Preface

In light of the continuing presence of high public debt within many of the members of the European Union, and of the understandable concerns about default that such high levels of debt generate, the European Center for the Study of Public Choice (ECSPC) incorporated a public choice analysis of public debt and debt default into its research program. The chapters presented here are one portion of that research program. A second portion is the book *Public Debt: An Illusion of Democratic Political Economy*, written by Giuseppe Eusepi and Richard E. Wagner, and published by Edward Elgar in June 2017.

These chapters explore public debt along two distinct but complementary analytical paths. One path concerns microeconomic aspects of public debt. Public debt doesn’t just happen as some exogenous insertion into society. It emerges through budgetary processes where individuals respond to the costs and gains of different courses of action, with public debt emerging or not in consequence of those costs and gains. This effort to relate public debt to individual rationalities is central to the primary theme of public choice, wherein political outcomes follow an intelligible logic rooted in the universal principle of economizing action.

The second analytical path concerns the systemic properties of rational individuals acting within a democratic system of political economy. In this scheme of analysis, micro and macro are related through the relationship of parts-to-whole. Macro-level observations are not direct objects of policy choice, but rather emerge through interactions among micro-level participants within a political-economic process. Within this scheme of thought, the two levels of analysis are integrated by recognition that efforts to control macro-level outcomes that are thought undesirable must address the micro-level circumstances and conditions that promote public debt as systemic budgetary outcomes.

The book’s eight chapters are thus divided into two parts. Part I features four chapters that explore public debt in relation to individual rationality under various circumstances. Part II features four chapters that examine the macro consequences and implications of public debt.

Part I opens with Giuseppe Eusepi and Richard E. Wagner contrasting Antonio de Viti de Marco and David Ricardo regarding public debt.
De Viti accepted Ricardo’s equivalence proposition that public debt is future taxation that is equivalent in aggregate magnitude to the taxes that would have been necessary if public debt had not been created. Yet De Viti derives different conclusions about the consequences of public debt, due to his micro-analytic treatment of debt.

Karsten Mause examines the problems that arise when some governments bail out governments that have incurred unsustainable amounts of debt, and explores how appropriate fiscal rules might limit the moral hazard that bailouts promote.

Geoffrey Brennan probes with some challenging questions regarding the relation between governments and individuals, asking whether the ideas about contractual obligation pertain also to governments as they do to private citizens.

Richard E. Wagner closes Part I by exploring the plausible limits to presumptions that the obligations government incur are ipso facto obligations that citizens are assumed to have accepted. In short, much depends on the constitutional framework of democracy, much as Antonio de Viti de Marco recognized in distinguishing between cooperative and monopolistic states.

Part II opens with Andrea Rieck and Ludger Schuknecht providing a bridge between the micro-centric character of the chapters in Part I and the macro-centric character of the chapters in Part II. They explore the ability of different institutional mechanisms and processes to limit, or to fail to limit, the creation of public debt.

Ernesto Longobardi and Antonio Pedone examine possible avenues for reducing the relative size of public debt within the European Union. Leaving default aside and avoiding inflation as a means of reducing the real size of debt, this would require some combination of tax increase or expenditure decrease, neither of which is politically palatable.

Fabrizio Balassone and his co-authors explore problems of managing risk with respect to economic governance, which seems to be of particular prominence once the implications that governmental entities are not residual claimants to their actions are taken into account.

Liviu Voinea and his co-authors close the book by examining problems of reconfiguring balance sheets in the presence of high public debt, and especially on how such reconfiguration might affect economic growth.