

Chair for Macroeconomics and Development
House of Finance • 60323 Frankfurt am Main

Financial Stability Board

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Framework Consultation Response

Dear Sir or Madam:

I am writing this letter regarding the proposed framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms.

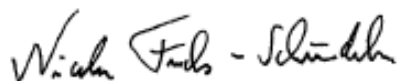
I want to commend the FSB for conducting a post-implementation evaluation of the effects of the reforms. The results from this evaluation will be helpful in assessing the impact of the reforms, learning about potential unintended consequences, and adjusting the reforms where needed. I have two comments regarding the planned evaluation.

The first comment concerns data availability and sharing of the results. To achieve the best evaluation results possible, it is necessary to grant researchers ample and easy access to available data. Moreover, it would be extremely helpful to generate a platform in which results of evaluation studies are shared. Many studies will likely focus on one particular policy and one particular outcome. Linking these studies with each other in terms of policies and outcomes will, first, provide a wider picture of the impact of the reforms, and, secondly, identify areas in which analyzing interactions or considering trade-offs is of paramount importance. This will thus generate a second wave of new and valuable research. To spur this kind of research, it might also be helpful to summarize the results of the first wave of evaluations at some point. Third, this kind of platform collecting research results around the themes of policies and outcomes can provide valuable inputs into the research done by macroeconomists on the overall impact and social costs and benefits of the reforms.

This brings me to my second comment regarding the evaluation of the overall impact of the reforms. Establishing causal evidence regarding the macroeconomic impact of a reform is often substantially more difficult than regarding the microeconomic impact. One way to

establish causality in macroeconomics is to analyze natural experiments (see also the chapter “Natural Experiments in Macroeconomics” by myself and Tarek A. Hassan in the recently published second edition of the Handbook of Macroeconomics). A natural experiment is a historical episode that provides observable, quasi-random variation in treatment subject to a plausible identifying assumption. This quasi-random variation in treatment is however to a large extent missing in the regulatory framework established by the FSB. Yet, there are potential ways to establish causality also regarding the macroeconomic impact of reforms, relying in the spirit of natural experiments on quasi-random variation. For example, one can potentially explore regional variation regarding the microeconomic impact of the reforms (e.g. the extent to which regional banks are affected by a specific reform) in order to analyze a final macroeconomic impact, if one can convincingly argue that the regional variation is due to predetermined and thus exogenous conditions that do not have a direct effect on the aggregate outcome, i.e. if an instrument is available. Secondly, macroeconomic models allow to conduct counterfactual exercises, as well as to analyze social costs and benefits. The results from microeconomic evaluation studies that rely on credible identification, e.g. based on a regression discontinuity design, can serve as useful inputs to calibrate parameters in the macroeconomic models that are crucial for macroeconomic predictions. Therefore, the above mentioned platform to share research results would be very useful for the analysis of macroeconomic effects of the reforms.

Sincerely yours,

A handwritten signature in black ink, reading "Nicola Fuchs - Schündeln". The signature is written in a cursive, slightly slanted style.

Nicola Fuchs-Schündeln