

Discussion of “Greed versus Fear: Optimal Time-Consistent Taxation with Default”

by Tasos Karantounias

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Plan for my 15 minutes

1. Summary of the paper
2. My comments

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Goals of this paper

- Study the optimal conduct of fiscal policy in an economy characterized by:
 - Incomplete markets.
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 - Drifts in taxes and debt? Positive or negative?
- Policy angle:
 - Fiscal rules – are they close to the optimal?
Not quite there yet.

Basic Ingredients of the Framework

- Lucas-Stokey (83) economy without capital. Real, closed economy.
- Uncertainty: spending shocks $g_t \in [\underline{g}, \bar{g}]$.
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- Study the optimal time-consistent policy triplet

$$(\tau, B, d)$$

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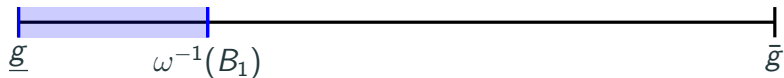
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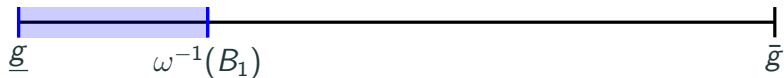
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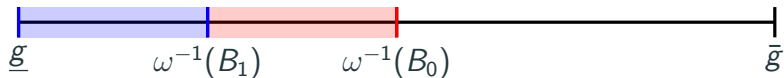
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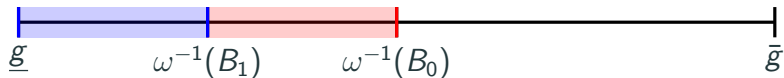
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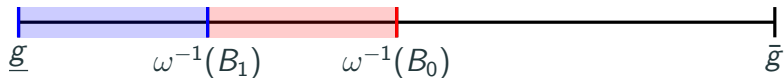
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- Even *small* default risk limits the tax-smoothing greatly.

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Specific comments:

1. Greed vs. Fear: which one dominates?
2. Debt capacity
3. Nominal debt, inflation and default technologies

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- Even a graph at different points of the s.s. would be informative.

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 - Reserve accumulation → (Bianchi et al., 2018, Bianchi and Sosa-Padilla, 2019)

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- I suspect your results may extend to monetary economies.

AGAIN: Very nice paper/project, ambitious and policy-relevant.

Looking forward to the next iteration!

References

Bianchi, Javier and César Sosa-Padilla, “Reserve Accumulation, Macroeconomic Stabilization and Sovereign Risk,” 2019. Mimeo.

– , **Juan Carlos Hatchondo, and Leonardo Martinez**, “International reserves and rollover risk,” *Forthcoming, American Economic Review*, 2018.

Hatchondo, Juan Carlos, Leonardo Martinez, and César Sosa-Padilla, “Debt dilution and sovereign default risk,” *Journal of Political Economy*, 2016, 124 (5), 1383–1422.

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