Discussion of “What Drives Variation in the U.S. Debt/Output Ratio” The Dogs that Didn’t Bark”

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Outline

1. What I like about the paper

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2. What the paper does

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Things I like

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- Very careful statistical work

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- Use forecasts of future outcomes in the decomposition
  - This is new
- Find that most of debt/GDP is "explained" by future debt/GDP rather than future returns or future surpluses
- Allowing for structural break in 2007 in debt/GDP lowers role of future debt/GDP some but it remains the dominant source of variation

Some suggestions

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- Relate to financial repression until Treasury accord and rescinding of Reg. Q.

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- All stem from lack of theory

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- Is there a portfolio recommendation?
- Difficulty of working with definitions, identities

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- Agencies hoping to substitute themselves as riskless debt, for OMO.
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- Emerging market debt is subject to more or less this sustainability standard. Why should US debt be different?

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- Should we not study fiscal and monetary together?
- How do we theorize about debt sustainability over and above variance decomposition?

Conclusion

- Very nicely done work, very well written
- Presents a set of stylized facts that need a theory to make sense of
- Homework for all of us