Abstract

This paper analyses the long-term relationship between public debt and economic growth. Using Reinhart and Rogoff's data for 20 advanced countries in the post-war period, we find no evidence for common debt threshold within countries over time, above which GDP growth will sharply drop. Still, we confirm the negative correlation between government debt and economic growth within most of selected countries. Moreover, we argue that the causality between debt and growth is very important in understanding the precise impact of debt on economic growth. Countries in an economic boom are less vulnerable to high public debt. With regard to current debate, the results suggest two things: 1) Excessive public debt truly stifles GDP growth but debt-growth relationship differs across countries and time periods. 2) Cutting debt to return economic prosperity is a long-term plan. That is, less short-term fiscal austerity is appropriate in an economic recession in the countries with high debt.