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Abstract
Public debt levels have risen across the advanced capitalist world over the past four decades. Who exactly is purchasing these ever-growing piles of public debt? How do rising levels of public indebtedness relate to growing wealth and inequality? This paper presents some of my own findings, which indicate a rapid concentration in ownership of the US public debt since the early 1980s. Focusing on the Eurozone, the paper then goes on to discuss the difficulties in extending this type of research to other countries. The absence of reliable data on ownership of the public debt reinforces the need for a global registry that tracks the distribution of financial wealth.

Keywords: public debt, inequality, ownership, advanced capitalist countries, debt state, austerity

Of Winners and Losers

Levels of public indebtedness have soared across the advanced capitalist world since the onset of the global financial crisis (GFC) in 2008. Governments have made deficit spending a lynchpin of their efforts to contain the crisis, and as a result, there has been a renewed interest in the public debt in both academic and political circles (Abbas et al. 2011: 718). While economists and politicians alike debate the "sustainability" of the latest binge in government borrowing they neglect a crucial political question: Who exactly are the winners and losers of this recent public debt explosion?

Growing wealth and income inequality has become perhaps the most pressing problem in the current crisis-ridden era of global capitalism. And it is incumbent upon researchers to understand the linkages between a skyrocketing public debt, on the one hand, and rising inequality, on the other. This requires a careful examination of the distribution of the public debt, to uncover the identities of dominant owners of government bonds and to map how their ownership share has changed over time.

In this paper, I discuss some of my own findings on ownership of the public debt. Focusing on the US experience, my research reveals that, since the early-1980s and especially since the GFC, ownership of the public debt has become rapidly concentrated in favor of the top one percent of households and the largest financial corporations. Overall, I argue that this growing inequity in the distribution of the public debt has negative repercussions for democratic representation in America.

I then go on to motivate the importance of extending research on the ownership structure of public debt to other parts of the world. Controversies surrounding the debt crisis in its periphery make it especially imperative that this type of research be conducted in the Eurozone context. Yet these research efforts are likely to be hampered by a lack of reliable data. In the concluding section of the paper, I join calls for the construction of a global financial registry, one that will help improve statistical tracking of various forms of wealth, including government bonds. Though such initiatives might seem modest from the standpoint of radical praxis, they constitute a necessary first-step in generating rigorous knowledge on how to re-assert democratic control over the public finances.

Before delving into the heart of the matter, the next section contextualizes the discussion by outlining the recent public debt explosion in the advanced capitalist world. The causes and consequences of this massive build up in public indebtedness are explained with reference to Wolfgang Streeck's concept of the "debt state".

The Debt State

Figure 1 uses International Monetary Fund (IMF) data to track the long-term history of public indebtedness for advanced countries and emerging/developing countries from 1880 to 2012. As we can see, after a sustained build up from the early 1970s to the early 1990s, levels of public debt in emerging and developing countries, expressed as a percentage of GDP, have fallen drastically and remain low even through the crisis era. The same, however, cannot be said for the developed countries. From 66 percent of GDP in 2007 the public debts of developed countries ratcheted up to 97 percent in 2012, a rate of increase of around 47 percent.

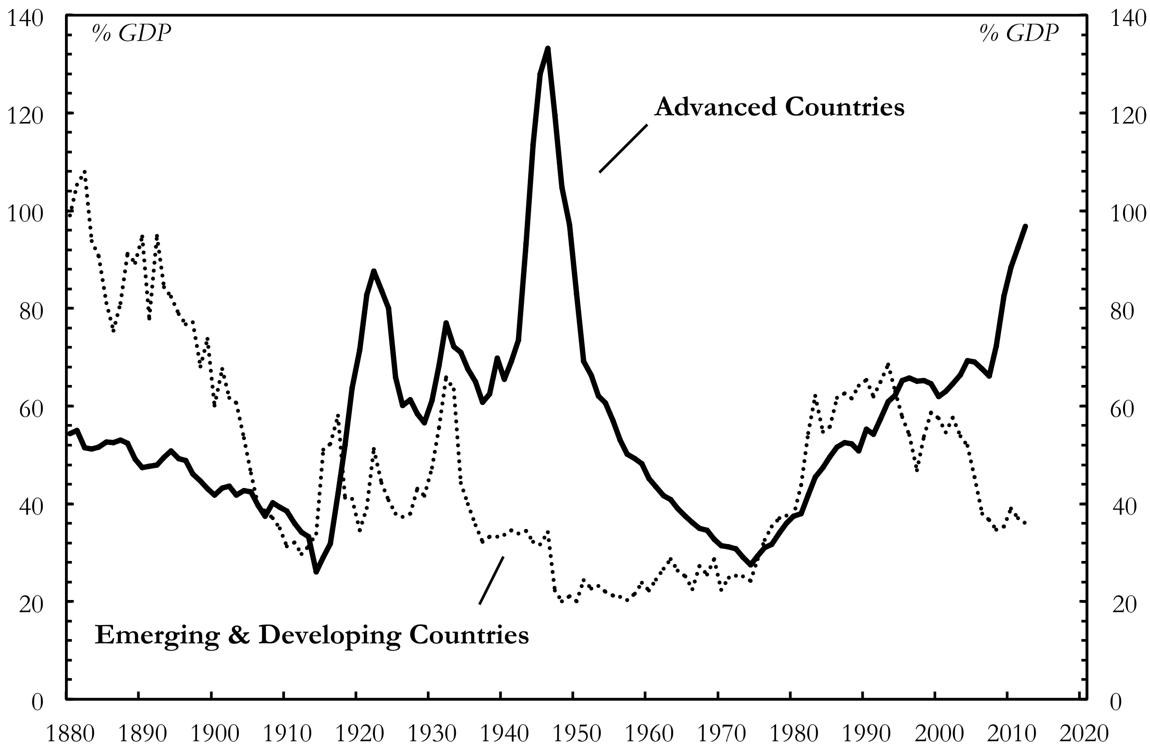

Figure 1 Public Debt in Advanced and Emerging/Developing Countries (% GDP)

Note: Series are calculated as weighted averages based on GDP at puchasing power parity. A full list of the countries included in each category be found at the website below.

Source: IMF Historical Public Debt Database (http://www.imf.org/external/datamapper/index.php?db=DEBT)

The most recent expansion of public debt in advanced countries is, in fact, part of a secular trend that has been building over the past four decades. And even with the prospect of recovery on the horizon for countries such as the US, high levels of indebtedness are forecast to persist in the advanced capitalist world due to the demographic challenges associated with ageing populations (Congressional Budget Office 2015). Public debts have been a central component of advanced capitalism since the 1970s and it is likely to stay this way for the foreseeable future.

How do we explain these massive increases in public debt? And how does the explosion in public indebtedness relate to growing wealth and income inequality? Answers to both of these questions can be found in some of the recent work of Wolfgang Streeck. In his book *Buying Time: The Delayed Crisis of Democratic Capitalism*, Streeck (2014) traces a shift in the advanced capitalist countries from a postwar "tax state" to a neoliberal "debt state". Under the tax state, gradual increases in government expenditures were matched by tax revenues, which resulted in falling levels of public indebtedness. With the emergence of the debt state since the early 1970s onward, government expenditures have continued to grow, while tax revenues have stagnated, resulting in escalating levels of public indebtedness.

Drawing insights from classical figures of German fiscal sociology, including Adolph Wagner, Rudolph Goldscheid and Joseph Schumpeter, Streeck argues that tax stagnation, rather than increasing government spending, drives the build up of public indebtedness in advanced countries. The gradual increase in government expenditures is, for Streeck, a necessary function of capitalist development. As the capitalist market expands and deepens, extending its commodifying logic to ever more aspects of social life, the state must increase its activities in the realms of infrastructure, policing and social protection. According to Streeck, however, tax stagnation is a more overtly political process, resulting from a highly organized tax revolt on the part of elites in the advanced countries.

Thus in *Buying Time*, the root cause of tax stagnation is declining tax progressivity. Not only do tax revenues constitute a dwindling portion of national income, but elites, including wealthy households and large corporations, are paying less and less taxes as a percentage of their overall income. The emergence of the debt state is, in this sense, an outcome of the declining progressivity of tax systems in advanced countries. Declining tax progressivity here is crucial, as it allows us to make a link between rising public indebtedness, on the one hand, and rising wealth and income inequality, on the other.

Expressed as a logical sequence in Figure 2, the relationship that Streeck posits between public debt and inequality can be summarized as follows. Declining tax progressivity means greater inequality and increased savings for wealthy household and large corporation. Declining tax progressivity also means a rising public debt. As a result of changes in the tax system, elites have more money freed up to invest in the growing stock of government bonds, which, thanks to their "risk free" status, become particularly attractive in times of crisis. In essence, what the debt state means is that governments in advanced capitalist countries come to rely on borrowing from elites instead of taxing them. And in choosing to furnish elites with "risk free" assets rather than levy taxes on their incomes, the debt state comes to reinforce existing patterns of social inequality.

The transition from a tax state to a debt state has brought with it dire consequences for democracy. Under the postwar tax state, governments in advanced capitalist countries were accountable primarily to their citizenry or *Staatsvolk*, which demanded the political, civil and social rights of citizenship in exchange for loyalty. Under the neoliberal debt state, however, citizens have to compete with increasingly powerful government bondholders, or *Marktvolk*, which demand that the government reliably service its debts in exchange for market confidence.

Streeck argues that the debt state marks a new stage in the relationship between capitalism and democracy. Previously elites would exercise indirect political influence in deciding whether or not to invest in the national economy. But now with a massive ownership stake in escalating public debts, these same elites can also exercise direct political influence in deciding whether or not to invest in government bonds. Governments in advanced countries therefore face a delicate balancing act. Cater too much to the demands of citizens and risk losing the confidence of investors; Kowtow to investors and de-legitimize yourself in the eyes of the citizenry. Especially since the onset of the GFC, Streeck argues that the *Marktvolk* appears to be gaining the upper hand in this power struggle. More and more the demands of citizens in advanced capitalist countries are subordinated to the supposed exigencies of the "market". As part of the unrelenting austerity drive, citizens are asked to moderate their claims on the public purse in order to ensure the confidence of the government's creditors.

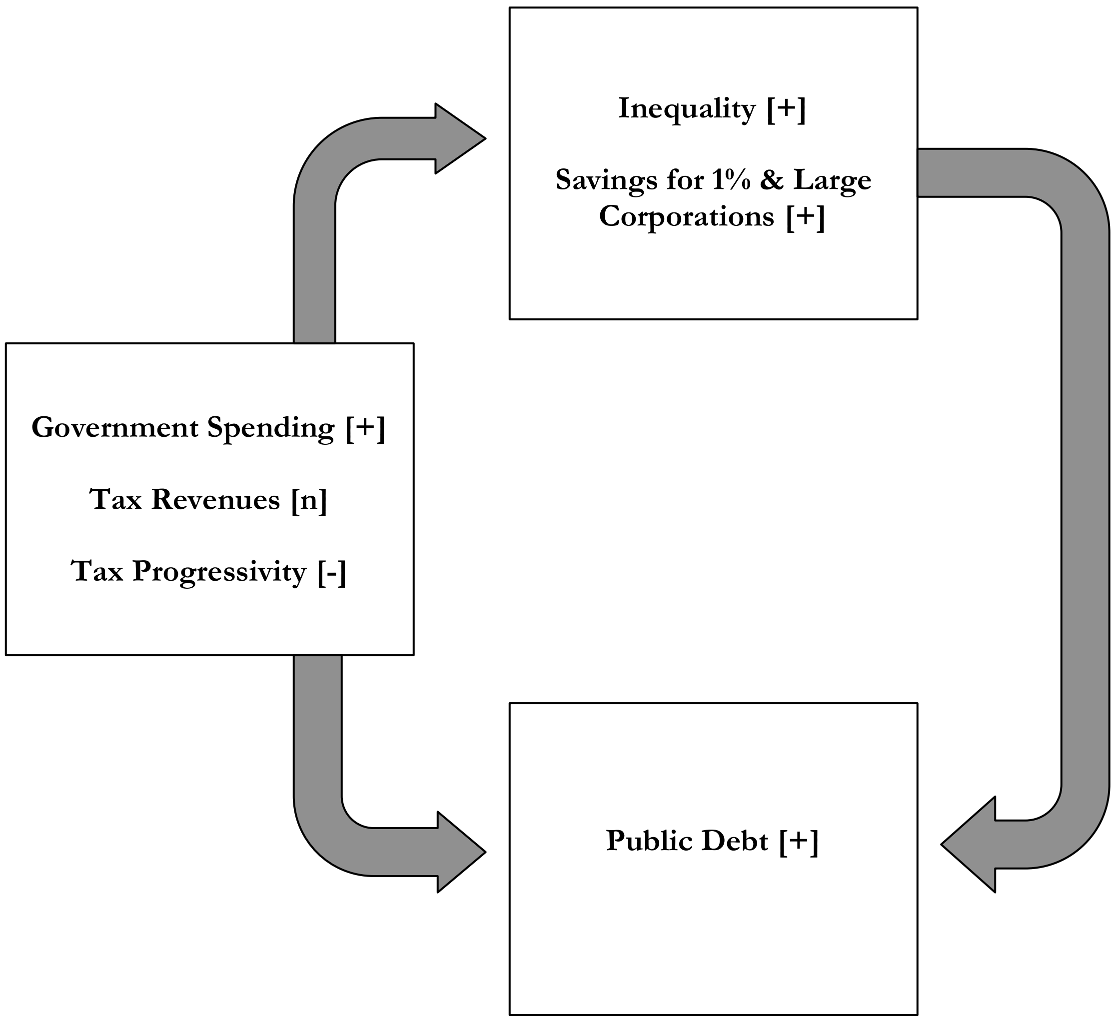

Figure 2 The Logical Sequence of Streeck's Debt State

Note: [+] denotes an increase, [-] a decrease, and [n] no change.

The US Experience

As Streeck (2014: 84) admits, our knowledge of the political economy of the modern debt state is "underdeveloped" due to a lack of reliable data. What is particularly surprising is the fact that, despite the growing centrality of public debt to advanced capitalism, no one seems to know the actual identity of the *Marktvolk*, the dominant owners of government bonds. Of course anecdotal accounts tell of the incredible power wielded by certain institutional investors in bond markets. But unlike for other sectors, data on market shares and concentration ratios for the public debt are, in Streeck's (ibid.: 82) estimation, "almost unobtainable".

And yet reliable data on the ownership of the public debt seems vital in order to substantiate Streeck's claims and to determine with any sort of precision who has won and who has lost out from the recent public debt explosion. Otherwise, we risk engaging in what Thomas Piketty (2014: 2) calls a "debate without data", one that is based on "…an abundance of prejudice and a paucity of fact". Without recourse to basic facts that have been unearthed through systematic and methodological research, our abilities to inform democratic debate and to propose solutions to perceived injustices are limited.

Working within the democratic spirit of Piketty's plea for original research on inequality, my own work develops what is, as far as I am aware, the first systematic investigation of the ownership structure of the US public debt (Hager 2014, 2015, 2016; see also Tett 2013). In many respects, the US is the quintessential example of Streeck's debt state. Aside from a brief period of budget surpluses in the late-1990s, the US public debt has climbed over the past three and half decades. From around 68 percent of GDP in 2007, the U.S. public indebtedness rapidly increased with the crisis, breaching the 100 percent of GDP mark in 2013 and remaining above that mark ever since (Hager 2016).[1] Federal spending as a percentage of GDP has gradually risen since the early 1980s, while federal tax revenues have remained stagnant. And while wealthy households and large corporations pay the bulk of federal taxes, they are paying less tax as a percentage of their income. This constitutes clear evidence of a decline in the progressivity of the federal tax system over the same period.

My research finds empirical confirmation for the intuitive linkages that Streeck draws between rising public indebtedness and growing inequality. For the US household sector, the research shows that the pattern of inequality in ownership of the public debt follows the pattern of inequality in wealth ownership more generally. In 1983, the now infamous top one percent of US households owned around one-third of all household sector holdings of the US public debt. This share gradually increased to 38 percent in 2007. With the onset of the crisis, the top percentile's share of the public debt has climbed even further, to 42 percent in 2010 and an unprecedented 56 percent in 2013.

A similar dynamic underpins corporate ownership of the US public debt. Over the past three and a half decades, the top 2,500 US corporations have increased their share of corporate holdings of the US public debt from 65 percent in 1977-1981 to 82 percent in 2006-2010. Much like the household sector, the research also shows that concentration in corporate ownership of the public debt follows the pattern of general wealth concentration and has intensified since the onset of the crisis. In 2006 the top 2,500 corporations owned 77 percent of the corporate share of the public debt and this climbed to 86 percent by 2010. These corporate holdings of the public debt are increasingly dominated by mutual funds, which are heavily concentrated in favor of the top one percent, at the expense of pension funds, which are widely held amongst the US population.

Alongside the rapid concentration in domestic ownership, there has also been a stunning increase in foreign ownership of the US public debt. In the post-World War Two period, foreign official and foreign private investors consistently owned less than 5 percent of the US public debt that is "held by the public". This share began to climb in the 1970s and now stands at around 50 percent. In my research I examine the global dimensions of the US debt state by linking together domestic and foreign ownership of the public debt.

On the one hand, I argue that foreigners have something to gain from concentration in domestic ownership of the US public debt (Prasad 2014). Foreign investors, especially China, which now owns roughly 20 percent of the foreign share of the US public debt, have expressed fears that the US federal government might "print money" in order to inflate away its ever-growing pile of debt. However, the existence of a powerful group of domestic owners "invested" in the creditworthiness of the federal government helps to alleviate these fears. The top one percent and the large corporations that dominate domestic ownership of the public debt hold considerable sway within the US political system and provide a powerful check against policy measures that might compromise the "risk free" status of US Treasury securities.

On the other hand, I argue that domestic owners also have something to gain from the seemingly insatiable foreign appetite for the US public debt. The constant flow of vast sums of foreign money into the public debt puts downward pressure on interest rates, providing US households, corporations and governments with an abundant source of cheap credit. This has two main effects. First, access to cheap credit allows low- and middle-income Americans to maintain consumption habits in the face of decades-long wage stagnation (Rajan 2010). In this way, the flow of cheap credit from abroad serves to deflect challenges to the dominant position of the top one percent and large corporations that dominate domestic ownership of the public debt. Second, cheap credit for the US federal government relieves pressures for increased taxation, especially progressive taxation, which would fall much more heavily on the incomes of the top one percent and the large corporations that, again, dominate domestic ownership of the public debt.

Analyzing the global dimensions of the debt state points toward a powerful "bond" of interests uniting domestic and foreign owners of the public debt. In particular, the research reveals the indispensible role that foreign ownership of the public debt plays in reinforcing the unequal power relations that underpin the US debt state.

What are the underlying consequences of growing inequality in ownership of the public debt? Streeck insists that rise of the debt state has negative repercussions for democracy, giving owners of the public debt, the *Marktvolk*, the upper hand over the general citizenry, the *Staatsvolk*. How do we subject this claim to empirical scrutiny? Anecdotal accounts of the incredible power wielded by the "bond market" over federal policy abound. But is it possible to go beyond anecdotal evidence and examine systematically whether concentration gives dominant owners of the public debt power over government policymaking?

The short answer is that it is impossible to know, at least not with any precision. Governments are complex entities that are subject to many different channels of influence that extend beyond the public debt. And even if we could isolate the public debt as a channel of influence, our efforts would still be hampered by the patchy and inconsistent nature of our data.

Despite these limitations, what we can do is examine US federal government policy to see if it has transformed in ways that might privilege the *Marktvolk* over the *Staatsvolk*. I conducted a simple content analysis of US federal government documents, counting the frequency with which the terms that Streeck identifies with the interests of the *Marktvolk* (e.g. international, investors, interest rates, confidence) and the *Staatsvolk* (e.g. national, public opinion, citizens, loyalty) appear in the *Economic Report of the President* (ERP). Although the correlation is not perfect, the analysis does show that, as concentration in ownership of the public debt increases, references to the interests of the *Marktvolk* in the ERP increase relative to those of the *Staatsvolk*. Under the US debt state, inequality in ownership of the public debt and inequality in representation within government policy go hand in hand.

The results of my research suggest that the US debt state not only reinforces wealth and income inequality, but that it also contributes to the erosion of democracy. This raises the question of what sort of measures could be introduced to tackle the inequality that lies at the heart of the debt state. As we saw, in the US case rising public indebtedness has been driven by tax stagnation and tax progressivity, which is one way of saying that the federal government now borrows from the rich instead of taxing them. It follows that increasing the taxes on the top one percent and large corporations would go a long way in combating inequities in the ownership of the public debt and in the distribution of wealth and income more generally. Carefully designed measures to bolster the progressivity of the federal tax system would also go a long way in re-asserting democratic control over elements of population that have seen their power grow inordinately under the debt state.

Broadening the Horizon?

The US is at the very center of global capitalism and the market for US public debt is one of the largest and most liquid financial markets in the world. The prominent position of the US makes the task of uncovering whose interests are being served by its public policies all the more vital. Yet it is also important to examine the recent experiences of other advanced capitalist countries that have also witnessed an explosive rise in public indebtedness. What is the relationship between public debt and inequality in other countries? Who makes up the *Marktvolk* in other parts of the advanced capitalist world and how has its ownership share of the public debt evolved over time? Has the *Marktvolk* come to wield significant influence in these countries as it has in the US?

These questions are of particular relevance to the Eurozone, where a debt crisis in its periphery has brought political immediacy to the issue of public indebtedness. In joining the Economic and Monetary Union (EMU), member states cede control of monetary policy to a supranational institution, the European Central Bank (ECB), which is tasked with the narrow mandate of maintaining price stability. Members of the Eurozone therefore relinquish monetary sovereignty, which, at its root, means that they issue debt in a currency they do not control (De Grauwe 2014: 7). A crucial aspect of monetary sovereignty is that a government can sell its debt to the central bank when private markets do not want it. Yet under EMU rules the ECB and national central banks are strictly prohibited from "monetizing" their debts in this manner (Bell 2003: 80). This means that the governments of EMU countries are completely reliant on private markets to finance their deficits.

The institutional set-up of the EMU therefore contains a structural bias favouring the *Marktvolk* in its distributional struggle with the *Staatsvolk*. The dependence on private finance means that member states must be ever more vigilant to maintain creditworthiness. Falling out of favour with financial markets means punishment from the *Marktvolk* in the form of higher borrowing costs, which, for a country that has given up monetary sovereignty, could result in bankruptcy. In this environment, the pressure on the *Staatsvolk* to scale back claims on the public purse becomes a structural necessity, as austerity is enshrined in the institutional architecture of the EMU (Parguez 1999).[2]

Nowhere have the effects of the structural bias of EMU been more palpable than in Greece. In an effort to restore credibility in the eyes of financial markets, successive Greek governments, under the watchful eye of European and international institutions, have implemented a vicious austerity program, resulting in spiraling unemployment and poverty, as well as skyrocketing drug use and suicides. Meanwhile the left-wing party Syriza, democratically elected by the Greek people as a progressive alternative to austerity, has been forced into accepting key components of the austerity program as a condition for receiving bailout money from the so-called Troika (the European Commission, the ECB and the IMF).

In the wake of the crisis, Streeck (2014: 97) argues that Eurozone countries have been transformed from debt states into "consolidation states" (i.e. states dedicated to "fiscal consolidation"), a move that in his estimation could spell the final triumph of capitalism over democracy. These grim prospects make it especially imperative to find out who makes up the *Marktvolk* in these countries. And yet in the case of the Eurozone Streeck's frustrations about the lack of data ring especially true. National and European data give us a breakdown of ownership of the public debt by various sectors (Hartwig Lojsch et al. 2011). But reliable data on concentration in ownership of the public debt *within* these sectors are indeed "almost unattainable". And this makes it impossible to map with any precision the relationship between public debt and inequality for these countries.

Due in large part to the severity of the crisis in Greece, we now have a reasonably clear understanding of how the ownership of Greek public debt has evolved over the past five years or so. Around 80 percent of Greek debt has now been transferred to the balance sheets of the Troika and other official institutions as part of the bailout plan. In the early stages of the crisis, major owners of Greek government debt included Greek banks and Greek pension funds, as well as large Western European banks such as BNP Paribas, Commerzbank, Dexia and Société Générale (Cotterill 2011).

Yet, at least as far as I am aware, no one has conducted systematic research that uncovers the ownership structures of these entities that dominated ownership of the Greek debt before the bailout. Who are the owners of Greek banks and pension funds? Is it the country's infamous oligarchs? Ordinary Greeks? Foreigners? Likewise, who are the owners of the large Western European banks that owned such a massive stake in Greek government debt? Is it, for example, German pensioners or the German top one percent? Most importantly, how have the patterns of ownership of these entities changed over time? Addressing these questions may prove difficult or even impossible, but precise answers to them would provide us with a much clearer sense of the winners and losers of the debt crisis.[3]

What about ownership of the public debt in core Eurozone member states such as Germany and France? These countries do not face the dire situation of Greece. But their public debts have grown significantly in recent years and in 2012 stood at 82 percent of GDP in Germany and 90 percent of GDP in France. As Eurozone members, even core countries are locked into a system that is structurally biased in favour of the *Marktvolk*. And this makes a systematic study of the dominant owners of their public debts also worthwhile.

Yet, as recent events in France illustrate, this data may simply not exist. In 2014, a committee was established to undertake a citizen's audit of the French public debt (Collectif pour un audit citoyen de la dette publique). The main conclusion of the audit was that 60 percent of the French public debt was "illegitimate" for two reasons. First, the citizen's audit argued that increases in the public debt in France were driven by tax cuts on wealthy individuals and giant corporations. Second, the audit claimed that rising interest rates on the public debt since the early 1990s unnecessarily increased the government's cost of borrowing to the benefit of wealthy bondholders. The French government pays out interest to owners of its debt and could maintain reliable records of these owners. But even if such records do exist they are not made available to the public. As one commentator on the citizen's audit in the English press eloquently put it, the "legally organised ignorance" of the identity of owners of the public debt stands as "one of the world's best kept secrets" (Keucheyan 2014).

Conclusion: A Debate With Data

As the Greek and French cases illustrate, we have anecdotal evidence of the powerful forces that lie at the heart of the public debt. But for most of the advanced capitalist world, the absence of systematic data deprives us of a more rigorous understanding of the winners and losers of the recent explosion in public indebtedness. Outside of the US, commentators are thus engaged in a "debate without data" (Piketty 2014: 2). With murky evidence come murky solutions. And this murkiness makes it all the more difficult to articulate in precise terms progressive responses to what appears to be a discernible relationship between public debt and inequality.

One way to address these problems would be to pressure governments to improve access to data on concentration in ownership of the public debt. If such data already exist, then they should be made freely available to the public. If these data do not exist, then an independent agency should be established to start collecting them. The recommendation by the French citizen's audit for a directory revealing the identity of government bondholders is a sensible step in this direction. Data on government bondholders could then form part of a global financial registry that records ownership of financial securities throughout the world (Zucman 2015: 92–98). A global financial registry is needed to bring much transparency to an opaque global financial system that conceals, and therefore reinforces, the power of dominant owners of the public debt and other forms of financial wealth.

Calls for better statistics may seem rather drab from the perspective of radical praxis. And obviously access to more reliable data is only one small component of what needs to be a broader solution to the problem of inequality, a problem that pervades all aspects of life, including the public finances. But if an important part of the democratic process involves overcoming our collective ignorance, then engaging in a debate *with* data represents one crucial aspect of the progressive response.

Notes

[1] This is the gross or total public debt, which refers to the portion of the US federal government "held by the public" and the portion owned by the federal government itself in intra-government accounts.

[2] The logical flipside of this observation is that the US federal government, as a monetarily sovereign entity, does not face the structural constraints faced by Eurozone members. As the issuer of debt in a currency that it fully controls, the US federal government cannot technically go bankrupt. This means that the US is freed from budget constraints and could in principal pursue Keynesian objectives of non-inflationary full employment. So why, as my research suggests, does the US federal government continue to put so much stock in maintaining its creditworthiness in financial markets? Are politicians merely ignorant of the policy tools at their disposal? As Michal Kalecki (1943: 324) reminded us long ago, "…obstinate ignorance is usually a manifestation of underlying political motives". In a capitalist system, government pursuit of full employment through debt financing encounters political opposition from big business, whose power to discipline government and society depends on its abilities to withdraw investment and to sack workers. Both aspects of this power are compromised, if not rendered completely irrelevant, when a government takes full advantage of monetary sovereignty. As a result, "The social function of the doctrine of 'sound finance' is to make the level of employment dependent on the 'state of confidence'" (and not the other way around) (ibid.: 325).

[3] A rather perverse example hammers home the importance of mapping ownership of the public debt (Malone 2011). In 2011, the largest private holder of Greek government debt was Eurobank EFG. The banking group is registered in Luxembourg, but 40 percent owned by the Latsis family of Greece. The head of this family is shipping tycoon Spiro Latsis, who ranks as Greece's wealthiest individual. When critics speak of austerity as a transfer of wealth from ordinary Greeks to creditors, the latter usually conjures up images of large Western European banks. What the Eurobank EFG case suggests is that in some respects austerity is also, ultimately, a transfer from ordinary Greeks to the Greek oligarchy.

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