Rethinking US Debt

Seth Sandronsky

U.S. debt is center stage of federal, state and local politics. For a deeper grasp of the nation's indebtedness, and why that matters we turn to Sandy Brian Hager, a Fellow of International Political Economy in the Department of International Relations at the London School of Economics and Political Science. He received his Ph.D.in 2013 from the Department of Political Science at York University in Toronto. His research examines the political economy of public debt, corporate taxation and financial regulation.

Seth Sandronsky: Describe the nature of the U.S. debt.

Sandy Brian Hager: The broadest measure of the U.S. federal debt is referred to as 'gross public debt' and it includes all of the financial instruments (e.g. bills, notes, bonds and other securities) issued and backed by the 'full faith and credit' of the U.S. federal government. The gross public debt has two main components: intra-governmental debt and 'debt held by the public'.

Intra-governmental debt is the portion of the federal debt that is owned by the federal government. Some readers might be wondering why the U.S. federal government would want to own its own debt. Intra-governmental debt is a peculiar outcome of government trust fund accounting, which 'earmark' certain revenues to certain expenditures. Take, for example, the Social Security trust fund: when it takes in more in payroll taxes than it pays out in social security benefits, the trust fund runs a surplus and is required by law to invest that surplus in Treasury securities. Intra-governmental debt represents an internal transaction between federal government entities and has no direct bearing on the federal budget deficit.

Arguably the more significant, and probably more familiar, component of the gross public debt is the 'debt held by the public.' This is the portion of the federal debt that is owned by U.S. domestic businesses and households, state and local governments, foreigners and the Federal Reserve. When the federal government's total tax revenues fall short of its expenditures, it runs a budget deficit and the 'debt held by the public' increases.

The outstanding level of federal debt has fluctuated throughout U.S. history. In the context of wars and financial crises in particular, tax receipts have failed to keep pace with federal expenditures, leading to sharp increases in the 'debt held by the public'. Thus during World War II the 'debt held by the public' increased from 44% of GDP in 1940 to 106% in 1945 (data are from the White House Office of Management and Budget historical tables). And during the current financial crisis, the 'debt held by the public' has shot up from 36% of GDP in 2007 to 73% in 2012.

Rapid increases in the federal debt always bring with them debate and controversy. Some fear that the U.S. federal government will go bankrupt, others fret about the 'crowding out' effects that the debt will have on private investment, and still others worry about the consequences of alternative methods to eventually bring down the debt (i.e. increased taxation versus spending cuts). The starting point for my research is completely different: it seeks to uncover the power relations of public indebtedness.

SS: In brief, what are the power relations of public indebtedness in the U.S.?

SBH: Taking my point of departure from the capital as power framework (see Nitzan and Bichler 2009), I argue that private ownership is a matter of organized power because private ownership is premised upon exclusion. Once you take away the right of exclusion then private property becomes meaningless.

To investigate the power relations of public indebtedness, my Ph.D. research identifies the dominant owners that are buying up these vast sums of federal debt. My research is focused specifically on two main domestic sectors: households and corporations. And in short, the research reveals a rapidly increase in public debt ownership concentration within both of these sectors. On the one hand, the top 1% of households owned less than 20% of the household sector's share of the public debt in the late-1960s, but now owns over 40%. On the other hand, the largest 2,500 corporations owned around 66% of the corporate sector's share of the public debt in the post-World War II period, but now own about 82%. Based on these findings I argue that the public debt has come to serve more and more as an institution of power working in the interests of those at the top of the social hierarchy.

Now, because the research is focused on the domestic sectors, it misses a big part of the overall picture: namely, the increasing share of the public debt owned by the rest of the world. Foreign private investors and central banks now own around 50% of the U.S. public debt. And if future research I plan to examine closely the rise of foreign ownership and how it relates, if at all, to the domestic increase in ownership concentration.

SS: How does the concentration ownership of U.S. debt relate to austerity policy now?

SBH: In the mainstream media, we're constantly led to believe that the ruling class is obsessed with reducing the public debt. And on the surface the arguments I'm making might not seem to square with reality. How can the public debt serve as an institution of power when the most powerful, including the business-led 'Fix the Debt' campaign, appear to be so opposed to it? I argue that the ruling class support for debt reduction is more apparent than real for at least two reasons.

First, we can point back to the late-1990s U.S. when there was a serious prospect for public debt elimination under Clinton. Rather than celebrate the Clinton-era surpluses, financial groups started to raise major concerns about the implications of the rapid disappearance of federal bonds.

Second, if you look closely at the 'debt reduction' strategies proposed by groups like 'Fix the Debt', the fix that they prescribe focuses almost solely on social spending cuts, while at the same time advocating rather vague plans for tax reform that are unlikely to provide any substantial boost to federal revenues. As a result, I argue that fear mongering about budget deficits and public debt is just a means for the ruling to mobilize support for what they really want: an austerity drive. And this drive is likely to aggravate already explosive situation characterized by increasing inequality.

Of course there's nothing particularly novel in suggesting that fear mongering about the public debt is just a ploy to try to broaden support for an austerity agenda. This is something that even a mainstream economist like Paul Krugman has pointed out in the *New York Times.* But by examining the pattern of public debt ownership, I think we come to a more nuanced understanding of the complex ways in which the ruling class wields power through the institution of public debt. And perhaps understanding these power relations will allow us to better grasp the possibilities for, and also the barriers to, more progressive alternatives to the current austerity agenda.

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References: Nitzan, J. and Bichler, S.Capital as Power: A Study of Order and Creorder, London: Routledge, 2009.

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