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

Ricardo Reis
Columbia University

Treasury conference
16th of November 2012
Current account and foreign assets

\[ \Delta NFA_{t+1} = r_{t+1} NFA_t + CA_{t+1} \]
The exorbitant privilege

\[ \Delta NFA_{t+1} = r_{t+1} NFA_t + CA_{t+1} \]
1. Increasingly, U.S. liabilities are government debt, and foreign assets are equity and direct investment.

2. But excess return also within asset classes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$R^{ex}$</td>
<td>2.69%</td>
<td>1.30%</td>
<td>3.47%</td>
</tr>
<tr>
<td>$R^{ex}(equity)$</td>
<td>4.11%</td>
<td>3.96%</td>
<td>4.19%</td>
</tr>
<tr>
<td>$R^{ex}(debt)$</td>
<td>4.71%</td>
<td>4.79%</td>
<td>4.67%</td>
</tr>
<tr>
<td>$R^{ex}(directinv)$</td>
<td>4.00%</td>
<td>2.24%</td>
<td>4.99%</td>
</tr>
</tbody>
</table>

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

**Portugal**

**Greece**

**Spain**

**United States**
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.