The Restoration of Fiscal Stability: A Public Choice Approach on the Problem of Public Debt

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Abstract

In contemporary democracy fiscal policy is not employed for the fiscal control of necessary state activities but for generation of deficits which cause the state to feed on itself and expand enormously in the service of special interests and contrary to the public’s interest in fiscal stability and discipline. Starting from the origin of and the reason for, the classical liberal state, an analysis of the historical theoretical background of public choice is done. The development and application of public choice analysis can work towards restoring fiscal stability, especially after the outbreak of the global financial crisis that generated the enormous increase in the public deficit and debt in the developed democracies. Institutions in this case play a decisive role in ensuring that its manner of drafting and the high principles of its elaboration place effective limitation on the state not allowing the constitution to be used as a legislative point of departure for the further expansion of the state and the exaburation of its public deficit and debt.

I. The Classical Liberal State

THE STATE IS the basic institution of organization in contemporary societies. Historically, in the modern age, from the need for a state and for strong centralized power, which was the dominant political demand of the societies of the 16th and 17th centuries, we have moved on to the societies of the 20th century, where the state has acquired institutional solidity, expanding functionally into almost all spheres of action in economic and social life. In the 20th century, apart from its central political role - which it inherited from the 19th century - the state embarked on a course of continual expansion, implementing actively interventionist economic and social policies.

There was a parallel shift in the theoretical interpretation of the state. Thus from the all-powerful tightly-consolidated state sought by Machiavelli in the person of The Prince, and also by Hobbes(1996) in Leviathan, “that

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strategy to solve public-policy problems, one that supplies rules designed to reduce
the opportunity set that rational politicians confront”

James M. Buchanan, (2005, pp.23), attributes the strength of the state and the high
demand for a nanny state even in the 21st century to the fear of the people to
undertake their own responsibilities. “And it seems evident that many persons do
not want to shoulder the final responsibility for their own actions. Many persons
are, indeed, afraid to be free.”

James M. Buchanan, (2005, pp.29), “The liberal principle that persons are to be free
to create taxable capacity as and if they so choose is not consistent with the socialist
principle that the welfare dependency be expanded beyond plausibly acceptable fiscal limits”

James M. Buchanan, (1993, pp.1), “Or, in other terms, how could the constitutional
framework be reformed so that players who advance generalized interests are
rewarded rather than punished”

James M. Buchanan, (2005, pp.28), “Such an idealized capitalistic system would,
at most, command collectively up to fifteen percent of national value product” and
share to something less than twenty percent over a multiyear period would provide
the necessary long term focus for fiscal policy, giving it some credibility and
predictability.”

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