Comments on “Sticky Capital Controls”

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Motivation

- Large theoretical literature on optimal capital controls
- Common thread: active and cyclical use of capital controls. Among others,
  - Prices in the borrowing constraint (this paper)
  - Terms-of-trade manipulation
  - Aggregate demand externalities
- Does actual policy reflect these considerations?
This paper

- Extremely impressive data collection effort
- Key novelty is data about the intensive margin, i.e. the size of the tax (or equivalent)
- Very interesting novel facts. Among others,
  - Policy changes are persistent and infrequent ("sticky"); also applies to extensive margin
  - Little cyclicality (varies across instruments)
  - Substitutability with macroprudential policy
  - Lots of heterogeneity across countries
How should we interpret this data?

- The authors focus on a specific fact for the theory section: the stickiness
- They offer a very natural explanation: an \((S, s)\) model
- This model can explain the frequency and persistence of capital controls
What about other moments, e.g. cyclicality?

- I find the fact that taxes are not systematically used countercyclically as, if not more, surprising than the sluggishness in capital controls.

- While it is very natural to think that an (S,s) model would help match the low frequency, it less clear that it helps with the “cyclicality puzzle”.

- It would be great to explore this in the model:
  - Compare corr(c,tau) in the data and in the model as a function of K.
  - Simulate episodes of financial crises in the model and report the optimal capital control policy for different values of K.
Why report the “mean” of taxes on inflows and outflows?

- Most theories do not differentiate between inflows and outflows, i.e., the only consider net flows
  \[ \tau_{\text{net}} = \tau_{\text{inflow}} - \tau_{\text{outflow}} \]
- To the best of my understanding, however, the authors report
  \[ \tau = \text{Mean}(\tau_{\text{inflow}}, \tau_{\text{outflow}}) \]
- This may be relevant in reality, but the argument would be very far from the existing models. It would require a proper theory of gross flows, which may then have different optimal policy implications.
- Authors point out positive comovement between taxes on inflows and outflows. This in itself is very hard to explain for net flows theories.
What about the sign?

- A subtle distinction between theories: some predict taxes on net flows of both signs (e.g. Farhi and Werning, 2014) while some only predict taxes on net flows in most calibrations (e.g. Bianchi, 2011).

- If we define the tax as a net, like I suggested before. How often do we see negative taxes?
On substitutability with other tools

- The authors document that macropru and capital controls are substitutes.
- In this class of models, we cannot distinguish the two. In this sense, the results are aligned with theory.
- It may worth exploring the connection in the data with other tools where there are theoretical arguments for complementarity, e.g. FXI.
Thank you!

I enjoyed reading the paper very much.

On behalf of those of us working on theory related to this topic, thank you for this amazing data collection effort & new stylized facts!

Expositionally, I think the paper would benefit from

- Shorter model section. The results are pretty natural.
- More symmetry between empirical section and model section (at least for the facts that are well-defined in this class of models)
- Deeper discussion of what $S/s$ costs are