

We consider an overlapping generations (OLG) model in which public spending directly contributes to the growth of productivity, as Barro(1990) mentioned, and a government conforms to a constant public spending-GDP and debt-spending ratio rules. We analyze policy effects on fiscal sustainability, growth rate, and welfare. This paper presents some results that are not obtained in previous researches on fiscal sustainability. These results are as follows. First, when the spending-GDP ratio rises it may lead to more sustainable fiscal policy. Second, if the higher public spending-GDP ratio is more sustainable fiscal policy, it brings higher growth rate in both the shortterm and the longterm. Third, if raising the public spending-GDP ratio leads to a more sustainable fiscal policy, then such an increase in the public spending-GDP ratio is Pareto improving.