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Long-Term Trends in Public Finances in the G-7 Economies

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EXECUTIVE SUMMARY

Today's record public debt levels in most advanced economies are not only a direct fall-out from the global crisis. Public debt had ratcheted up over many decades before, when it had been used, in most of the G-7 countries, as the ultimate shock absorber—rising in bad times but not declining much in good times. Alongside, primary spending increased, particularly during 1965–85, reflecting predominantly a surge in health care and pension spending. Looking ahead, advanced economies will face the formidable challenge of reducing debt ratios at a time when ageing-related spending, in particular often underestimated pressures from health care systems, will put additional pressure on public finances. Addressing these fiscal challenges will require growth-friendly structural reforms, a fiscal strategy involving gradual but steady fiscal adjustment, stronger fiscal institutions, expenditure and revenue reforms, and an appropriate degree of burden sharing across all stakeholders.