The Federal Budget's Effects on Intergenerational Equity: Undone or Not Undone? (p. 2)

Gary H. Stern

Forecasting and Modeling the U.S. Economy in 1986-88 (p. 7)

William Roberds
Richard M. Todd

1986 Contents (p. 21)
Many think that recent federal budget policies are imposing an unfair burden on the young and future generations. In “The Federal Budget’s Effects on Intergenerational Equity: Undone or Not Undone?” (p. 2), Gary H. Stern considers two allegations supporting this view. One is that government consumption spending is crowding out private investment spending, thereby reducing the amount of goods available in the future. A second is that the government’s reliance on deficit financing is shifting some costs of debt servicing onto future generations. After raising some questions about crowding out, Stern focuses on the tax-shifting allegation. He raises the possibility that the intergenerational effects of deficit financing could be undone if people concerned about future generations invest their savings from current tax cuts and bequeath the proceeds to their heirs. But Stern’s reading of the evidence suggests that people as a whole are not following this strategy, and he posits an explanation for this finding.

In “Forecasting and Modeling the U.S. Economy in 1986–88” (p. 7), William Roberds and Richard M. Todd describe the national economic forecast generated by the newly revised statistical model developed and maintained in the Minneapolis Fed’s Research Department. This model predicts some acceleration in the economy in 1987 and 1988, with inflation picking up more than real growth. The model, which uses a procedure called Bayesian vector autoregression, was revised partly in response to large forecasting errors made in 1986. Roberds and Todd argue that those errors reflect some changing economic relationships, and they report efforts to make the model a more reliable forecaster in this unstable environment. They also use the revised model to measure the potential economic impact of what many believe is a major source of uncertainty: unexpected large changes in the price of oil. Surprisingly, the model suggests that the impact of such changes is smaller today than it was in the 1970s.