

# Public Debt Accumulation and Fiscal Consolidation

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## *Abstract*

In the present paper, we consider overlapping generation model with the endogenous and stochastic growth setting, in to analyze the relationship between the interest rate on government bond and the consolidation fiscal rule.

As the result, our key findings are summarized as follows. First, interest rate of GB may be declining as public debt is accumulated relative to private capital, whereas the former crowding out the latter as opposed to conventional view that built up of public debt accompanies rise of interest rate. Second, the fiscal consolidation rule plays a key role in determining interest rate in equilibrium. Third, economy may exhibit discrete change, interest rate diverging, implying that the observation that GB interest rate has remained relatively low does not assure that the same trend continues in the future. Fourth preventive tax increase to contain public debt to sustainable level will not gain political support of existing generations whose life span is limited. They rather prefer to shift ultimate burden of public debt to the future generation.

***JEL classification:*** E17;H30; H5; H60; E62; H63

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