Discussion of "Exorbitant privilege and exorbitant duty" by Gourinchas, Rey, Govillot

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Treasury conference
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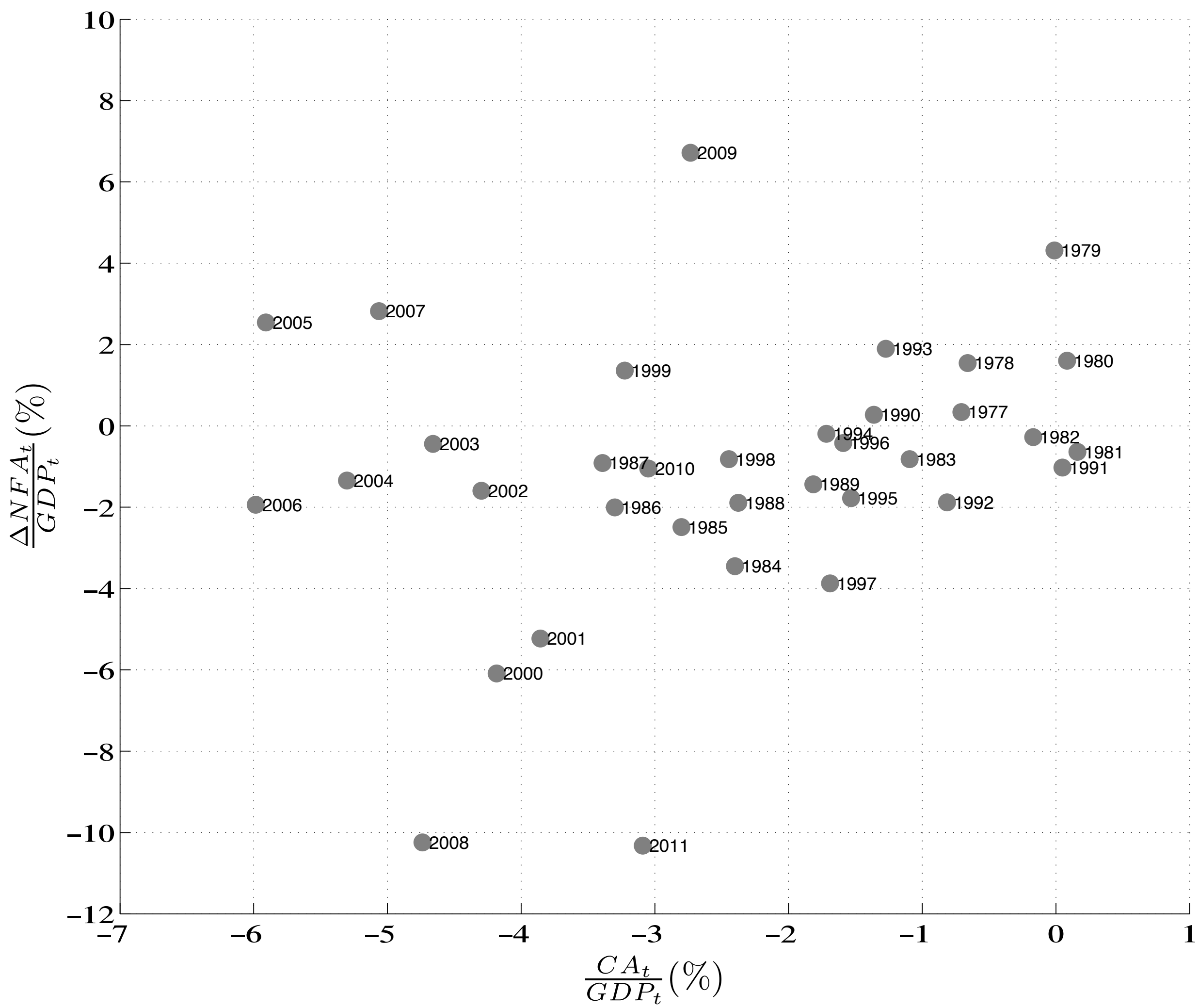
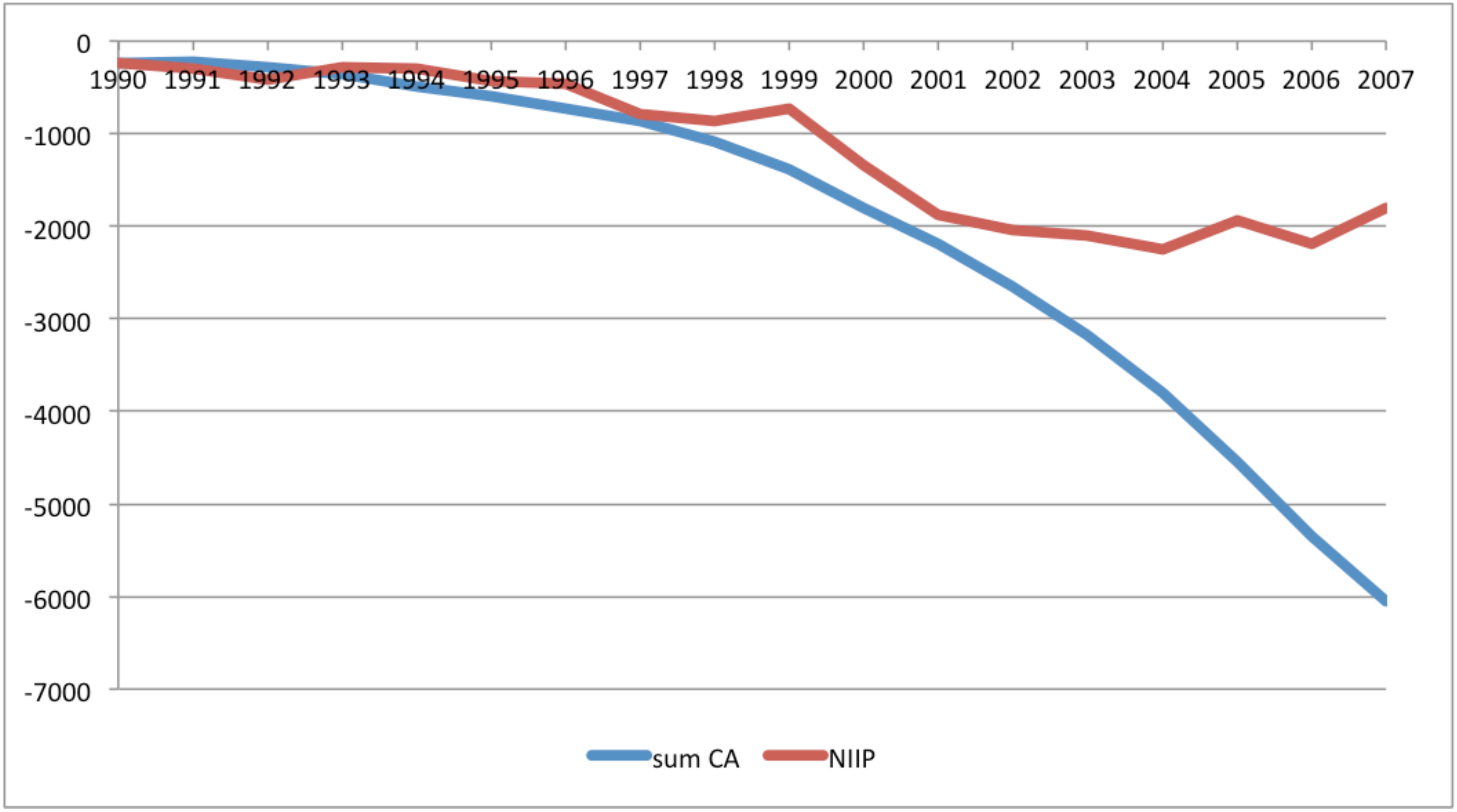
Current account and foreign assets

$$\Delta NFA_{t+1} = r_{t+1} NFA_t + CA_{t+1}$$



The exorbitant privilege

$$\Delta NFA_{t+1} = r_{t+1} NFA_t + CA_{t+1}$$



More substance

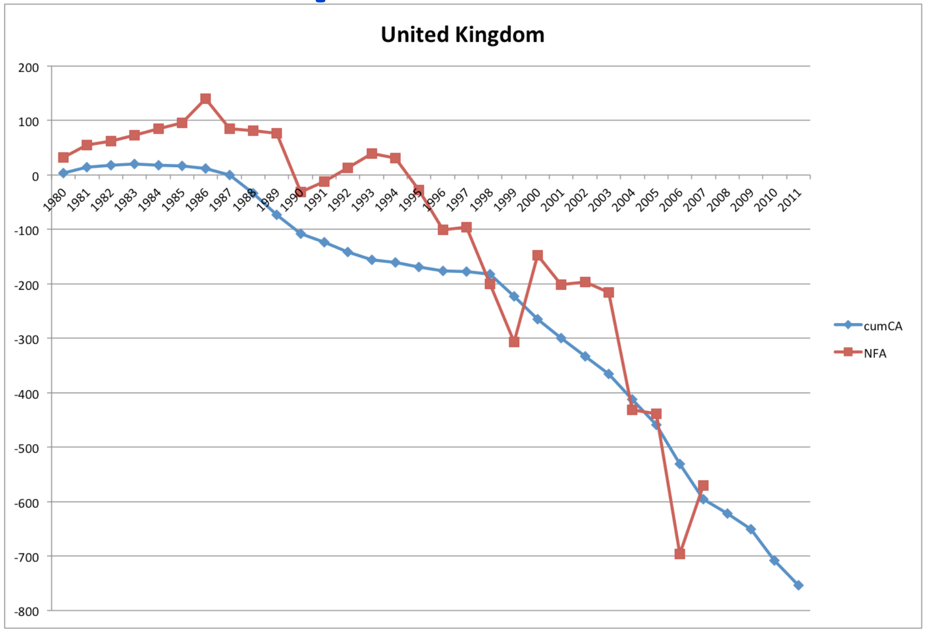
1. Increasingly, U.S. liabilities are government debt, and foreign assets are equity and direct investment.

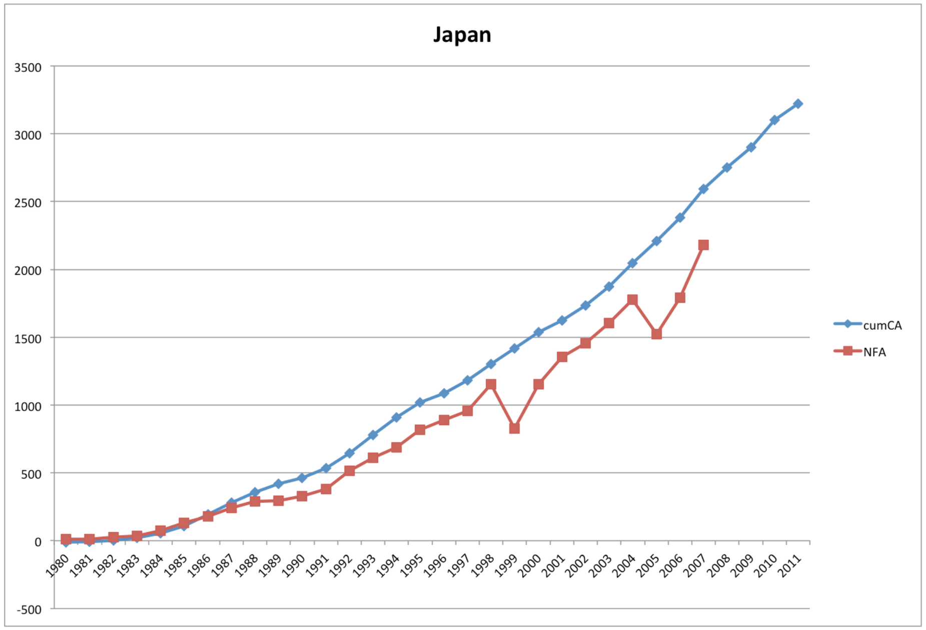
2. But excess return also within asset classes

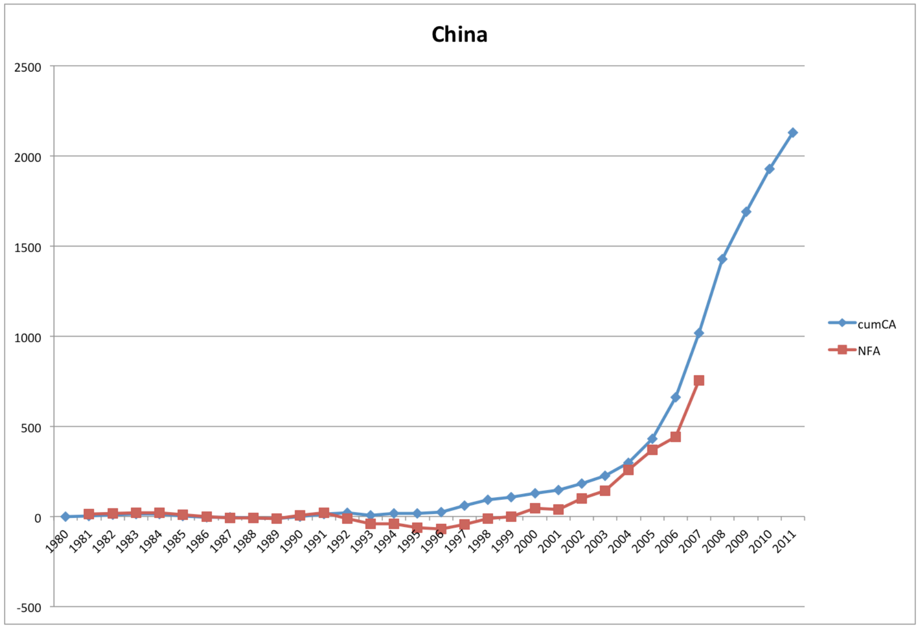
	1952-2009	1952-1972	1973-2009
R^{ex}	2.69%	1.30%	3.47%
$R^{ex}(equity)$	4.11%	3.96%	4.19%
$R^{ex}(debt)$	4.71%	4.79%	4.67%
$R^{ex}(directinv)$	4.00%	2.24%	4.99%

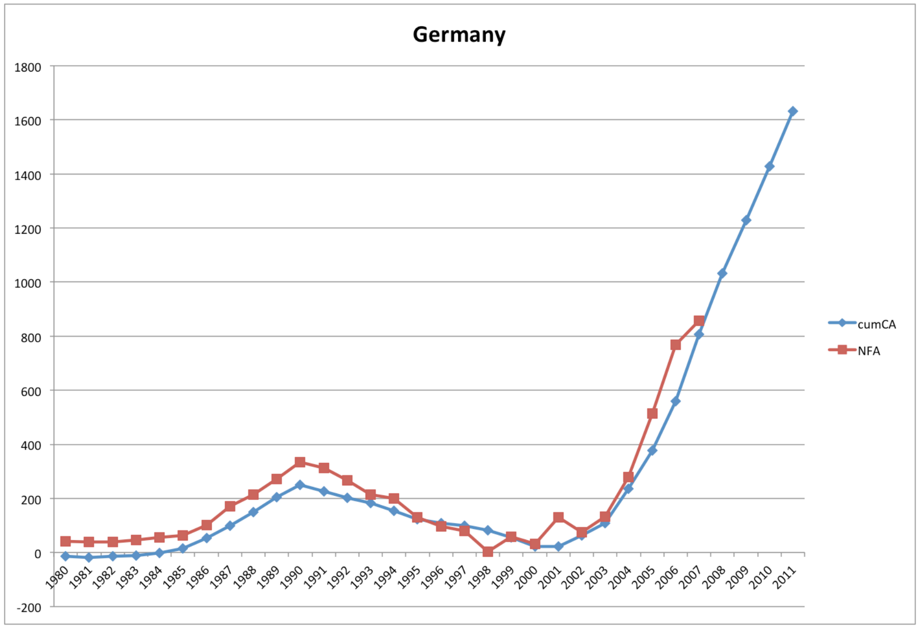
3. True in the pre and post Bretton Woods period.

Compared with other countries

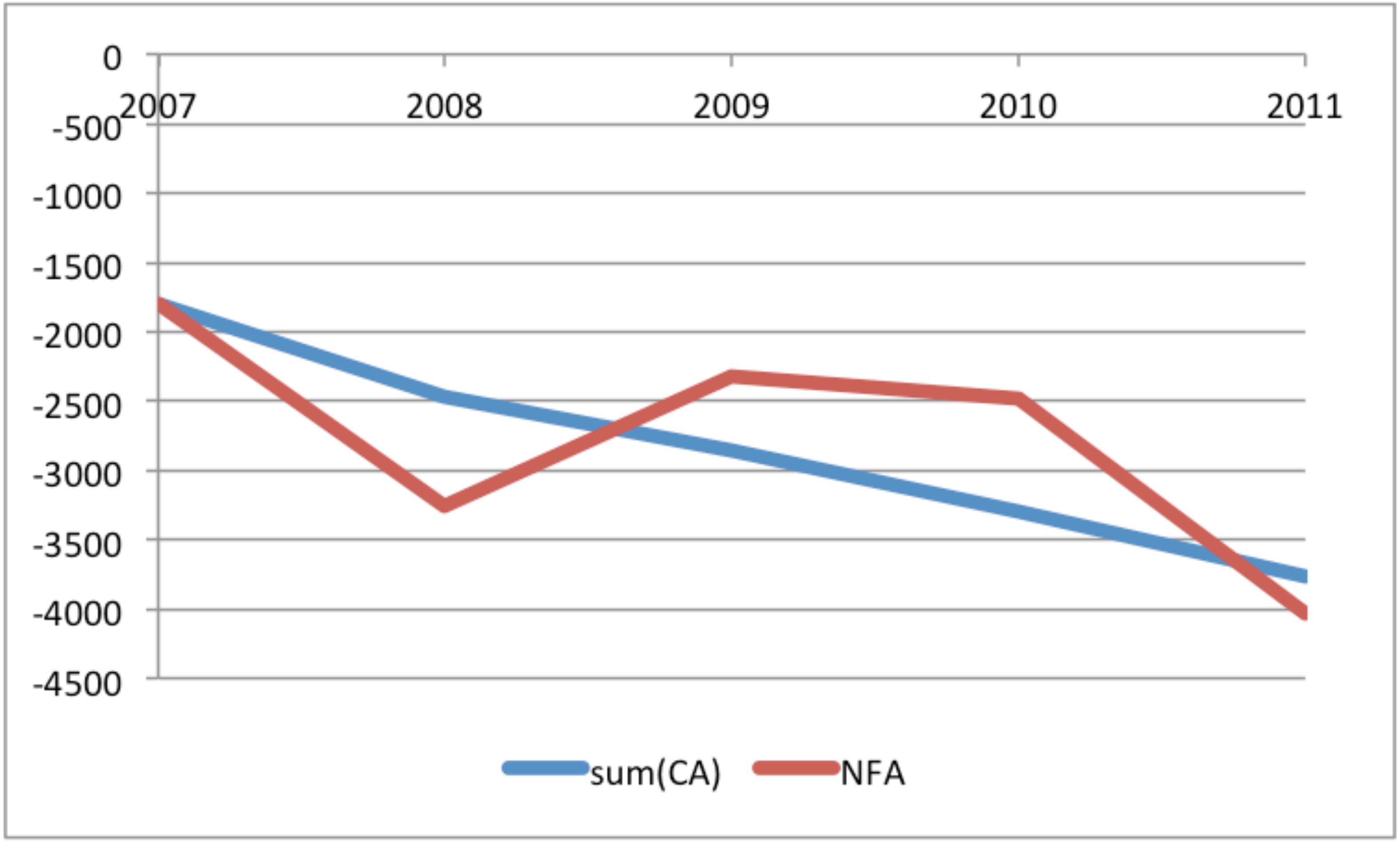








Exorbitant duty?



Gourinchas-Rey-Govillot account

Risk sharing, US less risk averse: privilege is a risk premium, duty is claim payment

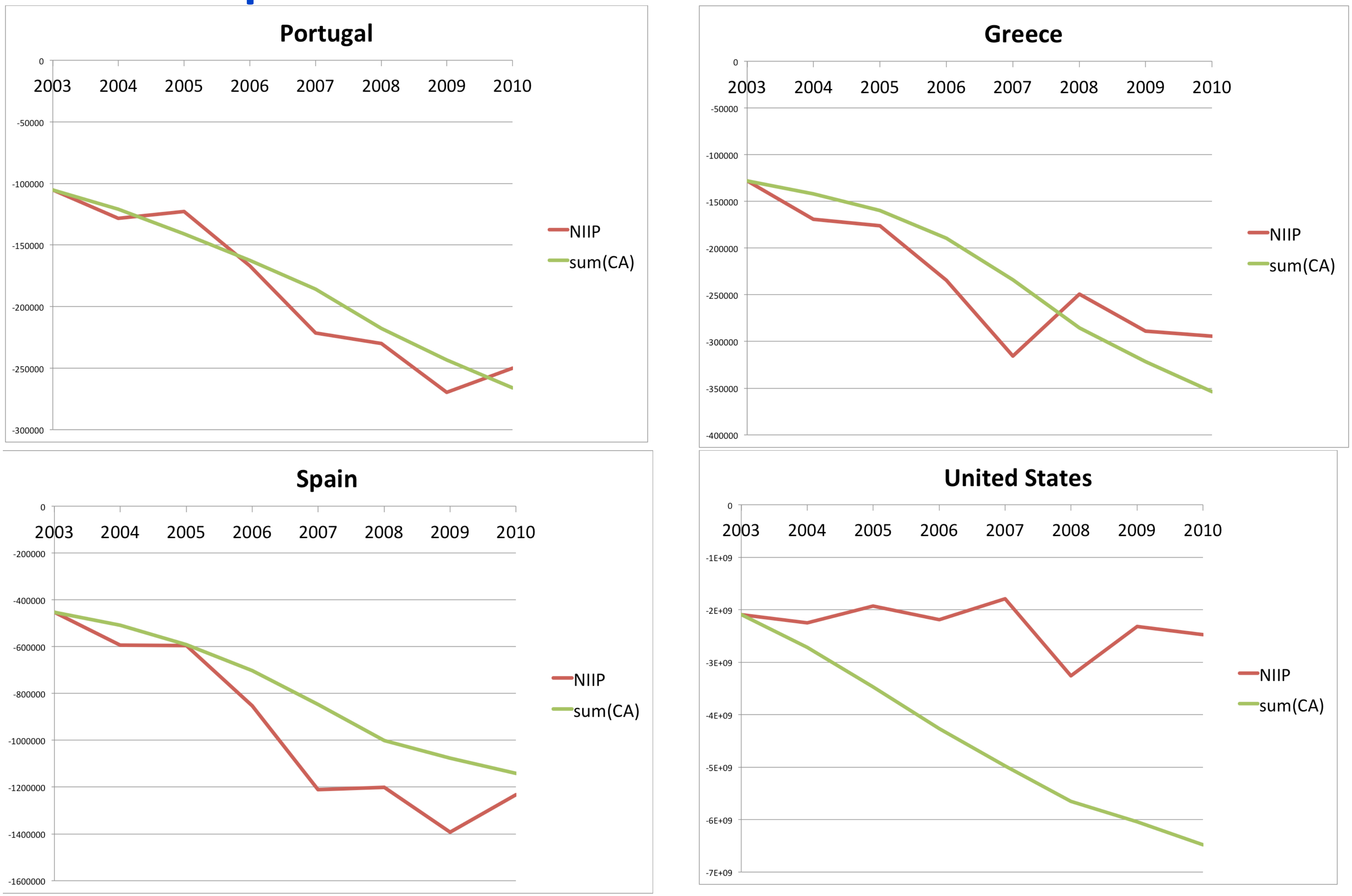
Questions:

1. Should also see US consumption more volatile.

2. Why no change in current account?

3. Where are claims being paid, other side of market?

Compared with other countries



Alternative account

- US as a hedge fund.

- High returns for a while, eventually low returns.

- Alpha and beta.

- 2007-08 is key for action: fall in price of equities, rise in price of bonds. U.S. hedge fund has bad year.

- Monetary and fiscal policy going forward.