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In Defense of Public Debt

by **Barry Eichengreen, Asmaa El-Ganainy, Rui Esteves, and Kris James**

Oxford University Press, 2021.

Like in every well written book, at the very beginning of its introductory chapter the authors specify its goal – it is to rehabilitate the positive view of public debt and to do it by "providing a balanced account of the positive and negative aspects of public debt. Balance in this case means placing more weight on the positive aspects than is typical of the literature" (p. 5). Although the reader believes that balance means putting equal weight on both aspects, at least the approach of the authors is consistent with the title. The authors are candid about their method, pointing out that their theme is that "public debt is not all bad – that, contrary to the impression left by much popular discourse and political rhetoric, public debt is not always and everywhere dangerous and destructive" (p. 5). Hence, the reader at the very beginning gets a clear idea what can be expected from the book: a sophisticated and balanced advocacy of public debt based on a substantial and robust analytical foundation, both theoretical and empirical[1]. The authors provide justification of their pro-debt bias, specifying that the sovereign defaults with their adverse consequences and the apocalyptic warnings of unsustainable public-sector obligations reach headlines, but when the public debt makes positive economic and political impact and when it is smoothly serviced, nobody pays any attention – not really news, after all. That is the reason, they believe, the public debt should be publicly defended. Now, with all cards on the table, the defence of the public debt can start in earnest.

Chapter 2 of the book ("Debt in Service of the State") deals with the role of public debt in state building, i.e. how it enables the state to carry out its essential functions, to repel internal and external threats, and to survive in the predominantly hostile environment of other states. One important topic, the authors emphasise, is to review and explain the purposes for which public debt is used, i.e. for what the borrowed funds are utilised. In searching for the answer, the authors go back to the history of sovereign borrowing, starting in, as with many other accomplishments of the humankind –

[1] Throughout the book the authors interchangeably refer to "public debt" and "sovereign debt" as the debt of the national or central government, quite distinctive from debt of states, i.e. federal units, and local governments, that is not included in sovereign debt. The origin of the term "sovereign debt" is in its feature that responsibility for repaying it cannot be assumed by a higher power. Obviously, states (federal units) and local governments do not comply with the notion of sovereign debt.

ancient Greece. Before getting to the answer about the role of public debt in state building, the authors point out to the necessary conditions for public debt to be issued. The first one is the existence of legal and political infrastructure needed for issuing public debt: "durable cities, states, and nations; laws recognizing political entities as capable of borrowing; and ledgers for recording payment and repayment (what we today call accounting systems)" (p. 10). Second is that the necessary economic conditions are fulfilled: on the supply side of the debt, i.e. demand side of borrowing, the existence of a polity whose spending needs sometimes to exceed its revenues; and on the demand side of the debt, i.e. supply side of the loans, the existence of individuals with resources sufficient to lend. Simple, undisputable, and clear enough when it is written in such a succinct manner, but frequently forgotten by many commentators. Especially those who confuse necessary for sufficient conditions.

Although the first sovereign loans can be traced back to the ancient Greek city states, such as Syracuse, which regularly borrowed from their citizens, the breakthrough was, according to the authors, made in Europe in the Middle Ages. The authors emphasise that "Europe was the second millennium's public-debt pioneer because of the prevalence of war" (p. 14). For geographical and historical reasons, the continent at that time was divided into numerous small states, proving the incentive for the rulers to grab territory and resources when they were in position to do so. War was the normal condition in Europe from the dawn of the second millennium, as Charles Tilly (1992) pointed out. With war being a matter of state survival, as well as the ruler's subsistence in most of the cases, there were no dilemmas regarding the urgency of mobilisation of all available resources. Accordingly, the authors emphasise, states borrowed, and they did that more with the decline of feudal obligations for military service, requiring them to employ paid militias. The intensity of their competition spurred them to invest in expensive military hardware, hence bigger funds were borrowed, enlarging sovereign debt[2].

Hence, the supply side of the sovereign debt was provided by belligerent European city states and voracity of their rulers for new conquests, and on the demand side for the debt were, according to the authors, Tuscan bankers. "Having started out as merchants, the Tuscans had experience underwriting long-distance trade and reaped large profits from doing so" (p. 15). As to the know-how, it was a short step from underwriting trade to making loans unrelated to their commercial interests and attracting additional capital and deposits to fund those operations.

Discussing this topic requires, as already pointed out in this review, understanding the purposes to which sovereign debt is put. It also requires a description of how sovereigns gained access to credit by pledging collateral and delegating prerogatives to their lenders, how debt once closely held by bankers came to be traded more widely, and how the emergence of markets on which such trading took place fostered commercial and economic development. The authors demonstrated that it was Italian city states, both on the supply and demand side of the sovereign debts, who created many of the institutions of the modern public debt, enabling sovereigns to borrow more and

[2] It was Tilly (1975, p. 42) who famously pointed out that "War made the state, and the state made war". Since public debt effectively enabled states to wage war, it seems that the relation evolved in the inseparable triad: state-debt-war.

assuring lenders of that their funds would not be expropriated and that they would enjoy the returns, e.g. a number of binding financial instruments, secondary markets for them, a range of restrictions imposed on the borrower, haircuts in the case of defaults to save at least a fragment of the financial assets, etc. By lowering the risk of borrowing, all these developments decrease the interest rate, since the risk premium was reduced. The most important side effect of these developments was the expansion of financial markets itself, spurred by the issuing of sovereign debt. For example, since sovereign debt instruments "were liquid and negotiable, investors were prepared to accept them as collateral when lending to other borrowers. The existence of this state-backed collateral thereby secured and facilitated borrowing and lending by nonstate actors. It increased the number and range of customers to which bankers were prepared to lend. In this way the sovereign's debt securities were transformed into a financial public good" (p. 23). The authors provide ample evidence that financial sector development would have been quite distinctive had no sovereign debt been issued.

Chapter 3 of the book ("States and the Limits of Borrowing") deals with the stage in the development of public finance that came with the rise of nation states, after the Peace of Westphalia, which ended the Thirty Years War in 1648. The authors pointed out that larger and more stable European states permitted new and more efficient forms of taxation and, consequently, enlarged the prospects for more extensive public borrowing. Nonetheless, the growth of public debt provoked a reaction from concerned creditors, who claimed and got, at least in some cases, a word about fiscal issues, even commitment of the sovereigns regarding their fiscal stance. The point of the authors is that with political centralisation of the emerging nation states came stronger internal checks and balances. Representative assemblies in some of those states included merchants who were by and large creditors of the sovereigns, constraining their fiscal actions, decreasing uncertainty for the creditors and, consequently, lower risk premium paid by the sovereigns. The authors emphasise England's Glorious Revolution as an event that fully transferred fiscal power to the parliament. Contrary to that, autocratic monarchs, like Philipp II of Spain, had unchecked powers and no ability to commit themselves to service the debt. With a track record of frequent defaults, there was a hefty risk premium for such sovereign debtors, and lenders relied on short maturity debt as a disciplining device. After all, there is no such thing as a free lunch/default.

The authors claim that at the end of 17th century came a financial innovation that transformed sovereign debt for the better: the Bank of England, a forerunner of modern central banks. Such a bank provided backstopping for the financial market by selling and, especially, purchasing government securities on the secondary market. Not only did the sovereigns obtain the bank that purchased government bonds, but all the investors could rely on the central bank for selling their government securities at a reasonable price – the central bank became the price maker in sovereign debt secondary markets. In that way, due to reduced liquidity risk, the demand for government bonds went up. With such a back stop on the secondary market, the authors conclude, sovereigns were able to borrow more funds and at lower interest rates.

The birth of the republic – the USA – was closely associated with public debt and decisions about it. According to the author, the federation was established when

Alexander Hamilton proposed that the US federal government should assume the obligations of the states and consolidate them into a new federal debt. “To reassure investors and the public of the efficacy of the associated debt-market operations, Congress created a Treasury Department responsible for their administration and appointed Hamilton as its head” (p. 42). These operations included a federally administered sinking fund that would apply surplus fiscal revenues to secondary market purchases and retirement of government bonds; the US government was committed to pay interest on its debt but also to support the prices of its securities and redeem them in a timely fashion. With this historical background on the foundations of the US sovereign debt operations, the reader is not surprised that the US is one of the very few countries that has never defaulted.

Democratisation and (early) globalisation and their impact to sovereign debt are dealt with in Chapter 4 of the book. As to the impact of democratisation, the authors emphasise that public debt shifted from financing wars to supplying public goods and services – within the new institutional framework, it has been more about citizens than about rulers. It is a pity that the authors do not mention that democratisation with universal suffrage creates strong incentives for redistribution (as the median voter’s income is below the average) with propensity towards fiscal deficit and rising public debt. As to the early globalisation, its feature was international borrowing, where governments of the emerging markets at the time, especially those in Latin America, funded their fiscal deficits with savings from rich countries. In the year before the Great War, according to the authors, government debt held by foreigners represented more than 5 *per cent* of world GDP, or almost a third of the total stock of foreign assets.

International borrowing creates new issues of debt sustainability. In general, the relationship between the interest rate (r) and the rate of economic growth (g) is crucial for debt sustainability. If r is less than g, the government’s interest obligations will rise more slowly than its capacity to service and repay its debts. Nonetheless, in the case of foreign loans, when the debt is purchased by a foreigner, according to the authors “it was important for exports to expand along with the economy. Exports generated the hard-currency receipts needed to service debt denominated in those same hard currencies. The government […] had to earn foreign exchange by exporting goods and services” (p. 57). Furthermore, the exchange rate risk is allocated to the debtor.

All this is, by and large, an old hat for a trained economist, but the contribution of the book is a review of debt episodes in 19th and early 20th century in which violation of these rules produced sovereign defaults of many developing (at that time) countries. This is an indirect testimony that, to the great extent interest, growth and foreign exchange rates are exogenous to the governments.

The bottom line is that the 19th century “was the first time when the market was simultaneously globalized and democratized. It was the first time when an expanding base of retail investors adventured their savings in bonds issued by sovereigns in all parts of the world” (p. 62). The downside of it came with the events like Soviet Russia sovereign default in 1918, when the major losers were French middle-class people who invested their savings in the Russian sovereign bonds, as described in detail by Hassan Malik (2018).

Various episodes of sovereign defaults and debt restructuring are described and explained in Chapter 5 of the Book. (“Caveat Emptor”, i.e. without a warranty the buyer takes the risk). In the case of the Ottoman Empire sovereign borrowing, it is evident that domestic creditors had more clout than foreign, as they were an important domestic political constituency – the debtor took greater care about servicing domestic public debt than the foreign. The response of the foreign investors was straightforward – no more loans to the Empire. Unable to service its foreign debt, the Empire experienced a massive sovereign default in 1875. Sorting out the financial mess in the aftermath created new institutional arrangement such as “Ottoman Public Debt Administration, an autonomous organ that controlled more than a quarter of the state’s revenues, paying them directly to European investors and exercising a veto over new borrowing” (p. 67). New institutions came out of necessity, not out of the rulers’ enlightenment and grace.

Chapter 6 of the book (“Managing Problem Debts”) deals with early (19th century) sovereign defaults and the way to overcome their consequences, whatever the reasons for these defaults were, and whether the bulk of responsibility for the defaults was on the debtor or creditor side, as many debt underwriters did not do their job properly. Effectively, as demonstrated by the authors, the basic problems were the same as they are today, therefore some of the modern institutional solutions were created at the time. One of the issues was the collective action problem among creditors, in which each creditor cares only about his own financial assets and wishes to minimise his own costs of debt negotiations. The early solution to the problem was, according to the authors, the Corporation of Foreign Bondholders, established in London in 1868 – a forerunner of the London Club. On the sovereign debtor side, “debt mismanagement could result in loss of not just market access but also financial and political autonomy” (p. 82). The authors use case study of Ottoman Egypt to demonstrate this insight, with “The British government’s ‘proportionate’ response [was] to bombard Alexandria, occupy Egypt, and take control of its finances” (p. 84). This is something that the British and German governments actually did (save occupation) for the same reason in 1902 in the case Venezuela.

More important for economic analysis is the authors’ distinction between sovereign defaults resulting from overborrowing, endogenous defaults, and defaults that occurred for reasons not of the country’s own making, exogenous defaults, resulting from, say, global commodity price shocks or problems in other borrowing countries or financial centres. The economic consequences of the first kind of defaults are, quite expectedly, more adverse.

Accomplishments are the theme of Chapter 7 of the book (“Successful Consolidation”), focusing on three episodes in which substantial sovereign debts were successfully reduced: Britain after the French and Napoleonic Wars, the United States after its Civil War, and France after the Franco-Prussian War. In these cases “debt-to-GDP ratios were reduced ‘the old-fashioned way’, by running budget surpluses and growing the economy” (p. 93). The crucial question for the authors is how these countries did it, and whether something similar is feasible today, with substantial sovereign debts due to the macroeconomic responses to the COVID-19 pandemic.

The authors use simple debt accounting for the analysis of how these debts were successfully consolidated. They divide changes in the debt-to-GDP ratio into three components: the first is the cumulated primary budget balance, i.e. the budget surplus excluding interest payments; the second term is the product of the inherited debt-to-GDP ratio and the difference between the nominal interest rate on debt and the nominal GDP growth rate[3]; the third term, which captures everything else, i.e. a residual term, is known as the stock-flow adjustment. Factors contributing to the stock-flow adjustment include capital gains and losses on foreign currency debt due to exchange rate changes, restructurings that write down the value of previously issued debt, and other exceptional financial operations. Decomposition of the pre-1914 debt consolidations demonstrated that the main and almost only source of consolidation was the primary fiscal surplus. The growth-interest rate differential had substantial negative effects on the debt-to-GDP ratio consolidation in the UK and the USA, while it was negligible in the French case. Some stock-flow adjustments were recorded only as the source of consolidation in the British case, but these three episodes did not see involuntary restructurings. In short, without primary fiscal surpluses these consolidations would not have been achieved. According to the authors, "Britain achieved the impressive feat of maintaining an average primary surplus of 1.6 *per cent* of GDP for nearly a century" (p. 100).

The simple political economy explanation of this peculiar case is that the franchise at that time was still limited to 2.5 *per cent* of the British population, predominantly owners of freehold property. According to the authors, this created a considerable overlap between public creditors on the one hand and voters and members of Parliament on the other[4], as it was difficult to find a member of Parliament who was not also an investor in government bonds. It is obvious that the resulting political configuration meant that inflation and debt repudiation as methods of debt consolidation were out of question. From the other viewpoint, spending on welfare relief for the disenfranchised masses was held in check by this political constellation, with the minimal state as the outcome. This is an impeccable political recipe for primary fiscal surplus.

The reader understands that this political landscape does not exist in modern (democratic) societies, which feature universal suffrage with redistribution prone constituencies, and well-developed welfare state with substantial transfers/endowments. Political incentives for governments in modern times are consistent with fiscal deficits, save the episodes of unsustainable sovereign debt.

In an indirect way this issue has been tackled in Chapter 8 of the book ("Warfare to Welfare"), pointing out that the magnitude and the structure of public expenditures has changed substantially since the times when governments borrowed mainly to mobilize the resources needed to secure borders and launch military campaigns. The authors, concerned with public debt, ask a reasonable question: Why the welfare state – with its redistributive, insurance, and income-maintenance components – should have

[3] This term captures how debt, as a share of the GDP, will rise with interest rates, since additional debt service will have to be financed with additional debt issuance *ceteris paribus* (i.e. assuming nothing else is done), and how that debt, again as a share of the GDP, will fall with the economy's growth.

[4] According to James MacDonald (2003, p. 351), "The most obvious reason for the firmness of the British commitment to its public debt was the predominance of public creditors within the political system".

been less than fully financed by current revenues? They provided several answers. Aging populations is one: with fewer remaining years of life, the elderly worry less about future debt-service burdens. The other one is political fractionalisation: each political group, although regarding certain social programs as indispensable, has just enough power to block taxes on itself but not enough to impose taxes on others, so fiscal deficit is inevitable. Finally, the part of the answer, according to the authors, may be electoral uncertainty, which leads politicians to advocate more spending on their favoured programs when in office, since they may be in a weaker position to push such spending later, and also since additional debt incurred today will be someone else's problem tomorrow. In short, this is a convincing blueprint for fiscal disaster and "mountains" of public debt as a consequence.

The "mountains" of public debt can be created by distorted incentives to both investors and the government. The authors refer to a Weimar Germany case study as "the incentives for investors were clear: when contemplating a loan to the German government, it was safe to disregard reparations. The incentives for the German government were equally clear: the more it borrowed, the greater the likelihood that reparations would be rescheduled or abolished" (p. 122). With hindsight, the reader comments that the reparations obligations, though repudiated by Hitler, were re-established after the tens of millions of casualties in a war started by Germany, and the deferred interest payments outlays on the Versailles treaty reparations entered 21st century.

The new cycle of public debt that came with the Second World War and its aftermath is analysed in Chapter 9 ("Cycles of Debt"). The authors point out that public debt consolidation after this war was an impressive success as the debt-to-GDP ratio of advanced countries fell by more than two-thirds between 1945 and 1970, from nearly 140 *per cent* to barely 40 *per cent*. According to the authors, this was mainly achieved by "economic growth that made for favorable growth-rate – interest-rate differentials and allowed governments to reconcile social spending with budget balance. This success at raising GDP reflected the scope that existed for catch-up growth" (p. 128).

As demonstrated by Moses Abramovitz (1986) and Peter Temin (2002), the catch-up growth, the one in Europe and Japan, was based on the modernisation of manufacturing and introduction of modern technology (from the USA), and the interest rates remained below the growth rates[5]. The growth was so vibrant, the authors emphasise, that it accommodated the substantial public expenditures for the post-war reconstruction and produced the reduction of the debt-to-GDP ratio, but it was supported by shrewd debt management[6]. Furthermore "Investors held government bonds despite these low yields because they had few other choices. Interest rates on bank deposits were controlled. Institutional investors who might have looked abroad, as they had in

[5] The decomposition of the post-war debt consolidation of the advanced economies, provided by the authors, demonstrated that the growth-interest rate differential was the most important component of the consolidation. Furthermore, stock-flow adjustments contribution was negative, implying that the sovereign debt was not liquidated by inflation, as suggested by Carmen M. Reinhart and Belen Sbrancia (2015).

[6] As an example of such a debt management, the authors refer to the London Debt Agreement of 1953, by which the German sovereign foreign debt (comprising outstanding obligations of the Versailles treaty reparation, effectively cancelling Hitler's reparation repudiation) was thoroughly restructured and partially written-off.

the 1920s, were constrained by capital controls" (p. 129). Foreign borrowing to governments was allocated to international financial institutions, the International Monetary Fund and the World Bank, and to government-to-government borrowing, with creditors organised in the Paris Club. Financial repression at work. And it worked well in these years.

After the first oil shock in 1973, with increased supply of the petrodollars, private international lending to the governments of less developed countries (LDC) surged. This time the banks were the creditors, not bond underwriters as had previously been the case. Pooling of resources lead to a new phenomenon: syndicated bank lending to LDCs. The authors refer to the new type of risk that emerged from this borrowing scheme. As the bank assets were much above their (equity) capital, LDCs' sovereign defaults could result in insolvency of systemically important financial institutions of the advanced economies. Nonetheless, as the authors claim, warnings to this adverse effect went unheeded at the time.

After a series of sovereign defaults by LDCs, mainly in Latin America (because borrowed funds had been used for consumption rather than investment, and for financing imports rather than building up export capacity), the problem was that the policy of bailing out the countries effectively was "bailing in the banks". The answer to the link between debt sustainability of the LDCs and financial stability in the advanced economies, primarily the USA, was the implementation of 1989 Bradly Plan according to which the banks claims were transferred to bonds with a discount between 50 and 70 cents on the dollar. The result was that the sovereign debt was reduced and restructured, that these financial assets were removed from the banks' balance sheet, eliminating that source of financial instability, and that the risk was dispersed among a number of investors who purchased the bonds on the secondary markets. In short, sovereign bonds become fashionable again.

Chapter 10 ("Oil and Water") focuses on a number of local financial crises and sovereign debt issues that surfaced prior to the 2008 Global Financial Crisis, all in emerging markets, with the exception of Japan. The cases of Mexico, Thailand and (South) Korea are carefully reviewed, and the authors provide two main policy takeaways from them. The first is "funding deficits with short-term debt is risky because the demand for debt securities can dry up abruptly" (p. 150). The second one is that foreign currency debt is risky, as "[t]he sovereign's debt-servicing capacity will depend on its ability to generate foreign exchange receipts, which can fluctuate for reasons beyond its control" (p. 150). These crises were, to a great extent, not due to excessive debt-to-GDP ratios, but due to maturity and currency mismatch. Based on this insight the authors provide valuable guidelines for governments for debt management.

Sovereign debt developments in advanced economies in the late 20th and early 21st century are the topic of Chapter 11 ("Missed Opportunities"). The stagnation of Japan's economy started in the 1980s with sharp Yen appreciation, the drop of export demand, and its central bank relying on decreased interest rate as the only mechanism to accelerate the economy. The result, according to the authors, was an enormous credit and asset price boom, but hardly accelerating Japan's export driven industries. The government reached out for a fiscal stimulus, creating budgetary deficit. This was the beginning of a roller coaster that "would characterize the next quarter century of

Japanese policy: crisis, fiscal stimulus, green shoots of growth, fiscal consolidation, and renewed crisis" (p. 167). As the results, the central government debt shot up from below 50 *per cent* of GDP in 1992 to nearly 140 *per cent* in 2007.

In the USA the 1990s were a time of economic growth based on total factor productivity increase, as demonstrated by Stephen Oliner and Daniel Sichel (2000). "This was the so-called New Economy: efficiency improvements in sectors producing computers, other information-technology (IT) products, and to a lesser extent consumer durables" (p. 172). The federal government revenues rose by 1.2 *per cent* for every additional 1 *per cent* of GDP growth, according to Darrel Cohen and Glenn Follette (2000), hence a primary fiscal surplus was achieved, and the US sovereign debt went down. A turnaround came with the Republican administration, tax reliefs and increased discretionary spending, like military spending in the aftermath of the September 11 attack. The fiscal deficit and consequently sovereign debt started to rise.

Decreasing the budgetary deficit was also a paramount in the EU, among the countries that sought to fulfil the Maastricht criteria for being included in the Eurozone. Nonetheless, as soon the list of Eurozone countries was concluded, the incentives for fiscal consolidation vanished, the Stability and Growth Pact thresholds were exceeded, and this was done by the most important EU member states – France and Germany. Accordingly, the new bout of fiscal deficit that started paved the way for the looming sovereign debt crisis in the Eurozone. For the reader, this is vivid testimony of the inherent propensity of modern governments toward fiscal deficit and sovereign debt accumulation.

Chapter 12 of the book ("Debt to the Rescue") focuses on the 2008 Global Financial Crisis and its aftermath from a sovereign debt point of view. After analysis of the Crisis and its aftermath, with special attention to the Greek sovereign debt issues, the authors provide some lessons for debt management and sustainability. First, "debts should be restructured when they are unsustainable. The Greek sovereign debt crisis was lengthy and disruptive because the principals denied the need for restructuring" (p. 194). Second, it is important to dismantle "the diabolic loop connecting banks with sovereign debt distress" (p. 196). This important lesson is linked to the first one, since policymakers were hesitant to restructure debt due to the financial stability in their own countries. The third lesson, according to the authors, is that there is the need for a central bank to backstop the debt market, as volatility can spike when the debt-to-GDP ratio, the budget deficit, or the growth-rate – interest-rate differential develops unfavourably. Hence, the authors praise the 2012 pledge by Mario Draghi to "do whatever it takes" to preserve the integrity of the Eurozone, i.e. prevent debt runs.

The last pre-conclusion chapter ("COVID-19") is about the fiscal times that we live in and the sovereign debt that we will experience in the aftermath of the pandemics. Naturally, extraordinary pandemic times provide full justification for extraordinary economic policy measures, like substantial fiscal deficits, due to fiscal stimulus and providing public good of health protection, but which will inevitably create huge public debt after the reasons for fiscal deficit disappear. The authors recommend balanced public debt management that includes several approaches: "by running primary surpluses, tolerating moderate inflation, and encouraging economic growth" (p. 209). The bottom line is that none of these methods should be the exclusive or even the indisputably dominant approach. It is clear to the reader that accelerated economic growth, with a substantial growth-interest rate margin (with rather low expected interest rates), would be the best way out, but the question is whether it will be feasible for advanced economies.

This book is a valuable contribution to economic history and it provides relevant recommendations for modern economic policies regarding public debt in the COVID-19 era. It is a nice and appropriate follow-up to the seminal contribution of Reinhart and Kenneth S. Rogoff (2009) to the history of financial crises. It is well written, with an abundance of cases studies, sovereign debt crisis happy ends and horror stories, and plentiful references for a reader in the topic to follow.

The authors made their case in defence of public debt. They demonstrated its undisputable contribution to the institutional development of financial markets, entrepreneurship, and economic progress and not only that, but also to building nations and their states. The reader becomes aware that the world around us as we know it today would not have been possible without public debt. Hence, in that sense the title and the stance of the authors in the book are quite justified. Nonetheless, the reader wonders whether this attitude of the authors should be balanced with the qualifications based on the insights of on "mountains" of debt and political incentives for fiscal expansion rather than consolidation – all of them provided in the book, with ample evidence.

A few things are missing from the book. The notion of moral hazard, an essential concept in considering financial markets, is mentioned only when there is none. The conventional wisdom is that debt forgiveness/restructuring creates moral hazards, i.e. riskier behaviour of the debtor in the future. Bailing out governments produces the same results as bailing out banks. Debt sustainability is another notion that is almost completely overlooked in the book. The authors have not stepped into the debate about tolerant/affordable/optimal/desirable level of public debt, a controversial topic with a number of contradictory insights. This is not to say that this book is unconditional defence of public debt, but perhaps the conditions should have been presented in a more straightforward way. It seems that appropriate reading companions for this book should be the book by Alberto Alesina, Carlo Favero, and Francesco Giavazzi (2019) and contributions in the volume edited by S. Ali Abbas, Alex Pienkowski, and Rogoff (2020). Broadening the reading list in such a way would enable the reader to grasp the issue of public debt in more balanced way. Even then, the fiscally conservative reader would consider this book as too pro-debt.

"This time is different" is the common self-encouragement slogan of overconfident investors who produce bubbles, crashes, financial instabilities and crises[7]. But "this time is different" is also a slogan of reckless governments for running huge fiscal deficits, overborrowing and creating "mountains" of sovereign debt, generating debt crises and defaults. Perhaps by reading this book, which defends public debt, these governments (if their decision-makers read books at all) will find some justification for their reckless behaviour. For the comfort of the authors, such governments will find justification for fiscal deficit and overborrowing on a blank piece of paper.

[7] For very good reason, this is also the title of the seminal book by Reinhard and Rogoff (2009).

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