

Even More on Debt and Taxes

“Allowed Deficit” = \$200 Billion

Objections to Ricardian Equivalence

- People don't understand deficits.
- We have passed the debt to our children.
- **This means we never need to tax.**
- Incentive Effects.

The Wise and Foolish Use of Credit

- If you or I purchase something with a credit card, we know we must ultimately pay for it.
- Still, some people are foolish and mishandle credit cards.

The Wise and Foolish Use of Credit

- What about the government?
- Because it can spend without immediately worrying about paying the bills, does the government continually get in over its head?

How Much Debt

- The answer: the government can sustain any debt/GDP ratio, but it cannot allow the ratio to grow without bounds.

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Growing at 5% per year

Government Debt = \$4,000 Billion

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- In practice, this is a Ponzi scheme.

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- People don't understand. An important issue, which we defer to later.
- We have passed the debt to our children.
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End

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