

# Fiscal Policy and Debt Sustainability in an Endogenous Growing Economy \*

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## Abstract

This paper investigates the relationship between government fiscal policy especially income transfer policy and public debt sustainability. We analyze an economy in which the government maintains its budget from tax revenue and public debt, and provides a poll subsidy to households. We show that the government's income transfer policy widens the threshold of the public debt/private capital ratio to sustain public debt and raises the growth rate of the economy. The arguments presented in this paper show that the income transfer policy might attain not only a sustainable economy relative to public debt but also a high growth rate by increasing household income.

*Keywords:* Public debt; fiscal policy; debt sustainability

*JEL classification:* E62, H63, O41

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