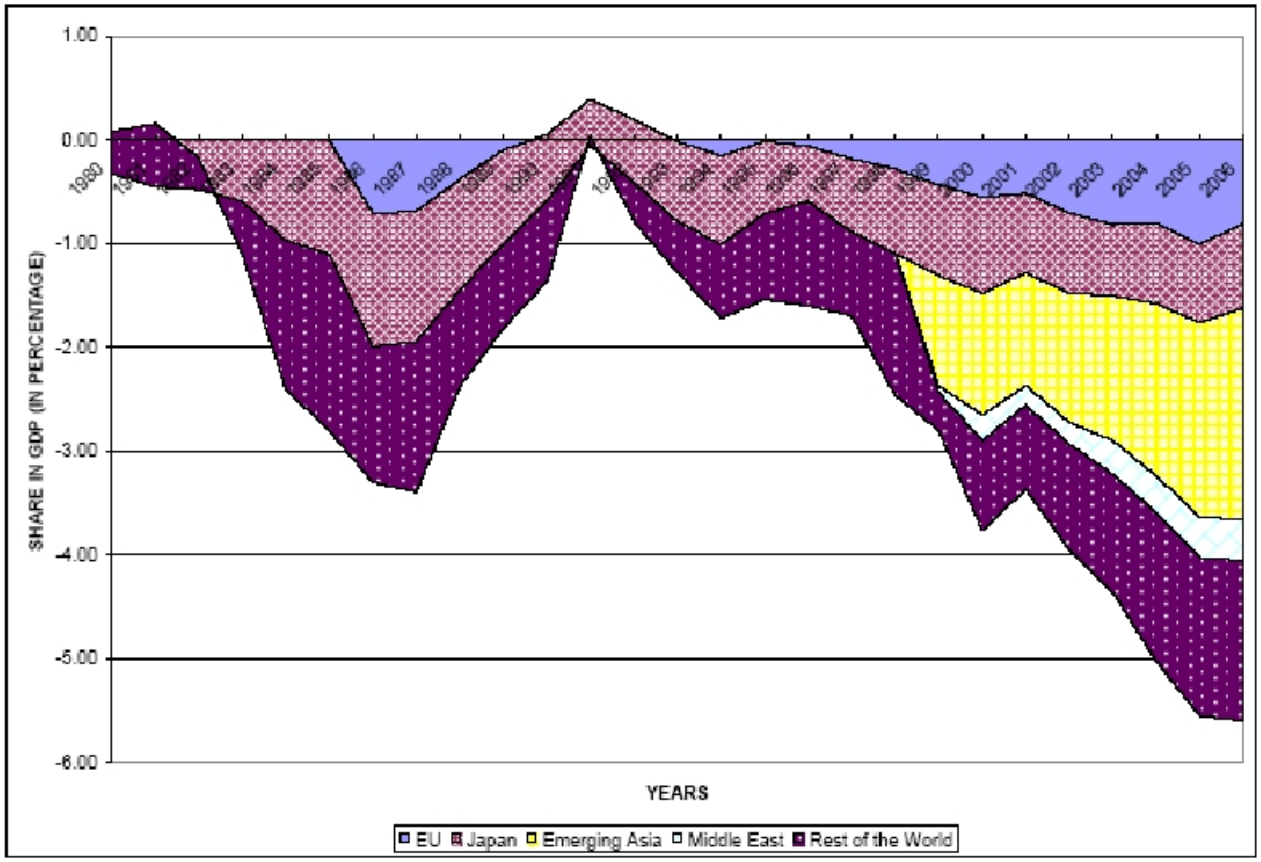
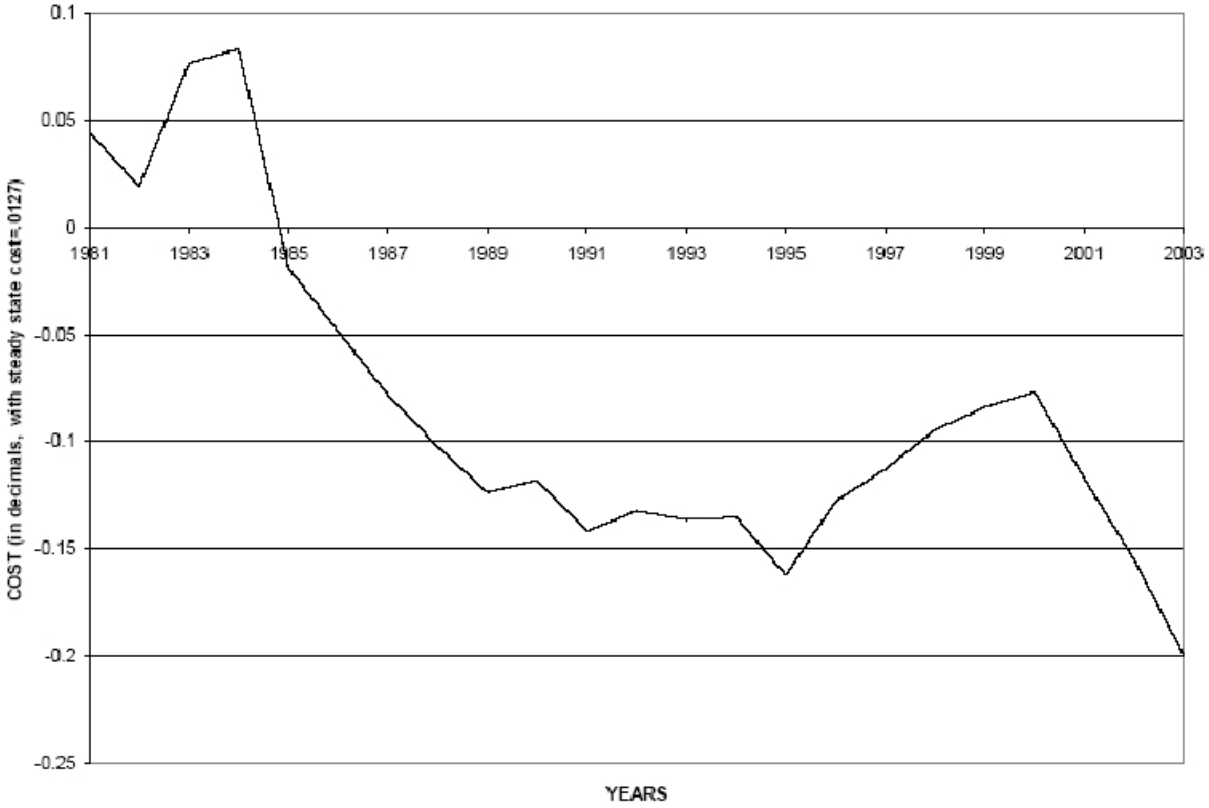


FIGURE 4-A: COST OF INTERNATIONAL LENDING, ϕ_H



5 Discussion about the story

- If asked, I'd say I like the approach. Answer seems to make sense. It's a first step.
  - 84–96 $\phi_H \downarrow' s$ due to capital account liberalization.
  - 96–00 $\phi_H \uparrow' s$ due to after effects of Asian crisis. Transient effect
  - 00-03 $\phi_H \downarrow' s$ resume trend of financial globalization

- Cross-checked with Chinn–Ito index

6 Critical comments

7 Critical comments

- Biggest criticism: Let the U.S. be HOME!
- Obvious criticism: Zero degrees of freedom. But this misses the point.
- View as first step. Step 2: endogenize ϕ_H.

8 Discussion about the facts

Growth rate of productivity

ARG AUS AUT BEL BRA CAN CHN DNK FRA DEU HKG IDN IRL ITA JPN
KOR MEX NLD SGP ESP SWE CHE THA GBR USA

Annualized Growth rate of productivity

Levels	Home	Foreign
1980:1986	0.42	1.04
1986:1991	0.97	0.51
1991:2000	0.56	1.04
2000:2003	0.30	0.20

TABLE 3: GROWTH RATE OF PRODUCTIVITY

	Home *(EU15+Japan)*	**Home** *(EU15+Japan+Asia)*	**Foreign** *(US)*
1980 : 1986	.84% (1.21)	−.24% (3.06)	−.14% (2.53)
1986 : 1991	.87% (1.64)	.15% (1.57)	−.79% (.88)
1991 : 2000	−1.35% (1.41)	−1.18% (1.88)	.02% (1.41)
2000 : 2003	−.56% (.23)	3.88% (3.67)	.62% (1.5)

Note: Change in TFP measured as $\frac{\triangle A_{it}}{A_{it}}$ where A_{it} is measured as a Solow Residual. "Home" includes EU15 and Japan or EU15, Japan along with emerging Asia while "Foreign" represents US. For each subperiod, we provide the average growth rate of A_{it} and the standard deviations are in brackets.

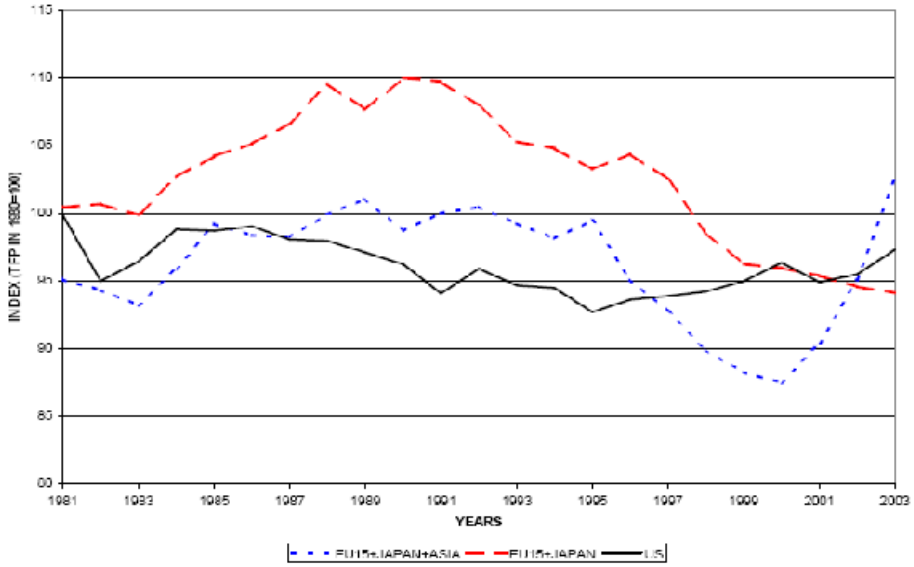
HP	Home	Foreign
1980:1986	-0.19	0.33
1986:1991	0.24	-0.38
1991:2000	-0.02	0.20
2000:2003	-0.34	-0.48
COMMON		
1980:1986	-0.44	0.17
1986:1991	0.098	-0.36
1991:2000	-0.31	0.18
2000:2003	-0.57	-0.67
SEPARATE		
1980:1986	-0.60	0.33
1986:1991	-0.06	-0.20
1991:2000	-0.46	0.33
2000:2003	-0.73	-0.51

TABLE 3: GROWTH RATE OF PRODUCTIVITY

	Home *(EU15+Japan)*	**Home** *(EU15+Japan+Asia)*	**Foreign** *(US)*
1980 : 1986	.84% (1.21)	−.24% (3.06)	−.14% (2.53)
1986 : 1991	.87% (1.64)	.15% (1.57)	−.79% (.88)
1991 : 2000	−1.35% (1.41)	−1.18% (1.88)	.02% (1.41)
2000 : 2003	−.56% (.23)	3.88% (3.67)	.62% (1.5)

Note: Change in TFP measured as $\frac{\triangle A_{it}}{A_{it}}$ where A_{it} is measured as a Solow Residual. "Home" includes EU15 and Japan or EU15, Japan along with emerging Asia while "Foreign" represents US. For each subperiod, we provide the average growth rate of A_{it} and the standard deviations are in brackets.

FIGURE 3-A: TOTAL FACTOR PRODUCTIVITY AT HOME (REST FOREIGN COUNTRY (U.S.)



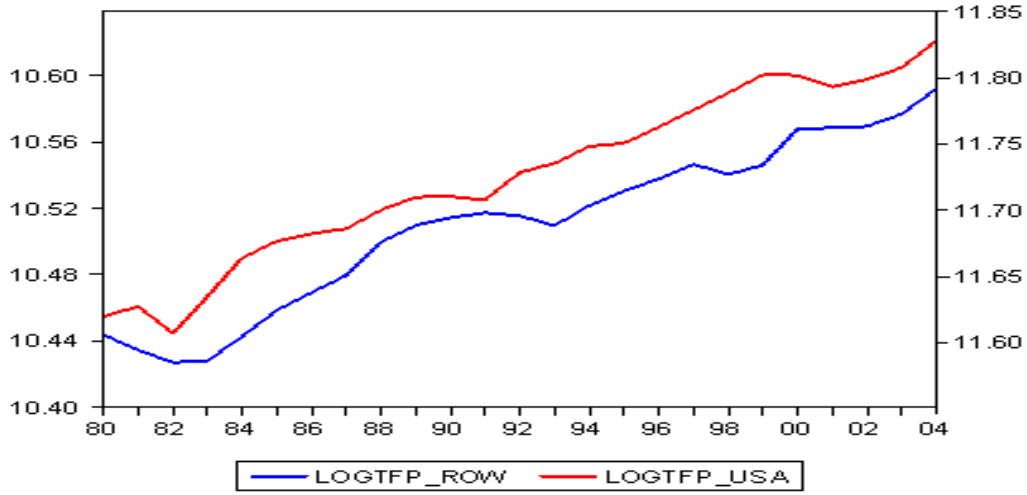
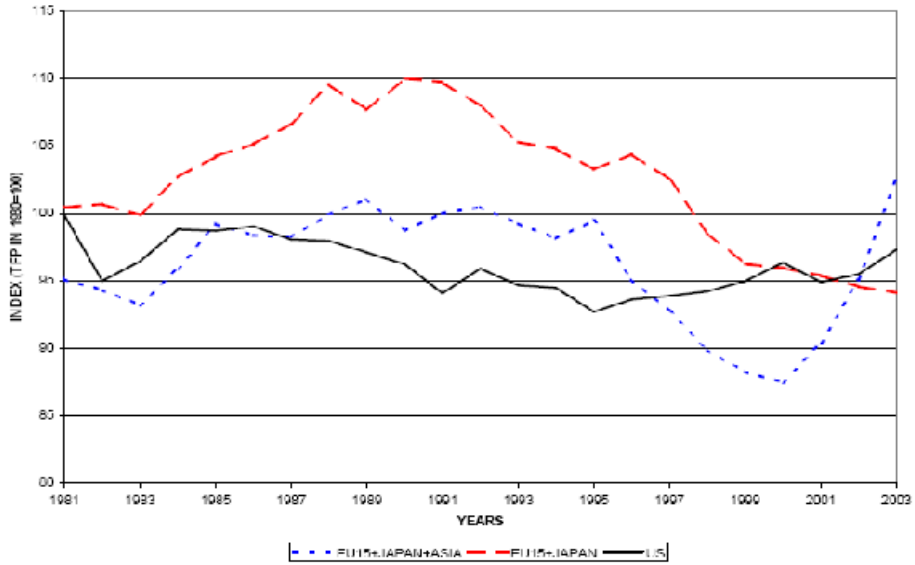


FIGURE 3-A: TOTAL FACTOR PRODUCTIVITY AT HOME (REST FOREIGN COUNTRY (U.S.)



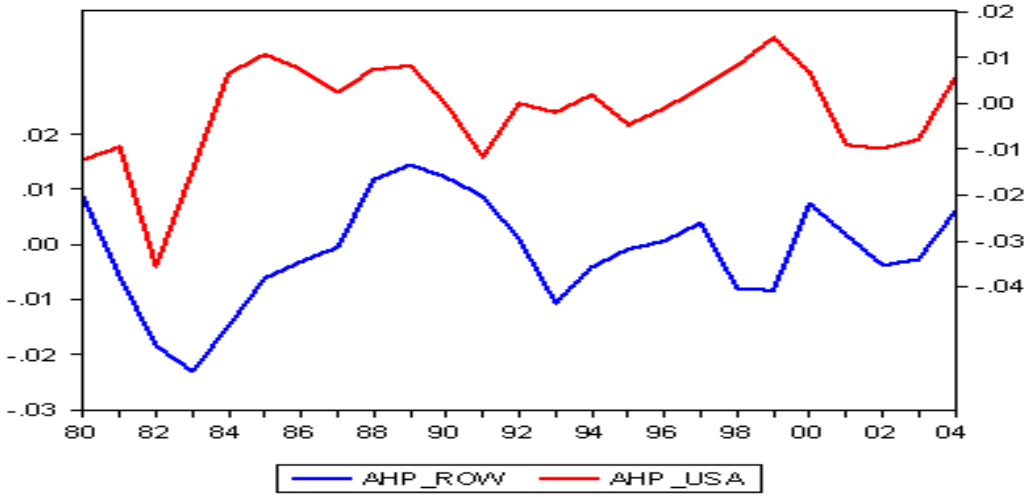
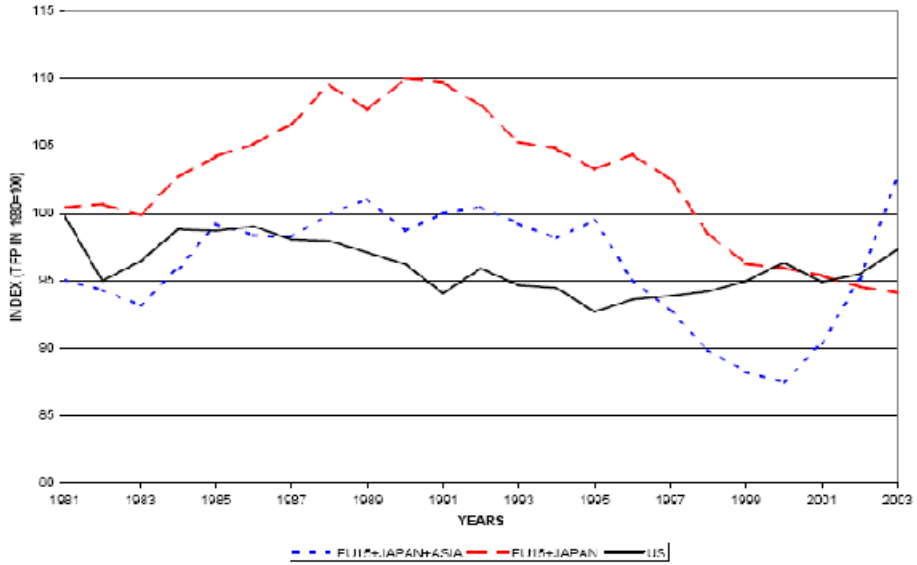


FIGURE 3-A: TOTAL FACTOR PRODUCTIVITY AT HOME (REST
FOREIGN COUNTRY (U.S.)



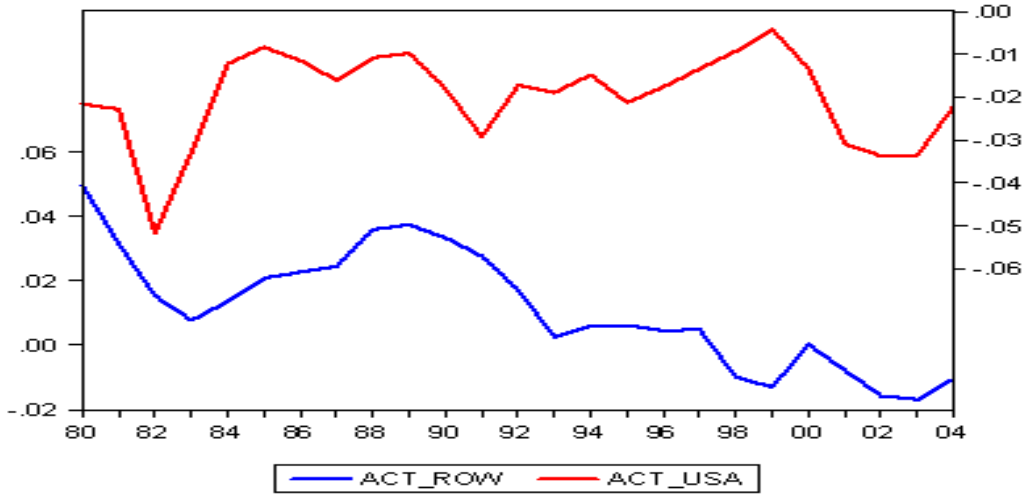
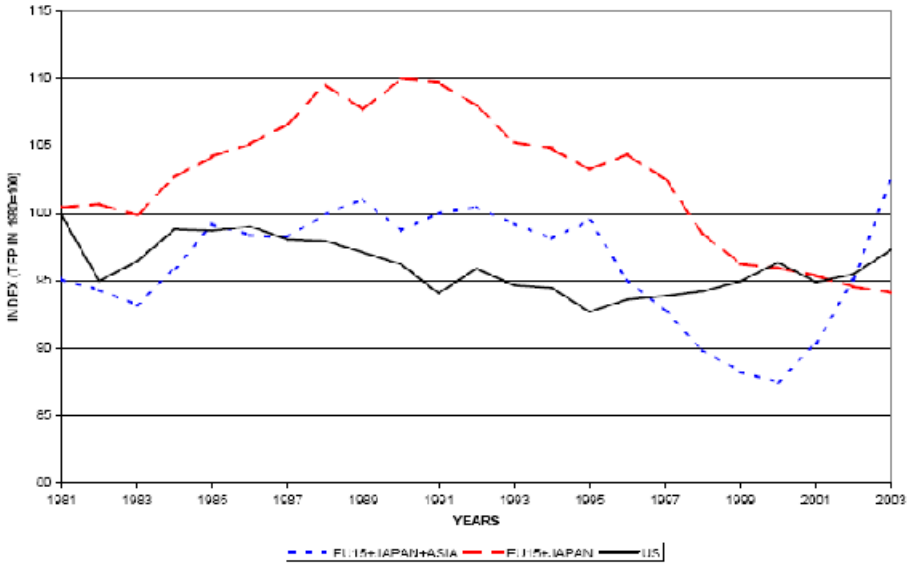
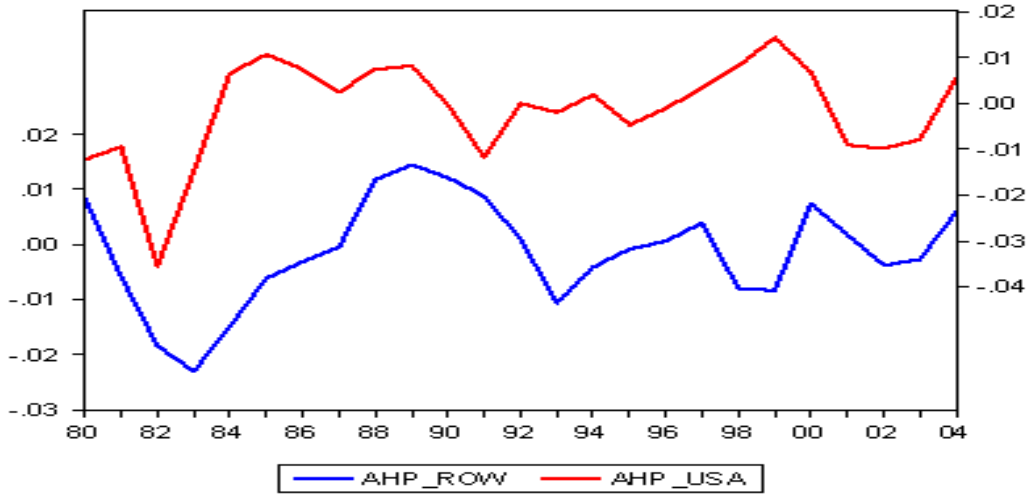


FIGURE 3-A: TOTAL FACTOR PRODUCTIVITY AT HOME (REST
FOREIGN COUNTRY (U.S.)





9 Conclusion

- Very clean, thoughtful experiment.

- Nice paper.