


[Not Available for Download](#) Add Paper to My LibraryShare:    

Debt and Taxes: Ponzi Finance, Dynamic Efficiency and Government Solvency

UCSC Dept. of Economics WP 381

Posted: 13 Jan 1998

Willem H. Buiter (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1503881)

Centre for Economic Policy Research (CEPR); CESifo (Center for Economic Studies and Ifo Institute); Columbia University; Independent Economic Adviser; Independent

Kenneth M. Kletzer (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=52723)

University of California at Santa Cruz; CESifo (Center for Economic Studies and Ifo Institute for Economic Research)

Date Written: September 1997

Abstract

This paper addresses three related issues. First, in what sense is the government's ability to borrow limited by its capacity to tax? Second, when is Ponzi finance feasible for an infinite-lived government? Third, when does the opportunity to engage in Ponzi finance enhance the government's ability to influence private resource allocation? We argue that convincing answers to all three questions require a careful specification of the government's "capacity to tax" and to distinguish between weak and strong Ponzi finance. We show that a weak Ponzi scheme is feasible in an infinite-lived overlapping generations economy even if the competitive equilibrium is dynamically efficient or Pareto efficient, as long as the set of lump-sum tax and transfer instruments available to the government is unrestricted. Strong Ponzi finance is only feasible if the long-run (after-tax) rate of interest is below the long-run natural rate of growth. A primary purpose of the paper is to show that the conventional solvency criterion is not generated by private sector rationality in the overlapping generations model alone, in contrast with the infinite-lived representative agent model. Rather, restrictions must be imposed on the government's capacity to tax using lump-sum instruments; strong Ponzi finance imposes such restrictions. The paper further studies when Ponzi finance is essential and inessential in the sense that it enhances the set of allocations that can be supported as competitive equilibria under alternative fiscal policies.

JEL Classification: F41, F42, E6[Suggested Citation](#) >[Show Contact Information](#) >[Not Available for Download](#)

0 References

0 Citations

[Fetch Citations](#)

Do you have a job opening that you would like to promote on SSRN?

[Place Job Opening \(https://www.ssrn.com/index.cfm/en/Announcements-Jobs/\)](https://www.ssrn.com/index.cfm/en/Announcements-Jobs/)

Paper statistics

ABSTRACT VIEWS

We use cookies that are necessary to make our site work. We may also use additional cookies to analyze, improve, and personalize our content and your digital experience. For more information, see our [Cookie Policy](#)<https://www.elsevier.com/legal/cookiepolicy>

1,054

[Cookie Settings](#)[Accept all cookies](#)



(https://papers.ssrn.com/feedback.cfm?ssrn_id=49055)

[Submit a Paper > \(https://hq.ssrn.com/submission.cfm\)](https://hq.ssrn.com/submission.cfm)

[SSRN Quick Links](#) ▼

[SSRN Rankings](#) ▼

[About SSRN](#) ▼

[f \(https://www.facebook.com/SSRNcommunity/\)](https://www.facebook.com/SSRNcommunity/)

[in \(https://www.linkedin.com/company/493409?](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A1)

[trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A1](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A1)

[t \(https://twitter.com/SSRN\)](https://twitter.com/SSRN)

(<http://www.elsevier.com/>)

[Copyright \(https://www.ssrn.com/index.cfm/en/dmca-notice-policy/\)](https://www.ssrn.com/index.cfm/en/dmca-notice-policy/) [Terms and Conditions \(https://www.ssrn.com/index.cfm/en/terms-of-use/\)](https://www.ssrn.com/index.cfm/en/terms-of-use/)

[Privacy Policy \(https://www.elsevier.com/legal/privacy-policy\)](https://www.elsevier.com/legal/privacy-policy)

All content on this site: Copyright © 2023 Elsevier Inc., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#).

(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)