

# **U.S. Deficit Sustainability: A New Approach Based on Multiple Endogenous Breaks**

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Recent empirical work has questioned the consistency of U.S. fiscal policy with an intertemporal budget constraint. Empirical results have tended to indicate that the deficit process has undergone at least one structural shift during recent decades, with the deficit becoming either unsustainable or sustainable in only a weak sense in the post-shift period. In this paper, we re-examine sustainability using a new approach, based on a cointegration model with multiple endogenous breaks. A Bayesian methodology is applied, incorporating Markov chain Monte Carlo simulators. In contrast to previous analyses, we find evidence of a sustainable deficit process over the 1947 to 1992 period, despite the occurrence of breaks during the 1970's and 1980's.

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