Comment on Morse (2016).

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1 Questions on Theory

1. Time span of the Effect:

(a) what information do they use?: According to what you wrote down on page 29, it seems that FATF uses the evaluation done in 2009 to decide which country to blacklist every year. (maybe I am wrong..) Then, how can that be useful information to the market, which relies on every day stock market?

(b) the effect of signaling to the market has a quicker effect?: If, as other scholars argue, monitoring works through legislators, it may take a long time for them to actually pressure governments to comply. But if, as you argue, the market is also the fundamental mechanism, this mechanism is expected to function sooner. Do you have any ideas on this?

2. Effect Heterogeneity: As you describe on page 8, it seems there are a lot of heterogeneous effects of this monitoring. At least, (1) independence of monitoring (2) institutional transparency (3) interpretable signals look really important. Yes, it will be hard to quantify these, but by using some Text Analysis, you might be able to see how effectively different institutions send signals to the market. This will probably require additional data from different IOs, but it might be useful to see whether the effect of monitoring through the market is homogeneous.

3. Forcing Compliance: As you wrote in the footnote, I think it is really interesting to see how this monitoring actually enforces compliance. If you can analyse observations that blacklisted countries recover their reputation after graduating blacklist, it will be more convincing that blacklisting is actually signal, which not only tells the market the “bad” countries as bad but also the “bad” market becomes good. Unless there is a chance to recover to non-blacklisted and regain the reputation, states will not have incentives to work hard to graduate, so I suspect there will be an effect of graduating from blacklist.

2 Small Issues

1. Quotes: I see quotes in Section 4 really convincing. I want to know how much the market cares about FATF evaluation earlier in the paper.

2. Substantive Effects: For the empirical results, it would be good to see the substantive effect of blacklist.

Looking forward to listening to your response.

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