Generational Accounting in Open Economies

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June 25, 1997

Abstract Using data on U.S. and Japanese government debt, we calibrate a version of Weil’s (1989) model and study the international and intergenerational consequences of recent fiscal policy. We predict: (1) government debt will raise the world real interest rate by less than 2 basis points; (2) the United States will run small but persistent external deficits; and (3) current generations in the United States experience a slight increase in wealth, while future generations both at home and abroad suffer analogous decreases. Most of the wealth effects are intergenerational rather than international.

JEL Classification #’s: E62, F40.