

Axel Leijonhufvud pointed out that in extreme macroeconomic events, like the present financial crisis, budget constraints do not hold. The equal-value-in-exchange conditions are violated. It is hard to do general equilibrium theory without budget constraints binding. But the point goes deeper. The assumption of *voluntary* cooperation in society, which is supposed to be the ethical value of the free market system, fails to hold. The *coercive* powers of courts and governments have to be brought in.

In the present crisis, governments and central banks have been forced into all sorts of improvised measures to stop an avalanche of defaults. These interventions are not seen as just and fair by taxpayers who have to pay the bill. They do not make sense in terms of the economic logic of everyday life. Where is the *quid pro quo*? Widespread violations of budget constraints make fertile soil for extremist political movements. We had better be aware of the links between financial and political instability.