

Sectors, Savings, and Shady Deals: Exchange Rate Preferences in Developing Countries

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Research Questions

- ① **What** explains exchange-rate preferences of individuals?
 - ▶ Dominant theories:
 - Sector-based preferences
 - Sociotropic-based preferences
 - ▶ But:
 - Salience of exchange rates low to most citizens
 - Mostly North-centric evidence
- ② **Who** can influence individuals' preferences over monetary policy?
 - ▶ Role of IOs
 - ▶ Little evidence about domestic-international interactions

Inflation and Savings-Based Theory

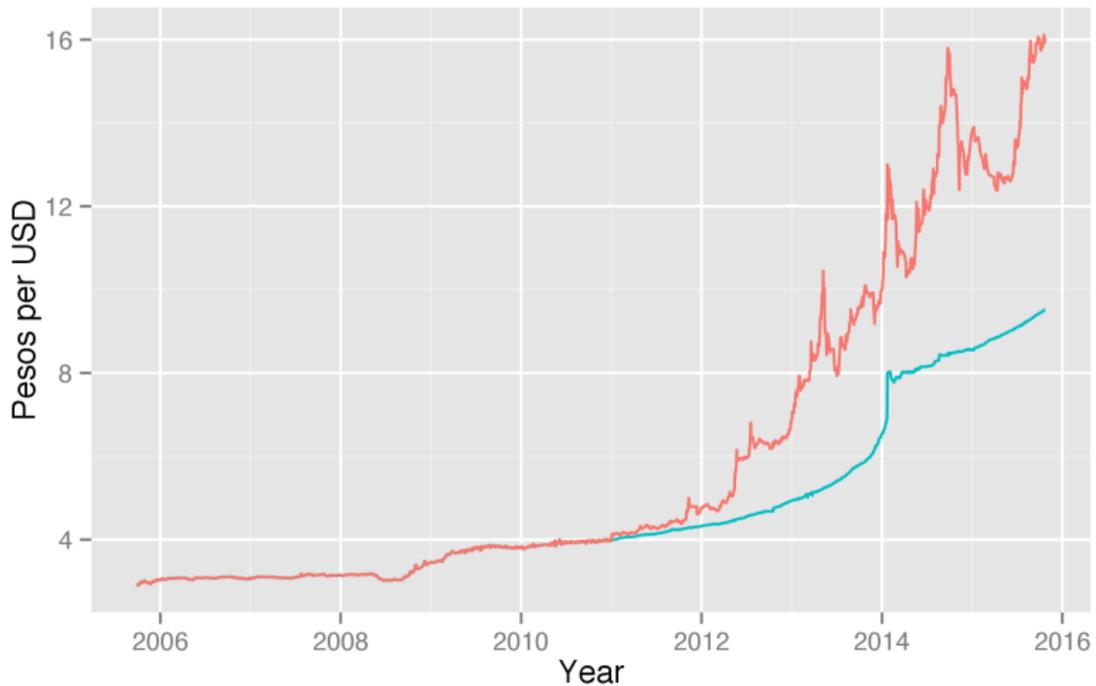
- In DCs, hedging against inflation > benefits to any sector of employment
- Pref. over exchange rates and capital controls are about inflation (not international transactions)
- Weaker black market rate → fear of inflation
- Test: survey experiment in Argentina

Argentina

- Exchange-rates are very **high salience**
 - ▶ Repeated currency and banking crises
 - ▶ Since 2011: **currency control**
 - ▶ Elections in 2015 hinged on capital controls and exchange rates (Macri vs. Scoli)
- Individuals are informed
 - ▶ Black market (*dolar blue*) very widely used
 - ▶ Divergence between *dolar blue* and official rate is recorded

Predictions

- Weaker exchange rate → higher fear of inflation
- Higher fear of inflation → higher probability of support for pro-liberalization candidate
- Gaps between *dolar blue* and official rate linked to distrust of peg (for those who use black market)



— Black Market — Official Rate

Survey Design

- Questions to determine blue market use, savings behavior, international orientation of place of employment
- Survey experiments
 - ▶ Questions on exchange-rate regime preference, varying in *type* of information about inflation.
Predictions
 - More savings → stronger demand for currency liberalization
 - More worried about inflation → stronger demand for currency liberalization
 - Questions on exchange-rate regime preference, varying in *source* of information about inflation
 - ▶ Politicians, IMF, Mercosur, Pope Francis

Other Surveys

- Survey data (LAPOP)
 - ▶ **DV**: Inflation is the highest concern
 - ▶ **Indep Var**: black market exchange rate
 - ▶ **Controls**: income, education, gender, ideology, Kirchner support, region FE, time trend
 - ▶ LPM, logit, with clustered s.e.
- Our earlier survey:
 - ▶ **DV**: intention to vote for Macri (pro-reform)
 - ▶ **Indep Var**: Inflation is the highest concern
 - ▶ Similar models
- In the future: survey experiment on (Inflation)→(X-rate policy preference)

DV: Pr(Inflation is the highest concern)

	LPM	LPM	Logit
Peso:USD Rate	0.02*** (0.00)	0.04*** (0.00)	0.7*** (0.11)
Control variables		✓	✓
Region FE		✓	✓
Obs	4,414	2,419	2,419

When x-rate weakens by one point: worry about inflation increases by 2-4%

DV: Pr(Vote for Macri)

	LPM	LPM	Logit
Inflation Concern	0.11** (0.05)	0.11** (0.00)	0.88*** (0.34)
Control variables		✓	✓
Region FE		✓	✓
Obs	1,149	1,149	1,149

People who fear inflation are ~11% more likely to want the candidate who will liberalize access to USD

Conclusion

- Need more evidence to pin down the role of inflation
- Some groups (middle class) more likely to fear inflation
- Survey experiment to assess mechanism
- Big question: who do people listen to when considering reforms?

DV: Pr(Inflation is the highest concern)

	Private Employees		Public Employees	
Peso:USD Rate	0.02*** (0.00)	0.04*** (0.00)	0.02*** (0.00)	0.03*** (0.00)
Control variables		✓		✓
Region FE		✓		✓
Obs	3,932	2,122	482	297

Results are robust for public employees