

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

PANAGIOTIS EVANGELOPOULOS\*

---

---

### **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 16<sup>th</sup> and 17<sup>th</sup> centuries, we have moved on to the societies of the 20<sup>th</sup> century, where the state has acquired institutional solidity, expanding functionally into almost all spheres of action in economic and social life. In the 20<sup>th</sup> century, apart from its central political role - which it inherited from the 19<sup>th</sup> 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<sup>1</sup>, and also by Hobbes(1996)<sup>2</sup> in Leviathan, "that

\* Assistant Professor, The University of Peloponnese, The Department of Economics, Thesi, Sechi, Proin 40 Pedio Volis, 22100 Tripoli, GREECE

- strategy to solve public-policy problems, one that supplies rules designed to reduce the opportunity set that rational politicians confront"
- 38 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."
- 39 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"
- 40 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"
- 41 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 W.Lee Hoskins, (2001, pp.259), "A constitutional amendment limiting government 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."

### References

- Boettke, Peter J., (2001), "*Calculation and Coordination*", Routledge, New York.
- Brennan Geoffrey and Buchanan, James M., (1977), "Towards a Tax Constitution for Leviathan", *Journal of Public Economics*, Vol. 8, pp. 255-73
- Buchanan, James M., (1974), "*The Limits of Liberty. Between Anarchy and Leviathan*", The University of Chicago Press
- Buchanan, James M., (1987), "*Economics. Between Predictive Science and Moral Philosophy*", Texas A&M University Press
- Buchanan, James M., (1988), "Contractarian Political Economy and Constitutional Interpretations", *American Economic Review*, May 1988, pp.135-39
- Buchanan, James M., (1993), "How can Constitutions be designed so that Politicians who seek to serve "Public Interest" can survive and prosper?", *Constitutional Political Economy*, Vol. 4, No. 1
- Buchanan, James M., (1999), "*The Logical Foundations of Constitutional Liberty*", Liberty Fund
- Buchanan, James M., (2004), "*Collected Works of James M. Buchanan*", Liberty Fund
- Buchanan, James M., (2005), "Afraid to be Free: Dependency as Desideratum", *Public Choice*, Vol. 124, No. 1-2, July
- Buchanan, James M. and Milton Z. Kafoglis, (1963), "A Note on Public Choice Supply", *The American Economic Review*, Vol. 53, No. 3, June, pp. 403-414
- Buchanan, James M. and Robert D. Tollison, (eds), (1984), "*The Theory of Public Choice-II*", The University of Michigan
- Buchanan James and Tullock Gordon, (1962), "*The Calculus of Consent. Logical Foundations of Constitutional Democracy*", The University of Michigan, Ann Arbor

Buchanan, James M. and Richard E. Wagner, (1977), "*Democracy in Deficit: the Political Legacy of Lord Keynes*", Academic Press, New York

Buchanan, James M. and Richard E. Wagner, (1978), "*Fiscal Responsibility in Constitutional Democracy*", Martinus Nijhoff, Leiden

Chick Victoria, (1983), "*Macroeconomics After Keynes*", Philip Allan Publishers

Coase, Ronald H., (1988), "*The Firm, the Market, and the Law*", The University of Chicago Press

Evangelopoulos, Panagiotis, (2007), "Towards a synthesis of Theories of State failure", *International Review of Economics*, Vol.54, No. 1, March 2007, pp.13-34

Evangelopoulos, Panagiotis, (2009a), "Institutional Failures of Socialism", *Economic Affairs*, Vol. 29, No. 4, Dec., pp.72-77

Evangelopoulos, Panagiotis, (2009b), "The 1930s and the Present Day-Crises Compared", *Economic Affairs*, Vol. 29, No. 4, December 2009, pp.80-82

Friedman, Milton, (1982), "*Capitalism and Freedom*", The University of Chicago Press

Galbraith, John Kenneth, (1973), "*Economics and the Public Purpose*", Houghton Mifflin Company

Hayek, Friedrich, (1935), "The Nature and History of the Problem" in *Collectivist Economic Planning*, ed. F. A. Hayek, London: George Routledge & Sons

Hayek, Friedrich, (1940), "Socialist Calculation: The Competitive Solution", *Economica*, Vol. 7, pp. 125-149

Hayek, Friedrich, (1976), "*Law, Legislation and Liberty*", Routledge & Kegan Paul.

Hayek, Friedrich, (1978), *Studies in Philosophy, Politics and Economics*, Routledge & Kegan Paul.

Hayek, Friedrich, (1988), "*The Fatal Conceit: The Errors of Socialism*", University of Chicago Press, Chicago.

Hicks, John, (1974), "*The Crisis in Keynesian Economics*", Basil Blackwell

Hobbes, Thomas, (1996), "*Leviathan*", Cambridge University Press

Hoskins, W. Lee, (2001), "Economic Policy: Credible Commitments", *Cato Journal*, Vol. 21, No. 2, Fall 2001, pp. 255-261

Jackson, Mark, (2005), "Liberty and Economic Growth in Adam Smith's Possible World", *Constitutional Political Economy*, Vol. 16, No. 3, Sept., pp.277-284

Keynes, John Maynard, (1973), "*The General Theory of Employment, Interest and Money*", Macmillan

Kornai, J., (1957), "*Overcentralization in Economic Administration*", Oxford University Press, Oxford.

Kornai, J., (1971), "*Anti-Equilibrium*", North Holland, Amsterdam

Kornai, J., (1992), "*The Socialist System: The Political Economy of Communism*", Princeton University Press, Princeton and Oxford University Press, Oxford.

Kornai, J., (1993), "Market Socialism Revisited", Chapter 2, page 41, in Bardhan, P.K. and J.E. Roemer, 1993, (Eds.), *Market Socialism, The Current Debate*, Oxford University Press

Lekachman, Robert, (ed) (1964), "*Keynes' General Theory. Reports of Three Decades*", St. Martin's Press-MacMillan & Co LTD

Locke, John, (1988), "*Two Treatises of Government*", Cambridge University Press

Machiavelli, Niccolo, (2004), "*The Prince*", Bedford/St. Martin's

Marx, Karl, (1967), "*Capital*", International Publishers

Marx, Karl and Engels Friedrich, (1952), "The Manifesto of the Communist Party", In "*Readings in Economics*" pp. 395-404 (P.A.Samuelson, R.L.Bishop, J.R.Coleman eds., McGraw-Hill Book Company)

Mises, L. von, (1920), "Economic Calculations in the Socialist Commonwealth", in *Collectivist Economic Planning*, ed. F. A. Hayek., George Routledge & Sons, London, pp. 87-130.

Mises, L. von, (1922), "*Socialism*", Indianapolis: Liberty Fund

Mises, L. von, (2005), "*Liberalism*", Liberty Fund

Mises, L. von, (2010), "*Human Action: A Treatise on Economics*", Liberty Fund

North, D.C, (1981), "*Structure and Change in Economic History*", W.W.Norton, New York

Parente, S.L. and E.C. Prescott, (2000), "*Barriers to Riches*", The MIT Press Cambridge MA

Paul, Ellen Frankel, (1987), "*Property Rights and Eminent Domain*", Transaction Inc.

Pejovich, Steve, (1997), "*The Economic Foundations of Property Rights*", Edward Elgar Publishing Ltd

Prychitko, David L., (2002), "*Markets, Planning and Democracy: Essays after the Collapse of Socialism*", Edward Elgar, Cheltenham, UK

Robinson, Joan, (1978), "*Contributions to Modern Economics*", Basil Blackwell

Rowley, C. K. and N. Smith (2009), "*Economic Contractions in the United States: A Failure of Government*", The Locke Institute, Fairfax, VA and Institute of Economic Affairs, London.

Smith Adam, (1976), "*An Inquiry into the Nature and Causes of the Wealth of Nations*", Oxford University Press

Smith, David.B., (2006), "*Living with Leviathan: Public Spending Taxes and Economic Performance*", Institute of Economic Affairs, London.

Smith, David.B., (2009), "How Should Britain's Government Spending and Tax Burdens Be Measured? A Historic Perspective on the 2009 Budget Forecasts", *Economic Affairs*, Vol. 29, No. 4, December 2009, pp.37-47.

Wicksell Knut, (1958), "*Finanz Theoretische Untersuchungen*", translated in *Classics in the Theory of Public Finance*, Musgrave, R.A. and A.T. Peacock eds., Macmillan, London, pp. 72-118