



Public debt in classical political economy: A Comparative Theoretical Analysis of Smith, Ricardo, Malthus, and Mill

MAOULAININE Naama⁽¹⁾, MANSOURI Mohamed⁽¹⁾, BOUHJAR Ahmed⁽¹⁾ & MALAININE Cheklekbire⁽¹⁾

Laboratoire des Sciences Économiques et Politiques Publiques (LSEPP) Faculté d'Économie et de Gestion, Université Ibn Tofail, Maroc

Abstract: This paper investigates the theoretical foundations of public debt within British Classical Political Economy by conducting a comparative analysis of Adam Smith, David Ricardo, Thomas Robert Malthus, and John Stuart Mill. Using a historical-analytical approach, the study examines how classical economists conceptualized public borrowing and its macroeconomic implications. The results indicate that classical thought is predominantly characterized by a fiscal pessimism regarding public debt, grounded in three core assumptions: (i) public expenditure is largely considered unproductive, (ii) public borrowing is associated with inefficient resource allocation and intergenerational fiscal burden, and (iii) market mechanisms are assumed to ensure equilibrium between savings and investment without state intervention. In this framework, public debt is often interpreted as a mechanism that crowds out private capital accumulation and constrains long-term growth. However, the analysis also highlights important internal heterogeneity. Smith and Ricardo emphasize the adverse effects of debt on capital formation and fiscal discipline, whereas Malthus introduces a demand-side perspective anticipating Keynesian reasoning, and Mill develops a more balanced approach distinguishing between productive and unproductive public spending. The study concludes that, despite its historical context, classical public debt theory remains analytically relevant for contemporary debates on fiscal sustainability, capital accumulation, and macroeconomic stability.

Keywords: Public Debt; classical political economy; Fiscal Policy; Capital Accumulation; Comparative Analysis.

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1 Introduction

Public debt remains a central and perennial issue in modern macroeconomic analysis and fiscal policy design. In an era marked by rising sovereign indebtedness, population ageing, and growing concerns about long-term fiscal sustainability, the management of public debt has become a critical challenge for policymakers worldwide (Reinhart & Rogoff, 2009). Although contemporary debates are largely dominated by Keynesian and post-Keynesian frameworks that often view public borrowing as a tool for stabilisation and growth, the intellectual foundations of public debt theory trace back much earlier—to the British Classical School of Political Economy. This school played a decisive role in shaping the earliest systematic analytical perspectives on government borrowing and its macroeconomic implications (Theocarakis, 2014).

The British Classical economists, active between the late 18th and mid-19th centuries, developed their ideas in a context of war finance, industrial transformation, and debates over the role of the state. Within this tradition, the works of Adam Smith, David Ricardo, Thomas Robert Malthus, and John Stuart Mill offer distinct yet interconnected interpretations of public debt. Despite notable internal differences, these four thinkers collectively contributed to a theoretical framework generally characterised by caution and restraint regarding public borrowing. They emphasised its potential adverse effects on capital accumulation, fiscal discipline, intergenerational equity, and long-term economic growth (Churchman, 2001; Tsoulfidis, 2007).

Adam Smith laid the groundwork for classical scepticism toward public debt in *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith viewed government borrowing as a dangerous practice that tends to accumulate excessively and rarely gets repaid fairly. He famously warned: “When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid” (Smith, 1776/1904, Book V, Chapter III). Smith rejected the popular notion that domestic public debt is harmless because “we owe it to ourselves,” describing this idea as a sophistry that masks real economic distortions, including the transfer of resources from productive private uses to unproductive public consumption (Smith, 1776/1904). He argued that heavy debt servicing burdens future generations and crowds out private investment, ultimately slowing capital accumulation and economic progress.

David Ricardo built upon and radicalised Smith’s concerns. In his *Principles of Political Economy and Taxation* and especially in “The Funding System” (Ricardo, 1820/1951), Ricardo advocated strongly for the redemption of public debt. He contended that financing public expenditure through loans rather than immediate taxation creates an illusion of lower costs in the present while distorting resource allocation and harming long-term growth. According to Ricardo, debt financing shifts the burden onto future taxpayers without altering the real opportunity cost of government spending. He viewed taxation for debt service as particularly detrimental because it discourages saving and investment (Churchman, 2001). Ricardo’s position reflected a deep commitment to fiscal discipline and the principle that governments should “pay as they go,” especially outside of exceptional wartime circumstances.

In contrast to the strong anti-debt stance of Smith and Ricardo, Thomas Robert Malthus introduced a more nuanced, demand-oriented perspective. In his *Principles of Political Economy* (Malthus, 1820/1836), Malthus recognised the risk of general gluts—periods of insufficient effective demand—and suggested that public expenditure, including that financed by debt, could play a stabilising role by sustaining aggregate demand. Unlike his contemporaries who focused almost exclusively on the supply side and capital accumulation, Malthus highlighted the importance of consumption and effective demand. He argued that excessive saving without corresponding outlets for investment could lead to economic stagnation, opening the door to a conditional justification for public spending (Malthus, 1820/1836; Bleaney, 1976). This position prefigured later Keynesian ideas, although Malthus remained within the classical framework and did not advocate unlimited debt accumulation.

John Stuart Mill offered perhaps the most balanced and synthetic treatment of public debt among the classical economists. In Book V of his *Principles of Political Economy* (Mill, 1848/1909), Mill distinguished carefully between productive and unproductive public expenditure. He acknowledged that public debt could be justified—and even beneficial—when used to finance investments that enhance the productive capacity of the economy (such as infrastructure or education). However, he warned strongly against using debt to fund current consumption or unproductive activities, which would crowd out private capital and impose burdens on future generations (Mill, 1848/1909). Mill’s approach combined Ricardian rigour on fiscal discipline with a more pragmatic recognition of the conditional advantages of public borrowing under specific circumstances.

These classical contributions are not monolithic. Significant divergences exist regarding the mechanisms through which public debt affects the economy—crowding-out effects (Smith & Ricardo), demand deficiencies (Malthus), or conditional productivity (Mill). Nevertheless, a common thread runs through their analyses: public debt should be approached with extreme caution because it risks undermining the process of capital accumulation, which classical economists saw as the primary engine of economic growth.

The objective of this paper is to provide a comparative theoretical analysis of public debt within classical political economy. It focuses on identifying the underlying assumptions, analytical mechanisms, key divergences, and areas of convergence among Smith, Ricardo, Malthus, and Mill. Adopting a historical-analytical approach, the study traces the intellectual evolution of classical debt theory from Smith’s foundational critique to Mill’s more

synthesised perspective. This analysis clarifies how classical economists conceptualised the trade-offs between short-term fiscal needs and long-term economic sustainability.

By revisiting these classical contributions, the paper seeks to enrich current discussions on public debt sustainability. Although developed in a pre-industrial context characterised by different institutional and monetary realities, classical insights remain remarkably relevant. They illuminate critical trade-offs between public borrowing, private capital accumulation, macroeconomic stability, and intergenerational equity in today's economies facing persistent fiscal pressures, high debt-to-GDP ratios, and uncertain growth prospects (Salsman, 2017). In fin, returning to classical political economy offers a valuable counterbalance to dominant modern narratives. While Keynesian approaches emphasise the stabilising virtues of deficit spending, the classical tradition reminds us of the hidden costs of chronic indebtedness. Understanding these historical foundations can inform more balanced and sustainable fiscal policies in the 21st century.

2 Analysis of public debt Conceptions in British Classical Political Economy

2.1 The Concept of public debt in Adam Smith

Adam Smith's analysis of public debt is embedded within his broader theoretical framework concerning the role of the state and the functioning of a market economy. In *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1776), he expresses a deep and systematic skepticism toward public borrowing, which he considers a potential threat to economic prosperity, fiscal stability, and long-term national wealth accumulation. His contribution represents one of the earliest and most structured critiques of public debt in classical political economy (Blaug, 1997).

According to Smith, the accumulation of public debt is primarily associated with extraordinary government expenditures, particularly during periods of war. He observes that European governments frequently rely on borrowing rather than immediate taxation to finance military conflicts (Stiglitz, 2000). Although this mechanism allows the state to mobilize large financial resources rapidly without imposing an immediate fiscal burden on citizens, Smith argues that it creates a false perception of costlessness and leads to the intergenerational transfer of financial obligations.

A central concern in Smith's analysis relates to the burden of debt servicing. When the state borrows, it commits to regular interest payments financed through taxation. This mechanism increases the fiscal pressure on households and firms and may reduce private savings and investment capacity. The annual cost of debt servicing can be expressed as:

$$SD = r \times D$$

where SD represents annual debt service, r is the interest rate, and D is the stock of public debt.

This relationship implies that any increase in either the stock of debt or the interest rate leads mechanically to higher fiscal obligations. Smith argues that this dynamic may result in a continuous rise in taxation, which negatively affects economic incentives and capital accumulation.

In addition, Smith identifies a mechanism that anticipates the modern concept of crowding-out. Public borrowing diverts financial resources from productive private investment toward government financing needs. This can be represented as (Samuelson & Nordhaus, 2010):

$$S = I + G_B$$

where S is national savings, I is private investment, and G_B is government borrowing.

For a given level of savings, an increase in public borrowing reduces the funds available for private investment, thereby constraining productive capital formation and long-term growth.

Beyond economic considerations, Smith also highlights political and institutional risks associated with public debt. He argues that a heavily indebted state becomes increasingly dependent on its creditors, reducing its fiscal autonomy and increasing the share of public revenue devoted to interest payments. This may weaken the provision of essential public goods such as justice, security, and infrastructure.

Smith also criticizes what he calls fiscal illusion. Unlike taxation, which makes the cost of public spending immediately visible, borrowing allows governments to defer payment, leading citizens to underestimate the true cost of public expenditure. This may encourage excessive government spending and persistent deficits.

However, Smith does not reject public borrowing entirely. He acknowledges that exceptional circumstances, such as wars or national emergencies, may justify temporary reliance on debt. Nevertheless, he insists that such borrowing must remain limited and strictly exceptional in order to avoid long-term fiscal deterioration.

Overall, Smith's conception of public debt is grounded in a cautious view of state intervention, emphasizing fiscal discipline, intergenerational equity, and the protection of productive capital accumulation.

2.2 Public Debt in David Ricardo's Thought

Adam Smith's analysis of public debt is embedded within his broader theoretical framework concerning the role of the state and the functioning of a market economy. In *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1776), he expresses a deep and systematic skepticism toward public borrowing, which he considers a potential threat to economic prosperity, fiscal stability, and long-term national wealth accumulation. His contribution represents one of the earliest and most structured critiques of public debt in classical political economy (Ricardo, 1817).

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$$S = I_p + D$$

where S represents annual debt service, r is the interest rate, and D is the stock of public debt.

This relationship implies that any increase in either the stock of debt or the interest rate leads mechanically to higher fiscal obligations. Smith argues that this dynamic may result in a continuous rise in taxation, which negatively affects economic incentives and capital accumulation.

In addition, Smith identifies a mechanism that anticipates the modern concept of crowding-out. Public borrowing diverts financial resources from productive private investment toward government financing needs. This can be represented as:

$$\Delta I_p = -\Delta D$$

For a given level of savings, an increase in public borrowing reduces the funds available for private investment, thereby constraining productive capital formation and long-term growth.

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2.3 The Concept of public debt in Thomas Malthus

Thomas Robert Malthus's conception of public debt is characterized by an intermediate position within classical political economy (Malthus, 1820). Unlike Adam Smith and, more importantly, David Ricardo, Malthus adopts a more nuanced approach that recognizes both the potential costs of public indebtedness and its macroeconomic stabilization effects. While he acknowledges that public debt may lead to higher taxation and fiscal pressures, he nevertheless rejects the idea of rapid and complete debt repayment financed through extraordinary taxation on capital, as proposed by Ricardo.

Malthusian analysis is fundamentally grounded in the importance of effective demand as a central determinant of the level of economic activity. Within this framework, the economy is described through the following fundamental macroeconomic identity:

$$Y = C + I + G$$

where Y represents national income, C household consumption, I private investment, and G government expenditure. This equation highlights the structural role of public expenditure in the formation of aggregate income.

Within this logic, Malthus argues that public debt, by enabling the financing of government expenditure, indirectly contributes to sustaining aggregate demand (Malthus, 1820). Effective demand can therefore be formalized as:

$$D_e = C + I + G$$

where D_e represents total effective demand in the economy. This formulation emphasizes that any variation in government expenditure, whether financed through taxation or borrowing, directly affects the level of aggregate demand.

Malthus particularly stresses the expansionary impact of public expenditure on economic activity. This effect can be expressed through a positive sensitivity relationship between government spending and effective demand:

$$\frac{\partial D_e}{\partial G} > 0$$

This inequality indicates that an increase in public expenditure leads to a rise in effective demand, thereby supporting output and employment levels. Conversely, an excessive reduction in public expenditure, particularly in the context of rapid debt reduction policies, may trigger a contraction in economic activity.

This mechanism can be summarized in a simplified form as:

$$\Delta G \downarrow \Rightarrow \Delta Y \downarrow$$

This expression illustrates Malthus's position that a decrease in public expenditure leads to a decline in national income, in the absence of sufficient private demand compensation.

Thus, unlike the Ricardian logic centered on capital accumulation and crowding-out effects, Malthus places emphasis on market outlets and the realization of production. From his perspective, public debt should not systematically be considered an economic burden; rather, it may play a stabilizing role by sustaining aggregate demand, particularly in conditions of underutilized resources.

In conclusion, Malthus's conception of public debt constitutes a partial departure from strict classical orthodoxy by introducing a macroeconomic dimension centered on effective demand (Malthus, 1820). This approach anticipates, in an early form, key elements of Keynesian analysis, particularly the idea that the level of economic activity depends on aggregate demand rather than solely on supply-side conditions (Keynes, 1936).

2.4 The Concept of public debt in John Stuart Mill

John Stuart Mill's reflection on public debt is situated within a critical synthesis of classical political economy, aiming to reconcile the requirements of fiscal stability with the imperatives of economic efficiency and social welfare. In his *Principles of Political Economy* (1848), Mill acknowledges the relevance of several arguments advanced by Smith and Ricardo concerning the potentially negative effects of public indebtedness, while at the same time adopting a more pragmatic position regarding the use of public debt as an instrument of economic policy.

Mill argues that public debt is not intrinsically harmful; rather, its impact depends fundamentally on the nature of the expenditures it finances and on the economy's ability to mobilize its productive resources. From this perspective, he implicitly distinguishes between productive and unproductive public expenditure, which allows for a more refined analysis of the macroeconomic effects of public indebtedness (Mill, 1848; Blaug, 1997).

Mill's analytical framework is based on the following fundamental macroeconomic identity:

$$Y = C + I + G$$

where Y represents national income, C consumption, I private investment, and G public expenditure. Unlike Ricardo, Mill does not automatically assume that any increase in G financed by debt leads to a negative economic outcome. The impact depends on resource allocation and their productivity.

Thus, the net effect of public debt on economic growth can be expressed in a simplified form as a function depending on the productivity of public expenditure:

$$g = f(G_p - G_u)$$

where g represents the economic growth rate, G_p productive public expenditure, and G_u unproductive public expenditure. This formulation highlights the idea that public borrowing may be neutral or even positive if borrowed resources are directed toward high-value investments such as infrastructure or education.

Mill nevertheless recognizes that public debt generates a fiscal cost in the form of debt servicing, which can be represented as:

$$SD = r \times D$$

where SD denotes annual debt service, r the interest rate, and D the stock of public debt. This cost implies future fiscal pressure that may affect consumption and investment behavior. However, Mill emphasizes that this cost must be weighed against the economic benefits generated by the financed expenditures (Mill, 1848; Blaug, 1997). Within an intertemporal equilibrium framework, the overall impact of public debt can be represented as:

$$W = Y_t + \sum_{t=1}^n (G_p - SD)$$

where W represents intertemporal economic welfare, incorporating both the positive effects of productive public expenditure and the costs associated with debt servicing. This approach highlights that public debt should not be assessed solely from a static perspective, but rather within a long-term dynamic framework.

Thus, Mill adopts an intermediate position between Ricardo's strict fiscal pessimism and Malthus's more balanced demand-oriented view. He recognizes the risks associated with excessive indebtedness, but also acknowledges its potential usefulness when it is used to finance productive investments capable of generating future growth (Mill, 1848).

3 Conclusion

This paper has conducted a comparative theoretical analysis of public debt within the British Classical School of Political Economy, focusing on the contributions of Adam Smith, David Ricardo, Thomas Robert Malthus, and John Stuart Mill. Through a historical-analytical lens, it has revealed a coherent yet internally differentiated intellectual tradition characterised by general fiscal prudence and caution toward public borrowing. Far from being monolithic, classical thought on public debt reflects a rich dialogue that balances concerns over long-term sustainability with contextual nuances regarding the role of government expenditure (Tsoulfidis, 2007; Salsman, 2017).

Adam Smith laid the foundational critique of public debt by emphasising its tendency to accumulate excessively and impose heavy burdens on future generations. In *The Wealth of Nations*, Smith warned that national debts are rarely repaid fully and fairly, often leading to oppressive taxation and the diversion of resources from productive private investment to unproductive public consumption (Smith, 1776/1904). His rejection of the "we owe it to ourselves" argument underscored the real economic costs, including crowding-out effects on capital accumulation. This perspective established a tone of deep scepticism that influenced subsequent classical thinkers.

David Ricardo radicalised Smith's concerns, developing one of the most stringent positions against debt financing. Ricardo argued that public borrowing creates an illusion of cheaper government expenditure in the present while shifting the real economic burden onto future taxpayers without reducing the opportunity cost of resources used (Ricardo, 1817/1951; Ricardo, 1820/1951). He strongly advocated for debt redemption and the "pay-as-you-go" principle, viewing taxation for debt service as particularly harmful to saving, investment, and long-term growth (Churchman, 2001). Ricardo's analysis remains a cornerstone of classical fiscal orthodoxy, highlighting the distortionary effects of debt on resource allocation.

In contrast, Thomas Robert Malthus introduced a notable departure by incorporating demand-side considerations. While sharing the classical concern for fiscal discipline, Malthus recognised the possibility of general gluts caused by insufficient effective demand. He suggested that public expenditure, including that financed through borrowing, could play a stabilising role by supporting aggregate demand during periods of economic slack (Malthus, 1820/1836; Bleaney, 1976). This position prefigured elements of later macroeconomic thought and illustrated that classical political economy was more flexible than often portrayed.

John Stuart Mill offered the most synthesised and balanced treatment among the four. Building on his predecessors, Mill distinguished between productive and unproductive public spending, arguing that debt could be justified when financing investments that enhance the economy's productive capacity, such as infrastructure or education. However, he cautioned against its use for current consumption, which would crowd out private capital and burden future generations (Mill, 1848/1909). Mill's conditional acceptance of public debt reflected a pragmatic evolution within the classical framework, combining Ricardian rigour with a recognition of context-specific benefits.

The comparative analysis reveals both convergence and divergence. A common thread across these thinkers is the emphasis on three fundamental principles: the largely unproductive nature of much government expenditure, the crowding-out of private capital accumulation, and a belief in the self-regulating capacity of market mechanisms when not undermined by excessive public borrowing (Theocarakis, 2014). Smith and Ricardo embody the most restrictive pole, focusing on intergenerational equity and long-term growth risks. Malthus and Mill, while remaining cautious, introduce greater nuance by considering demand dynamics and the potential productivity of certain public investments. These internal differences demonstrate that classical public debt theory was not purely negative but acknowledged differentiated macroeconomic effects depending on the nature and context of borrowing.

Although developed in the eighteenth and nineteenth centuries amid war finance, early industrialisation, and metallic currency systems, classical insights retain significant analytical relevance for contemporary economies. Today's advanced and emerging economies face persistent fiscal deficits, elevated debt-to-GDP ratios, population ageing, and climate-related expenditure pressures (Reinhart & Rogoff, 2009; Salsman, 2017). In this context, Smith's and Ricardo's warnings against chronic indebtedness serve as timely reminders of the risks of crowding out private investment and imposing unsustainable burdens on future generations. Malthus's demand-side perspective resonates with modern discussions on secular stagnation and the role of fiscal policy in supporting aggregate demand during crises. Mill's distinction between productive and unproductive spending offers a valuable framework for evaluating current debates on green infrastructure, digital transformation, and human capital investment financed through debt.

By revisiting these classical contributions, this study enriches ongoing fiscal policy discussions. While Keynesian and post-Keynesian approaches often prioritise short-term stabilisation and growth through deficit spending, the classical tradition highlights the hidden long-term costs of unsustainable borrowing, including reduced capital accumulation, higher interest rates, and potential loss of fiscal credibility (Theocarakis, 2014). Classical economists remind us that public debt is not a free lunch: it involves critical trade-offs between present needs and future prosperity. In an era of quantitative easing, low interest rates, and rising geopolitical tensions that increase defence and social spending, these insights encourage greater emphasis on fiscal discipline, transparency, and the prioritisation of productive public investments.

Moreover, the classical perspective underscores the importance of institutional safeguards—such as independent fiscal councils, debt brakes, or intergenerational equity clauses—to mitigate the political economy risks of debt accumulation. These mechanisms align with the classical commitment to limiting government overreach while preserving market-driven growth.

In conclusion, the British Classical School offers a nuanced and enduring analytical lens for understanding public debt. Although historical context differs markedly from today's monetary and financial systems, the core concerns articulated by Smith, Ricardo, Malthus, and Mill—capital accumulation, fiscal sustainability, and intergenerational fairness—remain highly pertinent. This paper argues that integrating classical insights into modern macroeconomic analysis can foster more balanced fiscal frameworks that reconcile short-term stabilisation with long-term economic resilience. Ultimately, returning to these foundational thinkers provides not only historical perspective but also practical wisdom for addressing the pressing sovereign debt challenges of the 21st century..

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