SÉMINAIRE DE RECHERCHE

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Titre: Does public debt secure social peace? A diversionary theory of public debt management

Résumé: This paper develops a new analysis of the strategic use of public debt. Contrary to the usual view that politicians can use public debt to tie the hands of their successors, we show that an incumbent government can take advantage of having tied his own hands before the election by the means of public debt. By so doing, he reduces the base for future social conflicts, beneficiates from social peace during his term and possibly enhances his chances to be reelected. In addition, in the case with foreign or external public debt, the incumbent can strategically divert future social conflicts toward a common enemy (the foreign creditors). Thus, by increasing public debt before the election, the incumbent can strengthen social cohesion during the mandate, both by reducing the base of internal conflicts and by diverting citizens from internal toward external rent-seeking activities.

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