

Robustness of IMF data scrutinised

Multipliers

An FT study on the effect of tax rises and spending cuts found limitations in the fund's research, reports **Chris Giles**

International Monetary Fund research in its latest World Economic Outlook suggesting tax rises and public spending cuts might be so harmful as to be self-defeating has been the talk of the annual meetings in Tokyo this week.

Even though Olivier Blanchard, chief economist of the IMF, was careful not to draw strong policy conclusions from the work, others have seized on the research as proof that deficit reduction efforts by governments are misguided.

Paul Krugman, the Nobel Prize-winning economist and writer for the New York Times, wrote that the findings "directly contradicts GOP [US Republican party] doctrine".

An exercise by the Financial Times to replicate and evaluate the IMF's work, however, shows that the results suggesting very large multipliers – the relationship between deficit reduction efforts and growth – do not easily stand up to a different choice of

countries being used in the analysis or the use of a different relevant time period. The size of the multiplier was once a forgotten relic of Keynesian economics, deemed irrelevant in modern analysis. But as the economic crisis has ground into its fifth year, it is now central to thinking about deficit reduction.

When countries started to repair the budgetary damage to their economies in 2010, some thought raising taxes or cutting spending would not affect growth, or it would help expansion by raising confidence.

Most economies – such as Britain – thought deficit reduction would hit growth but for every £10bn of tax rises or spending cuts, output would shrink by about £6bn – a multiplier of 0.6. The research this week by the IMF suggests these estimates are systematically too low and "actual multipliers may be higher, in the range of 0.9 to 1.7".

The IMF arrived at that conclusion using a simple statistical model on 28 countries – chosen as some EU countries and some other advanced countries. Specifically, it found its 2010 economic forecasts for growth between 2009 and 2011 was generally too optimistic for countries which planned to undertake deficit reduction and too pessimistic for those that planned to stimulate their economies.

From this, it concluded that its own estimate of the damage done by fiscal consolidation was too small because deficit reduction is more painful when interest rates are close to zero and other countries are also consolidating budgets.

But in publishing a chart, the IMF's work appeared to be highly dependent on Greece and Germany, so the FT attempted to replicate the IMF work.

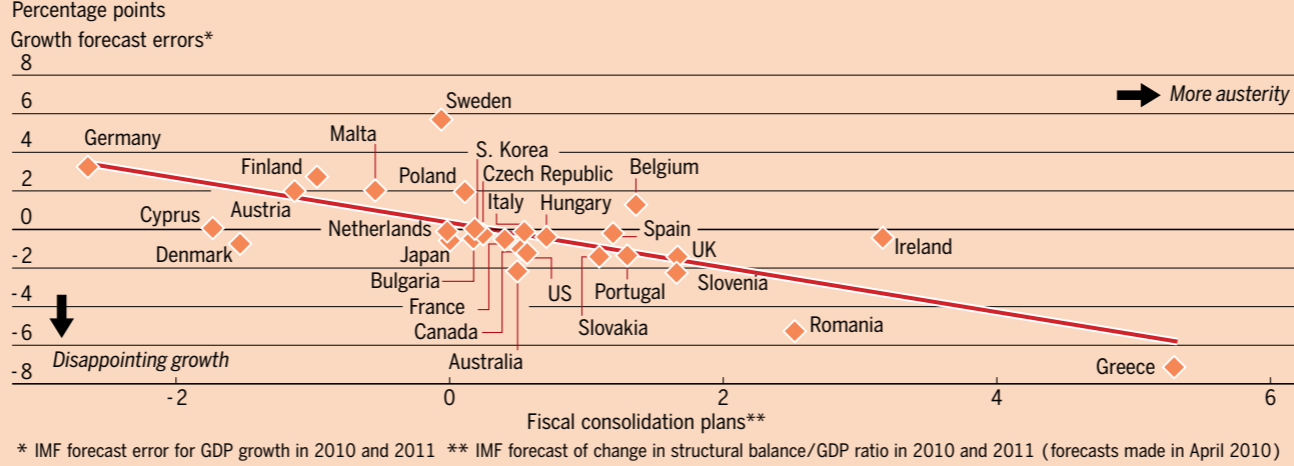
Further examination found that the full set of data did not exist on the IMF's website. The IMF also included Romania, Bulgaria, Hungary, Poland and South Korea but excluded New Zealand and EU countries with successful deficit reduction strategies, such as Estonia, Latvia and Lithuania. The fund had good reasons (the February 2011 earthquake) for excluding New Zealand, but similar stories about outliers can be told for other countries, particularly Greece and Germany.

For the countries where the full data are available on the IMF website, the results lose statistical significance if Greece and Germany are excluded.

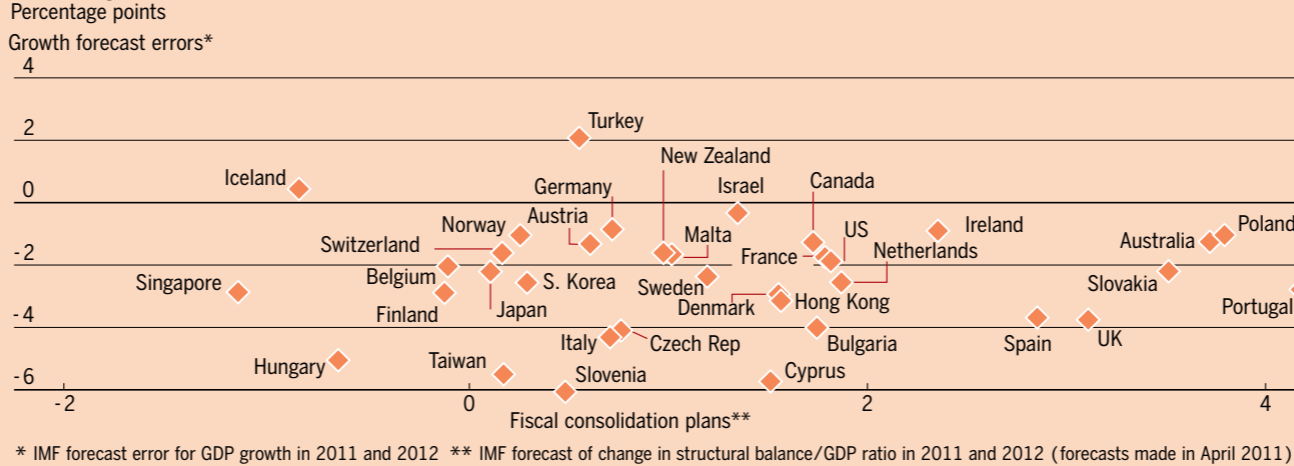
Moreover, the IMF results are presented as general but are limited to the

Cuts and the consequences

The IMF says this chart of its 2010 forecasts shows austerity has hit growth more than expected ...



... but repeat the exercise with the 2011 forecasts – and remove Greece – and that conclusion is not so clear



specific time period chosen. The 2010 forecasts of deficits are not good predictors of errors in growth forecasts for 2010 or 2011 when the years are analysed individually. Its 2011 forecasts are not good predictors of anything.

Economists contacted by the FT worried about the robustness of the techniques used. Jonathan Portes, director of the UK's National Institute of Economic and Social Research, said cross-country studies with small samples never prove anything, even though he strongly believes multipliers are large. Professor Carlos Vegh of the

University of Maryland said evidence suggested multipliers in countries would differ greatly and "the exercise of trying to forecast growth for different countries using essentially a single multiplier is an exercise in futility".

When the FT contacted the IMF, Mr Blanchard said the work had been "reviewed by all departments at the fund and explored for robustness. While there is always the possibility of a freak result, the process is tough, much tougher than for typical academic journal articles".

www.ft.com/moneysupply

Web 'hacktivists' retract support for WikiLeaks

By **Tim Bradshaw** in San Francisco

WikiLeaks founder Julian Assange has lost another high-profile supporter as Anonymous, the hacking collective, said the whistleblowing site had been "ruined by egos".

Anonymous, a loose group of internet "hacktivists", has been one of WikiLeaks' closest allies during the past two years, launching cyber attacks against the site's opponents and, some claim, becoming a source of its material.

But leading Anonymous accounts on Twitter, which rallied behind WikiLeaks and Mr Assange despite his legal and financial woes, have now withdrawn their support, decrying the freedom-of-information project as a "One Man Julian Assange show".

Calling the split "the end of an era", Anonymous tweeted: "It was an awesome idea, ruined by egos."

Anonymous rushed to WikiLeaks' aid in December 2010 when the whistleblowing site faced what it has described as an "economic blockade" from payments processing companies.

Anonymous' attacks caused service interruptions to MasterCard, Visa and PayPal's websites, and the group has remained loyal to Mr Assange and his site throughout his extradition battle over allegations of sexual assault, and despite a police crackdown around the world against hackers.

However, in the same week that saw Mr Assange's bail guarantors forced by a court to pay \$93,500 after he fled to the Ecuadorian embassy in London, Anonymous lashed out at the WikiLeaks founder and his latest fundraising attempt.

WikiLeaks this week erected a banner advertisement asking for donations before allowing visitors to access emails purportedly relating to Mitt Romney, the US presidential candidate, and its other archives. Anonymous described the move as "meretricious".

"We have been worried about the direction WikiLeaks is going for a while," Anonymous wrote in an online statement yesterday. "In the recent month the focus moved away from leaks and the fight for freedom of information further and further while it concentrated more and more on Julian Assange... But WikiLeaks is not about Julian Assange alone."

The final straw for the group, which also supported the Occupy Wall Street movement and the Arab Spring, appears to have been Mr Assange's dinner this week with pop star Lady Gaga.

"That's great for him but not much of our interest," Anonymous said. "We are more interested in transparent governments and bringing out documents and information they want to hide from the public."

WikiLeaks responded on Twitter, saying: "Thank you for drawing attention to our donation campaign while we have high costs in military courts. Solidarity." The tweet included a link to its donations page.

Attempts to reach WikiLeaks for comment were unsuccessful.

Not all Anonymous members agreed with the group's move to part ways with WikiLeaks. One Twitter account, @Anonymous-Wiki, said the site was "still a beacon of truth and deserves the peoples [sic] support more than ever".

www.ft.com/wikileaks



'Gujarat – Asia's premiere business destination'

Gujarat located on the west coast of India has proved itself as the 'Growth Engine of India'. One of India's most industrialized States, Gujarat has been contributing immensely to India's growth story with consistent double digit growth for almost a decade now. Gujarat offers a world class infrastructure to support your business. To promote the business environment offered by the state.

Since 2003, the Vibrant Gujarat Summits have gone from strength to strength and gained global recognition as the premier platform for the meaningful discussions around sustainable development in Asia. The 6th Summit will be held in the state capital, Gandhinagar, on 11th-13th January 2013 promises to be bigger and better in every way. Alongside with the summit a global trade show would also be held where global businesses would showcase the technology prowess and exchange business ideas.

Spread over an area of over 100,000 sq. mts. Vibrant Gujarat aims to take a quantum leap forward. The stage is set for global business and thought leaders to convene and provide inspiration for a new era of inclusive and environmentally-sustainable growth. Vibrant Gujarat means business and so much more. A warm Gujarati welcome awaits you.

Come and see for yourself what Gujarat has to offer. You will be glad you did.

Welcome to Vibrant Gujarat 2013
11-13 January, Mahatma Mandir, Gandhinagar, Gujarat, India

For more details and online registration, log on to www.vibrantgujarat.com



Welcome to Vibrant Gujarat

Indian States. National Economies. Global Summit.

6th Vibrant Gujarat Global Summit

January 11-13, 2013

Vibrant Gujarat is a biennial, high-level multi-stakeholder gathering; acknowledged globally as the premier platform for discussion and action on emerging opportunities in Gujarat, India and beyond. Challenging the world's assumptions regarding growth and opportunity; the five Vibrant Gujarat Summits since 2003 have garnered investment proposals worth US\$ 817 billion. The 6th Summit is slated to take place from **11th - 13th January 2013, at Mahatma Mandir** in the state capital Gandhinagar.

We welcome you to join us to leverage on today's global opportunities and predict tomorrow's growth!

2013 Summit

- Convention on Small and Medium sized Enterprises
- Exhibition spread over an area of 1,00,000 sq. m.
- Panel Discussions
- Discussions Forums
- Networking Events
- Conventions & Round Table Conferences
- B2B Meetings & B2G Meetings
- Seminars

2011 Summit Highlights

- Partner Country - Japan and Canada
- Partner organisations - UNIDO, JETRO and CBC
- National Partner - CII
- Foreign delegates - 1,400
- Indian Delegates - 35,000
- MoUs signed - 8380
- Investment pledges worth US\$ 450 billion
- Country Participation - 101
- Indian States participation - 19

2013 Summit Events

- Exhibition Inauguration - 8 January
- Summit Inauguration - 11 January
- Valedictory function - 12 January
- B2B and B2G meetings - 13 January

Venue: Mahatma Mandir, Gandhinagar, Gujarat, India

Advantage Gujarat

With 5% of India's population, Gujarat has 16% of its industrial production. The State has been witnessing double digit growth in the last five years, even in a time of global recession.

Longest coastline in India	1600 Km
Number of Ports	42
Number of Airports	17
Special Economic Zones (SEZs)	60
Industrial Estates	198
Integrated Statewide Gas Grid	2400 Km

Nodal Organisation



11-13 Jan.



GUJARAT 2013

The Global Business Hub | 6th Global Summit

Partner Countries: Japan & Canada

Partner Organisations: JETRO, USINDIA & Business Council, American India Business Council



For more details and online registration, log on to www.vibrantgujarat.com