Comments and Discussion

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This paper extended the Bruce's local debt policy model to examine their efficiency under different scheme of coordinated debt policies. The essence of Bruce's argument is that the residents have an incentive to issue excess debt to enjoy a high consumption and then move out of the region, leaving the repayment of the debt to those who remain behind. Extending his analysis, this paper compares several rules of coordinated debt policies to show that the central government intervention is not required to carry out an efficient local debt policy.

Two specific forms of policy coordination are analyzed in a model where the economy is made up out of two symmetric regions. One form covers coordination either in the issuance or in the repayment of local debt. This type of policy accord is referred to partial coordination. The other form is a full coordination that covers both in the issuance and repayment of local public debt.

The main conclusion of the paper is that efficient outcome is obtained in the partial coordination where regional governments coordinate the issuance, but independently repay the local debt. Full policy coordination can solve the bilking problem, but it causes a new trouble, what one calls common pool problem. Partial coordination in debt repayment results in the worst outcome that involves both bilking and common pool problem.

It is a nice paper with clear cut implications. It sheds new light on the coordinated debt issuance, while the past literature focuses on the non-coordinated local debt policies. The model abstracts from the robustness of the results when the model is extended to contain asymmetric regions. Another interesting extension not pursued here is to allow for the long-run economic effects of a capital gains tax on land, as in Ihori (2000) and Petrucci (2006).

Ihori, T. 1990, Economic effects of land taxes in an inflationary economy. *Journal of Public Economics*, 42, 195-221.

Petrucci, A. 2006, The incidence of a tax on pure rent in a small open economy. *Journal of Public Economics,* 90, 921-933.

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