LACK OF COMMITMENT AND THE LEVEL OF DEBT

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Abstract
The tendency of countries to accumulate public debt has been rationalized in models of political disagreement and lack of commitment. We analyze in a benchmark model how the evolution of public debt is affected by lack of commitment per se. While commitment introduces indeterminacy in the level of debt, lack of commitment creates incentives for debt to converge to specific levels. One of the levels that debt often converges to implies no debt accumulation at all. In a simple example we prove analytically that debt converges to zero, and we analyze numerically more complex models. We also show in an imperfect credibility setting that a small deviation from full-commitment is enough to obtain these results. (JEL: C61, E61, E62, P16)

The editor in charge of this paper was Fabrizio Zilibotti.
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