Who Owes What, and To Whom? Public Debt, Ricardian Equivalence, and Governmental Form

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The postwar literature on public debt has been concerned primarily with two related issues: (1) whether public debt allows the cost of government to be shifted forward onto future generations and (2) whether the creation of public debt involves a positive net wealth effect. The development of this literature can be portrayed chronologically by three works, even though many authors have contributed to that literature.¹ Lerner (1948) advanced the thesis that the burden of the debt rests upon people at the time the debt is created, as illustrated by the aphorism "we owe it to ourselves." In sharp contrast, Buchanan (1958) argued that public debt allowed people in the present to shift the cost of government onto people in the future.² Barro (1974) denied the ability of public debt to transfer cost forward in time because, with intergenerational altruism, an increase in debt would be accompanied by an increase in saving to pay the future taxes required to service the debt. At the same time, Barro also denied the effectiveness of fiscal policy by that very fact: debt-financed government services would not have the stimulatory impact portrayed in the postwar Keynesian models, because the increased government spending would be offset by increased private saving necessary to provide the means to service the debt.

In this paper I accept the Ricardian argument that debt is just taxation by another name, both as an analytical point of departure and as a condition of satisfactory modeling. I also explain why the theory of public debt must be applied differently in democratic political settings than in the authoritarian setting that provides the effective backdrop

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²For a survey of this literature, along with some effort to reconcile the various strands, see Vaughn and Wagner (1992).
²For a good sample of this controversy between these two positions, see the essays in Ferguson, ed. (1964).

ISSN 0889-3047

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for most of the postwar literature. To take a public debt of $4 trillion for a population of 250 million, and to say that each person in the land has, on average, a debt of $16,000 is an arithmetical truism that obscures rather than clarifies thought about public debt within a democratic state. If we ask to whom public debt is owed, we would not answer "ourselves," but would answer "bondholders." If we ask who it is that owes the debt, is "we" the right answer in any but a purely formal sense? Two people may agree to go for a ride, in which case they would no doubt each say that "we" went for a ride. But if one of them kidnapped the other, at least one of them would refuse to say "we" went for a ride. With regard to public debt, the question of "who owes what" cannot be addressed outside some framework for political or fiscal choice.

**Personal Debt, Sovereign Debt, and Ricardian Equivalence**

The use of deficit finance in place of current taxation represents the substitution of future taxation for present taxation, and the present value of those future taxes will equal the amount of the deficit being financed. This is simply a matter of arithmetic. An aggregate balance sheet can show no change in net worth, because all that has happened is that a short-term liability has been transformed into a long-term liability of the same present value. The aphorism "we owe it to ourselves," is simply an identity within any aggregate accounting system. In any aggregation over balance sheets, assets must equal liabilities. The value of home mortgage debt held by creditors must equal the liabilities of mortgagees. Viewed in the aggregate, it would be correct to say "we owe mortgage debt to ourselves." But it would not be correct to infer from this statement that payments on mortgage debt are simply transfer payments and not payments for services rendered.

Ricardian equivalence must provide a point of departure for any analysis of public debt, as well as serving as a necessary constraint on any effort at aggregate modeling. But it does not follow from this simple arithmetic that the choice between debt and taxation is subject to some invariance proposition to the effect that nothing depends upon or is affected by the choice between debt and taxation. The choice between debt and taxation can matter for particular people, and, indeed, these differences are central for any effort to understand the creation of public debt in the first place. Aggregate equivalency must not be confused with a proposition of behavioral invariance to particular institutional conditions. It does not imply that choices between debt and taxation will be invariant to the institutional setting within which such choices are made. To the contrary, different institutional settings can lead to different

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3 The importance of institutional settings for debt analysis is explored in Wagner (1986).
fiscal and budgetary choices, despite the underlying constraint implied by Ricardian equivalence. I shall consider this proposition briefly here for personal and sovereign debt, before considering democratic debt in the remainder of this paper.

Ricardian equivalence clearly holds for personal debt. Someone who borrows to buy a car does not become wealthier than he would have been by paying cash. The reduction in cash that would have been required is equivalent to the present value of the liability for amortization payments when the car is financed by borrowing. Some people may prefer loan finance to cash finance, perhaps because loan finance allows the buyer to achieve a smoother time path of total consumption than would be possible with cash finance. Nonetheless, loan finance does not allow someone to escape his intertemporal budget constraint. It is not a source of wealth.

The Ricardian character of personal loan finance stems from the institutional setting within which credit markets operate. A borrower might well like to derive a positive wealth effect from borrowing, but the lender has a strong interest to prevent such a wealth transfer. Collateral provisions and risk premiums are means to guard against such wealth effects. So too, for that matter, is the borrower’s own interest in avoiding a bad reputation, at least so long as he is interested in future credit transactions. While personal borrowing has no wealth effect ex ante, there can be instances where it does have such an effect ex post. The borrower may become insolvent, or may die insolvent, with the lender receiving less than full payment in either case. Even in these cases, however, Ricardian equivalence still holds in the aggregate because the borrower’s gain is offset by the lender’s loss.

This institutional setting for personal loan finance could be extended readily to state borrowing in a monarchical or other form of authoritarian regime. State debt in this setting is equivalent to personal loan finance when dealing with individuals. Indeed, in the case of a hereditary monarchy, full intergenerational altruism may be plausible, though it is not necessary. For even if such altruism were only partial, and even if the monarch’s hold on his crown were tenuous, the Ricardian constraint would nonetheless hold as a central feature of credit markets. Debt finance could offer an anticipated increase in net worth to a sovereign only in the event he had superior information about his intention to migrate or to die than creditors possessed. In such circumstances, the sovereign might choose loan finance over tax or cash finance as a means of appropriating the assets of creditors. The sovereign’s ability to do this, however, is limited by the interests of creditors to avoid this appropriation, and so is possible only to the extent informational asymmetries are present. And even should cases of
such appropriation result, the Ricardian constraint must again hold
in the aggregate: the sovereign's increase in net worth must be offset
by a decrease in the net worth of his creditors. Ricardian equivalence
must always hold over some appropriately defined aggregate.

The theory of autocratic or sovereign loan finance does not really look
much different from the theory of personal loan finance. Differences
there are, but the similarities are dominant. An inability to bring suit
against a monarch for a failure to pay debts is a difference whose signifi-
cance is easy to exaggerate, just as it is easy to exaggerate the importance
of police and courts in explaining why people generally adhere to personal
credit contracts. A monarch faces the problem of attracting credit in the
first place, and the willingness of lenders to lend varies directly with the
strengths of their beliefs that the monarch will pay his debts. A sovereign's
ability to appropriate the assets of creditors through default or repudiation
is limited by the interests of creditors in avoiding this appropriation.

More than this, even in monarchies and other forms of absolutism,
extra-legal means of contract enforcement are available. There is no
such thing as an unconstrained sovereign (Tullock 1987). Among other
things, unhappy creditors can serve as threats to a reigning despot
through their ability to organize coups, to plot assassinations, and the
like. An indebted king will have more options and resources than an
indebted peasant, though he will surely also have larger debts which,
in turn, will help to marshall stronger opposition to repudiation. More-
ever, a peasant's debts might be so small as to lead a creditor to decide
that it is not worthwhile to pursue a legal action for recovery of what
is owed. In any case, the differences between personal and sovereign
debt is surely more quantitative than categorical.

External Debt, Internal Debt, and State Borrowing

Personal or sovereign debt can only be external, for it makes no sense to
speak of a person or sovereign as borrowing from himself. A considerable
body of scholarship portrays democratic debt as if it were the debt of a
person or sovereign. Barro (1979, 1989), for instance, explains public debt
in terms of the utility-maximizing choice of a representative citizen where
the government is faced with exogenous shocks to anticipated revenues
or planned spending, with those shocks usually described as recessions
or wars. If tax rates are varied in response to such shocks to maintain a
balanced budget, the excess burden of taxation will be larger than it would
be if taxation were held constant at that level which produced long-term
budget balance. According to this tax-smoothing explanation, public debt

4On the economic theory of sovereign debt, see, for instance, Eaton and Gersovitz
smooths shock-induced variations in tax rates, and thereby minimizes the excess burden associated with taxation. This formulation represents a public sector counterpart to the permanent income hypothesis, with transitory deviations from normalcy going into public sector saving, either negative via debt creation or positive via debt reduction. While this formulation builds upon a good deal of intuitive plausibility grounded in personal finance, it is nonetheless quite problematical precisely because of its personification of the state.

For one thing, this standard reasoning in support of public borrowing to finance extraordinary expenditure does not explain why the result is a theory of public debt and not a theory of public credit. Even if the analogy with the permanent income hypothesis is maintained, it does not follow that the state will be a net debtor. It could just as well be a net creditor. Borrowing to finance unanticipated decreases in revenue or increases in expenditure is only one of two possible options. The other option is to finance those unanticipated deviations from some type of reserve fund, in which case the state would be a net creditor.

It may be readily acknowledged that extraordinary circumstances may periodically place unusually heavy demands on governmentally-provided services. Yet this acknowledgement does not support a model of public borrowing over one of government as a supplier of credit. The central point in either case is that, in present value terms, the actual tax rate exceeds the rate required to finance ordinary expenditure by an amount sufficient to cover the extraordinary expenditure. Whether a government would borrow or lend would depend primarily on the historical timing of recessions or wars. If one occurs at the beginning of a regime, it would have to be financed by borrowing. Otherwise, it could be financed through a fund created by previous surpluses. In any case, an aggregation over governments would show no net governmental debt. To be sure, in representative democracies there may well be reasons for an asymmetry between budget surpluses and budget deficits, with surpluses having less political value. Recognition that the claims of extraordinary finance cannot be used to explain why states are borrowers rather than creditors suggests, in turn, the merits of exploring a less aggregative conceptualization of public borrowing, recognizing all the while that the Ricardian constraint must operate in the aggregate.

Moreover, explanations of state borrowing through such analogies with permanent income notions as the tax smoothing hypothesis require that all public debt be held externally. Yet the preponderant share of public debt is held internally, and tax smoothing cannot explain internal

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5 Or to cover reductions in tax receipts below normal levels in the case of recessions.
6 This theme is developed in Buchanan and Wagner (1977).
debt finance. With internal public debt, some people lend and others borrow. People who buy bonds make what would otherwise have been the tax payments of those who do not buy the bonds. The borrowers might be smoothing their tax payments, but the lenders are amplifying the variability of their tax payments. With internal public debt, the state acts as an intermediary between those people who advance credit and those people who defer their tax payments until some later period.

Democratic Debt and the Intermediary State

To say that the government owes $4 trillion or must pay $200 billion in interest on its debt is not to acknowledge some organizational obligation, for that would be to personify what cannot be personified. Rather, it is a reductionist manner of saying that some people owe $4 trillion to other people, and that the annual interest component of that obligation is $200 billion. The government is in essentially the same position of any other financial intermediary, with the intermediation taking place between the borrowers who thus are paying less in current taxes and the lenders who are making those tax payments instead. With ordinary financial intermediaries, it is straightforward to say who owes what to whom. It is not so straightforward, however, for public debt in a democracy. The aphorism “we owe it to ourselves” offers no guidance in this respect. It is even wrong, in that the “ourselves” can be replaced by the bondholders. But who is it, precisely, who does the owing?

One question that arises immediately is why the state would act as an intermediary. Why does public debt substitute for taxation? The predominant reponse to this question has involved the presumption that this substitution takes place when it is economically efficient along Paretian or Kaldor–Hicks lines. An additional tax burden is imposed in a setting where, say, 90 percent of the population would prefer to defer payment at prevailing interest rates, and where the remaining 10 percent is willing to lend at those rates to the other 90 percent. Why not assign the tax liabilities in the present, and let people work out whatever credit arrangements they choose through ordinary market processes? Private debt would replace public debt. The efficiency-based explanation for state intermediation through public debt is that government can borrow more cheaply than could the individuals who would otherwise resort to private lending sources.7 State intermediation offers potential gains from trade for all participants, when compared against market-based intermediation. On the one side, people who supply credit at the government’s interest rate reveal their willingness to do so. On the other side, it would seem to take no genius to determine that the remainder

7See, for instance, de Viti de Marco (1936, pp. 377–98).
of the citizenry, who otherwise have to borrow at commercial rates, would prefer to borrow at the government's lower rate.

If this is all there were to the matter, government would be a superior intermediary to market-organized firms. In this case, the lower rate of interest on public debt would represent a genuine cost advantage over transactions organized through market-based intermediaries. Socialized intermediation would be superior to privatized intermediation. The lower rate of interest on public debt is undeniable, as a simple inspection of the financial pages of any newspaper will show. It does not follow, however, that there are any efficiency gains from the state supply of financial intermediation. There is a neglected cost to state-organized intermediation, which is a cost that is borne by taxpayers because the state uses its power to impose unlimited liability on taxpayers.⁸

It is accurate to say that government bonds carry a lower rate of interest than corporate bonds because bondholders believe that the government bonds are safer. This safety, however, resides not in greater governmental efficiency, but in the unlimited liability that taxpayers face, as contrasted to the limited liability of corporate shareholders. If corporate bonds were sold under unlimited liability, where officers and directors were personally liable for claims, they would offer lower interest rates than they now carry, perhaps even lower rates than offered by state debt. Alternatively, if government operated by principles of limited liability, bondholders would bear risk that is now borne by taxpayers, and the government's borrowing rate would rise, perhaps above that which is privately available. The lower interest rate on public debt may represent not some genuine opportunity but rather be a feature of the unlimited liability character of governmental claims. As a result, the resort to public debt may result not because everyone gains, but because some gain to the detriment of others, with public debt serving as a vehicle of wealth redistribution.

Public Debt in a Concordant Democracy

While it seems relatively straightforward to conclude that public debt is owed to the state's creditors, only in a purely formal sense can it be concluded that the general citizenry constitute as a collective body the state's debtors. The question of who truly owes public debt depends upon the character of a political system and its institutions. An important question in this respect is whether that borrowing is done voluntarily or forcefully. Is it that the net debtors agreed to the transaction? Or is it that they were compelled, and hence became forced debtors? The typical presumption in the literature on public debt is that the transactions

⁸This point is articulated in Mises (1966, pp. 225–28).
were voluntary. To be sure, this presumption is often left only implicit, as in the sovereign debt literature where only a single person is involved, or in the related notions involving some representative citizen. Whether the intermediation between debtors and creditors that public debt entails involves free debtors or forced debtors is to an important extent a matter of whether the constitutional framework within which fiscal choices are made can be characterized as concordant or factional.

It is certainly possible to imagine fiscal choices being made in an essentially concordant constitutional system, as illustrated by various models of the optimal supply of public goods. Consider a Wicksellian fiscal system, where fiscal choices would be made under unanimity or something close to it.⁹ Borrowing would be agreeable to all, net debtors and net creditors alike. The only difference in this case from the usual presentations of Wicksellian-based models is that a secondary market for personal tax obligations would arise. Tax liabilities would be assigned in the present, under unanimity or close to it, only the state would act as an intermediary to bring together those who would prefer to defer their tax payments and those who are willing to lend.

Public debt clearly would fit within the Wicksellian framework if the future tax liabilities that debt finance entailed were assigned in the present. This would be Ricardian equivalence reduced to the level of the individual participants in the current choice to replace current taxation with future taxation, for those future tax obligations would be assigned to particular individuals in the present. Table 1 illustrates this point in a simple fashion, and in a manner that will be used for a different purpose in the next section. Assume there are three voters and two periods. In the absence of government debt, total taxes and government spending are $300 in each period, with each voter paying $100 in each period. Alternatively, suppose taxes are reduced by 10 percent, with the remainder supplied by a $30 issue of public debt where \( V_1 \) buys the government bonds. Assuming a zero rate of interest to simplify the illustration, total tax collections rise to $330 in the next period, $300 of which go to finance state services while the remaining $30 is paid to \( V_1 \) to service the debt. The present value of aggregate tax collections over the two periods, assuming a zero rate of discount, is $600 with or without debt. Similarly, the present value of each person’s tax liability is $200, with and without debt. With debt \( V_2 \) and \( V_3 \) each borrow $10 from \( V_1 \), and repay their debts in the next period.

While debt finance can in principle fit within the Wicksellian, concordant framework, it is questionable whether it can do so in practice.

⁹Wicksell is often summarized in this regard as supporting a rule of near-unanimity in collective choice. This is true, but there also is a supporting institutional framework that complements the principle of unanimity, and which is discussed in Wagner (1988).
In the absence of such a present assignment of future tax obligations, the actual distribution of those future obligations that result from the present choice to borrow will be contingent upon a wide variety of circumstances. Among other things, these circumstances include the future economic standing and position of people in a future period when those taxes become due, and also include all of the possible political adventures that may change the tax code over the intervening years. Circumstances could be imagined in which the contingent feature of the tax liability that debt issue represented was expectationally neutral, in that the present value of anticipated tax liability was the same for everyone with and without debt. Indeed, within a Wicksellian framework for fiscal choice, a substitution of the future taxation that public debt represents for current taxation would be approved only if people had neutral expectations as to the impact of the contingent character of the future liability that public debt creates. Otherwise, there would be people who expected public debt to increase their tax obligations relative to current tax finance, and so in turn would oppose the proposed debt finance, even if they might support the proposal under current tax finance.

**Public Debt in a Factionated Democracy**

What about public debt within a factional constitutional framework? By factional I mean a constitutional system that fails to control what
Madison called in *Federalist* No. 10 the violence of faction, and which conforms to rent seeking and churning in the contemporary literature on public choice and constitutional economics. There are many particular ways to model a factional constitutional system. In all such cases, some people are able to enrich themselves by securing increased spending on desired programs, paid for by taxes imposed on other people.

How might the elimination of the constitutional constraint on public borrowing affect the resulting budgetary choice? For the option of deficit finance to have an impact on budgetary choices, it is necessary that the introduction of that option expand the opportunities available to some decisive subset of the population. Deficit finance would have to lower the cost of budgetary choices to decisive individuals and coalitions, as compared with tax finance. By virtue of the Ricardian theorem, the aggregate present value of future taxes must equal the amount of the budget deficit. But it does not follow that such present-value equivalence holds across individuals, which means in turn that the consequences for budgetary choice will depend on the way in which fiscal institutions shape and constrain processes of budgetary choice.

The situation portrayed in Table 1 can be used to illustrate some central features of factional public debt. There are several ways that the creation of public debt can change the cost of government to voters in period 1, while maintaining the Ricardian equivalence built into Table 1 in the aggregate. One way is through recognition that the identities of the people portrayed in Table 1 change with the passing of time. For instance, $V_3$ in period 1 may be elderly and without heirs, with his place in period 2 taken by a new entrant, who simply faces a tax burden of $110$, $10$ of which goes for interest on the public debt. Alternatively, $V_3$ might be middle-aged in period 1 and be in retirement in period 2 and out of the labor force, with his place taken by a new entrant in the labor force. For people in such positions as these, debt finance is less costly than tax finance.

Within a factional system, public debt is one of the instruments of wealth redistribution and government expansion. Consequently, public debt would not represent some agreement between net debtors and net creditors. Net creditors would clearly agree to hold the debt, at an interest rate that reflects their assessment of risk. Not all net debtors, however, would have agreed to the transaction. Some would have, namely those who gained through budgetary expansion, when they would not have supported such expansion under tax finance. Public spending and debt would expand beyond what a significant share of the population would have agreed to under some Wicksellian-type constitution. Creditors gain from the operation, as does that part of the net debtor population that nonetheless are net gainers from the debt-financed expansion in government. There will also be forced debtors who would have preferred tax finance, along with the
smaller public sector that would have resulted. For instance, someone with a number of children and a strong bequest motive will lose through public debt, as personal consumption is reduced to provide the fund to pay the resulting added taxes imposed on his heirs.

There are many dimensions along which this separation among net debtors might occur. One involves differences in the degree of intergenerational altruism among people.\textsuperscript{10} In the presence of the constitutional prohibition on deficit finance, variations in intergenerational altruism will have no impact on budgetary choice. But when borrowing is possible, the no-debt outcome will be disturbed. For borrowing reduces the relative cost of government services to people the weaker their intergenerational altruism, and provides a vehicle for leaving negative bequests. In a simple median voter model, the budgetary choice will be controlled by the person whose intergenerational altruism is median within the population. The introduction of a deficit financing option will lead to an expansion in the size of government because it reduces the cost of government to the median voter. A new budgetary equilibrium will be established where, for the median voter, the marginal value of added public output equals his marginal cost through deficit finance.

Other models could give descriptively different but analytically similar results. For instance, a ruling political party could be characterized as seeking to expand different tax sources so as to equalize political resistance at the respective revenue margins. The introduction of a debt option lowers marginal political cost. This leads to deficit finance, and the more fully debt is used the higher becomes the political cost of deficit finance. The political pressures from different revenue sources will be equalized at the relevant political margins, where the future taxes represented by debt finance encounter the same political resistance encountered by present taxes. The Ricardian proposition must hold as a condition of political equilibrium, for otherwise there will be a shift in the mix of tax instruments toward those that entail lower political cost.

In any case, public debt is to a significant extent concerned with transferring wealth among people within the present, though it also exerts effects across time. Among other things, people with relatively weak bequest motives promote the use of public debt over taxation as a method of increasing their net wealth, while people with relatively strong bequest motives suffer a wealth loss through the larger-than-desired public sector that results. The creation of public debt does not increase aggregate wealth, but it does increase wealth for some people who are influential at the margins of budgetary choice, while reducing wealth for those who are on the losing side.

\textsuperscript{10}See, for instance, Buchanan and Roback (1987) and Cukierman and Meltzer (1989).
Repudiation as Constitutional Restoration?

In a world of balanced budget finance, some people can be forced carriers as a natural product of a factional constitutional system. When deficit finance is allowed, people can likewise become forced debtors. These are people who would not have supported expansion in debt-financed programs, but who will be compelled to pay taxes to amortize that debt in future years. Government is expanded beyond concordant limits, as the result of a coalition between net creditors and those net debtors who gain from budgetary expansion. What remain are those net debtors who lose from budgetary expansion, and who find themselves saddled with future taxes to amortize the debt-financed spending that they would not have consented to in the first place.

A number of commentators have expressed concern that the debt-income ratio could rise to a point where people begin to lose confidence in the government's ability to service its debt. This positive claim can be granted without coming to the conclusion that public debt should be frozen, as by the imposition of a balanced-budget requirement, or retired. Public debt can also be repudiated, either partially or wholly. In this regard, Rothbard (1962, pp. 881–83) argues not just against the view that "we owe it to ourselves," but also argues in support of repudiation, as against either retirement of debt or freezing it at present levels. It is plain to see why state creditors and the winning borrowers within a system of factionated democracy would oppose any effort at debt repudiation. Not only would such repudiation erode gains that have been set in place by past fiscal operations, but also repudiation would curb sharply, if not eliminate entirely, the willingness of people to serve as state creditors. Repudiation would seem to increase the cost of participating in the factionated politics of shifting tax burdens onto losing coalitions through deficit finance, by increasing the costs to potential creditors from participating in the process. By reducing the willingness of people to become state creditors, repudiation would increase the cost of deficit finance and, hence, lower the size of government and the present value of future taxation.

To be sure, public debt is woven throughout our society, with many people being state creditors through their share in the holdings of pension funds, as well as in other ways. No doubt, many such people might be state creditors while still being net state debtors, even forced debtors at that. Repudiation would affect balance sheets throughout the land, and would probably leave few untouched. Taxation and monetization offer alternatives to repudiation that could achieve more-or-less the same end-state, though with considerable distributional differences among people.

11See, for instance, the discussion in Spaventa (1988). In a related vein, see Steadman (1993) for a program of debt retirement.
Indeed, repudiation is a form of taxation on the holders of government bonds. It seems clear enough why politicians and all of those who think they are net gainers from the continual churning of the state machinery would support either taxation or monetization over repudiation. Indeed, taxation and monetization have been used repeatedly in covering over some of the insolvencies that arise through the state's intermediation between creditors and debtors, under which the promises to pay to creditors exceed the promises not to tax debtors. Repudiation, however, would seem to strike at the very political process that countenances the creation of insolvent claims within the political marketplace. Should shifting political coalitions present an opportunity for repudiation, some quasi-constitutional assurance against a future status of being a forced borrower might be created through the long-term impact that repudiation would have upon potential state creditors.

**Concluding Remarks**

The economic analysis of public debt differs depending on the presumed political setting. It may be reasonable to characterize public debt choices within an authoritarian regime as being made by a single mind, but such a characterization is surely inapt for democratic regimes. A presumption of a representative citizen is simply incapable of characterizing public debt choices in complex societies where preferences and interests differ among people. To be sure, even in such societies Ricardian equivalence must hold in the aggregate, but this aggregate equivalence is irrelevant for human conduct in fiscal choice. Deficit finance injects a systematic differential among current citizens in the cost of public finance.

In this paper I have considered public debt as an alternative to tax finance. But within existing monetary institutions, public debt creation often serves as a disguised form of money creation. The possibility of inflationary finance opens up, in turn, new avenues along which deficit finance may serve as a means by which politically dominant groups are able to impose costs on others. A complete analysis of public debt within an interest-group approach to fiscal processes will clearly have to incorporate and integrate such monetary considerations, at least under prevailing central-banking institutions. Wherever such an analysis might lead, Ricardian equivalence will have to hold in the aggregate; yet such aggregative equivalence will be only a side show in the fiscal drama that public debt represents.

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12 The churning state is articulated nicely in de Jasay (1985).

13 A tax rate of 10 percent in place at a time when debt is created involves as much a promise to let taxpayers keep 90 percent of their income as it involves a promise to pay creditors principal plus interest. An increase in the tax rate is as much a partial repudiation as is an erosion through inflation in the real value of payments to creditors.
References


