INVITED READER COMMENT ON:

Impact of National Financial Regulation on Macroeconomic and Fiscal Performance After the 2007 Financial Shock – Econometric Analyses Based on Cross Country Data (MS 929)

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OUTLINE OF THE PAPER

In this paper, the author (hereafter A) investigates the possible impact of financial deregulation on selected macroeconomic performances (output growth, employment, public deficit) during the 2007-2011 Crisis, using a cross country econometric analysis (88 countries). The policy implication is that the usefulness of liberalized financial markets should be reconsidered.

EVALUATION

This paper tackles a relevant topic, adding new empirical suggestions and reinforcing the general policy suggestion to deeply rethink the features of the financial regulation.

THEORETICAL STRENGTHS AND WEAKNESSES

The theoretical strengths are absent. In fact the paper shares the common general weakness of the recent related literature on the topic - Giannone et al. 2011, Rose and al. 2011, Masciandaro et al. (2013) – i.e. that these studies are not able to offer a theoretical model which explains in a consistent and complete way the channels through the features of the financial regulation impact the macroeconomic performances.

EMPIRICAL STRENGHTS AND WEAKNESSES

Taking always into account the theoretical weakness, the empirical strengths can be appreciated comparing the article with the previous literature:

- the list of the observed macroeconomic indicators that can be affected by the financial regulation features is enlarged;
- the time period of observation is enlarged .

The main empirical weakness is that the analysis used a cross – sectional dataset, with all the consequent methodological difficulties, which the A. tried to address at his best. Given that nowadays the available indicators of financial regulation are time varying indexes it can be wondered if panel analyses should to be implemented.

POLICY STRENGHTS AND WEAKNESSES

Before the Crisis, the paradigm on financial regulation was clear: regulation is better the more market-friendly it is, that is, the more it is light-touch regulation. In this view, regulation must foster an environment that makes individual risk-taking easier, by giving a decisive contribution to the efficient allocation of resources at the microeconomic level, which then in the aggregate leads to the result of better macroeconomic performances. All in all the paradigm claimed that financial deregulation was a free lunch.

After the Crisis a strand of literature casted doubts on this approach. This article offers further insights in reconsidering carefully the cost-benefit analysis linked to different architectures and approaches to financial regulation.

REFERENCES

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Masciandaro D., Pansini R.V., Quintyn M., 2013. The Economic Crisis: Did Supervisory Architecture and Governance Matter?, Journal of Financial Stability, (forthcoming).

Rose A., Spiegel, M., 2011. Cross Country Causes and Consequences of the Crisis: an Update. European Economic Review 55 (3), 309-324.