



**Discussion  
of "Exorbitant  
Privilege and  
Exorbitant Duty" by  
Gourinchas, Rey and  
Govillot**

Deputy Governor Karolina Ekholm

# Should we worry about global imbalances?



- Not necessarily if the *exorbitant privilege* hypothesis is correct.
  - Lack of justification for ROW's willingness to hold low-return US assets weakness of hypothesis.
  - Present paper offers justification in terms of *insurance* against global distress.
  - Consistent with observed worsening of US net foreign asset position during crisis.
    - Appreciation of USD evidence against “standard” adjustment.
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# Twofold contribution

## ■ *Empirical:*

- Extend and improve data on US external balance sheet structure and returns.
- Document exorbitant privilege in normal times and exorbitant duty in times of stress.

## ■ *Theoretical:*

- Develop model to explain these phenomenon.
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# Overall comments

- Model generates at least qualitatively observed features of the US external position as the *optimal* outcome.
  - On what grounds should model be judged to be true/false?
    - Important to understand whether US CA deficit is destabilizing or stabilizing factor in the world economy.
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# Comment on empirical section

- How is *transfer pricing* dealt with?
    - 30-40 percent of trade between related parties.
    - Bernard, Jensen and Schott (2006):

“Back-of-the-envelope calculations suggest that pricing responses to tax rate differences across countries led to... a \$15 billion increase in the merchandise trade deficit in 2004.”
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# Model based on several crucial assumptions

- Difference in size
- Difference in risk aversion
- Disaster risk
- Difference in default risk

And the main culprit is...?

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# Some further comments

- Difference in country size and presence of disaster risk assumptions that are easy to justify.
  - What about difference in risk aversion and default risk?
    - Empirical evidence of the former?
    - Latter exogenous factor or endogenous outcome?
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