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In This Issue

Intergovernmental Pork

For a variety of reasons, U.S. state governments collect taxes which they then give back as aid to local governments. In "Improving Intergovernmental Finance: A Message From the Northland" (p. 2), Michael J. Stutzer examines these intergovernmental finance schemes in both the abstract and the concrete. He argues that although some intergovernmental aid programs may be desirable, the way they usually are implemented encourages local government overspending—commonly known as *pork.* He illustrates his points with reference to Minnesota, a leader in the use of such programs. Stutzer concludes with a recommendation on how to design programs which achieve the objectives of intergovernmental aid without encouraging the pork.

Intergenerational Links

Some government policies, such as deficit financing and social security, shift the burden of taxes over time. If people lived forever, such policies might be expected to have no real effect because people could always adjust their saving to offset the changes in taxes. In "Intergenerational Linkages and Government Budget Policies" (p. 14), S. Rao Aiyagari shows that when parents make bequests to children or when children give gifts to parents, the generations of a family are linked into a dynasty which behaves, in an economic sense, like a person who lives forever. With generations linked completely, deficit financing and social security then would have no real effect. Aiyagari determines the conditions under which bequests or gifts will actually be made and examines the validity, given different theoretical assumptions, of his conclusions about policy effectiveness.