

DISCUSSION OF:
PINARDON-TOUATI (2022)
"THE CROWDING OUT EFFECT OF LOCAL GOVERNMENT
DEBT: MICRO- AND MACRO-ESTIMATES"

Radek Paluszynski
University of Houston

Texas Monetary Conference
April 2023

MOTIVATION

Interesting and impressive paper:

- Textbook crowding out effect of government debt
- But convincing evidence still elusive
- Last 15 years: ballooning government debt & sluggish growth

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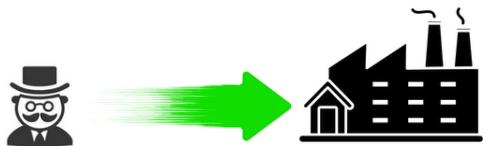
Tough case: no clear natural experiment or suggestive aggregate trends.

But: great data and clever identification.

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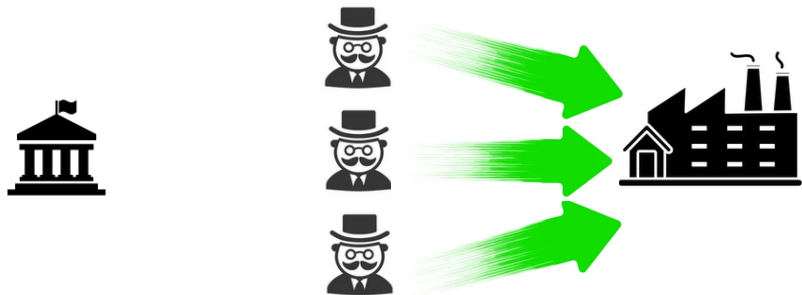
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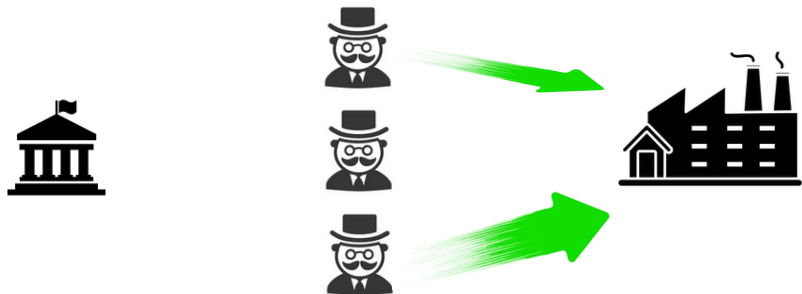
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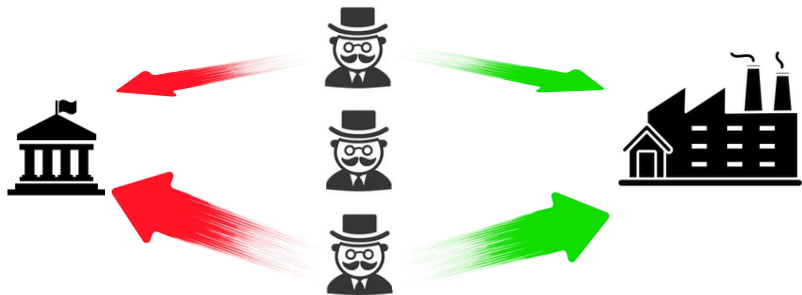
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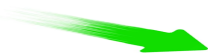
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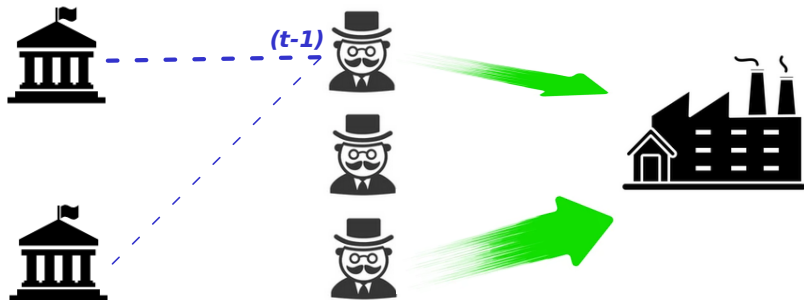
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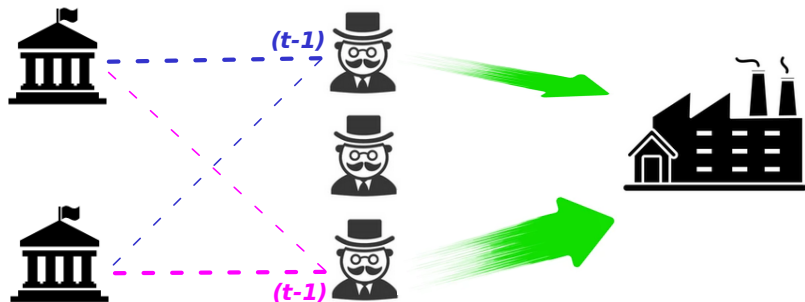
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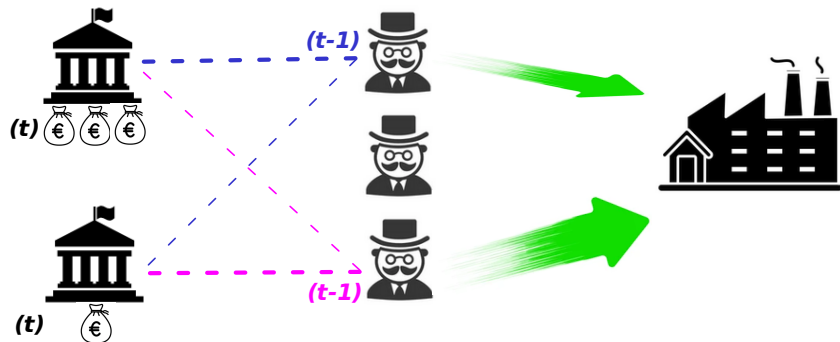
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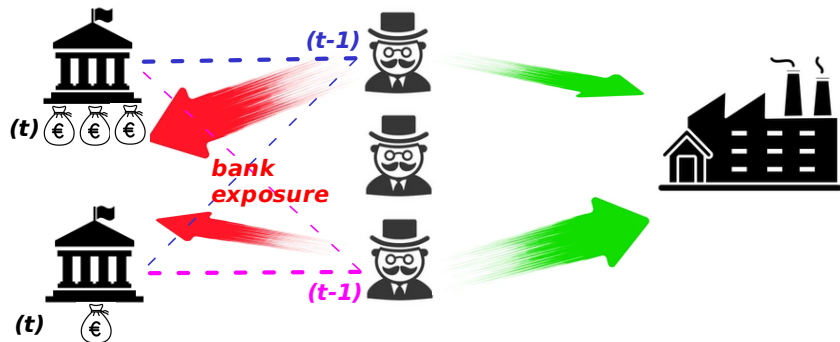
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DISCUSSION OVERVIEW

3 points:

1. Key assumption: segmentation
2. General equilibrium and non-bank lending
3. Implications of aggregate effects

BANK SEGMENTATION

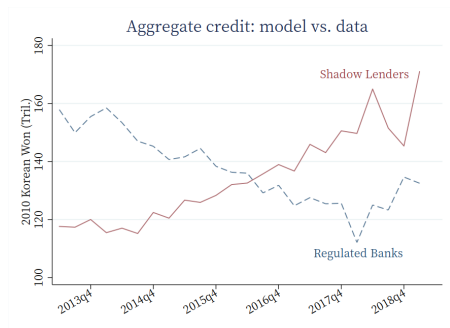
- Crucial for the story that banks and firms are not well integrated
- Support for this assumption is based on the relative crowding out
- Could a different story be told with the same results?

GE AND NON-BANK LENDING

Non-bank lending rising around the world.

GE AND NON-BANK LENDING

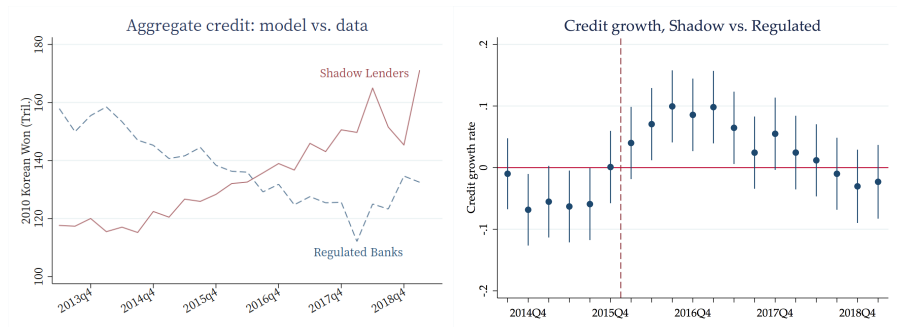
Non-bank lending rising around the world.



Source: Lee, Lee, and Paluszynski (2022)

GE AND NON-BANK LENDING

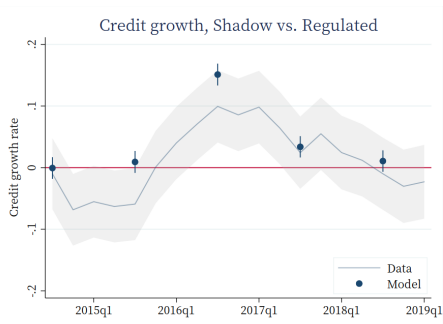
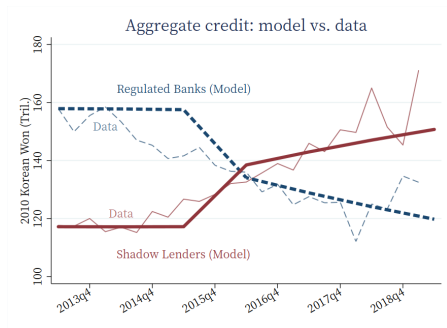
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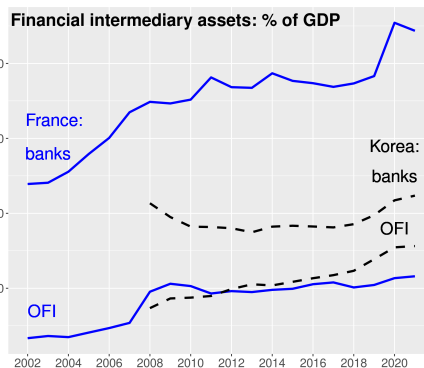
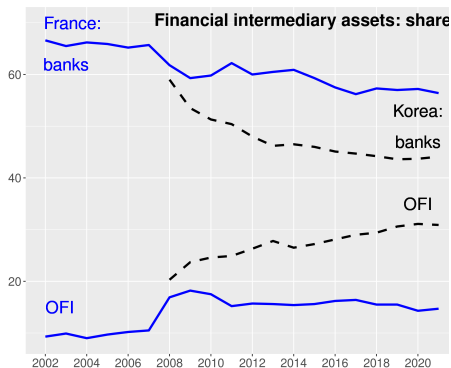
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NON-BANK INTERMEDIATION: FRANCE V KOREA



Data source: *Financial Stability Board*

AGGREGATE EFFECTS

- Output effects of crowding out appear large...
- But what is the economic impact in the end?
- Why do governments borrow? How will they repay?

CONCLUSION

- Amazing work!
- Interpretation of results still seems open