

Is United States Treasury Debt Odious?

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ABSTRACT

Robert W. Kolb Loyola University Chicago This paper explains the concept of odious debt, sovereign debt that is legally or morally corrupt and unworthy of payment. While the term odious debt emerged in the legal literature in the early 20th century, the idea has had a much longer life, and beyond the legal interpretation the question the issue has a moral dimension. A debt is odious if funds are raised by an illegitimate government and/or used for an illegitimate or immoral purpose. For example, an absolute ruler might issue sovereign debt to build palaces for his personal use. After the regime fails, the debt remains for the citizens of the country to repay, even though the public received no benefit from the loan proceeds. Similarly a dictator might issue sovereign debt and use the funds for military and police to control and oppress the country's population. After the dictator is overthrown, the oppressed citizens are left to repay the money that was used to harm them. In these situations, there is a strong argument in favor of the country repudiating the debt, particularly if the lender knew, or should have known, how the funds were to be used. The case of U.S. treasury debt initially appears to be quite different. U.S. sovereign debt has been issued by a government with a strong case of legitimacy, at least compared to other countries. Further, much of the debt has been used for clearly legitimate national purposes: infrastructure projects during the Great Depression, fighting World War II, and providing fiscal stimulus in response to economic recessions. Current policies for issuing U.S. treasury debt stand in strong contrast to these legitimate purposes. Much of the debt that the United States issues today has been directed toward increasing consumption opportunities for today's citizens with no obvious benefits to future citizens, who will be asked to repay that debt. This paper argues that the portion of U.S. treasury debt used to fund current consumption without providing benefits for future citizens is odious debt. As a consequence, future citizens have no moral obligation to repay a significant portion of the currently outstanding \$19 trillion of U.S. treasury debt.

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