Comments on:

Introduction.
The common sense view of fiscal balances in the world economy consisting multiple countries is that governments tend to spend too much because they overspend without sufficient discipline and that the world real interest rate diverges higher from a normal or desirable situation. Buchanan’s “Democracy in Deficits” is a typical example in this line.

In contrast to this conventional view, Willem Buiter and Anne Sibert develop, in this manuscript, “Government Deficits in Large Open economies,” the argument that the opposite is the real case. They argue that, given an initial debt burden at the outset, governments, in their international competition, will excessively tax to create a situation with lower rate of interest for the world economy.

This contrasting view is interesting and built in a well-structured theoretical model, where taxing costs are convex, and governments engage in strategic policy interactions. Though they did not show sufficient evidence for the claim that their view is more relevant or convincing, I regard this paper is worth publishing if somebody ascertain their analysis is right. For, it will give an alternative view to the conventional and often politically influential one.

(Accordingly I approve its publication if some analytical economists verify the main mathematical analysis--- the service I cannot provide because of my other duties.)

II. Main Arguments
Main arguments are developed in an endowment economy. If there is no monopoly power, competitive behavior yields the world optimum. After a short but important account of tax administration costs, the paper demonstrates that a country has an incentive to increase marginal tax rate, lower the interest rate and
make a steeper consumption profile than that of the world. This is possible because a large country has some marketing power in the world economy. Presumably, by increasing the tax rate, the economy can export capital with its lower interest rate. Oligopoly behavior lead to the equilibrium with a lower average level of consumption, but with steeper profile of consumption. For by the Euler equation, consumption increase at the real rate of interest. (I need to ascertain the authors or another reader if this argument is correct.)

Ideally, the authors should show eventually that their model has a stronger empirical relevance or some calibrations.

III. Some Points of Interests and suggestions

Interesting Points

(1) A general case with physical capital leads more easily to a derivation of quadratic taxation costs, though the authors claim it is harder to analyze.
(2) The effect of the number of countries is analyzed for example by H. Hayakawa (JME), though this policy interdependence appears with a few number of participants.

Suggestions

(3) The history of macro and fiscal analysis in the introduction is useful, but it can be more streamlined to be related to the main feature of the model.
(4) Introduction in general is quite effective, but the summary of the main messages of the paper is not so in conclusion.

IV. Possible Extensions

If one follows the conventional line, one may formulate this questions as the analysis of difference in budgets constraints between government and people; difference in the tightness in the constraint, difference in time preference, difference in the termination of the government, etc. This may be a fascinating problem to analyze and the introduction of policy game even more so.

Of course this is not a suggestion to revise this paper.