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Fiscal stabilization rule and overlapping generations¹

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Abstract

Recently important policy debate of both developed and emerging countries is about fiscal sustainability of government deficit. Fiscal authorities want to search for the fiscal stabilization rule that sustain their debt. We investigate how the fiscal stabilization rule sustains the government debt in overlapping generations model. If the fiscal stabilization rules which improve primary balance to an increase of government debt is sufficiently strong, there are two steady state; the one is higher capital stock and output and lower government debt, the other is lower capital stock which satisfies dynamic efficiency and higher government debt.

Key words: Fiscal stabilization rule, Overlapping generations model,
Sustainability of the government debt

JEL classification codes: H62, E62, H63

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