

Arsanalp, Bergthaler, Stokoe and Tieman's "The Current Landscape (Chapter 2)"

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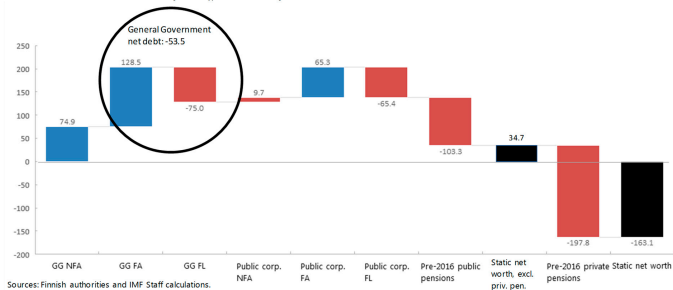
- Chapter's main theme: there are many ways of measuring government debt and gauging its sustainability
- Three topics in my discussion
 - ① public sector balance sheet (PSBS)
 - ② debt structures
 - ③ debt and money

The balance sheet approach to public finances

- Application of PSBS to Finland (Brede and Henn, 2018)

Figure 2. Static Public Sector Net Worth, 2016 (Percent of GDP)

Static public net worth—narrowly defined as contractual obligations—was positive at end 2016. However, the economically more relevant measure of static net worth includes pension liabilities for work already performed by private sector employees. If these are included, net worth is considerably in negative territory.



Notes: GG= General Government; NFA=Non-financial Assets; FA = Financial Assets; FL = Financial Liabilities.

- The main asset is the PDV of the primary balance
 - how is net worth from PSBS different from Auerbach and Kotlikoff's "fiscal gap"
 - difficult to measure
 - is a negative net worth a better way of conveying the urgency of fiscal reform than an exploding debt path?

Debt structures

- Since the EM crises of the 1990s it is clear that debt structures are important to understand crises
- Dangerous liability structures lead to financial amplification and self-fulfilling crises
 - these can be captured by dynamic stress tests
- Dangerous liability structures are there for a reason (Tirole, 2003)
 - one needs to address underlying frictions that lead to dangerous liability structures

- Is money a government liability?
- **Yes** if seigniorage is defined as central bank's accounting profit; **No** if seigniorage is defined as money creation
 - answer based on the consolidated government intertemporal budget constraint
- We need to better understand the monetary backstop to government debt