

Staying the Course: Maintaining Fiscal Control in Developing Countries

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Abstract

Adam and Bevan's paper uses panel data on eighty-three developing and twenty-five Organization for Economic Cooperation and Development (OECD) countries for the period from 1970 to 2000 to examine variations in the persistence of episodes of fiscal stability. Persistence is defined as the length of time the conventional fiscal balance exceeds a specific threshold, where the latter is based on plausible target values for the steady-state ratio of public debt to gross domestic product. The paper estimates hazard functions based on a range of alternative deficit thresholds. Four principal results emerge:

—the fiscal stance and determinants of fiscal stability differ significantly between OECD and developing countries and between middle- and low-income countries;

—apart from the level of income, conventional structural characteristics of economies play a relatively minor role in explaining the persistence of fiscal stability;

—a history of poor fiscal management has a deleterious effect on efforts to maintain a sustainable fiscal stance. For middle-income and OECD countries, but not low-income countries, this legacy depreciates rapidly;

—in contrast to comparable work on the OECD this paper finds that revenue reforms rather than expenditure cuts play the major role in underpinning fiscal stability, particularly for low-income countries.