Discussion of
Clayton, Dos Santos, Maggiori, and Schreger: International Currency Competition

Alessandro Dovis

University of Pennsylvania

ASSA Meeting
Philadelphia, January 2026

This paper

- How does competition affect incentives to supply safe assets?
  - Incentives to build credibility
  - What can an incumbent do to deter competition?
- Three main results
  - Competition reduces incentives to gain reputation to be safe asset provider
  - To deter competition, incumbent chooses to issue more debt and reduce rents
  - Measure of reputation
    - Not about core of mechanism

My discussion

- Review main mechanism
- Make two comments
  - Generality of mechanism: commitment and competition
    - Marimon-Nicolini-Teles (2003, 2012)
  - Strategic interactions

Environment

- Continuum of countries indexed by $j \in [0, N]$
- Issue debt D_j at interest R_j, impose penalty $\tau \in \{0, 1\}$
- Stage payoff $g(\tau)(A + (Q - R)D)$ with $g(1) > g(0)$
- Two types of government: commitment ($\tau = 0$) and optimizing type
- "Reputation": M probability that $\tau = 0$
- Investors' preferences

$$\bar{R}\omega + \int [R_j M_j - \bar{R}] D_j - \frac{1}{8} b \left(\int_0^N \frac{D_j^2}{\omega(M_j)} dj \right)^2$$

Environment

- Continuum of countries indexed by $j \in [0, N]$
- Issue debt D_j at interest R_j, impose penalty $\tau \in \{0, 1\}$
- Stage payoff $g(\tau)(A + (Q - R)D)$ with $g(1) > g(0)$
- Two types of government: commitment ($\tau = 0$) and optimizing type
- "Reputation": M probability that $\tau = 0$
- Investors' preferences

$$\bar{R}\omega + \int [R_j M_j - \bar{R}] D_j - \frac{1}{8} b \left(\int_0^N \frac{D_j^2}{\omega(M_j)} dj \right)^2$$

Similar conclusions if instead

$$\bar{R}\omega + \int [R_j M_j - \bar{R}] D_j + v \left(\int_0^N \frac{D_j^2}{\omega(M_j)} dj \right)$$

Environment

- Continuum of countries indexed by $j \in [0, N]$
- Issue debt D_j at interest R_j, impose penalty $\tau \in \{0, 1\}$
- Stage payoff $g(\tau)(A + (Q - R)D)$ with $g(1) > g(0)$
- Two types of government: commitment ($\tau = 0$) and optimizing type
- "Reputation": M probability that $\tau = 0$
- Investors' preferences

$$\bar{R}\omega + \int [R_j M_j - \bar{R}] D_j - \frac{1}{8} b \left(\int_0^N \frac{D_j^2}{\omega(M_j)} dj \right)^2$$

$\rightarrow$ asset demand

$$R_j = r(D_j, M_j; b^*) = \frac{\bar{R} + \frac{1}{2} b^* D_j / \omega(M_j)}{M_j} \text{ w/ } b^* \equiv b \left(\int_0^N \frac{D_j^2}{\omega(M_j)} dj \right)$$

Government problem

- All interactions mediated by b^*
- Model solution (stationary equilibrium):
  - Given $b_t^* = b^*$ solve for the government problem and distribution of reputation
  - Check consistency for b^*

Government problem

- All interactions mediated by b^*
- Model solution (stationary equilibrium):
  - Given $b_t^* = b^*$ solve for the government problem and distribution of reputation
  - Check consistency for b^*
- Myopic commitment type choose debt issuance to

$$\max_D u(M, D, 0; b^*) = \max_D g(0)(A + (Q - r(D, b^*))D)$$

- Opportunistic government chooses $\tau = 0$ with positive probability if

$$u(M, D, 0; b^*) + \beta V(M_H) \geq u(M, D, 1; b^*) + \beta V(M_L)$$

Government problem

- All interactions mediated by b^*
- Model solution (stationary equilibrium):
  - Given $b_t^* = b^*$ solve for the government problem and distribution of reputation
  - Check consistency for b^*
- Myopic commitment type choose debt issuance to

$$\max_D u(M, D, 0; b^*) = \max_D g(0)(A + (Q - r(D, b^*))D)$$

- Opportunistic government chooses $\tau = 0$ with positive probability if

$$\beta[V(M_H) - V(M_L)] \geq [u(M, D, 1; b^*) - u(M, D, 0; b^*)]$$

Competition reduces incentives to gain reputation

- If competition (b^*) is high then the value of reputation falls
- Opportunistic governments are less willing to incur the short-run cost of resisting expropriation
- Need larger increase in reputation not to expropriate (spread $M_H - M_L$)

$$\beta[V(M_H) - V(M_L)] \geq [u(M, D, 1; b^*) - u(M, D, 0; b^*)]$$

- Thus, lower fraction of opportunisitic governments does not expropriate

Competition reduces incentives to gain reputation

- If competition (b^*) is high then the value of reputation falls
- Opportunistic governments are less willing to incur the short-run cost of resisting expropriation
- Need larger increase in reputation not to expropriate (spread $M_H - M_L$)

$$\beta[V(M_H) - V(M_L)] \geq [u(M, D, 1; b^*) - u(M, D, 0; b^*)]$$

- Thus, lower fraction of opportunisitic governments does not expropriate

How is it shown?

- Compare economy with one big country vs. continuum
- Comparative statics wrt b^* in gov't problem
  - But it is equilibrium obj, what is changing? What about N?

How general?

- If $A = 0 \rightarrow g(\tau)(Q - R)D$ then competition does *not* affect incentives to acquire reputation and reputation dynamics
  - $v(M, b^*) = (Q - r(M, b^*, D))D(M, b^*) = \frac{b}{b^*} v(M, b)$
- Try to provide conditions on preferences/indirect utility $v(M, b^*)$ such that if $N \uparrow \Rightarrow$ incentives to acquire reputation $\downarrow$

Message more general than it appears

Commitment and competition

Connection with broader literature

- Private monies: Marimon-Nicolini-Teles (2003, 2012)

Example

- Problem of insurance provider
- If commitment: ex-ante competition ensures (constrained) efficient arrangement
- But without commitment: incentives to pay out in bad times?
- If competition erodes profits $\Rightarrow$ no incentives to do costly transfers ex-post
- Reducing entry/limiting competition can improves welfare
- Question: What is the optimal configuration?

Strategic interactions

- Paper also studies problem of
  - Committed Stackelberg leader (US/UK), no reputation building motives
  - Monopolistic competitive fringe (China/US)

- Result: By issuing more safe debt the Stackelberg leader increases b^*
  $\rightarrow$ reduces competitors' incentives to acquire reputation

- But then it would be more tempted to deviate
  $\rightarrow$ opening up possibility of profits for competitors if there are shocks

Strategic interactions, cont.

- What is this a model of?
  - Sovereign debt issuance?
  - Dominant currency used for transactions/collateral?
- Setup more appropriate for the former
- For the latter, model with $N \geq 2$ potential large players w/out commitment
  - Different payoff structure: winner takes all
- Other actions that Stackelberg leader can take to deter competition?
  - Regulation/financial repression: Stablecoins
  - Way of changing ω_{-j} for competitors

Conclusion

- Interesting paper studying how competition affects incentives to acquire reputation as a safe asset issuer
- General model: applies to other context, like corporate finance
- Next: strategic interactions between countries