



# Rethinking Fiscal

**NEARLY A CENTURY AGO**, Joseph Schumpeter wrote, “The spirit of a people, its cultural level, its social structure...all this and more is written in its fiscal history.... The public finances are one of the best starting points for an investigation of society.”

The innovative fiscal responses to the pandemic’s economic fallout bear him out. The power and agility of fiscal policy were far beyond what was previously thought possible. Governments channeled cash directly to households and businesses to save jobs and livelihoods. As the IMF’s Vitor Gaspar notes, these actions demonstrated government’s “special role in protecting the vulnerable when things go wrong.” But now the bill is coming due. Governments face the tricky task of reducing unprecedented debts to more sustainable levels while maintaining support for health systems and the most vulnerable.

In this issue of F&D, contributors examine how fiscal policy can be retooled for the post-pandemic world to deliver public value and a balanced economy for all.

Several authors offer perspectives on debt. Olivier Blanchard rejects simple fiscal rules and says policymakers must ask themselves tough questions on the interplay of such variables as interest rates, economic growth, and political stability. Ceyla Pazarbasioglu and Carmen Reinhart urge emerging market and developing economies to completely account for hidden debts to sustain growth and avoid the risk of default. Ricardo Reis concludes that price stability matters now more than ever.

Social questions matter, too. Emmanuel Saez defends the need for an expansive welfare state. Paolo Mauro argues that policymakers can muster broader support if they consider the full range of moral perspectives on public finance. Other contributors reflect on fiscal balancing acts to address inequality and support the green transition.

Policymakers face myriad uncertainties and difficult trade-offs. They must prepare to adjust priorities to create economies that are fairer, more inclusive, and sustainable. For in the end, how a society manages its fiscal affairs decides the fate of the nation and the well-being of its people. **FD**

**GITA BHATT**, editor-in-chief



## ON THE COVER

The pandemic has spurred a paradigm shift in fiscal policy—a theme our March 2022 issue examines in detail. Illustrator Peter Reynolds’ cover art features a money tree losing leaves as a storm approaches, symbolizing the need for government spending in times of crisis.

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