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James M. Buchanan on the Ethics of Public Debt and Default

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When James M. Buchanan began work in the 1940s, he enthusiastically adopted the prevailing positivistic methodology. Over the next forty years, his attachment to positivism weakened and, in his work on public debt, Buchanan gradually added an ethical dimension. His work on ethical aspects of debt was extended to consideration of public default. These issues have gained prominence again with the rise of public deficits since 2008 in various countries. It is likely that public debt in various countries (including the United States) will become unsustainable and that (open or concealed) default will follow. The morality of default, however, has not been openly debated. The current crisis must awaken a public debate on the ethics of public deficits and the need for legal limitations on public deficits and debt. Buchanan's analysis of the ethics of public deficits, public debt, and public default should play a part in that debate.

James M. Buchanan[1] won the Nobel Prize in Economic Sciences in 1986. He began work in the 1940s as a Public Finance economist. Buchanan enthusiastically adopted the prevailing positivistic methodology (i.e., Logical Positivism). In a number of areas over the following forty years, Buchanan developed normative aspects of economics.[2] While readers could speculate that this reflected his contributions to two *distinct* projects, the reality is that there was also some blurring of the boundaries between normative and positive analysis. This article focuses on two related areas in Buchanan's analysis (public debt and default) where positive and normative issues merge.

In his work on public debt, Buchanan began from an engineering perspective, but over time he gradually shifted ground. Buchanan's attachment to positivism weakened and in his work on public debt, he gradually added an ethical dimension. Buchanan extended his work on ethical aspects of debt to public default.

Buchanan builds up a series of ethical arguments on public debt that are scattered throughout various works. In this article, I will reconstruct his ethical framework on debt. Much of Buchanan's constitutional economics is designed to show why the Victorian ethical norm opposing public deficits collapsed and to advocate a legal replacement.

The remainder of this article comprises four sections. The first section presents some background on Buchanan and his work. The second section sketches his foundational assumptions. The third section discusses Buchanan's view of the ethics of public debt and default. Finally, the fourth section provides some concluding remarks.

Background on Buchanan and His Work

Buchanan's work has covered a wide range of areas in economics, starting with public finance. He helped to create the new subdisciplines of Public Choice,[3] and Constitutional Political Economy, and to some extent New Institutional Economics. The foundations of Buchanan's approach to economics I have presented elsewhere (Alvey 2009a). In the current article, I build on that work.

As early as the 1950s, we can see the outlines of Buchanan's contractarian approach to economics. He began to advocate understanding markets in a gains-from-trade framework; potential gains, of course, had to be secured by contracts that are legally enforced (1959, 129; 1975b, 229). Within a few years, Buchanan was calling for economics to focus on catallactics, or exchange (1964a, 214).[4] The next step was to take the contractarian approach and apply it to politics; politics was also viewed as a type of exchange. Thus, his gains-from-trade/contracting approach was foundational for his constitutional political economy research program. Buchanan's approach (in markets and in politics) was to start from the *status quo* and look for Pareto gains.

Consistent with the dominance of positivism in the early post-World War II period, much of Buchanan's work is positive analysis. Buchanan was a methodologist and tried to consistently apply positivistic doctrines to his own work. Buchanan was also quite happy to criticize others for failing to adhere to the prevailing positivistic strictures. Thus, in the 1960s, he claimed that public goods theory "can be, and should be, wholly *wertfei* [value free] in an explicit sense" (1967, 197).[5] I will show below that Buchanan's positivism softened over time.

Buchanan's Nobel Prize was awarded "for his development of the contractual and constitutional bases for the theory of economic and political decision-making." In his Nobel lecture, Buchanan makes it clear that economic policy must be considered within the context of the political decision-making framework and that a model of the state and politics is needed *before* considering the effects of different policy choices (1987a). Given his earlier, enthusiastic adoption of positivism, it is astonishing that Buchanan admitted frankly that in investigating the relation of the individual to the state, his goal was "ultimately normative"; Buchanan added that economists investigating this central topic must place their discussion within the "more comprehensive realm of discourse" of political philosophy (Buchanan 1987a, 335; see also 1991, 4).

As stated earlier, readers could be forgiven for interpreting this as a shift from one type of analysis (positive analysis) to another type of analysis (normative analysis) whilst maintaining the strict separation of the two. This does not seem to be consistent with the development of Buchanan's writings. Indeed, by the 1990s, he went so far as to call for a *closer* relationship between economics and ethics (Buchanan 1994, 82–83). By the time he reached his late sixties and early seventies (surely we can call these his mature views), Buchanan seems to be very much at odds with those who claim that anything worthwhile in economics is value-free engineering.

Although he denies that there can be any such thing as distributive justice (this is one of the two branches of what Amartya Sen calls the ethical tradition of economics), I will show that Buchanan sought to reestablish the ethical claims of economics in other ways (Sen 1987, 2–7).[6] Some of these ethical threads he wove in early writings on the size of the polity (1965; 1978); the minimal state (see Buchanan [1975a] 2000); taxation (1984); debt (see Buchanan and Wagner [1977] 2000, 10–24); and constitutional (and other) limitations on democratic politics (1987c, 587–88; Buchanan and Wagner [1977] 2000, 180–93; Buchanan and Wagner 1978a, 634–35). New threads began to be woven from the mid-1980s when he extended his work on several of these fields (see 1985) and turned to new fields such as debt default (1987d) and to Protestant ethics (see 1994).

Buchanan has made a great effort to make the ethical case for his type of economy and society (liberal capitalist but with a set of institutions closer to those in evidence in the nineteenth century in Britain and the United States).[7] Buchanan makes a strong case and deserves to be listened to by orthodox economists who are fond of reciting positivistic slogans.

Foundational Assumptions

Some assumptions underpin all of Buchanan's work; others are adapted to the particular context. Elsewhere (Alvey 2009a, 2–3; Alvey 2010, 120–21), I listed and discussed eleven assumptions that I take to be his fundamental assumptions. I will provide a summary of that discussion here. His foundational assumptions fall into two groups. The first six relate to the individual in isolation or in the interaction in markets. The remaining five assumptions consider more aggregative issues (they can refer to individuals in a market or social-choice setting).

First, Buchanan holds strict subjectivism: There is no distinction between the individual's utility function and his behavior (1991, 225). Individual choice is all that there is (1991, 225–26). Second, Buchanan assumes methodological individualism: only autonomous individuals choose and act; social influences are limited (1987c, 586; 1991, 14). Third, he says "the ultimate sources of value" lies "exclusively in individuals" (1987c, 586). (See also assumption eight below.) Buchanan adopts a more nuanced view in his recent work on Puritan ethics. Fourth, he puts supreme value on freedom. For Buchanan, the goal is maximal freedom within the constraints one gives oneself individually or by agreement with others (the incorporation of ethical constraints consistent with one's interests tends to be the focus of his later works). Fifth, he assumes *homo economicus*, that is, individuals "seek their own interests" defined in a "nontautological" way (1987c, 587). Sixth, Buchanan assumes rational choice; that is, all economic agents are able to choose between alternatives in an "orderly manner" (1991, 15).

Seventh, cooperative behavior can secure mutual gains (1964a, 218). Exchange, trade, and specialization are what Buchanan has in mind by *cooperation*. Gains from trade is one of the main themes of his economics. Eighth, Buchanan holds to normative individualism, which assumes that "individuals are the ultimate sovereigns in matters of social organization" (1991, 225, 227). Ninth, the political unit is assumed to be a manifestation of a social contract. Tenth, in social decision-making, he attributes "equal weighting" to "individual evaluations"; Buchanan is a democrat (1991, 16). Finally, to prevent abuses by democratic majorities, Buchanan adopts constitutional democracy (1987c, 586). In various areas, he adopts rules that are stricter than the simple majority rule (1959, 127–28, 135, 137; 1991, 47).

With this background in mind, let us now turn to my case studies of Buchanan's work on the ethics of public debt and default.

The Ethics of Public Debt and Default

Public debt and default have been major issues in the history of economics and especially in the Public Finance literature. While David Hume and Adam Smith saw these matters as important in the second half of the eighteenth century, it was David Ricardo who gave them detailed attention early in the nineteenth century. Much of the work by economists could be seen as existing within the engineering tradition, but there are normative principles even here. In his work as a Public Finance specialist, Buchanan wrote on a wide range of aspects of public debt and default, using both engineering and ethical approaches. Buchanan developed eight propositions on debt.[8] My focus in this section will be on four of these: three ethical propositions and one ethical/legal proposition. I will conclude with a discussion of Buchanan's view of the ethics of default. To some degree this section falls under the second branch of what Sen calls the ethical tradition of economics: the "ethics-related view of motivation" (1987, 4).

The first of Buchanan's propositions on public debt, deriving from positive analysis, is that *future* rather than current taxpayers bear the burden of today's public debt (1958, 31–47, 114–22; 1964b, 486–87; 1964c, 49; 1964d, 60–62; Buchanan and Wagner 1978a, 629; Buchanan 1987b, 182; 1987d, 372; see Tempelman 2007, 436–40). The second positive proposition is that given that most of the public expenditure since World War II has been used for consumption rather than for infrastructure (and other capital),[9] public debt has a negative effect on capital accumulation and on the net wealth of society (1986a, 180–85, 192–93; [1986b] 2000, 447; 1987e, 56–57; see Tempelman 2007, 438–39).[10] Hence, debt is "equivalent to 'eating up' of capital" (1987b, 182; see 1986a, 180). The third proposition is that people suffer from "fiscal illusion" and prefer debt to taxation (1964e, 161; Buchanan and Wagner 1978a, 629; see Tempelman 2007, 440).[11]

The first three positive propositions provide the basis for Buchanan's defense of balanced budgets, but a latent moral undertone is detectable. The fourth proposition makes the ethical content explicit. Given the first three propositions and the Public Choice theory conclusion that democratic politicians are biased toward public deficits (1986a, 179; Buchanan and Wagner 1975, 62; Buchanan and Wagner [1977] 2000, 4, 26, 95–96; Buchanan and Wagner 1978b, 4–5), restraints must be imposed on the actions of politicians. The tendencies toward debt creation can be limited by what amounts to an "effective fiscal constitution,"[12] where a norm is adhered to rigidly (1987b, 183). One such constitutional norm would be that "capital, once accumulated, should be maintained and transmitted to future generations"; the current generation has a *duty* of stewardship over capital (1987b, 184). Something along these lines was exactly what emerged in Victorian

Britain's "rules for fiscal prudence"; there was an "implicit fiscal … constitution … in the Victorian era" (1987b, 184; 1985, 4).[13] Thus, the fourth proposition is that financing public consumption by debt, "behaving collectively in a manner that effectively 'eats up'" the income stream of future citizens, was "immoral in the pre-Keynesian world" (1987b, 183–84).[14] Such morality (or religion),[15] institutionalized as the Victorian balanced-budget norm, served as a real moral constraint on the peace-time behavior of the Victorians; "[i]t was a 'sin' to create deficits prior to the Keynesian period" (1995; see 1987b, 183–84).[16] Such a norm was an asset, a type of social capital (1985, 5; 1987b, 184–85; 1987e, 57). This argument is clearly analogous to the idea of moral norms as a type of capital stock that Buchanan developed earlier in *The Limits of Liberty*.[17]

The fifth proposition concerns the demise of the Victorian moral constraints and Buchanan's attribution of blame. The Victorian moral norm was fragile[18] and collapsed once Keynes began his revolutionary assault on it (1985, 3; see 5; Buchanan and Wagner 1975, 62; Buchanan and Wagner 1978c, 79, 85–86, 95, 97). Keynes was no less than a moral revolutionary (1985, 3). Keynesian economists consolidated the work of Keynes; the Keynesian revolution shifted the moral standards of politics (1985, 4). Keynesians argued for more debt for macroeconomic (stabilization) purposes. Keynesian arguments neglected Public Choice considerations, which was fatal according to Buchanan (1985, 3–4). Once the constraints were destroyed, politicians felt liberated and could then accommodate their constituent's fiscal illusion (i.e., the constituent's demand for greater spending without fully compensatory tax increases). Budget deficits became normal due to the Keynesian view that deficits were legitimate half of the time, namely, during recessions (Buchanan and Wagner [1977] 2000, 38, 95–96; see Tempelman 2007, 441). Buchanan had theoretical and ethical objections to Keynesianism.

The sixth proposition is that once the moral constraints were removed, without an "adequate replacement," Public Choice considerations lead to the conclusion that public debt will be permanent (Buchanan and Wagner [1977] 2000, 95–96; see Buchanan and Wagner 1975, 62, 64; Buchanan and Wagner 1978a, 636; Buchanan and Wagner 1978b, 2; Buchanan and Wagner 1978c, 80–81; Buchanan 1985, 1, 5; 1986a, 179; Tempelman 2007, 442–43). In the seventh proposition, Buchanan makes explicit and justifies his ethical claim that it is immoral for one generation to burden another for its own benefit (1987b, 370; see Tempelman 2007, 444). As Buchanan stated in his Nobel Prize address, "[i]t is almost impossible to construct a contractual calculus in which representatives of separate generations would agree to allow majorities in a single generation to finance currently enjoyed public consumption through the issue of public debt that insures … utility losses on later generations of taxpayers" (1987a, 343; see 1987d, 368–69, 372; 1987e, 56).[19] The framework of this argument is Rawls's social contract theory; the scenario mentioned in the previous quote could not pass Rawls's "veil of ignorance" test (Rawls 1971, 12). In addition, there was a further argument that Buchanan proposed that was traced back to the American Revolutionaries: no taxation without representation. Public-debt financing is unjust because it is impossible for future generations to *participate* in current tax deliberations, even though they must bear the burden of decisions arising from such deliberations (1987b, 188–89; see Tempelman 2007, 444–45; Buchanan 1987d, 366).[20]

Buchanan's positive and normative economics—as well as his views on constitutional political economy, Keynesianism, and intergenerational ethics—merged in the final proposition concerning public debt: the need for a constitutional (or higher law) provision prohibiting budget deficits. He argued that because the Victorian moral constraint had been shattered and because there is continuing pressure on politicians to spend more than they tax (shown by Public Choice theory), restoration of that norm is hard to imagine.[21] Thus, an alternative institution, which had a similar constraining effect, was required (1985, 5). Buchanan turned to a *legal rule* as the replacement institution; the Victorian balanced-budget ethical norm had to be entrenched in some higher or constitutional law (Buchanan and Wagner 1975, 62–64; Buchanan and Wagner [1977] 2000, 9, 182–93; Buchanan and Wagner 1978c, 97; Buchanan 1985, 5; Tempelman 2007, 445–46). Buchanan clearly believes that the prohibition on public deficits is another of those rules of the game that people would support behind a Rawlsian veil of ignorance (see Rawls 1971, 12).

Buchanan's increasing emphasis on ethical issues is reflected in his view, stated in 1984 (and published the following year), that "economists have almost totally neglected moral or ethical elements of the behavior that has generated the observed modern regime of continuing and accelerating budget deficits. To the extent that moral principles affect choice constraints, such neglect is inexcusable" (1985, 1). Buchanan thought "the Victorians had it right"; he held that it was "grossly immoral to finance current public outlays on consumption, including transfer payments, by an issue of debt" (1987e, 56–57). It was this profound, moral commitment that led Buchanan out of the ivory tower.

Buchanan became actively involved in the campaign to secure a balanced-budget amendment to the U.S. Constitution, and indeed this was almost the only area on which he was active as a policy advocate (Buchanan and Wagner 1975; Buchanan 1995; Tempelman 2007, 436). In the United States, the debate over a balanced-budget amendment to the Constitution gradually lost momentum toward the end of the 1990s. Buchanan has stated that he "didn't get very far" with his campaign (1995). He lost his one battle in the fury of policy debate in the 1980s (1967, 193). Nevertheless, Buchanan stated in 1986 that "deficits are extremely important and nothing is more urgent than getting them under control, whether this be through legislative initiatives or through Constitutional change" (1987e, 56). The widespread adoption of deficit spending in the current global economic turbulence raises important questions for the future upon which I will further comment shortly.[22]

What happens if nothing is done? Clearly, as public debt rises, eventually default becomes likely. There are political, economic, and ethical issues here.[23] The specter of default was of great concern to the classical economists. Again, I will focus on the ethical issues, notably on Buchanan's "The Ethics of Debt Default" (1987d).

Buchanan investigates several moral bases for meeting past commitments. First, he says that there is a "powerful moral-ethical argument" favoring the honoring of debt obligations: "any contract initiated on … genuine quid pro quo terms" should be honored (1987d, 363). This is the commutative-justice argument of market exchange extended to cover a specific financial relationship between the state and citizens that has a quasi-market flavor. Second, Buchanan raises the issue as to whether the state is a moral community, like the family. In such a "moral community," the individual member feels a sense of loyalty toward the group and its actions (1987d, 364). If there is "a sense of personal responsibility" for actions taken by a member of the group, one member may feel responsible for the debts incurred by other members of the group (1987d, 364). Buchanan quickly dismisses this possible understanding of the state. Third, there is also a broader argument based on "the moral legitimacy of law" (1987d, 372). "Unless there is a general set of attitudes that embodies respect for past legal commitments, the very essence of an ongoing legal-political order is called into question" (1987d, 365). One default may not "pull down the whole legal-political house of cards" but two or three defaults might (1987d, 365).[24]

The fourth possibility is that there is a sense of individual responsibility for collective decisions; this is only likely to occur (1) when the individual actually participates in such decisions or (2) at least has "full rights of participation" in such decision-making processes (1987d, 366). As we have seen above, Buchanan says that this argument breaks down for those in "the 'next generation' who did not participate in the initial decisions" (1987d, 367).[25] Nor did they have any right of participation. Could the debt be a plausibly valid obligation using the conjectural veil of ignorance process? As we have seen, this approach shows debt obligations to finance ordinary public consumption are immoral (1987d, 372). Once again, moral arguments against default on this ground fail.

Thus, there is a weak basis in three of the four moral arguments for opposition to a *single* default. Buchanan next turns to the moral status of the initial borrowing. He refers to the current “irresponsible” generation that has engaged in “fiscal profligacy” (1987e, 57). Buchanan admits that if there is a “questionable moral status” to borrowing in the first place (as is clearly the case in modern welfare states), the moral case against default is weakened (1987d, 370).[26] Of course, we have yet to address the bondholders (recall the first moral argument above).

“The strongest moral argument” for honoring debt obligations “lies in the legitimacy of the claims that are held by the polity’s creditors” (1987d, 370; see 1987e, 57). The bondholders “rights would be violated”; the government would “behave unjustly towards those persons” (1987d, 370). For Buchanan, “the act of lending to government deserves” no “moral censure” (1987d, 370). The bondholders “gave up purchasing power” in exchange for “interest and amortization payments” in the future (1987d, 371). Not to make the payments, at least “from the perspective of those who hold the debt instruments,” would be “fraudulent” (1987d, 371). This is exactly what Ricardo (and other classical economists) said.

Several mechanisms for default are available. Two obvious means are open declaration of default and concealed default through inflation. Buchanan says that the U.S. government did “default on a large scale through inflation” during the 1970s (1987b, 191).[27] Higher inflation is a “confiscatory tax” on the bondholders (1987e, 56). In the 1980s, he predicted that the U.S. government would default again, “either directly or through the inflationary process” (1987d, 372–73; see 1987e, 56).[28] The current level of American debt has led to public concerns being raised by the president of China (AFP-JIJI 2009). The latter was concerned that the United States would default, in part or in full. The likelihood is that there will be concealed default again. The morality of such a default, however, has not been openly discussed.[29]

The current crisis has led to some discussion about the level of public deficits.[30] Recently, some action has been taken to start to rein in government spending and the annual deficits. What is needed, in addition, is (1) further public debate on the ethics of public deficits and (2) legal/constitutional limitations on government deficits, debt, and default. Buchanan’s analysis of the ethics of public deficits, debt, and default is relevant to both.

Conclusion

Buchanan is a sort of paradox. Much of his work is positivistic; his development of Public Choice theory is an extended exercise in cynicism. Yet there is something more to Buchanan, as shown by his interest in a range of ethical issues. First, he argued that the Victorian norm against public budget deficits was an ethical norm. This norm was a sort of social capital. Second, Buchanan argued against Keynes and Keynesianism on economic and ethical grounds. Keynes and Keynesianism were immoral by undermining the Victorian norm. Third, the destruction of the Victorian norm had to be replaced by another institution that could produce a similar ethical result. Buchanan's proposal of a constitutional law prohibiting budget deficits was that institution. The final piece of the puzzle was his view of the ethics of default. Default was immoral on commutative justice grounds. Clearly, ethics was critical for a vast body of Buchanan's work on this theme.

The current economic crisis raises important questions about the future of the United States economy (and various other debt-ridden, advanced economies). Can the United States continue with public spending on a grand scale? Can it continue generating deficits of a great magnitude? Can the United States continue to borrow without losing its position in the global financial markets and in global military policing? Can it pay back its debt in full?

Over the past year or so, there has been a clear shift by policy makers away from the continuation of the free spending of 2008 and 2009. Even with a change of atmosphere, however, the fiscal crisis remains. Times of crisis present both dangers and opportunities. Dangers arising from the fiscal crisis include rapid inflation, default, and loss of credibility domestically and internationally. On the other hand, the crisis also provides increased freedom to make major institutional/policy changes.[31] Buchanan's favorite policy agenda, constitutional/legal limitations on public spending, deficits, and debt, needs to be revisited. In 1995, the United States came very close to enacting a balanced-budget constitutional amendment. Perhaps the present crisis may precipitate an actual amendment. An alternative would be a law of Congress that has sustained bipartisan support. Finally, even though the prospect for *open* declaration of default by the United States is now receding, there should be debate about the possibility and method of default. The bondholders in the United States and around the world deserve to know how much they will suffer and what action will be taken to prevent it happening again. Considerations of default should also be taken into account in any attempt to enact an effective "fiscal constitution."

Notes

1. Unless otherwise stated, citations in this article are to works by Buchanan.
2. For example, in addition to the topics discussed below, Buchanan also addressed ethical limits on the market (see Alvey 2010) and the Protestant work ethic (see Alvey 2009b). The work ethic warrants further study.
3. Buchanan's Public Choice contributions are part of the tradition of economics as imperialistic social science (see Duhs 2005). One major consequence of that work is to take economics further away from the two strands of the ethical tradition outlined by Sen (1987, 2–7). Self-interested behavior is now hypothesized in new areas. Bureaucrats, politicians and voters are assumed to "utility maximize," but the results are not socially beneficial. Hence, "government failure" is endemic.
4. Buchanan was following in the tradition of Whately and others. See Kirzner 1960, chapter 4.
5. There may be a logical difficulty in making a normative claim about a positive science.
6. Sen uses the term *social achievement* for his understanding of distributive justice (1987, 2).
7. On this point, see my analysis of Buchanan's *The Limits of Liberty* in Alvey 2009a, 7–10.
8. I am in broad agreement with the analysis of Tempelman (2007), who lists seven propositions that emerge from Buchanan's work on public debt. I have split Tempelman's fourth proposition on Keynesian macroeconomics into two: these are my fourth and fifth propositions.
9. In various places, Buchanan concedes that public debt may be legitimate (in restricted settings) when expenditures are for capital investment (see 1987e, 56).
10. Buchanan says that debt is "equivalent to an 'eating up' of our national capital value" ([1986b] 2000, 447). He refers to the "national capital stock," "national debt," "national income," and so on (1986a, 181, 193). These expressions are clear breaches of Buchanan's opposition to aggregative terms and macroeconomics (1964a, 215; 1964d, 61–62; 1975b, 226–27, 229; 1991, 33–34).
11. According to Buchanan, people lack clear-sighted expectations of the future (rational expectations); fiscal illusion ensures that "Ricardian equivalence" (i.e., the equivalence of a public debt burden with a taxation burden when the quantities are carefully calculated) does not hold for most people. He rejects the "supra-rational Ricardo-Barro" view (1985, 4; see Ricardo [1820] 1951–1973, vol. 4, 186–88; Barro 1974). Buchanan responded to Ricardo and Barro in several places, including

Buchanan and Wagner 1978c, 98–100. In one place (Buchanan 1964c), he argues that there is a "burden," even without fiscal illusion. Overall, on this aspect of human "rationality," Buchanan is clearly out of step with the modern "consensus" of macroeconomic researchers, which holds that "Ricardian equivalence" is a good approximation to reality (Dimand 2002, 631). Surprisingly, Buchanan is more in tune with contemporary psychology on this point.

12. Buchanan and Wagner define the "fiscal constitution" as "the set of constraints within which elected political representatives operate" (1978c, 97).

13. Following Hayek, Buchanan gives an account of Victorian ethics through the lens of cultural evolution in 1985, 2–3.

14. The pre-Keynesian constraints were "the product of biological evolution, cultural evolution, and, possibly, rationally calculated moral pre-commitment" (1987b, 183).

15. Buchanan calls it "the Victorian fiscal religion" (1986a, 193). Elsewhere, Buchanan calls this "the old mythology" or "the old-time fiscal religion" (Buchanan and Wagner [1977] 2000, 10–24 (and the title of chapter 2), 38; Buchanan and Wagner 1978c, 95–96; Buchanan 1995).

16. Public debt for war was regarded as essential and a sort of emergency breach of the norm. Buchanan admits that deficits for sudden war expenses may be legitimate deficits (1987e, 56). With varying degrees of success, attempts were made to pay off the public debt in subsequent years of peace through devices such as the sinking fund.

17. To some degree, *legally imposed* norms are a substitute for *ethical* norms ([1975a] 2000, 149–50; see 1985, 1–2, 5). In the large-number context, however, ethical norms tend to break down ([1975a] 2000, 153–55). Law and law-abiding behavior are like capital that must be maintained over time. Departures from "traditionally honoured limits for behaviour" are like "eating up" capital ([1975a] 2000, p. 160; see 21, 159).

18. The national budgeting constraint was based on the analogy to household budgeting; just as households must balance the books, so must governments (1987b, 183–84). That analogy came under severe attack subsequently. Buchanan admits that the analogy is not valid (1987b, 184). It was a sort of self-deception. Nevertheless, the *effect* of the delusion was a useful constraint.

19. Buchanan makes the same claim about the modern welfare state: its "transfer programs" amount to an implicit debt obligation (1987a, 343).

20. In addition, for deficits that finance consumption expenditures (which Buchanan said was the norm in the modern welfare state), future generations receive *none* of the benefits from the associated expenditures (1987d, 366, 372).

21. He states in one place, following Hayek, that moral rules "evolve slowly and without deliberate construction"; hence, once they are destroyed, "there is little hope for any restoration" (1985, 5).

22. Buchanan, along with about two hundred other economists, signed a letter of protest against the Obama administration's "American Recovery and Reinvestment Act of 2009"; this letter, which was funded by the Cato Institute, appeared in the *New York Times* and the *Wall Street Journal* on January 28, 2009 (Cato Institute 2009). Part of the complaint was that the plan would increase public debt.

23. "At some point, the annual interest charge will come to equal and then exceed the annual deficit. Once this critical threshold is passed, the simple economics of default come into play" (1987d, 361).

24. What Buchanan has in mind is a series of defaults by *one* country (rather than the defaults by a series of countries). Nevertheless, the argument could be extended to cover the global legal-political framework (although the number of defaults may have to be larger).

25. Some obligation applies to immigrants, however, because they arrive recognizing "the existence of debt claims" (1987d, 367).

26. Buchanan concedes that war expenditures may constitute a reasonable burden on future expenditure in *some* contexts (see 1987e, 56). One example may have been the United States war expenditures in World War II. Would Buchanan concede that all war expenditures (and all wars) are legitimate? Could he acquiesce to any war that led to massive public spending and debt? Where does the War on Terror stand (or other recent interventions for that matter)? Even if all wars are valid, Buchanan seems to suggest that some/much of the war expenditure should be funded by taxation. Adam Smith took the extreme view that war expenditures should be *fully* funded within the year that they were incurred (Smith [1776] 1976, 925–26). Is that the case in the continuing War on Terror?

27. The U.S. government has *openly* declared partial defaults twice before. In one case, it delayed some interest payments (in 1790); in the other case, following depreciation in the currency, it breached an understanding that it would repay in gold (in 1933) (see Ip 2009).

28. Buchanan argues that the general threat of inflation (especially incentive effects) is worse than a one-off explicit default: "In terms of criteria for capital accumulation and preservation, … explicit repudiation of public debt seems clearly preferable to default by means of inflation" (1986a, 192).

29. As default becomes more likely, a risk premium is likely to be included in the expected "rate of return" of public bonds (1987d, 371). In such an environment, Buchanan conceded, even the obligation to bondholders "loses some of its force" (1987d, 372).

30. A wide range of bodies has started to release reports on the extent of the debt and the security of U.S. government bonds. Mutual funds, ratings agencies, and so on, have presented information on U.S. government bonds. In addition, a wide range of reports has been published by government agencies. The mass media has provided commentaries on many of these. These matters have also entered the political realm, with extensive debates between the leading parties on the speed at which expenditure cuts should occur.

31. The window of opportunity that opens after a crisis begins to shut soon afterward. By April 2011, the window was clearly closing in most countries.

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