Discussion of "Sovereign Default Risk in Financially Integrated Economics," by P. Bolton and O. Jeanne

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  - Public domestic debt is “tradable”

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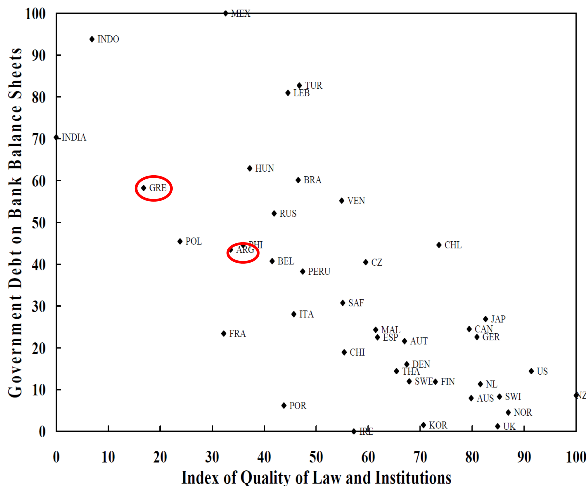
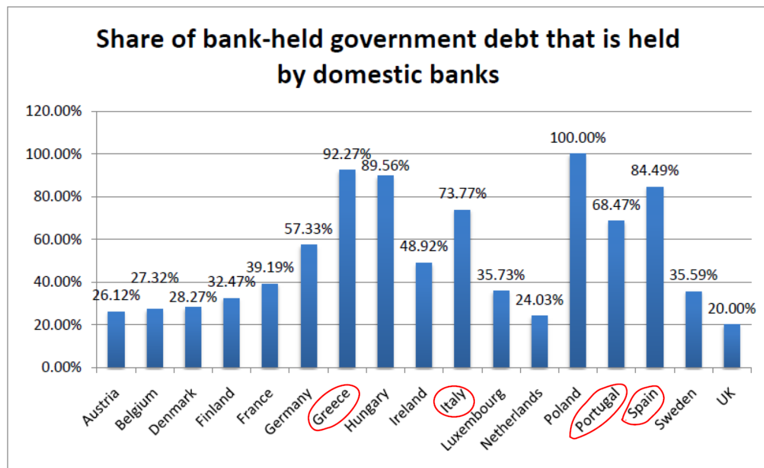
- Governments become "borrowers of first resort"

Relationship between bank's government debt and quality of institutions



Source: Kumhof and Tanner (2004)

Guess which Euro countries have highest share?



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  - has a lender of last resort
  - has reduced incentive for fiscal adjusment
  - has higher risk of default (from the union's perspective)

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- So, when is the German taxpayer going to revolt?

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- In the long-run, you either have a club of "peers" or else ...