

Fiscal sustainability: the origin, development and nature of an ongoing 200-year old debate

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Abstract

Since the late 1980s and early 1990s, fiscal sustainability surfaced as an increasingly important issue because of the substantial increase in the public debt/GDP ratio in many countries. However, even though the term 'fiscal sustainability' is of relatively recent vintage (the latter quarter of the 20th century), the concerns that lie at its heart, namely the solvency of government and the impact of that solvency (or lack thereof) on the rest of the economy, are not, stretching back several centuries. This paper shows how a two hundred year old debate about these concerns, cloaked in different guises and starting with Adam Smith's critique of Melon, continues to this day. The paper also considers the views of, among other, Ricardo, Malthus, Mill, Keynes, Lerner, Domar, Hansen, Blanchard and Ball and Mankiw. The discussion seeks answers to the following questions: What is fiscal sustainability all about? How sustainable are fiscal policies internationally? How did the debate on fiscal sustainability and government solvency evolve? How does fiscal sustainability relate to older debates on government dissaving and the longstanding concern about the size of public debt? In answering these questions the paper indicates that rival interpretations did and still coexist and that the debate is by far not over.

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