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James M. Buchanan on Public-Debt Finance

JERRY H. TEMPELMAN

When James M. Buchanan was awarded the 1986 Alfred Nobel Memorial Prize in Economic Sciences for his seminal contributions to public-choice theory, the Royal Swedish Academy of Sciences mentioned his work on public-debt finance in only a single sentence of its press release. Buchanan himself, however, considers his work on public-debt finance to represent not merely a "side alley" or "digression" to his work on public-choice theory, but rather an "extension" or "application" thereof (Buchanan [1986] 1999a, 17–18): "The *most elementary prediction* from public choice theory is that in the absence of moral or constitutional constraints democracies will finance some share of current public consumption from debt issue rather than from taxation and that, in consequence, spending rates will be higher than would accrue under budget balance" ([1987] 2000c, 471, emphasis added).

The recently published twenty-volume series *The Collected Works of James M. Buchanan* contains ten monographs, two of which deal specifically with public-debt finance: *Public Principles of Public Debt*, originally published in 1958 (1999f), and *Democracy in Deficit*, cowritten with Richard E. Wagner and published in 1977 (2000a), volumes 2 and 8 in the series, respectively. In addition, there are nineteen papers, comments, book chapters, and encyclopedia articles on public debt, spread

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out over the remaining volumes but most contained in volume 14, *Debt and Taxes.* Taken as a whole, the writings span nearly four decades.[1]

Although Buchanan considers himself strictly an academic, not a political advocate, he has made an exception with regard to the issue of public-debt finance. During the 1980s and 1990s, he was an active participant in the political debate over enactment of a constitutional balanced-budget amendment. He explained in an interview: "Personally, I'm not the type of economist who does much testifying before Congress or for political parties. I'm very, very much ivory tower. The only policy issue at all that I've been on board with is the balanced budget: the constitutional change" (1995).

The political debate over government debt and deficits abated with the emergence of federal budget surpluses at the end of the Clinton administration, but the surpluses turned out to be a temporary phenomenon. Buchanan's work on public-debt finance clearly is as relevant today as it was when first published.

In this article, I provide a brief overview of Buchanan's work on public-debt finance. The presentation is organized in accordance with seven propositions distilled from Buchanan's writings. These propositions relate to the incidence of public debt, its economic consequences, Ricardian equivalence, Keynesian macroeconomics, the permanence of public debt, its moral consequences, and Buchanan's call for a constitutional balanced-budget amendment. Although many of Buchanan's views on public-debt finance are now widely accepted, they were not accepted when he originally advanced them. Even today, Buchanan's contributions remain greatly underappreciated.

The Incidence of Public Debt

Buchanan began his work on public-debt finance during the 1955–56 academic year, when he held a Fulbright research scholarship in Italy. "At the very end of the Italian year, I suddenly 'saw the light.' I realized that the whole conventional wisdom on public debt was simply wrong, and that the time had come for a restoration of the classical theory, which was correct in all its essentials. . . . Immediately on my return to America in 1956, I commenced my first singly-authored book, *Public Principles of Public Debt*" ([1986] 1999a, 18).

Buchanan's starting point in his investigation of public-debt finance is a consideration of its incidence. As he frames the question, *Who* pays for public debt, and *when* do they pay? His answer is that public debt constitutes a burden on future taxpayers: "The essence of public debt, as a financing institution, is that it allows the objective cost of currently financed expenditure projects to be postponed in time. For the taxpayer, public debt delays the necessity of transferring command over resource services to the treasury" ([1964] 2000d, 358).

1. *The Collected Works of James M. Buchanan* do not contain all of Buchanan's writings. A comprehensive list of his writings on public-debt finance appears in Buchanan [1997] 2000a, 516–18.

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Buchanan points out that bondholders lend *voluntarily* by choosing from among multiple investment opportunities, and in the future they receive back their invested principal plus interest. The voluntary nature of their lending shows that it makes them better off instead of worse off, so bondholders are clearly not the ones bearing the burden of government debt.

> If an individual freely chooses to purchase a government bond, he is, presumably, moving to a preferred position on his utility surface by so doing. He has improved, not worsened, his lot by the transaction. . . . The economy, considered as the sum of the individual economic units within it, undergoes no ***sacrifice*** or ***burden*** when debt is created. . . . The fact that economic resources are given up when the public expenditure is made does not, in any way, demonstrate the existence of a ***sacrifice*** or ***burden*** on individual members of the social group. . . . It is not the bond purchaser who sacrifices any real economic resources anywhere in the process. He makes a presumably favorable exchange by shifting the time shape of his income stream." ([1958] 1999f, 28–32, emphasis in original)

Thus, bondholders do not bear a burden by financing today's public expenditures. Because bondholders will eventually be repaid from the proceeds of future taxes, future taxpayers pay for today's debt-financed public expenditures and bear its real burden.

Buchanan interprets burden as a utility loss rather than a financial loss. He draws a distinction between subjective and objective costs ([1964] 1999d, 153–54), arguing that the voter-taxpayer's conception of the cost of debt is based on his subjective evaluation of forgone alternatives at the moment of choice, rather than on the objective effect of future cash flows of interest and principal: "'[C]ost' or 'burden' remains meaningless until and unless it can be translated into effects on some persons in the group at some time" ([1964] 2000d, 357). The *objective* cost is the actual "burden" of debt—namely, the value of resources sacrificed by *future* taxpayers ([1964] 1999d, 155). The decision to incur debt, however, is made by *present* taxpayers, based on an evaluation of the *subjective* cost to them, which is negligible in the case of public debt.[2]

As Buchanan himself points out, he was not the first to advance this view. He credits classical economists such as Henry C. Adams, Charles F. Bastable, and especially Paul Leroy-Beaulieu ([1958] 1999f, 82–86). At the time that he wrote *Public Principles of Public Debt,* however, these writers' ideas had been abandoned and replaced by the idea that the burden of public debt is born by present rather than future generations because "we owe it to ourselves" (Lerner 1948, 256).[3] Buchanan

2. This idea of fiscal illusion is developed further in Buchanan and Wagner [1977] 2000a, 133–35. Buchanan's distinction between objective and subjective cost is developed further in Buchanan [1969] 1999c.

3. The Lerner position also predates Lerner. As Buchanan points out, "[a] conception of public debts strikingly similar to those which are currently orthodox was widely prevalent in the eighteenth century and before, and this was considered an essential part of the whole mercantilist doctrine" ([1958] 1999f, 15).

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counters that in this statement "we" should be disaggregated into present-day people in their capacities as taxpayers and bondholders. The two do not offset because neither bears a burden. The aggregation expressed in the word *we* obscures the analysis. Indeed, the Lerner view is now widely discredited. Still, as an illustration of the underappreciation of Buchanan's views on public-debt finance, standard public-finance textbooks do not mention Buchanan's ([1958] 1999f) contribution, even as they continue to discuss the "we owe it to ourselves" argument (see, for example, Stiglitz 2000, 784, and Rosen 2002, 429–30).[4]

Public Debt and Capital Formation

In addition to the burden of principal repayment that falls on future generations, there is an economic cost of borrowing. Just as a lender receives interest in return for postponing consumption from the present to the future, so a borrower must pay interest for the ability to increase consumption in the present without paying for it until some time in the future. The interest payment has a negative effect on net wealth because using debt to finance increased consumption in the present permanently reduces the borrower's standard of living in the future. As Buchanan phrases it, "By financing current public outlay by debt, we are, in effect, chopping up the apple trees for firewood, thereby reducing the yield of the orchard forever" ([1986] 2000e, 447).

That borrowing has a cost does not mean that it is undesirable. Borrowing allows economic actors to align their actual consumption pattern more closely to their intertemporal consumption preferences. So long as no one is forced to borrow, borrowing merely allows the borrower to reach a higher utility curve, as depicted by the standard microeconomic diagram. A potential borrower weighs the greater utility of shifting some amount of consumption from the future to the present against the long-term reduction in living standard. He may decide to borrow money to finance an investment or an expensive durable consumer good, but not to finance a vacation. For example, an individual may choose to purchase a residence in the present by incurring mortgage debt rather than by saving for many years to accumulate enough cash to purchase the residence without debt.

This rationale for borrowing, however, does not apply to a public-debt setting, Buchanan argues, for two reasons. First, although initially he considered the issuance of public debt acceptable for the financing of capital goods ([1958] 1999f, 121–26), later on he rejected this view, in part because most government expenditures do not consist of capital investments ([1986] 2000g, 370–73). He wrote:

> The public debt incurred by the U.S. government during the regime of ever-increasing, and apparently permanent, budgetary deficits has financed public

4. Stiglitz argues that "We now recognize that this argument is wrong" for three reasons: (1) "even if we owe the money to ourselves," debt affects interest rates, investment, and future output; (2) we do not owe debt held by foreign owners to ourselves; and (3) interest on the debt requires taxation that brings about

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> or government *consumption* rather than public or government investment. The classical rules for fiscal prudence have been doubly violated. Not only has government failed to "pay as it goes"; government has also failed to utilize productively the funds that have been borrowed. There has been no offsetting item on the asset side to match the increase in net liability that the debt represents. The capital value of the income stream of the national economy has been reduced, dollar for dollar, with each increase in present value of liabilities represented by the debt instrument issued. ([1986] 2000g, 369, emphasis in original)

Second, by comparing utilities intertemporally in a public-finance setting, we would be aggregating individuals' intertemporal consumption preferences and thereby engaging in the very "aggregation fallacy" ([1986] 2000g, 375) implicit in the "we owe it to ourselves" logic that Buchanan debunked when determining the incidence of public debt (373–75).

Ricardian Equivalence

During the 1970s, Buchanan engaged in debate with Robert J. Barro and others over the merits of ***Ricardian equivalence.*** Barro (1974) argued that Keynesian fiscal stimulus policy is ineffective because an increase in government spending financed by debt issuance is offset by an increase in private saving, as economic agents anticipate the increase in their future tax liability required to repay the debt. Although Buchanan was not a Keynesian (see, for example, Buchanan and Wagner [1977] 2000a), he did not agree with Barro, either.

Buchanan had previously discussed Ricardian equivalence in the context of explaining that the incidence of debt is on future generations. If Ricardian equivalence holds, today's taxpayers will write down the value of their assets in anticipation of the future taxes that will be required to repay public debt issued today. If so, the burden of debt would effectively fall on today's generation rather than on future generations, which neither Ricardo nor Buchanan believed to be the case: "The primary real burden of a public debt is borne by members of the current generation only insofar as they correctly anticipate their own or their heirs' roles as future taxpayers, and take action to discount future tax payments into reductions of present capital values. Insofar as the time horizons of individuals are not finite, that is, insofar as future individuals are considered to be separate conceptually from present individuals, there must be some shifting of the primary real burden to future generations" (Buchanan ([1958] 1999f, 36–37). Buchanan criticized Barro for ignoring the effects of

economic distortions (2000, 784). All these statements are true, but they miss the heart of the rationale advanced by Buchanan. Rosen uses a generational-accounts model to argue that the burden of public debt may be borne by future rather than present generations (2002, 437), while still calling this proposition "unproven," even though privately he, too, acknowledges that "no one believes the Lerner analysis anymore" (personal e-mail, August 11, 2004).

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negative capital formation that come with debt. Furthermore, he argued, Barro's analysis would predict that the existence of Social Security would not affect private saving rates, which runs counter to empirical research, such as that by Feldstein (1974). In addition, Barro's analysis leaves unexplained the observed phenomenon that governments are not indifferent between debt and taxation, which they would be if Barro's analysis were correct.

Because the burden of public debt falls on future taxpayers rather than on present ones, Barro implicitly assumes that all present taxpayers are inherently altruistic or at least possess perfect foresight. Buchanan disagrees with this assumption: "We differ from the Ricardians because we do not think that future taxes are fully discounted. We think that public debt is different from taxation precisely because we, unlike Barro, do not think that people act with an infinite-lived perspective" (Buchanan and Wagner [1978] 2000b, 476).

In essence, Buchanan criticizes Barro's analysis because Barro, unlike Ricardo, ignores the reality of a so-called fiscal illusion, which is in this case people's failure to recognize fully that government bonds create future tax obligations. Economic agents systematically underestimate the future taxes required to pay off the debt incurred in the present. In appreciation of such underestimation, Ricardo himself had previously rejected a Barro-type argument.

According to Barro (1992), at the time he wrote his 1974 paper he was not aware of Ricardo's writing on the equivalence between taxation and public debt, which was "unfamiliar to most economists." He cites Buchanan's reply ([1976] 2000b) to his 1974 paper as pointing out the connection to Ricardo, although Buchanan had previously done so as early as 1958 in *Public Principles of Public Debt:* "Ricardo enunciated the proposition that the public loan and the extraordinary tax exert *equivalent* effects on the economy" (Buchanan [1958] 1999f, 35, emphasis added). John J. Seater (1993) did not include Buchanan's contributions in his survey paper on Ricardian equivalence in the *Journal of Economic Literature,* which may be considered a notable oversight if only because it was Buchanan who coined the phrase "Ricardian equivalence theorem" in the title of his reply to Barro (Buchanan [1976] 2000b). Buchanan in turn credits the Italian public-finance tradition with discussion of Ricardo's proposition (Buchanan [1958] 1999f, 35–36 and 88–94).

Keynesian Macroeconomics

In his other monograph on public-debt finance, *Democracy in Deficit,* cowritten with Richard E. Wagner ([1977] 2000a), Buchanan takes to task the effect of Keynesian macroeconomic-policy prescriptions on the unwritten balanced-budget norm that had existed prior to the advent of Keynesianism. Following the Great Depression, throughout the period from the 1940s to the 1970s, Keynesians argued that governments need not balance their fiscal books and instead should use deficit finance

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as a cyclical device for stabilizing the economy. Of course, Buchanan is not alone in criticizing Keynesian doctrine, but this aspect of his work on public-debt finance is perhaps the one most often cited.

Buchanan and Wagner make two primary arguments against the Keynesian prescription of deficit spending during recessions. The first echoes a point made earlier by Chicago economists such as Henry Simons and Milton Friedman as well as by Buchanan ([1958] 1999f, 112), which exposes an internal inconsistency of Keynesian macroeconomics. If Keynesian economics were correct, public spending increases during an economic recession with slack resources could be financed simply by the creation of paper currency instead of by the issuance of interest-bearing debt (Buchanan and Wagner [1977] 2000a, 34–35).

More important, however, is the authors' criticism of Keynesianism's total neglect of its public-choice implications. Elected public officials display a bias toward spending public funds on projects that yield tangible benefits to their constituents without encumbering them with a tax bill to pay for those projects. If politicians are informed that public debt is not malignant and is even beneficial, they will no longer feel restrained in either public-debt issuance or public spending. "The pre-Keynesian norm of budget balance served to constrain spending proclivities so as to keep governmental outlays roughly within the revenue limits generated by taxes. The Keynesian destruction of this norm, without an adequate replacement, effectively removed the constraint. Predictably, politicians responded by increasing spending more than tax revenues, by creating budget deficits as a normal course of events" (Buchanan and Wagner [1977] 2000a, 95–96). Buchanan and Wagner argue that Keynesianism might work under a system of benevolent dictatorship, but it will not work in a democratic setting with professional politicians, political parties, government bureaucracy, and citizens who are both taxpayers and beneficiaries of public services (79–80). "Political decisions in the United States are made by elected politicians, who respond to the desires of voters and the ensconced bureaucracy. There is no center of power where an enlightened few can effectively isolate themselves from constituency pressures" (98).

The bias toward long-term deficit finance is not inherent in Keynesian macroeconomics itself. As Buchanan and Wagner note, Keynesianism in theory calls for the creation of a government budget deficit when a shortfall in aggregate demand threatens to bring about unemployment and for the creation of a government budget surplus when aggregate demand in excess of the full-employment amount threatens to bring about inflation ([1977] 2000a, 33). In reality, however, the practice of running budget surpluses ended after the Eisenhower administration (47)—hence, the observation that "politicians have become at least half Keynesians, . . . [and] budget policy proceeds from a half-Keynesian paradigm" (38). The Keynesian doctrine of deficit spending provided the academic excuse for politically elected representatives to spend without taxing, thus removing the self-imposed discipline of balanced budgets that had existed prior to the adoption of Keynesian thinking (4): "The legacy or heritage of Lord Keynes is the

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putative intellectual legitimacy provided to the natural and predictable political biases toward deficit spending, inflation, and the growth of government" (26).

The Permanence of Public Debt

As noted at the outset, the central prediction of Buchanan's work on public-debt finance is that, barring moral or constitutional constraints, public debt will be an ever-present phenomenon. Elementary public-choice theory explains its permanence. The tendency in elective democracy is for utility-maximizing politicians to borrow and spend rather than to tax and spend, and to spend much rather than little.

> Elected politicians enjoy spending public monies on projects that yield some demonstrable benefits to their constituents. They do not enjoy imposing taxes on these same constituents. The pre-Keynesian norm of budget balance served to constrain spending proclivities so as to keep governmental outlays roughly within the revenue limits generated by taxes. The Keynesian destruction of this norm, without an adequate replacement, effectively removed the constraint. Predictably, politicians responded by increasing spending more than tax revenues, by creating budget deficits as a normal course of events. (Buchanan and Wagner. ([1977] 2000a, 95–96)

The fiscal facts for the period following the Great Depression empirically confirm Buchanan's prediction. Sixty-three of the seventy-five years from 1931 to 2005 have had a unified federal budget deficit. Of the years with a surplus, only five have occurred since John F. Kennedy was elected president in 1960—namely, 1969 and 1998–2001.[5] The federal budget surpluses from 1998 to 2001 came very much as a surprise, and they evaporated soon after the economy entered a recession in 2001. Furthermore, during two of those four years the unified budget was in surplus only because of the Social Security surplus, which is rather ironic, given that the Social Security system, as presently set up, promises future government entitlement payments whose present value greatly exceeds the value of future "contributions" to the system by taxpayers.

Extending the argument, we see that debt retirement is unlikely to happen except as a surprise consequence of unforeseen macroeconomic and fiscal conditions. Buchanan pointed out,

> There will be a natural bias against any proposal to retire debt from tax-financed revenues. Those who are to be taxed will oppose; those who may be the net beneficiaries may not exist (future generations) or, if they do,

5. See *Budget of the United States Government, Fiscal Year 2005*, Historical Table 1.1. Available at: http://www.whitehouse.gov/omb/budget/fy2005/sheets/hist01z1.xls.

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> may not treat the aggregate reduction in liability as personally experienced increases in their own net wealth. For the same reasons that politicians find it much easier to finance outlays with debt rather than with taxes, they also find it much easier to carry forward debt, once issued, than to retire debt from tax sources. . . . National capital, once destroyed by debt creation, will not be restored. Or, to put this point differently, public debt, once created, is ***permanent,*** regardless of the initial usage to which the funds might have been devoted. ([1986] 2000g, 377, emphasis in original)

Public Principles of Public Debt was written before public-choice theory came fully into its own, and the bulk of Buchanan's argument in this book pertains to macroeconomics rather than to public-choice theory. Indeed, macroeconomics alone did not lead Buchanan to a conclusive condemnation of the use of public debt: "The public loan is, in and of itself, neither a good nor an evil" ([1958] 1999f, 84). Nevertheless, elements of public-choice theory as well as a reluctance to embrace the existence of public debt come through even in this early work:

> [T]he real cost of public expenditure which is debt financed must rest on individuals *other* than those who participate in the social decisions made at the time of the approval or rejection of any proposed expenditure. . . . This destroys the individual comparison of benefits from public expenditures and the costs of these expenditures which is possible in the case of taxes. . . . If any individual benefits at all are expected to accrue currently from a proposed public expenditure, the individual when making his choice between the public debt–public expenditure and the no debt–no expenditure alternatives will always tend to favor the former over the latter. In such cases, the choice processes usually embodied in democratic institutions cannot be expected to provide correct decisions, upon any criterion of correctness. The individual chooser cannot fairly compare benefits and costs. . . . The process of social decision making in a modern democratic state is complex at its best, and this process should not be forced into positions where its very operation must produce biased decisions. ([1958] 1999f, 119–121, emphasis in original)

The Immorality of Public Debt

Buchanan attributes the increase in deficit financing at least in part to "a breakdown in moral constraints," and he interprets these moral constraints as the norm that "capital, once accumulated, should be maintained and transmitted to future generations" ([1987] 2000c, 460). The pre-Keynesian self-imposed

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balanced-budget constraints were morally intuitive rather than based on rational economic considerations.

The traditional public-finance perspective on equity, or fairness, centers on the concepts of benefit and ability to pay. By incurring public debt, present generations may be taking disposable income from future generations, but historical experience suggests that future generations will be wealthier than present ones and thus have greater capacity to repay it. Buchanan rejects this argument:

> Persons who save and invest privately do not do so for the purpose of improving the well-being or utility levels of "future generations," as defined by membership of the polity. Persons save and invest privately, to the extent they do so over and beyond life-cycle planning at all, for the purpose of improving the well-being or utility levels of their own progeny or its designed surrogate. Whether or not such behavior, in some aggregate sense, offsets the future-period weight of the claims created by debt-financed public consumption is irrelevant to the question concerning the basic morality of the initial fiscal action. ([1987] 2000f, 529)

Alternatively, although present generations may be leaving future generations with debt, they also leave them with assets, such as public infrastructure, that benefit them. Buchanan was initially not unsympathetic to this view:

> [T]he ethical principle against the issue of debt which embodies some transfer of net fiscal liability to future generations of taxpayers does not fully apply when debt is limited to financing genuinely long-term projects. In this case, future generations enjoy the benefits as well as inherit the liability. . . . [Thus,] public debt issue may be chosen as an appropriate part of the over-all "constitution" of a fiscal structure, provided that limitations are imposed to insure that debt financing be restricted to projects that yield benefits over time. ([1967] 1999e, 267–68)

At this time (1967), Buchanan was clearly not entirely opposed to the use of public-debt finance. He did not yet advocate a constitutional balanced-budget requirement.

Over time, however, he developed a rationale that trumps the benefit principle. Apart from the fact that debt is often used to finance consumption expenditures instead of public capital investments (for example, to make transfer payments rather than to build roads), Buchanan focuses on economic subjects' input in decision making. Public debt is immoral because future generations end up facing a financial burden that is the result of spending and borrowing decisions in which they did not participate. "The financing of current public consumption by debt issue is unjust because it shifts income from those who are not and cannot be beneficiaries of the outlay and who do not and cannot participate in complex political

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process that generates the observed results. 'Taxation without representation' is literally descriptive of the plight of those who will face the debt-burden overhang in future periods" ([1987] 2000c, 467). In the case of the issuance of private debt that finances individuals' consumption, the consequences of a lower standard of living over time are born by the private debtors or by their estates. In the case of public debt, the present generations making the spending and borrowing decisions do not face the consequences of those decisions ([1987] 2000f, 527).

Phrasing this matter within a Rawlsian framework, we may say that behind a veil of ignorance people would not choose public debt to finance consumption. There is no "meeting of the minds" as required for a legally valid contract. As Buchanan stated in his 1986 Nobel Prize lecture, "It 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 [*sic*] the imposition of utility losses on later generations of taxpayers. The same conclusion applies to the implicit debt obligations that are reflected in many of the intergenerational transfer programs characteristic of the modern welfare state" ([1986] 1999b, 467).

Constitutional Balanced-Budget Amendment

Buchanan's support of a constitutional balanced-budget requirement appears in his writings from the mid-1970s on. The requirement is intended to remedy the imperfections of the political process by "constrain[ing] the short-run expedient behavior of politicians" (Buchanan and Wagner ([1977] 2000a, 9). Thus, Buchanan's support for such a constitutional amendment reflects his larger work on constitutional political economy.

> The first [step to be taken in moving toward genuinely effective fiscal reform] is that of recognizing explicitly that a meaningful constitutional norm is required, independently of just what this norm might be within rather broad limits. Budgets cannot be left adrift in the sea of democratic politics. They must be constructed with constraints that impose external form and coherence on the particular decisions about size and distribution which an annual budget reflects. The elected politicians, who must be responsive to their constituents, the governmental bureaucracy as well as the electorate, need something by way of an external and "superior" rule that will allow them to forestall the persistent demands for an increased flow of public-spending benefits along with reduced levels of taxation. (Buchanan and Wagner [1977] 2000a, 182)

Buchanan argues that such a rule must be "relatively simple and straightforward, capable of being understood by members of the public," that it must offer

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"clear criteria for adherence and for violation," and that it must "reflect and express values held by the citizenry" (183).

Buchanan's advocacy of a constitutional balanced-budget requirement is not universally shared. It is true that on two occasions, in 1995 and in 1997, Congress came within a single Senate vote of passing a constitutional balanced-budget amendment. In spite of the return of federal budget deficits in recent years, however, such an amendment has received little consideration and has inspired little political action. The public-finance literature generally argues against it as well (see, for example, Rosen 2002, 132–33).

Buchanan has considered two common objections to a constitutional balanced-budget requirement ([1997] 2000a, 505–9). Economists have pointed out that a constitutional balanced-budget requirement reduces economic policymakers' flexibility. Buchanan agrees, countering that doing so is precisely the point. Experience shows that policymakers cannot exercise such flexibility responsibly. Furthermore, the validity of the theory behind a policy of using budget deficits as a macroeconomic stabilization tool is, as noted earlier, greatly in dispute. Finally, a balanced-budget rule would itself be "an important stabilizing element that would provide an expectational anchor against the fiscal adventurism of impermanent political coalitions" (507).

Legal scholars have pointed out that it is impractical to enforce a constitutional balanced-budget amendment. Buchanan counters by proposing automatic triggers, such as automatic tax increases or across-the-board spending reductions—that is, reductions with no protected categories, such as entitlement outlays or the wages of government workers (Buchanan and Wagner [1977] 2000a, 185–87)—and by observing that public officials do not consistently violate other constitutional rules.

Conclusions

From the preceding survey of Buchanan's writings on public-debt finance, the following seven propositions may be distilled:

1. The burden of public debt falls on future generations.
2. Public debt constitutes negative capital formation.
3. Ricardian equivalence does not hold because of fiscal illusion.
4. Keynesian macroeconomics is the principal cause of the disappearance of the unwritten balanced-budget norm that existed prior to the 1930s.
5. Barring constitutional constraints, public deficits will be a permanent phenomenon.
6. Public debt is immoral because future generations bear a financial burden as a result of spending and borrowing decisions in which they did not participate.
7. A constitutional balanced-budget amendment is required to remedy the tendency in elective democracy for government to borrow and spend rather than to tax and spend, and to spend much rather than little.

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Buchanan considers the incurrence of public debt undesirable, but not mainly for the reasons usually cited in the mainstream economic and public-finance literature. Although, ceteris paribus, public-debt incurrence reduces private investment, increases interest rates, requires extra taxation to fund interest payments, and—if excessive—may lead to financial distress, Buchanan does not rely primarily on these arguments. Instead, extending arguments first articulated by Swedish economist Knut Wicksell, he argues that the incurrence of public debt is undesirable for reasons that stem from considerations of morality and public-choice theory.

Buchanan's views on public-debt finance are remarkably consistent, considering that he has developed and expressed them over the course of nearly half a century. The two main themes of Buchanan's two monographs on public debt—namely, the incidence of the debt on future generations and the desirability of a constitutional balanced-budget requirement—are logically intertwined. The public-choice aspects and therefore the need for the constitutional amendment arise precisely because the burden of public debt falls on future generations.

Buchanan himself calls his work on public-debt finance "less successful in convincing my economist peers than other work in public choice and public finance" ([1986] 1999a, 18). To the extent that this claim is accurate, the relative lack of influence probably has been the case not because Buchanan's contributions on public-debt finance are not sufficiently meritorious, but rather because some of them by now have become so obvious as to be taken for granted. Even thinkers on the political left today concede many of Buchanan's points—for example, that public debt constitutes a burden on future generations, that Keynesian debt-driven fiscal stimulus policies are flawed, and that government's ability to borrow gives rise to a larger government sector than would be the case if the government lacked that ability (see, for example, Shaviro 1997, 10, 4, 146, respectively, on these points).

Although support for a constitutional balanced-budget requirement would appear to be a logical conclusion of Buchanan's arguments, the world clearly has not come to agree with him in this regard. One cannot help but wonder whether he has a view as to why his advocacy of the constitutional amendment has met with so little practical success.

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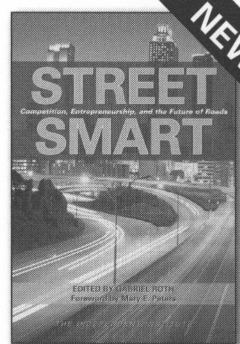

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