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## Decision for JIE-D-13-00316

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Journal of International Economics <jie@intl-institute.wisc.edu>

Tue, Oct 15, 2013 at 8:37 AM

To: dbackus@stern.nyu.edu

Cc: gita.gopinath@gmail.com

Ms. Ref. No.: JIE-D-13-00316

Title: Demography and Low-Frequency Capital Flows

Journal of International Economics

Dear David, Tom and Espen,

Thank you for your submission to the special issue of the JIE. I have received two referee reports and based on these reports and my own reading of the paper I would like to invite you to revise and resubmit the paper to the JIE. The paper makes an interesting contribution on the role of demographics in shaping persistent current account imbalances across countries, but as written is more like a first draft than a final draft. The main revisions I request are therefore to provide a lot more clarification, improve the exposition and emphasize more transparently what the main findings are.

Referee #1 provides several suggestions in this direction. I completely agree with Referee #1 that there are an excessive number of writing errors in the paper. The struck out paragraph on page 8 is a glaring example. I think I caught at least three typos per page. Besides correcting these please address all the concerns of Referee #1 that asks for several clarifications. In addition, I will recommend that the introduction make clear what the main findings of the paper are. As written it points out the channels being explored but does not conclude on how well, in a quantitative sense, demographics does. Also, I am not sure how much of a success this model is for China. It will be good to have a clear takeaway in the introduction and abstract of the quantitative significance.

Referee #2 makes an interesting suggestion to use the Lee-Carter specification for mortality rates as opposed to the one used in the paper. It will be good if you can address this comment. Even if you cannot fully adopt this suggestion I would like to see a brief discussion of this in the paper and why your preferred specification is fine for the purposes of the question you are answering.

Finally, there are a large number of graphs towards the end of the paper over several pages. Several of these can be consolidated and I expect the final version will have a more concise presentation of the graphs. Also please make sure these graphs are readable when printed in black and white, which they are not at this point.

Given the time line for the publication of the special issue I will strongly urge you to resubmit the revised paper by December 15. Please also provide a detailed response to the referee reports. Based on your revisions and responses I will make a final decision on the paper.

Thank you again for your submission. I look forward to receiving the next and hopefully final version of the paper.

Best Regards,

Gita Gopinath

JIE referee reports may be submitted either as text or electronic files (such as PDF.) Comments submitted as text appear below my signature. Reports submitted as electronic files can be accessed at the JIE/Elsevier website ([ees.elsevier.com/JIE](http://ees.elsevier.com/JIE)) to which you submitted your paper. A link appears below.

Please carefully address the issues raised in the comments.

If you are submitting a revised manuscript, please also:

a) outline each change made (point by point) as raised in the reviewer comments

AND/OR

b) provide a suitable rebuttal to each reviewer comment not addressed

Please note that JIE's policy is that there is no fee for resubmission if the resubmission occurs within 12 months of the editor's decision.

To submit your revision, please do the following:

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I look forward to receiving your revised manuscript.

Yours sincerely,

Sara Herpolsheimer  
Editorial Office  
Journal of International Economics

Reviewers' comments:

Reviewer #1: This paper examines the behavior of international capital flows over long periods of time. The paper suggests that demographic factors may help explain some of the low frequency behavior of these capital flows. The paper builds an overlapping generations model, and calibrates life expectancy using mortality data from the WHO. The model is simulated, and then the capital flows generated from the model are compared to the actual net capital flows for U.S., Japan, Germany, and China.

The paper as submitted seems like an early draft. Most of my suggestions below are just a checklist for things I hope the authors would do anyway when writing a final draft.

1. The short description on page 16 of how the WHO data was used to compute the demographic transition matrix is far from clear. In the simulations, how large is  $l$ , the maximum lifetime? Somehow it seems like maybe the paper fills out the matrix  $\Gamma_{hat}$  (defined on the top of page 7) using only one number. That has something to do with the equation at the top of page 13 that says  $\log(1-s(i))=\mu(i)$ , but I don't know what. Maybe if  $\mu(i)$  were defined somewhere, it would be clearer. (Is  $\mu(i)$  supposed to be life expectancy at birth?) If the  $s(i)$  are measured differently for different cohorts, how is that done? In any event, this is all too mysterious in the paper as it stands.

2. In a couple of places in the paper, there are long lists of papers in the literature that have also looked at demographics to account for capital flows (pages 2 and 17.) But this paper makes no effort to place itself in the context of the literature. I think one of the main points that this paper makes is that differences in the increases in life expectancy can explain a lot of the long-run behavior of capital flows. Did none of these other papers make that point? If not, why not? Did they simply overlook it, or was there something inadequate about their model or methodology that didn't allow them to see it? In other words, what exactly is the contribution of this paper relative to the literature?

3. Section 5, which is the payoff of the paper, is much too short. Obviously, we want to get some sense of how much this model can explain, and why it can explain so much. Because of my comment 1, I cannot really be sure what is being varied from country to country. Is the only thing that is different the changes in adult mortality? If so, then of course the model will attribute all of its success to the explanatory power of changes in adult mortality. Or maybe there are other differences in the demographics across countries that are allowed for in this exercise. If so, then the paper should try to pin down which aspects of the demographic transition matrix are most important in delivering the predictions about net capital flows.

4. At the top of page 4, the paper says it is going to look at changes in Net Foreign Assets, rather than current accounts. I think that is right, but the paper needs to explain why.

5. Although graphs are useful, as the authors do the work to finish the paper, there is going to be a proliferation of graphs. There are already 18, and given the exercises that I suggest in (3), there could be a lot more. Perhaps they should think of some way to economize on graphs.

Also, like a lot of people, I print out the paper to read it, and I don't like using expensive color printing to do it. But these graphs can only be read with a color printer. It seems like that ought to be fixed, especially since most journals are printed in black and white.

6. The paper is not written in the turgid academic style we all have come to expect. Seriously, I think it is standard to write cannot instead of can't, do not instead of don't, etc. Other things need to be cleaned up, like the marked-out paragraph on page 8. I didn't notice a lot of typos, but I did catch "explaing" near the bottom of page 15.

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