

The effect of federal transfers on subnational debt: micro evidence from Mexico

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QUESTIONS TO KICK OFF THE DISCUSSION (1/2)

Why do some municipalities issue debt and others do not?

- Currently control for pre-existing municipality-specific time trends affecting borrowing capacity using observable variables around income shock
- However, about 1% of municipalities issued half of total debt stock: "In 2011, less than half of all (2500) municipalities had any debt, and 22 of them held about 50% of total municipal debt."
- Why is the debt (its accumulation) so skewed? Are contemporaneous controls sufficient?
- Are characteristics regulating debt issuance time invariant? (Is this a 'type' behavior?)

QUESTIONS TO KICK OFF THE DISCUSSION (2/2)

Is the variation in federal transfers truly exogenous and unpredictable?

- Critical for identification in current estimation approach
- Current controls: share of federal spending and own revenue

- Aren't bailout expectations a major obstacle for identification?
 - Federal gov't more averse to economic disruptions where it collects a lot of own revenue
 - Federal gov't has low credibility to its no bailout commitment (and history of past bailouts)
 - Consult literature for ideas to tackle this problem (starting point: DAVIS and Kirpalani, 2020)

CONGRATS – GREAT PAPER!

- Detailed exposition of the intergovernmental fiscal relationship in Mexico
- Already very complete (robustness, specification)
- Interesting empirical results on an important research question
- I learned a lot from it