

Discussion of “The Perceived Budget Constraint of the Government”, by Gabriele Maugeri and Dmitriy Sergeyev

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Motivation

- High government debt key concern for policymakers
- Prior papers have asked
 - How have governments financed debt in the past?
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- This paper asks
 - How do households think the government has financed itself in the past?
 - How do they think it is financed now?
 - How would unexpected shocks be financed?
 - How can survey answers to these questions inform our models?

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- Suggestions
 - Exploring heterogeneity and belief consistency
 - Expanding model exercises

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- Data on perceptions of extensive and intensive margins for different mechanisms
- Significant fraction unfunded, bubble supported
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- Household beliefs differ markedly from experts'
- Use data to discipline key parameters in NK model

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 - But in practice (and in history), high inflation often associated with monetizing debt
- Are reported beliefs consistent with reported choices?
 - Survey included breakdown of savings by asset categories
 - Do people who believe govt will inflate debt save more in real/foreign assets? etc.

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 - Exercise removes certain model mechanisms to illustrate contribution to multiplier
 - But exercise is performed without recalibrating alternative models
- Validation key when comparing alternative models/ways to discipline a model
 - How do various IRFs (to MP, fiscal shocks, etc) compare to their data counterparts?

Other Notes

- For default, useful to follow up with a question about expected haircut
- When mapping the model to the data, tax base is mapped to output
 - Growing/shrinking tax base \equiv growing/shrinking the economy
 - Not really what reforms about changing the tax base focus on
 - In existing model, better to merge these tax rate & base into tax revenue
- Only part of broad “Bubble” category is actually classic conception of bubble
 - Liquidity services and financial repression are typically excluded

Conclusions

- Interesting paper addressing key questions using survey-based methods
 - Would like it to explore heterogeneity more
- Model experiments should be sharpened and expanded
- Rich data that can potentially be used to address many other related questions
- Looking forward to reading the next draft!

Brunnermeier, Markus K, Sebastian A Merkel, and Yuliy Sannikov, "The Fiscal Theory of Price Level with a Bubble," 5 2020.