



comments

Jaroslav Borovicka <jb4457@nyu.edu>

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To: David Backus <dbackus@stern.nyu.edu>

Hi Dave,

Here are some ideas I had on the paper, I will gladly talk about them in more detail.

First, it seems to me that the presentation would benefit from a much tighter quantitative connection between the evolution of the demographic structure, and evolution of the NFA position. Espen has shown us quite a lot of interesting graphs on the demographic change and then talked verbally (when asked) about which of the changes are important for the evolution of the NFA position. But rather than showing the supply-demand graphs, maybe it would be more illustrative to show counterfactual experiments on what would happen if only certain types of demographic changes would happen, on the actual time paths (or do it on top of that, he seemed to have a lot of time left).

Second, I was thinking about the nature of the experiment. Correct me if I am wrong but it seems that you take as given the actual demographic structure and some forecast for the future. But in this (perfect foresight) model, what will matter for the consumption-saving decision in 1960 is the future demographics predicted in 1960 - and these predictions do change over time, so whenever these predictions change, countries should actually adjust.

Finally, the comments about social security or bequests not having a substantial impact got me thinking about what is the right "sufficient statistics" for the decision making, and it seems to me that "almost sufficient" may be the predicted path of the employment population ratio. This means that the following could be thought of:

Consider an infinitely lived household with CRRA utility and exogenous but changing labor supply. The labor supply L_t represents the share of the population working at time t . Then a country who sees the population living longer, and thus sees that in the future the employment-population ratio will decline, should accumulate capital today to save for the times when labor supply will be lower. But since the country does not want to decrease only its own MPK, it will save across the world, and thus its NFA position will improve.

It seems to me that this must pretty much capture the effect you have in the model. Of course, the perfect altruism in the infinite horizon may mean that the country will want to save too intensively but maybe you can counteract that with a sufficiently low time preference parameter (low = away from one). Or, why should this not work?

Thanks!
Jarda

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Assistant Professor, Department of Economics
New York University
<http://files.nyu.edu/jb4457/public/>