

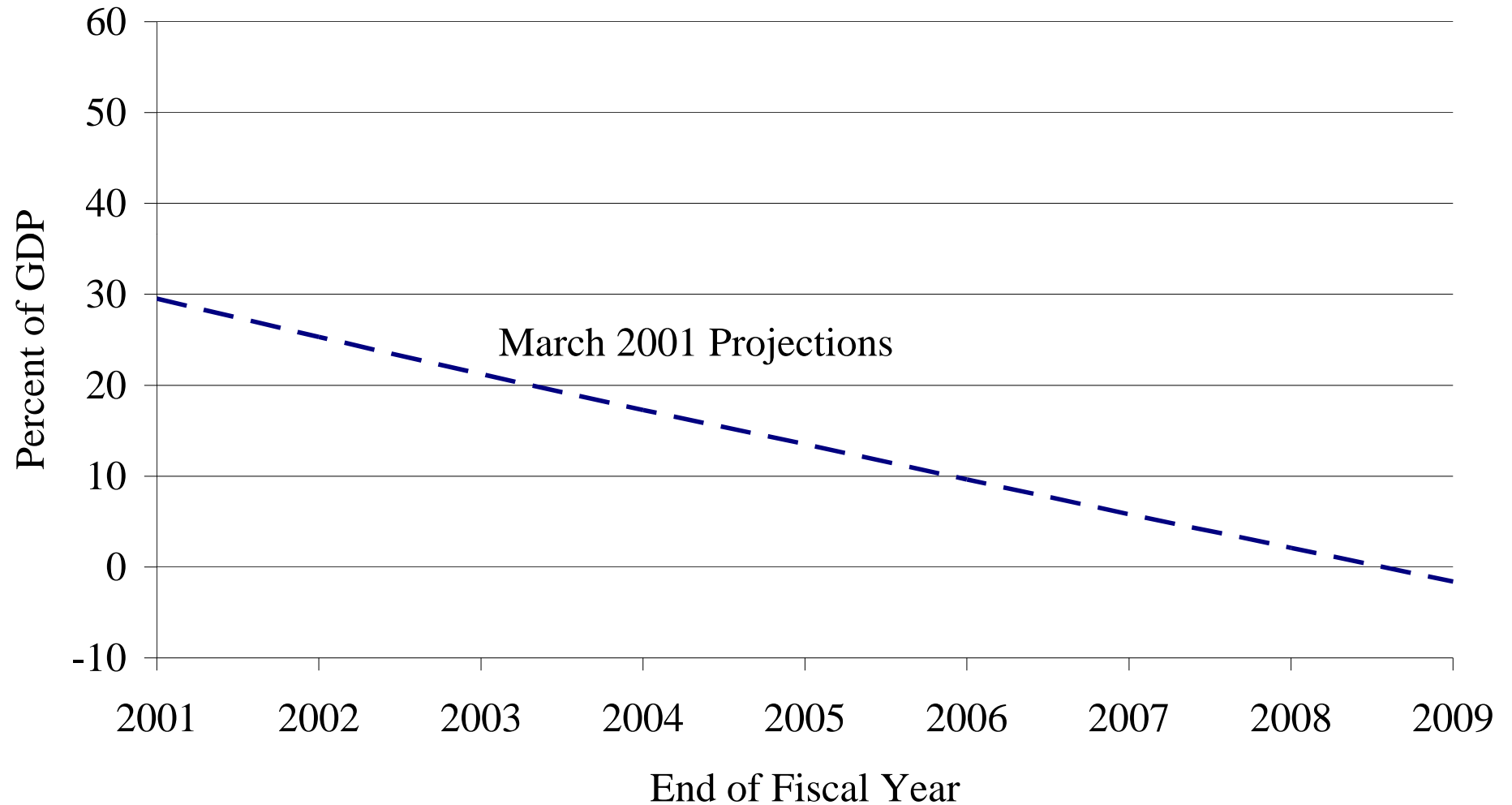
# Fiscal Policy Analysis in the Current Environment

Alan Auerbach

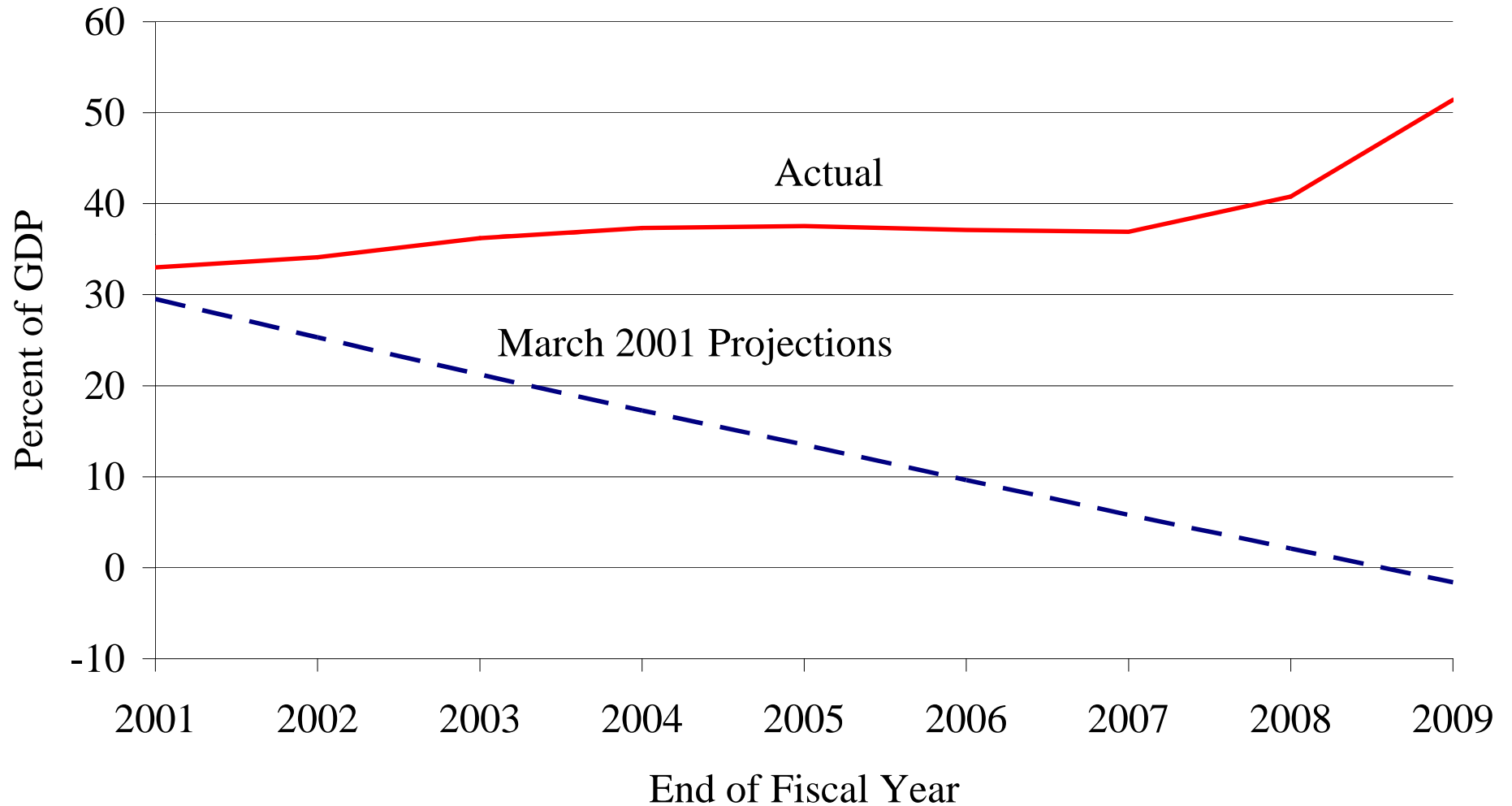
UC Berkeley

January 8, 2010

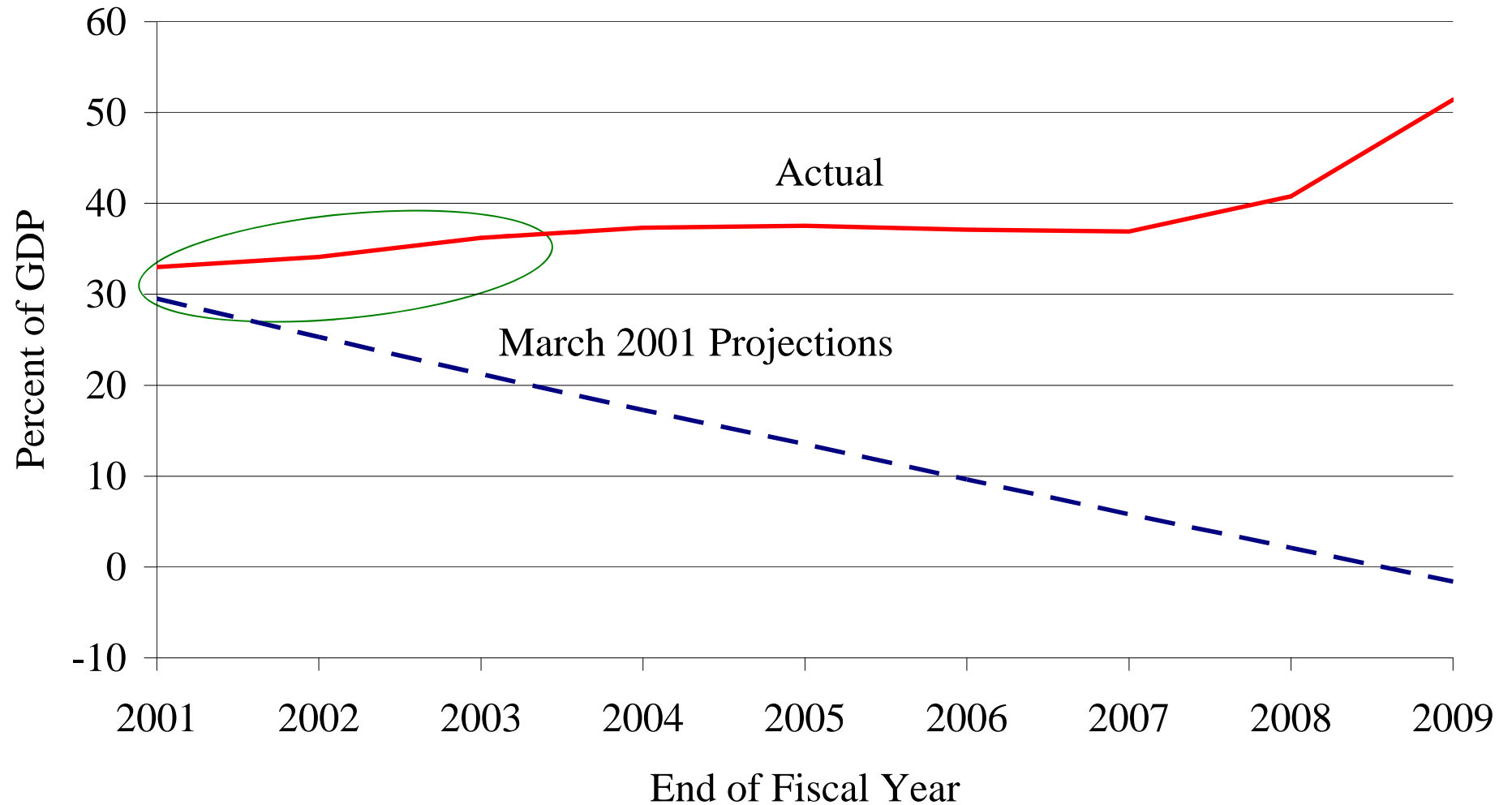
# U.S. Federal Net Debt-GDP Ratio



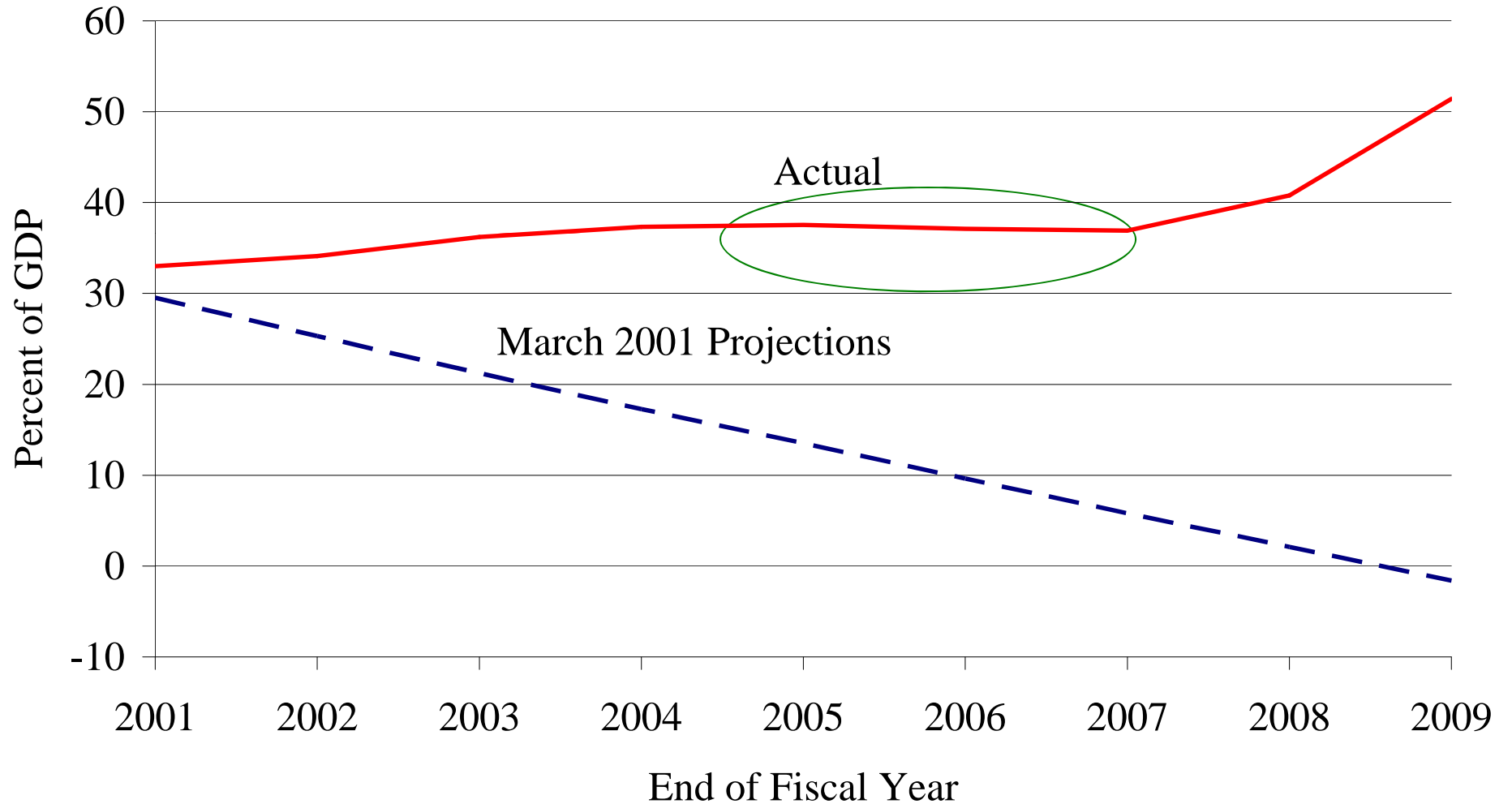
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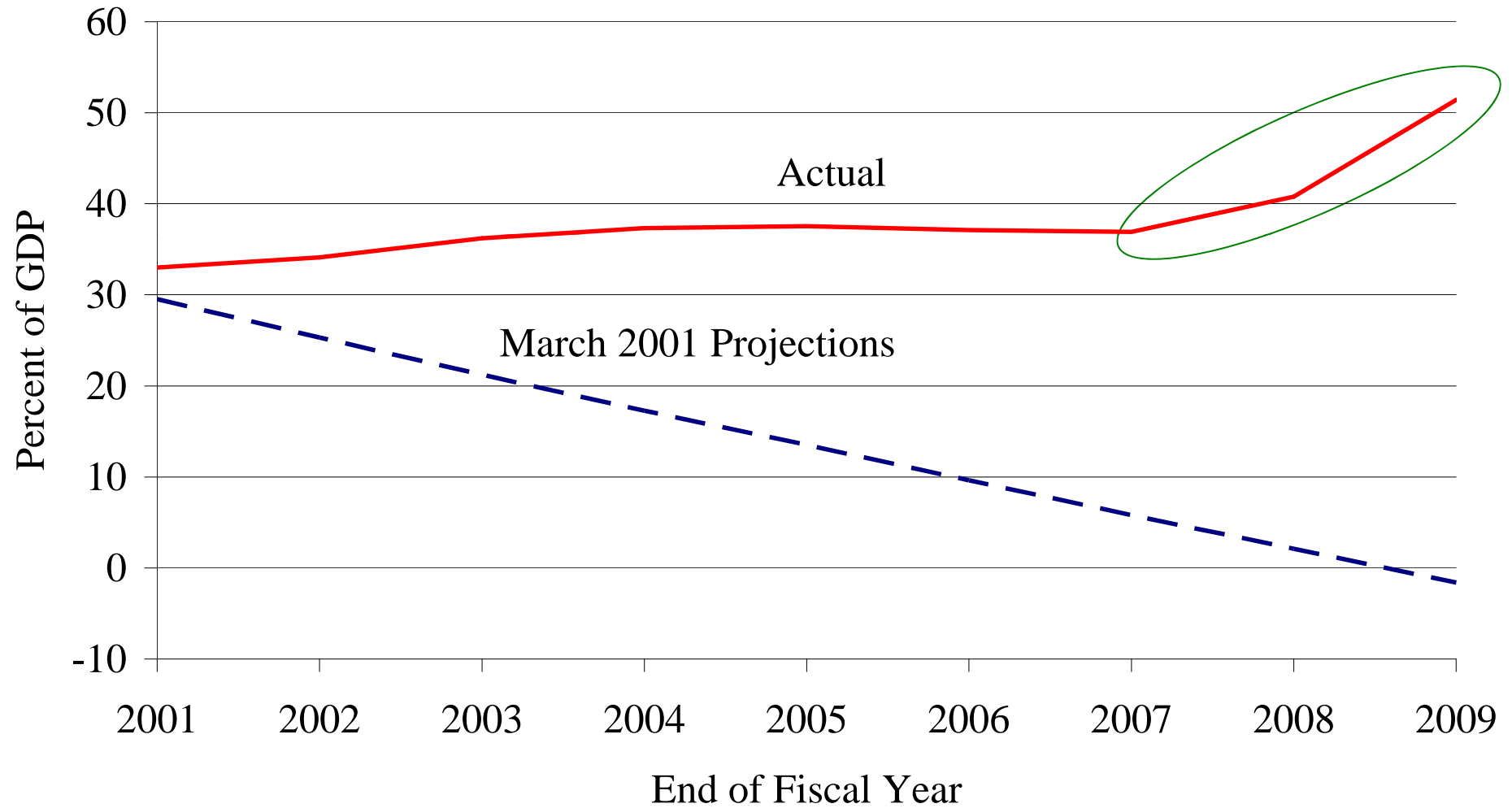
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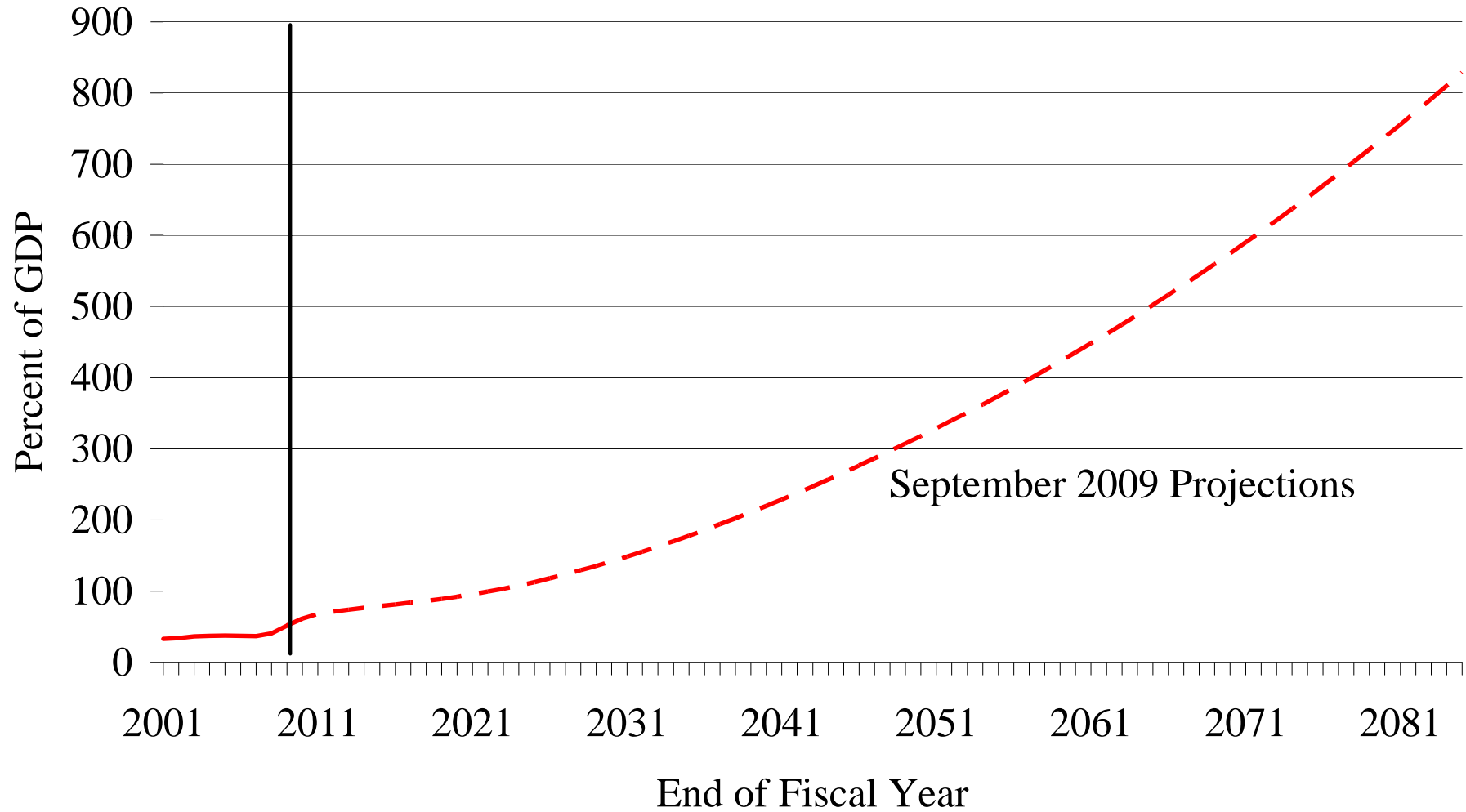
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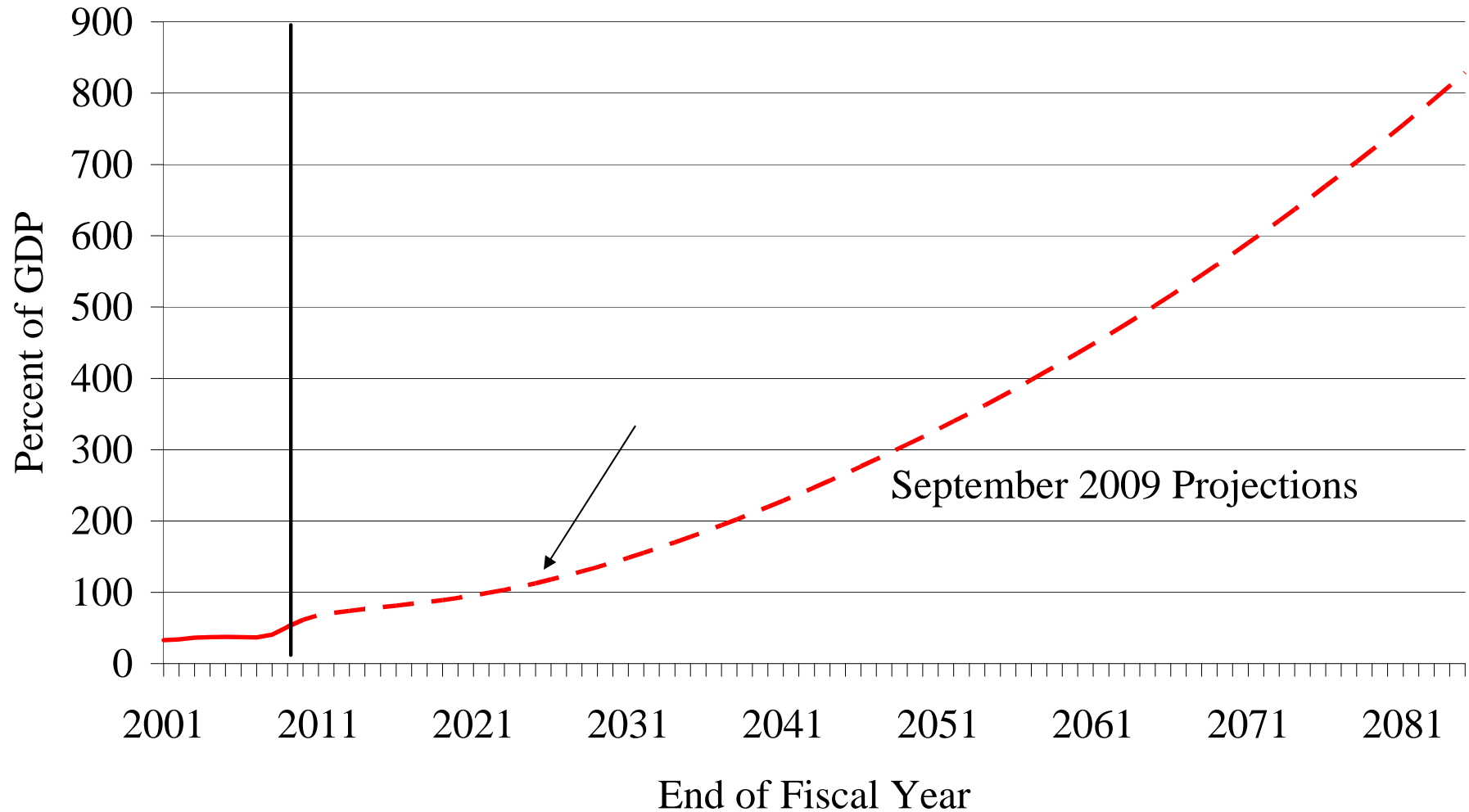
# U.S. Federal Net Debt-GDP Ratio



# U.S. Federal Net Debt-GDP Ratio



# U.S. Federal Net Debt-GDP Ratio





# Implications for Fiscal Policy Analysis

1. No Worries About the Fed  
Having No Debt to Buy

## 2. Automatic Stabilizers will Grow in Strength

### 3. Expectations Really Matter

## 4. Responses to Policy Shocks Will Vary Because of Budget

5. Current Debt-GDP Ratio is  
Largely Uninformative

## 6. Some Very Unpleasant Monetarist Arithmetic

# Government Intertemporal Budget Constraint

$$B_t = \sum_{s=t+1}^{\infty} \left( \frac{1+r}{1+g} \right)^{-(s-t)} S_s^p$$

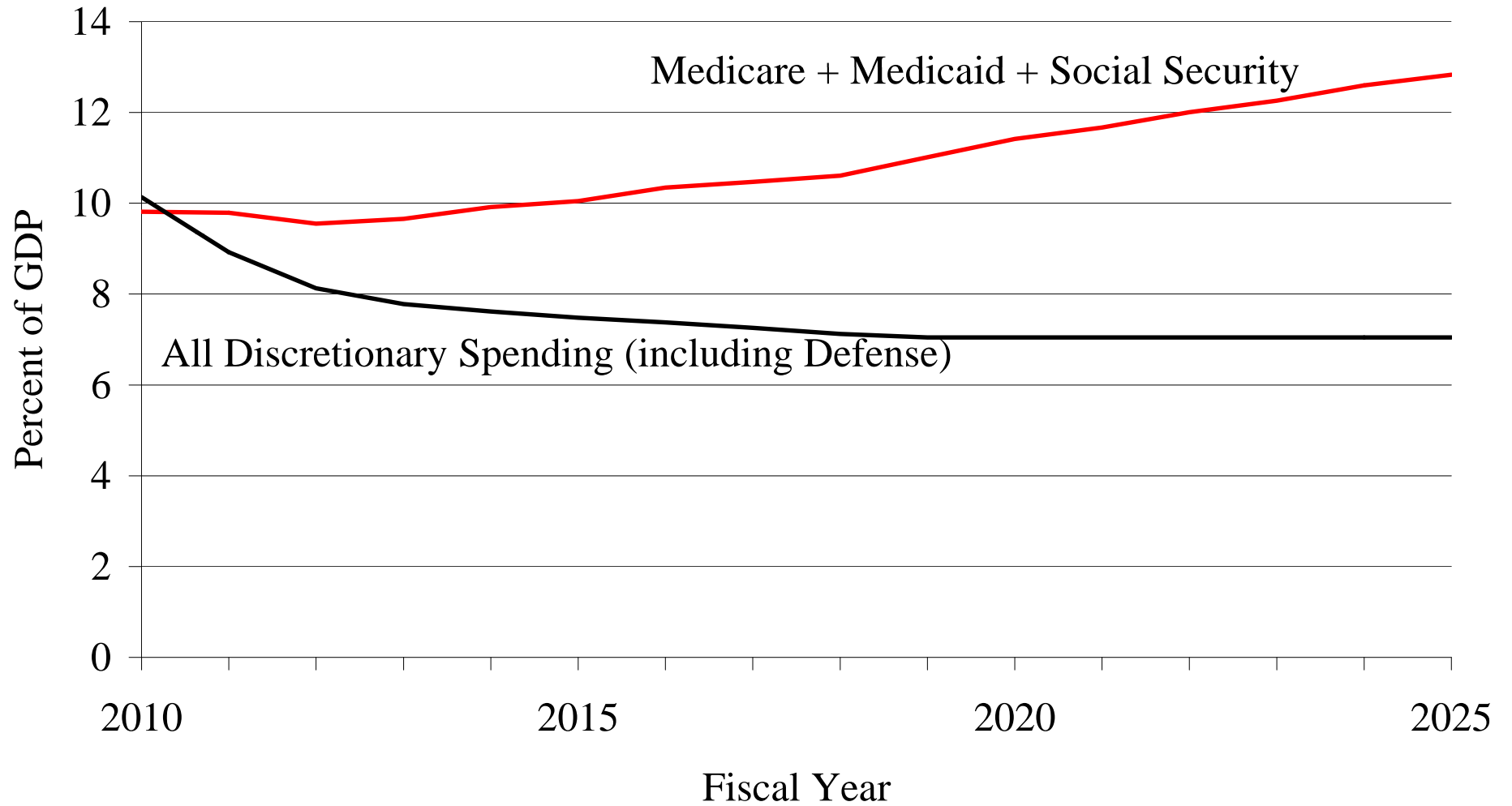


- US federal debt: \$ 12.3 trillion
  - Publicly held: 7.8 trillion
  - Bills + TIPS: 2.4 trillion
- Total federal fiscal imbalance:
  - Through 2085: \$ 53 trillion (6.9% of GDP)
  - Through  $\infty$ : 126 trillion (8.7% of GDP)
- Entitlement programs are indexed either explicitly (Social Security) or implicitly (Medicare, Medicaid)

# 7. What is Debt? What is Fiscal Policy?

8. Government Spending  $\neq$   
Government Purchases

# Federal Spending Components



# 9. Macroeconomic Effects Depend a Lot on Composition

# 10. Would Fiscal Rules Help?

# Conclusions