Comments on "Globalisation Effect on Inflation in the Great Moderation Era: New Evidence from G10 Countries" by Duo Qin and Xinhua

What is the role of globalization in the global trend towards lower and more stable inflation during the Great Moderation? The topic of Duo Qin and Xinhua He's paper has figured prominently in academic research and in the policy debate during the last decade. It has moved again to the spotlight in recent years, as the global financial crisis and the associated weakness in economic activity have led many to claim that the Great Moderation is over (e.g. Bean, 2009; Clarida, 2010).

The authors' bottom line is that during the period of the Great Moderation, globalization has contributed positively to lowering inflation but not to stabilizing it.

The authors deserve credit for examining a relevant topic and writing a focused and interesting paper. In my comments I will focus on how much weight we should put on their conclusion. My comments concern three aspects: the scope of the paper, limitations of the empirical set-up and the results.

<u>Scope of the paper</u>

- The Great Moderation has typically been explained in terms of three types of factors: changes in the nature of shocks, changes in policy – and in particular monetary policy – and structural changes in the global economy, which include globalization.
- In turn, there is both a macroeconomic and a financial dimension of globalization.[1] The paper focuses on the former.
- Among structural changes in the macroeconomy associated with globalization, the paper focuses on changes goods markets rather other aspects such as changes in labor markets.
- The paper focuses on G10 economies excluding Japan. But the Great Moderation and globalization have shaped macroeconomic dynamics in both mature and emerging market economies. Interestingly, there is evidence that the macroeconomic performance observed in emerging market countries since the start of the Great Recession has not been much worse compared to the Great Moderation period (IMF, 2012).

<u>The empirical set-up of the paper</u>

Several modeling choices further narrow the scope of their empirical analysis, as the authors admit.

- One such choice is to capture the role of foreign goods markets by import prices and trade openness, and exclude measures of foreign output gaps and factors that are common across countries (p.4).
- Another is to exclude energy and food prices (p.6).
- A third is to exclude indirect effects of import prices on inflation, e.g. through wages or productivity (p.15).

<u>Empirical results</u>

[1] Papers on macroeconomic consequences of financial globalization include Eichengreen (2006), IMF (2007), Kose et al (2009) and Kamin (2010).

Four empirical results are striking:

- The chosen model specification differs across economies (pp.15-16).
- Globalization has no impact on inflation persistence (pp. 17-18)
- An increase in trade openness can be associated with higher or lower inflation (pp.17-18)
- An increase in import shares from emerging market countries tends to reduce inflation but not the volatility of inflation (p.17).

In line with the scope of the paper and the limitations in the empirical set-up, these results suggest to explanations, which are not mutually exclusive:

- during the period of the Great Moderation, inflation dynamics in G10 economies were influenced to an important extent by factors other than globalization
- or globalization has worked to an important extent also through channels other than trade openness and important prices

Presentation

Finally, a comment on the presentation. I find the discussion of country-specific results on pp.18-20 long and tedious. It would be interesting instead to exploit the cross-country heterogeneity of the results to shed more light on what explains the different impact of globalization, and in particular of the channels that are examined in the paper.

References

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