Discussion of
Heterogeneous Global Cycles
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Paper in one slide

Key question: What drives asymmetry in global credit cycles?

- Scarce supply of informed capital + investors' behavior
  - Bold investors: only some bad firms denied credit → boom
  - Cautious investors: only some good firms obtain credit → bust
- Least transparent countries are more volatile
  - Cheap credit during booms
  - Credit dries up during busts
- Most transparent countries act as safe havens

Outline of discussion

1. How to interpret transparency?
   - Quality of institutions
   - Macroeconomic policies
2. Global saving glut and productivity growth
3. Some more specific comments
   - Investors' animal spirits
   - Macroprudential policies and forex reserves

Transparency: institutional quality

Transparency $\equiv$ institutional quality?

- Countries with good institutions (i.e. rich countries) not immune to boom and bust cycles in capital flows and financial crises
  - Nordic countries in late 1980s
  - EMS crisis of 1992 (Italy, Spain, UK)
  - Iceland crisis in 2008
  - Japan during the 1990s
- During the 2008 crisis, some emerging countries received capital inflows (e.g. Brazil)

Not clear that transparent countries can be identified ex ante, based on measures of institutional quality

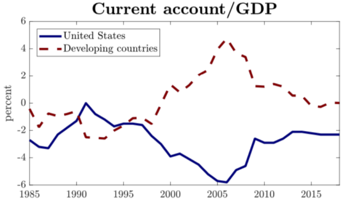
Transparency: macroeconomic policy

Stable macroeconomic policy → access to foreign capital flows

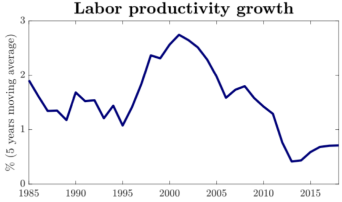
- Creation of the euro associated with huge increase in capital flows among member countries (Lane, 2006)
  - Monetary policy can be used by national governments to expropriate foreign investors (Fornaro, 2019)
  - Common currency makes monetary policy more transparent → uninformed investors more likely to participate in international lending
- Risk that peripheral countries exit the euro → capital flight by uninformed investors

Useful framework to think about impact of monetary and fiscal policy on international financial integration

Global saving glut and productivity



(a) Capital flows.



(b) U.S. productivity growth.

- Why did we see a global saving glut, but not a boom in US investment and productivity growth?
  - Higher savings → less demand → lower return from investment (Benigno and Fornaro)
  - Global financial resource curse (Benigno, Fornaro and Wolf)
  - Lower interest rate → lower competition and investment (Liu, Mian and Sufi)

Global saving glut and productivity

- Global saving glut → increase in global supply of uninformed capital
  - Capital flows channeled to low information-sensitive sectors, such as housing
  - Lack of capital supply for high-risk innovative firms
  - Housing boom might crowd out investment in innovation (financial resource curse)
- How to revive US productivity growth?
  - Traditional answer: innovation policies (Bloom, Van Reenen and Williams, 2019)
  - But can subsidies to innovation work, if lack of informed capital is the binding constraint?

Some more specific comments

- Investors' behavior assumed for most of the paper
  - Important to understand what drives it, especially for policy design
  - Complementarities in investors' decisions $\rightarrow$ role for animal spirits
- Public interventions on capital flows
  - Should least transparent countries use macroprudential policies?
  - What about foreign exchange reserves?

Conclusion

- Interesting paper on important topic
- Model can be used to revisit many interesting research questions!