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Abstracts

A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore

ALWYN YOUNG

This paper uses a case study of Hong Kong and Singapore, two of the fastest growing economies in the postwar world, to evaluate competing theories of economic growth. Although broadly similar in historical background and economic structure, the two economies are strikingly different along three dimensions of interest to growth theorists: (1) Hong Kong began the postwar era with a considerably better educated labor force; (2) the subsequent accumulation of human and physical capital in Singapore far exceeds that in Hong Kong; and (3) Singapore has experienced considerably more rapid structural change, as government targeting policies have propelled the economy into technologically advanced sectors. A total factor productivity growth analysis of the two economies reveals that while TFP growth in Hong Kong accounts for over two-thirds of the increase in GDP per capita during the 1970s and 1980s, total factor productivity growth in Singapore during the same period is next to nil. These results constitute strong evidence against linear models of growth that emphasize contemporaneous externalities in the accumulation of factors of production. The poor TFP performance of the Singaporean economy, when associated with its astounding rate of structural transformation, supports models that emphasize the constraints imposed by learning by doing on the evolution of comparative advantage.

The Debt Crisis: A Postmortem

DANIEL COHEN

In the first part of the paper, I calculate the returns on the developing countries' debt obtained by their (private and public) creditors when taking account of the transfers already generated, and of the liquidative value of the debt. I show that

they are good. I then evaluate the conflict of interest between private and public creditors and assess the role of the Brady deal as a vehicle for bringing about a "grand settlement" of the debt crisis. I argue that they are not as good. In the second part of the paper, I show that the group of reschedulers did experience lower growth in the 1980s, but I also show that their rate of capital accumulation was not lifted up in the years before the debt crisis. I evaluate the extent to which sovereign risk, rather than low returns, explains the failure of foreign finance to speed up capital accumulation in the large debtor countries.

Asset Pricing Explorations for Macroeconomics

JOHN H. COCHRANE AND LARS PETER HANSEN

In this paper we argue that financial data are a useful proving ground for macroeconomic models, and we explore the channels that link asset market data to such models. We use Hansen and Jagannathan's bounds on the mean and standard deviation of discount factors to survey several asset pricing puzzles. We then extend the bounds to reflect the correlation of discount factors with asset returns and to characterize conditional moments of discount factors. These characterizations help us to understand the behavior of a variety of models studied in the literature. We also incorporate borrowing constraints into the calculations. The borrowing constraints loosen the required properties of aggregate measurements of intertemporal marginal rates of substitution, but also sharpen the implications of asset market data for the marginal rates of substitution of unconstrained individuals.

Central Bank Behavior and the Strategy of Monetary Policy: Observations from Six Industrialized Countries

BEN BERNANKE AND FREDERIC MISHKIN

Using a simple case study approach, this paper compares the conduct and performance of monetary policy in six industrialized countries since the breakup of the Bretton Woods system. Our purpose is to develop fruitful hypotheses that might usefully be explored in subsequent, more formal research. From a positive perspective, a frequently observed pattern in the case studies is that central banks adopt money growth targets when inflation threatens to get out of control. Central banks appear to use money growth targets both as guideposts for assessing the stance of policy and as a means of signaling their intentions to the public; however, no central bank adheres strictly to targets in the short run. More normatively, the case studies also suggest that money growth targets might be useful in providing a medium-term framework for monetary policy, if the targeting is done in a clear and straightforward manner and if targets can be adjusted for changes in the link between target and goal variables. It appears that rigid adherence to money growth targets in the short run is not necessary to gain some benefits of targeting, as long as there is some commitment by the

central bank ultimately to reverse short-term deviations from target. Finally, the choice of operating procedure seems to have little bearing on the success of policy.

Cross-Country Patterns of Change in Relative Wages

STEVEN J. DAVIS

This paper investigates movements in relative wages and wage inequality across 13 of the world's major economies. Focusing on wages received by full-time male workers, the investigation uncovers several empirical regularities: (1) Most advanced industrialized economies show increases, often large, in wage inequality during the 1980s; none show declining wage inequality. In contrast, three of four middle-income countries considered here show sharply declining wage inequality during the 1980s. (2) Since the early to late 1970s, the advanced economies show large and persistent increases in the wages of prime age men relative to the wages of less experienced men. (3) Following a period of sharply declining education differentials in the 1970s, the advanced economies show rising or flat education differentials after 1980. Education differentials fell moderately to sharply in the middle-income countries during the 1980s. (4) Wage inequality among observationally similar workers rose sharply during the 1980s in most advanced economies. (5) After 1975, the structure of relative industry wages in the manufacturing sector became increasingly dissimilar across the advanced economies. However, controlling for common time effects, increases in international trade as a fraction of GDP are associated with a partial convergence of relative industry wage structures across countries. The paper discusses several alternative interpretations of wage structure developments in the United States and other countries in the light of these empirical regularities.

