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A Critical Review of Sandy Brian Hager's *Public Debt, Inequality, and Power*

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Public Debt, Inequality, and Power (2016)

Christopher Mouré

Hager's project examines the historical development of US public debt ownership and its political implications. His main innovation is to approach the topic from the perspective of disaggregated social class and frame questions of public debt ownership in terms of social inequality and power. He tackles four questions: who are the owners of the public debt; what are the distributional effects on income and wealth; what are the implications of increasingly foreign public debt ownership; and what is the relationship between debt-ownership concentration and political influence. He argues that the increasingly unequal power of bondholders undermines the ability of the US government to pursue a more equitable and democratic fiscal policy, which is essential to tackling a range of social issues (including inequality itself). The project is illuminating and has important political implications, though due to the narrow scope of the project, Hager gives light treatment of some key aspects of the relationship between debt and power.

The book is structured as follows. Chapter one outlines the main arguments of the book and situates the project in terms of its theoretical and contemporary significance. The impetus and context of the book's questions arose out of the rapid and recent eruption of public indebtedness in the US, which began in the 1980s and accelerated further after the financial crisis in 2008.[1] As government responses to the COVID-19 pandemic have dramatically increased public debt globally, his research remains timely.

Chapter two provides a brief literature review of the public debt debate in the US – brief in part because, despite lively popular debate, there has been so little scholarly empirical work undertaken on the subject. In its brevity, it also passes over scholarly conversations that could have been useful in tying debt-ownership to political power more generally, like those on the relationship between forms of authority and power on the one hand and the issuance of credit and debt and the other. For instance, in the US case, Simone Polillo has used the concept of 'creditworthiness' to explain how would-be credit issuers establish moral authority by discursively representing (or rather, obscuring) their own material interests as financial tools for collective social benefits.[2] A theory of how debt and credit relate to *trust*, and to competing visions of the future, drawn from the historical debates around government debt (Polillo's discussion of creditworthiness being just one example) might have augmented Hager's more straightforwardly materialist account of the link between debt and power while engaging with a wider literature.

Chapter three presents Hager's principal findings, namely that the increase in public debt has been accompanied by an extreme concentration of debt ownership in the hands of the wealthiest individuals and corporations.[3] He also finds that the concentration of debt is closely associated with the more general concentration of wealth among the top 1% of individuals. While it is unclear whether or to what extent the increase in debt and debt concentration is a

[1] Hager, Sandy Brian, *Public Debt, Inequality, and Power: The Making of a Modern Debt State*, 4.
[2] Polillo, "Money, Moral Authority, and the Politics of Creditworthiness," 454.
[3] Hager, Sandy Brian, *Public Debt, Inequality, and Power: The Making of a Modern Debt State*, 6.

cause or effect of wealth inequality, Hager suggests that the concentration of public debt is deeply intertwined with inequality.[4]

In chapter four, Hager argues that the government's increasing reliance on debt is a function of two processes: increasing government expenditures and decreasing tax revenue.[5] He suggests that decreasing tax revenues are a political choice, born of successful political resistance to taxation on the part of the rich that began in the 1980s. His explanation for why government expenditures has increased is less clear. Hager cites Wolfgang Streeck's claim that "increasing government expenditures are merely a normal function, or an inevitable outcome of capitalist development."[6] This is unsatisfying, and it leaves Hager's argument open to the criticism that the gap between tax revenue and expenditures is a result of wasteful spending, rather than tax underpayment. As Hager notes, the richest individual and corporations in fact pay a larger portion of tax revenues than in the past. The difference is that they pay a smaller share in comparison to *their own income*.[7] Given this difference, it could be argued that government expenditures are the problem, not tax progressivity. Indeed, Hager notes that many public proponents of reducing the public debt do so in order to justify cuts in social spending that would only increase inequality further.[8] Thus, providing a more detailed explanation for the rise in government spending would strengthen his argument – either by justifying them as necessary or inevitable (thus shifting the onus to taxation) or by explaining how the increase in government expenditures might also reflect dynamics of power and inequality.

[4] Hager, Sandy Brian, 6.
[5] Hager, Sandy Brian, 64.
[6] Hager, Sandy Brian, 64.
[7] Hager, Sandy Brian, 65.
[8] Hager, Sandy Brian, 68.

Chapter five attempts to explain the enduring appeal of US treasury securities by foreign individuals and governments, who now own more than fifty percent of US government debt. In this chapter, Hager engages with another book on public debt by Eswar Prasad, arguing that, against Prasad's identification of debt concentration with older Americans, class is a more accurate variable of analysis.[9] Second, Hager explains the popularity of US debt in terms of mutually reinforcing interests of domestic and foreign debt holders.[10] He argues that the concentration of domestic debtholders among the rich means that there is a powerful bloc inside the US that will fight to maintain the profitability of government debt. Foreign creditors can be confident that the government will be politically influenced to keep paying service to the debt, while the influx of credit provides a way for the government to resist domestic calls to cut social spending in the face of rising inequality, which in turn "reinforces the stability of the debt state."[11] However, if Hager explains why the US is *willing* to increase its debt burden, he does not adequately explain how it is *able* to. For instance, in the last chapter, Hager advises interest-free currency issuance, taking for granted the US' government's monetary sovereignty by arguing that the US could print interest-free money if it so chose. But it is not clear what the consequences of doing so would be, nor is it clear why the US case may be unique among national governments in this regard. Armijo et al. , for instance, note four different forms of structural power that the US wields which can bolster the government's ability to fund itself through debt, none of which are mentioned by Hager.[12] Moreover, it is not obvious just how much control the US government *has* over its monetary sovereignty, given that the US is embedded in a network of global financial structures. While Hager is correct that access to cheap

[9] Hager, Sandy Brian, 73-77.
[10] Hager, Sandy Brian, 78-81.
[11] Hager, Sandy Brian, 79-81.
[12] Armijo, Tirone, and Chey, "The Monetary and Financial Powers of States," 176-179.

credit can benefit both the government and private borrowers in the US, it is also worth noting that substantial increases in US debt have often been the result of *crises*, implying that increasing government debt is not always or even primarily a matter of preference. As Hardie and Thompson note, during the 2007-2009 financial crisis, the US government felt *compelled* to act as a lender of last resort to European banks to avert the collapse of the banking system.[13] They point out that to a certain extent, the use of dollars outside the US became a liability for domestic monetary policy. If this is the case, then US public debt may play a more complicated global role than Hager portrays.[14]

Chapter six, which attempts to connect ownership of the public debt to political power, is perhaps the most intriguing and yet least convincing chapter. Using Wolfgang Streeck's typology of *staatsvolk* and *marketvolk* to undertake a comparative content analysis of government financial statements, Hager tries to show that public debt is a lever of political power. He finds that the increasing use of terms associated with the language of the *marketvolk* is broadly associated with the rise of debt concentration.[15] My sense, however, is that the evidence is too thin to make the claim that holding public debt is a significant source of political leverage. In part, this is because the words Hager analyses ('international', 'investors', 'confidence', etc.) are not only associated with public debt, but with financial power more generally. While the concept of *marketvolk* may encompass debt ownership, it is not clear what degree of power comes from this type of ownership specifically, nor is it clear whether the interest of bondholders is in every case the same as other financial elites. One could argue, for instance, that the profitability of large corporations also endows them with political power and

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[13] Hardie and Thompson, "Taking Europe Seriously," 788.
[14] N.b., Hager provides a more detailed examination of the appeal of US public debt elsewhere in Hager, "A Global Bond."
[15] Hager, Sandy Brian, *Public Debt, Inequality, and Power: The Making of a Modern Debt State*, 83-92.

that control of large corporations is a much more relevant lever of political power (say, through lobbying activities, regulatory arbitrage, etc.). To illustrate, figure 1 below shows two time-series: corporate after-tax profit and interest on public debt, both as a percentage of GDP. Relative to GDP, corporate profit is larger by an order of magnitude.

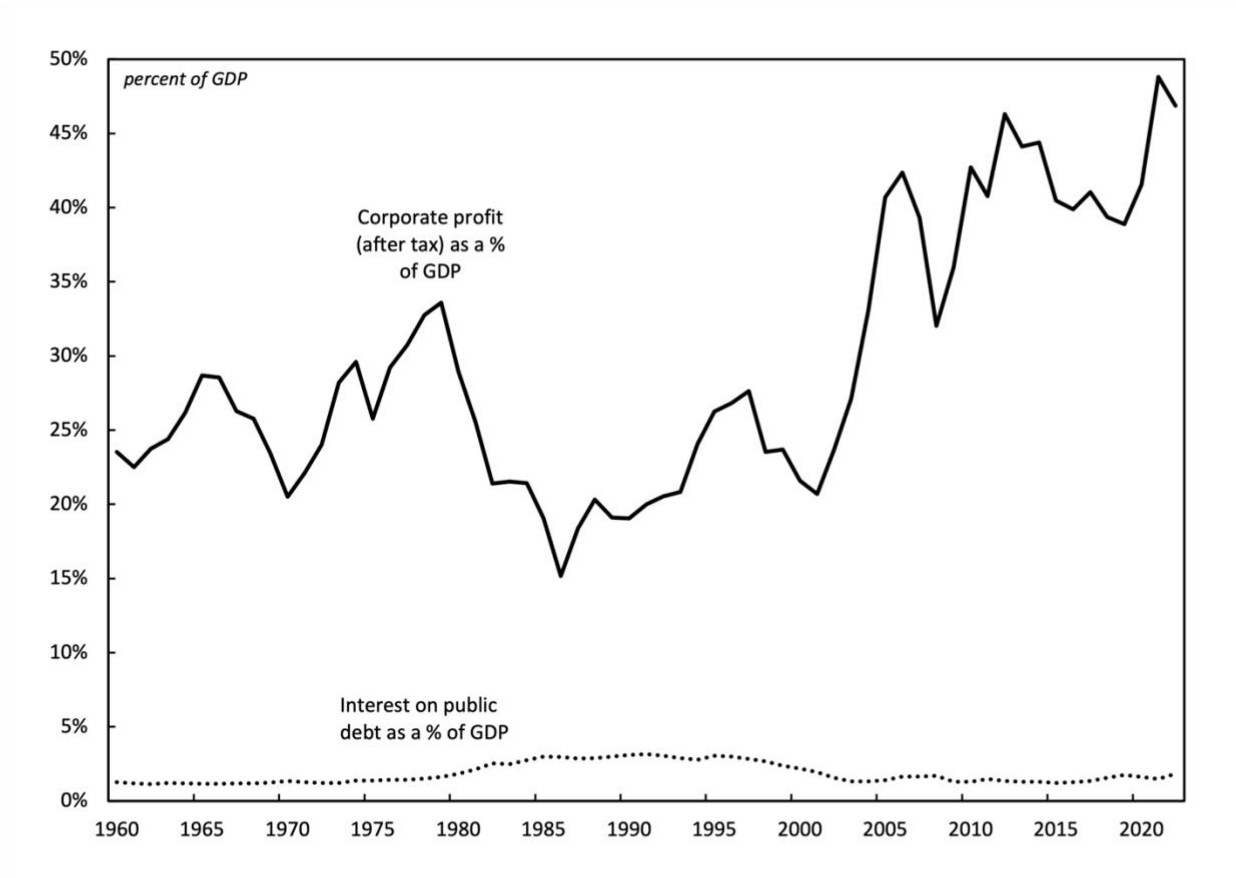

Figure 1: Corporate profit and interest on public debt (*sources*: U.S. Bureau of Economic Analysis for corporate profit and interest on public debt, codes A055RC and FYOIGDA188S; World Bank Open Data for GDP, code NY.GDP.MKTP.CD)

If Hager is arguing that claims on debt are a rough proxy for a certain type of political power, and the most profitable corporations also tend to be the largest bondholders, how does one distinguish the power derived from debt ownership from other types of socio-economic power wielded by corporations? This ambiguity is important because Hager also identifies the desire of large corporations to exert control over employment and investment as a major political obstacle to the expansion of government fiscal policy.[16] This desire is to a certain extent in tension with the desire of bondholders, who benefit from increasing (debt-funded) government expenditures (interestingly, the two series in figure 1 also move counter-cyclically). Given the centrality of private control of employment and investment to corporate profits, it is possible that the first desire (conservative fiscal policy) is stronger than the second (increased interest payments), which would indicate that bond ownership may not be that important as a form of leverage *or* as a driver of inequality. In addition, the theory that the government incurs debt as a result of bondholder power presumes that those individuals and corporations *already exerted power* in order to shift government policy to debt-funding (for instance, through tax avoidance). Yet concentrated debt ownership *ipso facto* cannot be the (only) cause of increased debt or debt concentration. In short, the connection between debt ownership and political power remains tenuous.

There are other ways in which Hager's analysis could be expanded to form a more robust argument for the relationship between public debt and organized social power. First, Hager could have more persuasively explained why inequality is in itself a social ill. Specifically, it is worth distinguishing the focus on inequality from a focus on absolute poverty as a set of social issues that have distinct negative effects on individuals and society. Doing so would have been relatively straightforward, could have engaged with some of the recent explosion of 'inequality studies' in scholarly research, and would have made the case for the project's political significance more compelling.

[16] Hager, Sandy Brian, 93-94.

Second, Hager's account of government debt and power is surprisingly bloodless. Despite the historical and contemporary links between government debt and organized violence, there is little attempt to bring violence into the discussion. For instance, when in chapter four Hager cites Wolfgang Streeck's claim that government expenditures are an inevitable consequence of capitalist development, this would be a perfect opportunity to note the correlation between US government *military* expenditures and economic growth. Military power has played a key role in capitalist development historically and in the US specifically.[17] As Hager notes in chapter one, the debate around government debt in the US began with the question of the foreign debt accrued fighting the War of Independence.[18] Moreover, this debate was revived after the Civil War, which the union government had won in part through its ability to issue debt, and with some at the time characterizing government bonds as a 'forced loan'.[19] In addition to the discussion in chapter four, this relationship would also have been interesting to discuss in the context of the foreign appeal of US government securities. If a significant (if not majority, by some estimates) portion of US government expenditures are military expenditures, meaning that the maintenance of the US government's ability to wage war is a primary driver of government debt, it is worth asking why foreign countries and corporations are so eager to fund the globe-spanning US military.[20] Regardless, Hager's explanation for the enduring appeal of government debt elides the fact that in an important sense, "a government bond represents *a share in the organized violence of society*" – both as a tax authority within the country and an 'imperial' power without.[21]

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[17] Nitzan and Bichler, "Cheap Wars," 2.
[18] Hager, Sandy Brian, *Public Debt, Inequality, and Power: The Making of a Modern Debt State*, 1.
[19] Polillo, "Money, Moral Authority, and the Politics of Creditworthiness," 450.
[20] Cernadas and Foster, "Actual U.S. Military Spending Reached $1.53 Trillion in 2022; More than Twice Acknowledged Level," 21.
[21] Nitzan, Jonathan and Bichler, Shimshon, *Capital as Power: A Study of Order and Creorder*, 294.

Hager's account is lucid, insightful, and clearly addresses an important gap in the literature. It presents a highly compact yet accessible combination of quantitative insights and historical-contextual narrative; a fascinating primer on how the US monetary system works, and the political economic implications of different approaches to public finance; and places class and class power—two under-analysed aspects of US political economy within conventional political economic research—at the center of its analysis. If the project were longer, I imagine Hager would incorporate a number of the possibilities mentioned for expanding and deepening his argument that debt and social power are closely related. In particular, the study would benefit from: a discussion of public debt ownership as a component of corporate political power at large; the inclusion of a more detailed examination of the role of (increasing) government debt and expenditures in modern capitalist societies; and some exploration of the connection between the appeal of US foreign debt and the unique economic and military role the US plays globally. Each are large topics to be sure, but essential to understanding the complex relationship between debt, social inequality, and power in the US context.

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