

**THE EFFECTS OF ALTERNATIVE FISCAL POLICIES ON THE
INTERTEMPORAL GOVERNMENT BUDGET CONSTRAINT**

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Abstract

This paper presents the effects of alternative fiscal policies on the intertemporal government budget constraint when the time horizon of the policy maker varies. It is shown that the wealth effect associated with cuts in the skill-adjusted labor income tax rate improves the intertemporal budget balance whereas the intertemporal substitution effect associated with the physical capital income tax rate deteriorates the intertemporal budget. Under plausible parameter values, the tax rate on skill-adjusted labor income cannot by itself balance the intertemporal budget at all horizons.

JELit Classification Codes: H3, H5, H6, E6.

Keywords: *Intertemporal government budget constraint, endogenous growth, human capital, tax policy, government spending.*

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Revised Version, December 1998

** I thank the useful comments and discussions of J. Davies, Y. Ioannides, G. Metcalf, P. Pecorino, and S. Turnovsky on previous drafts of this paper and the constructive suggestions and comments of three anonymous referees for this journal. Any remaining errors or shortcomings are my own.*