Discussion of

"What Makes Growth Sustained"
by Berg, Ostry, and Zettelmeyer

"Volatility and Growth in Latin America:
An Episodic Approach"
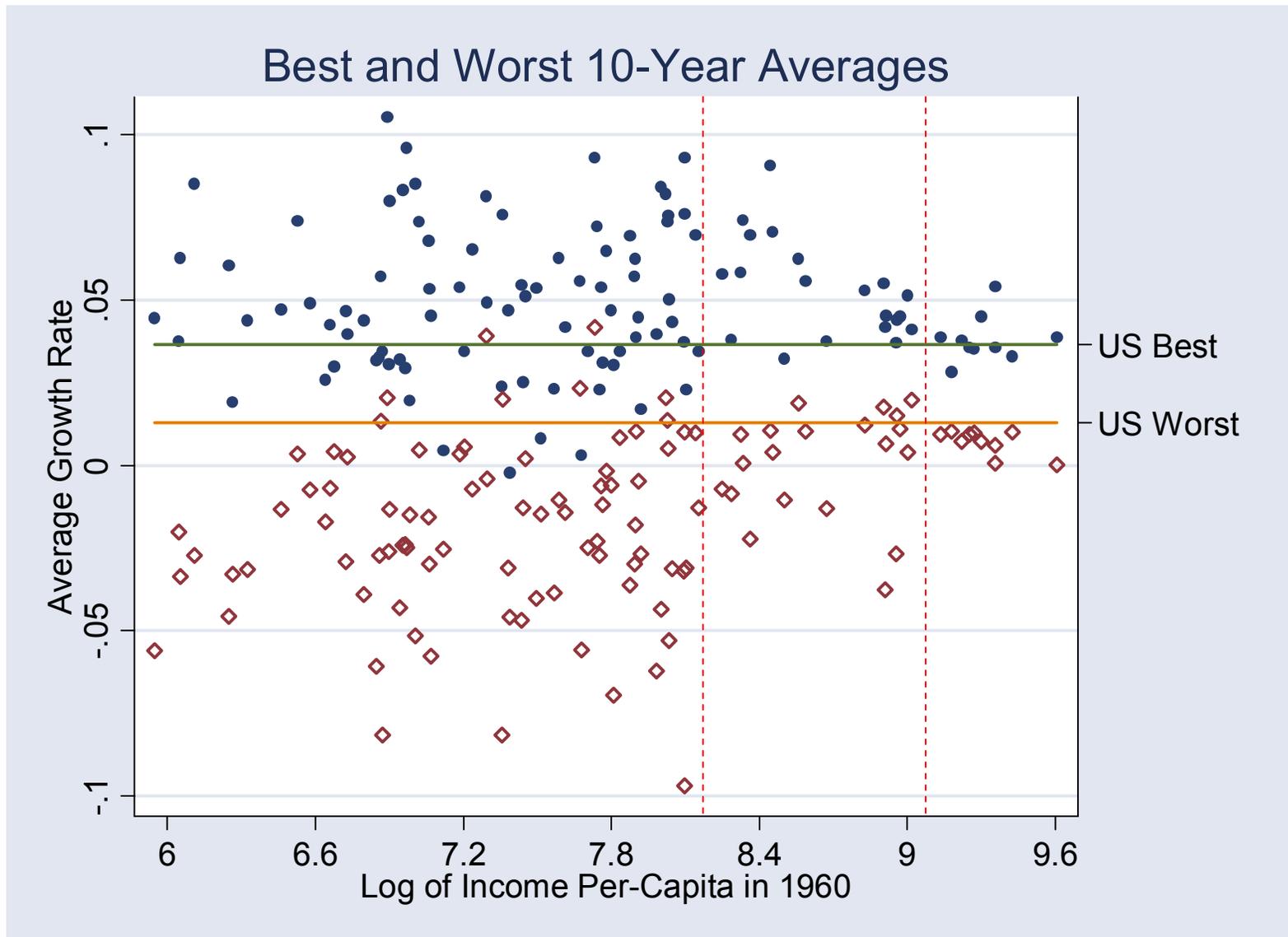by Sahay and Goyal

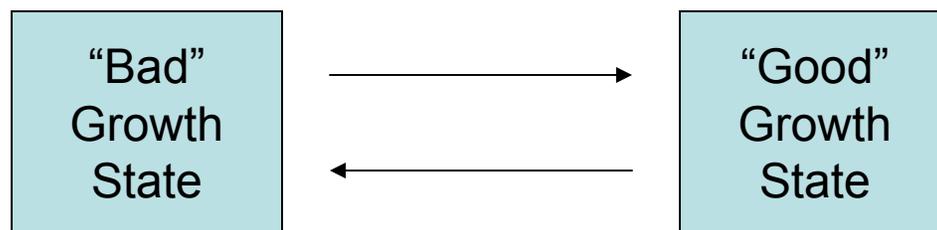IMF Economic Growth and Latin America Conference
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Motivation: "Extremes are the Norm"

Best and Worst 10-Year Averages

The Agenda

- A different view of the growth process
  - Emphasize medium run experiences rather than long run
  - Virtually all countries experience sustained growth periods
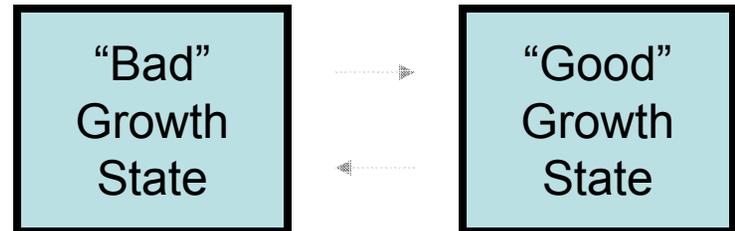 - But sustained contractions just as common

- Key questions
  - How do you go from contraction state to growth state?
  - How do you NOT go from growth state to contraction state?

Two Papers

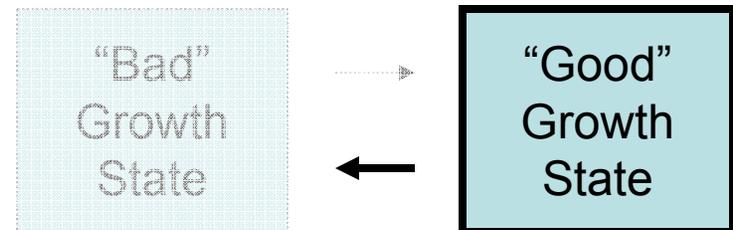Sahay and Goyal
Volatility and Growth in Latin America
• Identify states by taking best and worst 10-yr periods
• Examine what else besides growth is different in the different states

"Bad" Growth State		"Good" Growth State

Berg, Ostry, Zettelmeyer
What Makes Growth Sustained?
• identify states via structural breaks in growth series
• Examine what predicts transition from good to bad state

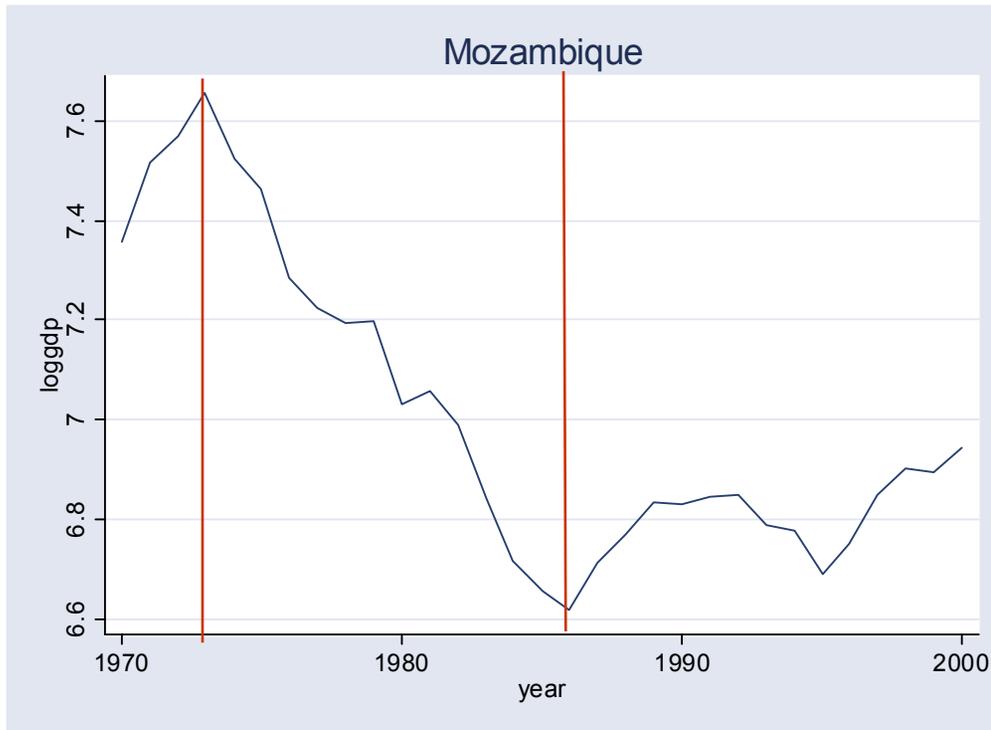| "Bad" Growth State		"Good" Growth State

Summaries

- ## Berg, Ostrey, Zettelmeyer
  - Growth state shorter with inequality, external shocks (Terms of trade, US interest rates), monetary volatility
  - Growth state longer with trade liberalization, democratization, human capital gains
  - Carefully identified structural breaks

- ## Sahay and Goyal
  - Outcomes: e.g. high levels of inflation, US real interest rates, volatility in these, currency crises and debt defaults all more common in low-growth episodes
  - Policies: e.g. high fiscal share of GDP, rapid exchange rate regime changes and structural reform reversals more common in low-growth episodes
  - Interesting descriptive measures (e.g. structural reforms)

What Makes Growth Sustained?

- Identify susceptibility to change (an interesting question) in hazard model

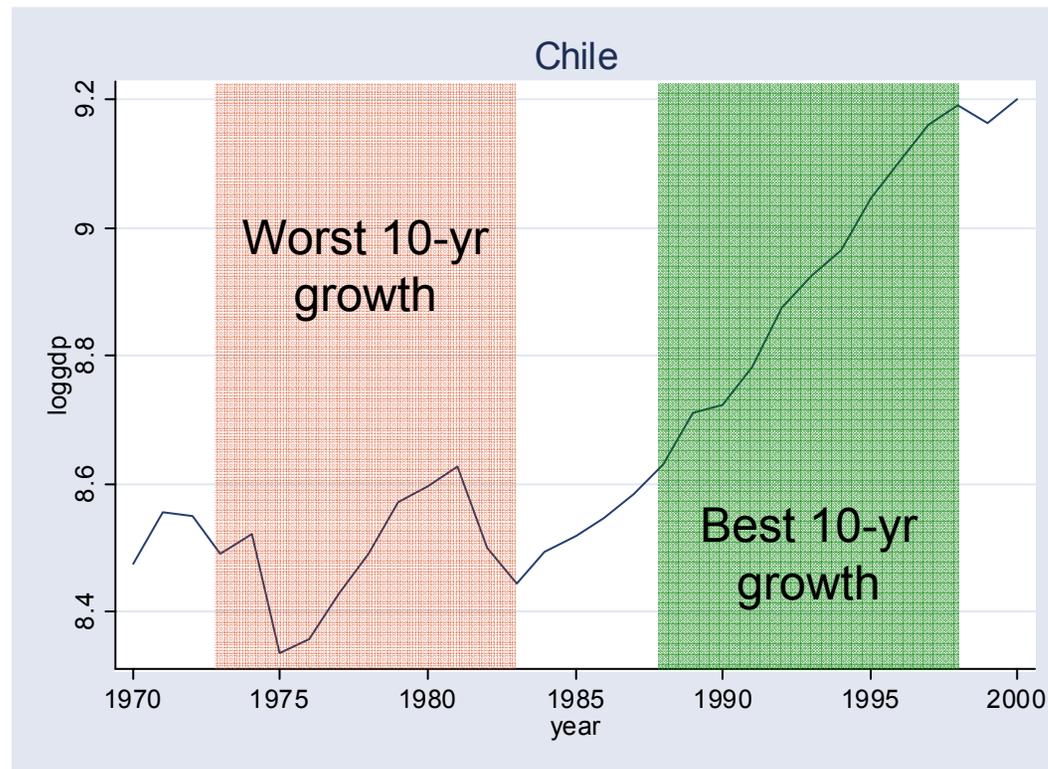- But what if key explanatory variables are only apparent across transition?

Mozambique

- Good state prior to 1973

- "Bad stuff" happens during bad period
  - Machel's Marxist policies (1975-86)
  - Civil War (1976-92)
  - Drought (1979-83, etc)

- Can we understand this transition without looking ex-post of break?

- Explanation for cross-state Δg likely lies in cross-state ΔX; looking only at X, ΔX prior to transition may miss most of R^2

- Is hazard model right specification?

Volatility in Latin America

• If 10-year periods are too long, then transitions are *within* periods of analysis

• Berg et al find that only 27% of "good states" in Latin America last >10 yrs

• Systematic differences in volatility can be driven by measurement error

• Suggestion: Robustness checks on state identification

Issues/Suggestions

- Sources of identification
  - Berg et al: sometimes identifying off cross-country differences
    - Is inequality a proxy for something else?
    - ΔX within spells (democratization, trade liberalization) more compelling
  - Sahay and Goyal identifying primarily off within-country differences
    - Emphasizing key advantage of this agenda: can use country fixed effects
    - But worried about state identification (above)

- Clarify some interpretations
  - distinctions between "triggers" and "context" (interaction effects?)
  - distinctions between "policy elastic" and "immutable" factors

- Are "horse race" regressions worth including?

- Greater heterogeneity of growth states?

A Different Approach: Jerzmanowski

State at time t+1

	Contract	Grow
Contract	P_{CC}	$1-P_{CC}$
Grow	$1-P_{GG}$	P_{GG}

State at time t

Method
• Parameterize growth process in each state
• Parameterize conditional transition probabilities
• 1 stage estimation (iterated MLE)

Advantages
• Let's data designate states
• Incorporates state uncertainty when analyzing transition probabilities
• Builds inference on clear foundation

Challenge
• Hard to compute with rich set of parameters…

Concluding Comments

- ## Important agenda
  - Initial stage: new view of growth process
  - This stage: descriptive analysis, developing candidate mechanisms
  - Next stage: getting to accurate policy guidance

- ## Next steps are hard
  - Error Process: Need to get this right to get inference right
  - Identification: Shocks and instruments to get to causation
  - Data quality: is panel data up to the task?

- ## Carry on…

END