

Comments on Dirk Niepelt: “Domestic, External, and Implicit Debt and Default”

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Some key mechanisms

Intergenerational conflicts

- Transfers from young to old.
- Old hold explicit gov debt, young pay taxes to service the debt.

General eq. effects

- Taxes and (expected) social sec. benefits affect wages and equity return via capital acc.

Treating foreign bond holders poorly also incurs costs.

- Need to treat voters and foreigners similarly.
- Exog. cost of default.

Probabilistic voting

- Ageing affects the politico-economic eq. by increasing the share of old voters and via GE effects (e.g. higher wages).

General comments

Analyzing implicit and explicit gov. debt jointly sounds very relevant to me.

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It's complicated! Not easy to get the intuition. GE effects interact with politics, corner solutions.

- Numerical results could be helpful in this respect as well.

Specific comments

Marginal return to capital determined by domestic saving alone

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- Matters quantitatively, if not qualitatively.
- Small vs. large countries?

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Ageing explains certain “stylized facts”?

- What about the timing?
- In many countries, old-age dependency ratio hasn't yet increased that much.

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Case Finland (and Norway): General gov. net financial assets positive ($e < 0$ in the model?)

- Large pension (oil) funds, large implicit debts, little private saving.