Discussion of "The eurozone crisis. Phoenix miracle or lost decade?"

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Discussion by A. Philippopoulos

May 21, 2013

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- Another thoughtful paper by BE!

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  2. Property and demand bubble in the 2000s.

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  5. Banking problem (need for banking union).
  6. Relatively successful public debt restructure (e.g. Greece). But more debt needs to be written off.

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- Try to evaluate some debated policy reactions by using a DSGE model.

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  4. (?!) Exit and devaluation.
  5. (?!) Support of exit and devaluation by Germany.

Try to evaluate 2 much debated policy reactions

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- Depart from the status quo and study the effects of two reforms:
  1. Debt consolidation or "austerity".
  2. (The fiction of) Monetary independence or "exit and devaluation".

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- Sovereign premia (when public debt is above 90%).
- No monetary policy independence (no room for Taylor rule).
- Fiscal (tax-spending) instruments are allowed to react to debt and output gaps.
- Optimized feedback policy rules (Schmitt-Grohe and Uribe, 2004, 2007).

Is debt consolidation productive?

Table 1: Welfare at various time horizons with and without debt consolidation

	4 periods	10 periods	50 periods	$E_0 V_0$	u
s_t^g	1.8109	4.6165	16.9614	22.5858	0.7323
	(2.5098)	(5.5889)	(14.5509)	(16.2654)	(0.6466)
τ_t^c	1.8852	4.7383	16.5754	22.5458	0.7329
	(2.5098)	(5.5886)	(14.5520)	(16.2670)	(0.6466)
τ_t^k	2.0275	5.0488	17.1352	22.9910	0.7721
	(2.5096)	(5.5887)	(14.5516)	(16.2671)	(0.6466)
τ_t^n	2.0288	5.1277	17.2199	23.1767	0.7597
	(2.5096)	(5.5894)	(14.5537)	(16.2696)	(0.6466)

Note: results without debt consolidation in parentheses.

Is (the fiction of) monetary independence productive?

Table 2: With monetary policy independence (under debt consolid.)

Instruments	Optimal monetary reaction	Optimal fiscal reaction	Long-run period utility u	Expected life-time utility $E_0 V_0$
$R_t \quad s_t^g$	$\phi_\pi = 3$ $\phi_y = 0.0001$	$\gamma_l^g = 0.16$ $\gamma_y^g = 0$	0.7323	22.7285
$R_t \quad \tau_t^c$	$\phi_\pi = 3$ $\phi_y = 0$	$\gamma_l^c = 0.2$ $\gamma_y^c = 0.02$	0.7329	22.7426
$R_t \quad \tau_t^k$	$\phi_\pi = 2.16$ $\phi_y = 0$	$\gamma_l^k = 0.2$ $\gamma_y^k = 0$	0.7721	23.3778
$R_t \quad \tau_t^n$	$\phi_\pi = 2.21$ $\phi_y = 0$	$\gamma_l^n = 0.2$ $\gamma_y^n = 0.0005$	0.7597	23.4542

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Table 3: With and without monetary policy independence (under debt consolid.)

Instruments	Long-run period utility u	Expected life-time utility $E_0 V_0$
$R_t \quad s_t^g$	0.7323 (0.7323)	22.7285 (22.5858)
$R_t \quad \tau_t^c$	0.7329 (0.7329)	22.7426 (22.5458)
$R_t \quad \tau_t^k$	0.7721 (0.7721)	23.3778 (22.9910)
$R_t \quad \tau_t^n$	0.7597 (0.7597)	23.4542 (23.1767)

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- Are results robust to institutional failures?
  1. "Right" measures can be counter-productive when poor institutions (polarization).

Thank You