SOVEREIGN DEBT AND SOCIAL CLASS
THE RESURGENCE OF THE BONDHOLDING CLASS IN THE US

Sandy Brian HAGER, *Public Debt, Inequality and Power. The Making of a Modern Debt State* (Berkeley, University of California Press, 2016)

One thesis tends to prevail: we are all concerned with sovereign debt. A failure to repay sovereign debt would constitute a sanction and a prejudice to the entirety of the nation. Inclusive, social relations deployed around sovereign debt—that is, its sale, distribution, transaction, repayment or cancelation—engage all individuals through their savings. Debt holds society together as a whole, from the asset manager to "the grandmother" whose modest pension is invested in states bonds.

But are we really all *equally* concerned with sovereign debt products and problems? Sandy Brian Hager's short and efficient book confronts this crucial democratic issue by describing the unequal social distribution of US sovereign bond ownership by corporations and individuals. Relying on Thomas Piketty's and Wolfgang Streeck's macro stories, *Public Debt, Inequality and Power* provides a statistical overview and sociological account of debt. Hager's first contribution is to raise the issue of the link between social class and sovereign bonds. Building a statistical correlation between the top 1 % of the wealthiest companies or households and sovereign bonds holding, Hager is *re-politicizing* public debt against the prevailing accounts that tell the story of debt as a technical and neutral instrument.

The politics of data construction (and non-construction)

To speak of social classes, or simply to consider studying unequal social relations with regard to this financial item, remains not a self-evident action but a controversial one[1]. The image of an entire society

[1] The political scientist Adam Tooze criticized Streeck's accounts by expressing many doubts as to the very possibility of ascribing to the *Marktvolk* a social unity, a political homogeneity, and a class consciousness. Tooze A., "A General Logic of Crisis", on "How Will Capitalism End?" by Wolfgang Streeck, *London Review of Books*, (1), 5 January 2017: 3-8.

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enrolled in debt through its savings (as described by US Treasury technocrats[2], who state that government securities are subscribed by a broad base of investors-citizens) and a trans-class approach to debt (which masks the social stratification of creditors and the social heterogeneity of the population that is "bond concerned") have become hegemonic[3]. Usually, debt is said to become "democratized," because government bonds redistribute income gradually, and bondholding is dispersed in the population at large. Following Piketty, Hager highlights the risk of a "debate without data," "a protracted and seemingly endless dispute that is based on 'an abundance of prejudice and paucity of fact'" [4].

Stalking sovereign debt owners with the help of statistics, and therefore determining the effect on income distribution that debt channels, has become a real challenge for scholars, as obstacles to such an investigation are clearly numerous. Knowing precisely who the holders of sovereign bonds are, is a technical challenge due to the complexity of identifying them at each precise moment in the ceaseless flow of transactions and exchanges of securities on the secondary market. The obstacles are also a matter of a "State act," namely the strategic will of public authorities to preserve market practices and investors' anonymity in the name of the attractiveness and competitiveness of the national stock market. In fact, the State (particularly in the French case) perpetuates vagueness and actively produces ignorance regarding the linkages between social class, inequalities and sovereign debt by promoting an alternative holist category—the "future generations," composed of atomistic and homogeneous individuals[4].

[2] Francis Cavanaugh, a senior US Treasury official, claimed in the 1990s that public debt was now held by very broad social categories because most households had some of it in the form of savings bonds. Cavanaugh, F.X., 1996, *The Truth about the National Debt: Five Myths and One Reality*, (Boston, Harvard Business Press). Through trust funds like Social Security, Medicare, and Medicaid, which are widely subscribed, the population and the social state itself are considered as "equally" involved in the US public debt project. Using Congress Budget Office data, Hager however shows that, since 1979, US intra-government debt funds no longer massively represent the interests of ordinary Americans: 46.

[3] The dominant view is that market debt is a neutral instrument of financing that would ensure the survival of the public service and the social welfare state at a cheaper cost, thanks to low interest rates. Cf. Lemoine, B., *L'ordre de la dette. Enquête sur les infortunes de l'État et la prospérité des marchés* (Paris, La Découverte, 2016: 196-225).

[4] Le Lann, Y. and B. Lemoine, "Les comptes des générations. Les valeurs du future et la transformation de l'État social", *Actes de la recherche en sciences sociales*, "Le conseil de l'État (2)", 2012, Vol 4, n° 194.

Socially and Economically Concentrated Debt

As Hager reminds us at the beginning of his book, one of the first academic attempts to map public debt holders in the US can be attributed to Henry Carter Adams at the end of the 19th century. On the basis of the US census of 1880, Adams uncovered the "spectacle of a highly centralized public debt." He found that public debt ownership was highly concentrated in the hands of the wealthiest individuals and the largest corporations[5]. For instance, "only 1.4 percent of the total population of individual public creditors, the top investment class, with investments exceeding $50,000, owned 48 percent of the individual holdings of the US public debt" [18]. Inequality among creditors intensified further among the top half of debt holders: while they represented no more than 15 % of the bondholder population (those with investments in excess of $ 5,000), this group owned 82 % of the individual share of public debt. Adams thus identified the existence of a powerful social class of bondholders, "the capitalists that lent money to the government and controlled it as dominant shareholders control a corporation" [16]. In this view, public debt strengthens a class struggle between the majority, which bears the heavy tax payment for debt service financing, and the restricted circle of the bondholder "elite" who receives the payment of interest.

In his own survey of the late 20th century[6], Hager shows that among US households, inequalities in the holding of public debt follow the social distribution of wealth at the national level. In 1983, the famous "1%" of the wealthiest American households owned about one-third of the US public debt held by households. This share increased gradually to 38% in 2007. With the 2008 crisis, the share of public debt held by the top percentile stood at 42% in 2010 and then at a record of 56% in 2013. The ownership of US public debt by private companies[7] shows a similar pattern of concentration. Consequently, Hager argues, the 1 % and large American corporations that dominate national debt holdings exercise considerable control over the political system, hindering public policies that could compromise the

[5] Adams, H.C., 1887, *Public Debts: An Essay in the Science of Finance*, New York, D. Appleton, quoted in Hager: 14.

[6] At the end of the book, a very complete appendix examines "how ownership of the public debt has been divided among the various aggregate sectors of the US political economy. Its purpose is to lay the groundwork for the main analysis in the book, which goes beyond broad aggregates to examine the class composition of public debt ownership within these sectors": 105.

[7] Over the past three and a half decades, the 2,500 largest US companies have increased their ownership of public debt by corporations from 65 % in 1977-1981 to 82 % in 2006-2010.

"safe asset" status of US Treasury securities [120]. This bondholder class claims that permanence regarding debt and interest repayment is indispensable to guaranteeing corporate profits and ensuring the continuity of the national banking system. Although the debt was *de facto* serving the exclusive interest of a small group of powerful capitalists, the primary political task of this social class was to convince the population that "what proves to be of personal advantage must of necessity benefit the community at large" [17]. The bondholding class described by Adams was promoting a system of taxation that allowed income to be redistributed to creditors, and strengthened existing class relationships and social hierarchies. Taxation, especially when it was regressive, was redistributing income from the poor to the rich. For Adams, the division in terms of social classes between "taxpayers," who pay taxes and do not have savings, and "bondholders," who invest their savings in Treasury bills, intersected the central division of capitalist societies between the haves and the haves not, between those who own private property of capital and those who do not. Nevertheless, this logic of debt development implied a form of proportioning: debt had to be moderated, so as not to jeopardize the ability and willingness of society to repay it instead of rebelling.

Debt and the US Constitution: an archeology

These mechanisms are part of a long history dating back at least to the 18th century. As Hager, drawing on the work of Charles Beard[8] and Robert Livingston, reminds us, the foundation of American democracy was deeply entangled with debt holding and servicing. The fragile federal system resulting from the revolutionary forces had accumulated debts during the War of Independence (1775-1783) *vis-à-vis* foreign powers, especially France and the Netherlands, and a handful of domestic heirs who were none other than the founding fathers and writers of the constitution—40 of the 55 men who drafted the constitution had lent money to the government. Therefore, it was in their interest that the new regime should not default on these commitments and that the accumulated liabilities ($54 million) due to the French and Dutch allies but also to the domestic holders of the time, and thus in part to themselves, should be honored. The American Congress approved of Alexander Hamilton's proposal to

[8] Beard C., *An Economic Interpretation of the Constitution of the United States* (New York, Macmillan, 1921: 150).

levy a highly regressive excise tax on distilled spirits, which particularly affected the middle classes—whose income was spent on consumer goods. The organization of a bottom-up income redistribution, through taxation and debt service, was not achieved without resistance: small farmers rose up against this system and attacked tax collectors in Pennsylvania. The so-called uprising of the 1794 "whiskey revolution" was severely repressed by Hamilton and General George Washington, as it posed a threat to the power and legitimacy of the faltering federal government. Preserving the debt order—the continuity of payments to foreign powers but also to domestic elites—was therefore one of the central issues at stake in the origins of the US Constitution. These debates lasted for one hundred years in America, and continue today with no unanimous position having been reached. Controversies usually show a radical opposition between two extreme positions: for some, with its democratization in the 20th century, debt would now serve everyone, including widows and orphans, and would be the prerogative of the "John Q. Public" (the average American, "mister everybody"); for others, it would remain an instrument of class and social regression in the service of the likes of John D. Rockefeller[9]. Of course, the structures of public debt have been radically transformed since the 18th century, and direct ownership of these securities has become a minority interest. Global capital markets made the individual rentier[10] of the 19th century disappear, the ideal type of the "bondholder" who, by subscribing loans intended to fund wars[11], made a patriotic act. Less "physically" held, but subscribed through the mediation of institutional investors (insurance companies, pension and mutual funds) specialized in collecting and managing savings, sovereign debt management has become the monopoly of a professional jurisdiction—even if, at the end of the social chain, the savings of individuals are (unequally) embedded in the large market of securities. But the professionalization and massification of public debt, and the intermediation of investment banks, pension funds and bond companies do not mean that the bond subscription undertaken by investors evolves outside of political considerations. When Treasury department officials issue,

[9] Other expressions identify the "average American", such as "John Q. Citizen" and "John Q. Taxpayer".

[10] Théret B., 1991, "Apogée et déclin du rentier de la dette publique dans le 'grand' XIXe siècle libéral (1815-1935). Éléments pour une réévaluation du développement historique du capitalisme en longue période", *Économies et Sociétés*, 14: 87-136.

[11] Delalande N., "Protéger le crédit de l'État: Spéculation, confiance et souveraineté dans la France de l'entre-deux-guerres", *Annales*, 1, 2016.

commercialize and trade bonds, for instance during road show presentations, they make promises, enshrined in contractual laws but also fiscal figures and economic scenarios.

Holding debt, holding democracy?

By analyzing US economic policy making, Hager brings empirical materials to explore the famous division that Wolfgang Streeck makes between *Staatsvolk* (the general citizen) and the *Marktvolk* (the people of the market), considered as two types of political subjectivity with disjointed interests and modes of representation in our democratic systems[12]. The citizen-elect of the *Staatsvolk*, "holder of a passport granting him a voting right," expresses himself during periodic elections and is attached to public services and the Welfare state. For its part, the member of the *Marktvolk*, "holder of a mobile capital and a right to sell," participates in political life as a creditor who buys and negotiates bonds during auctions and, by these acts, reaffirms (or not) its confidence in the government according to its orientations.

Hager's lexicographical analysis of the President's Economic and Budgetary Reports leads him to conclude that the vocabulary of the *Marktvolk* is over-represented: the register of financial debt service (with conceptual words like "contract" "market," "international," "investor," "creditor," "auction," "interest rate," "confidence") largely dominates the register of the *Staatsvolk* (words like "citizen," "national people," "voters," "public law," "periodic elections," "loyalty" and "public opinion.")[13] In order to demonstrate the bondholding class's power of influence and capacity to lock in economic and social policy choices, Hager undertakes an inquiry into the differentiated degree of politicization of the American population. Data from a Survey of Economically Successful Americans (SESA)[14] provide an opportunity to display the social and political homogeneity of the top 1 %, whose public policy priorities are in stark contrast to the rest of the population. They show a much stronger adhesion than ordinary Americans to policies of deregulation and cuts in social and budgetary spending. Finally, Hager emphasizes the high degree of political consciousness of this fraction of the population, which is "over

[12] Streeck W., *Du temps acheté, La crise sans cesse ajournée du capitalisme démocratique*, Gallimard, Paris, 2014.

[13] *Ibid.*

[14] *Ibid.*

politicized", and largely inclined to lobby decision makers and rulers[15]. Hager comes to the conclusion that there is "a recent, dramatic resurgence of the bondholding class that Adams first identified over a century ago." This "modern day bondholder class" has "two major components: the top 1 percent of households and the giant money manager funds that have replaced banks as the proximate corporate owners of the public debt is the modern variant of the bondholding class and is tied together through its increasing ownership share of the public debt" [53].

Perhaps Hager could have investigated more deeply the trade-offs made inside the state apparatus between the promotion of savings over taxation as a privileged mode of State financing[16]. What is important, in terms of redistribution and social inequality, is less the amount of debt (in absolute terms or relative to GDP) than the nature of the expenditures that these sovereign loans finance. In the case of the American debt owned by Adams's bondholding class, the rise of public debt was accompanied by mechanisms of social redistribution from bottom to top, and public expenditures essentially directed towards an "*État Gendarme*"—centered on the *regal* functions of justice and police [59]. In the United Kingdom, between 1815 and 1914, public debt was accompanied by the strengthening of private capital, with the payment of interest charges to the debt-rents costing 2-3 % of GDP, or the entire education budget over the same period[17].

A social and political "iron law" of sovereign debt

One could sketch a social iron law of income redistribution performed through sovereign debt. If debt finances tax cuts for the benefit of the wealthiest, debt leads to a redistribution from the poorest to the richest. On the contrary, if debt allows social investments to be directed toward the poorest, public services whose quality is more important than their low cost, and a progressive tax system, then debt plays its Keynesian redistributive role, as it turns the state into the primary investor in both economy and society. According to such a system of thought, borrowing finances the investment, growth

[15] *Ibid.*

[16] Lemoine B., 2017, "The Politics of Public Debt Financialization. (Re-)Inventing the Market for French Sovereign Bonds and Shaping the Public Debt Problem (1966-2012)", *in* M. Buggeln *et al.*, *The Political Economy of Public Finance. Taxation, State Spending and Debt since the 1970s* (Cambridge, Cambridge University Press).

[17] Piketty T., 2013, *Le capital au XXI^e siècle* (Paris, Seuil : 206).

and income of tomorrow's national economy. As such, growth revenues and future cash flows going into the state's coffers via present and future taxes offset the negative effects of public debt.

Only a systematic investigation into the state's legitimization of debt management is likely to reveal whether a policy favorable to the bondholding class permeates the choices of successive governments. One has to look into the nature of the economic apparatus surrounding debt techniques in order to determine whether the latter activates and reinforces the "left hand" (the redistributive side of public policies, represented by so-called social ministries and services), rather than the "right hand" of the State (a globally "competitive" monetary, fiscal and financial state, represented by the Treasury department, the Budget office or the Central Bank).[18] It is therefore necessary to enter the black box of the government machine to grasp how a social class system is eventually produced, consolidated or defeated *via* state debt. Thus while financial technocrats tend to represent debt as democratic and smoothing out inequalities, counter-investigations (such as those Hager analyzes but also debt audit committees driven by citizens and civil society) find that the structure of debt holding is mostly oligarchic.

The way the political and media agendas of our democracies now revolve around financial issues, anxieties and concerns—as the presence, in the public sphere, of the "political risk" measured by investors during presidential campaign indicates—, and the increasing, cultural and financial costs of access to public life, contribute to the exclusion of the majority. There is great disparity among the holders of debts, between "the average American" John Q. Public and John D. Rockefeller. If social classes have provided an essential material for the cognitive construction of the Welfare State, and therefore have their own "democratic" political properties, studies such as Hager's can further develop our understanding of these class-democracy dynamics by bringing in people's relations with financial objects.

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[18] To use the scheme proposed by Pierre Bourdieu.