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The Politics of Public Debt Structures: How Uneven Claims on the State Colonize the Future

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"We don't owe anything. We won't pay anything. Cancel illegitimate debt." Illegitimate, illegal, odious, and unbearable debt should become the focus of our struggle, proclaims the *Comité pour l'annulation de la dette du tiers monde* (CADTM, "Committee for the Annulation of Third World Debt"). Their doctrinal appeal now extends to all countries – no longer merely to those in the southern hemisphere, but also to those considered "economically advanced."

In April 2015, at a moment when Greece's fate in the Eurozone was still subject to tense negotiations, the Greek parliament established the Truth Committee on Public Debt. Chaired by Zoe Konstantopoulou (who then served as the head of the Hellenic Parliament) and scientifically coordinated by Éric Toussaint (a professor of political science, a member of the Scientific Committee of ATTAC France, and a spokesperson for the international network CADTM), the mandate of the Committee was to investigate the origin and contraction of the Greek public debt.

The overarching purpose of the Committee was to expose, first, debts "incurred in violation of sovereignty but also of democratic principles (including consent, participation, transparency and accountability)"; second, debts "used against the best interests of the population of the borrower state, or otherwise debts that are unconscionable, the effect of which is to deny people their fundamental civil, political, economic, social and cultural rights"; and third, "measures attached to the IMF loans to Greece that breached fundamental laws as protected under the country's Constitution, customary law and international treaties to which Greece is a party."[1]

The Committee concluded that Greece was incapable of reimbursing its debt and that, regardless, reimbursement was out of the question. The report introduced a definition of the unsustainability of the debt that stands in stark contrast with the dominant perspective, which is distinctive of institutions such as the International Monetary Fund (IMF) or the European Commission – whose mission it is to evaluate the public policies and public finances of the member-states of the Economic and Monetary Union.

Instead of settling for an analysis of "macroeconomic variables and debt projections" of "adjustment programmes" that "enable discussions around the debt to remain at a technical level," the authors of the Committee's assessment advocated for the recognition of other criteria of evaluation: "an assessment of the human rights impacts of the macroeconomic adjustment and fiscal consolidation that were the conditions for the loan… the ability or capacity of the government of the borrower state to fulfill its basic human rights obligations, relating, for example, to healthcare, education, water, sanitation, and adequate housing,

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1. "Greece: Assessment of the debt as regards illegitimacy, odiousness, illegality and unsustainability," Chapter 8, *Report of the Truth Committee on the Greek Public Debt*. http://cadtm.org/Greece-Assessment-of-the-debt

or to invest in public infrastructure and programs necessary for economic and social development," and, more generally, to take "the interest of the population" into account.[2] This counter-investigation clearly stages the conflict that now opposes, on the one hand, the holders of public debt and state creditors in a broad sense – multilateral institutions, financial investors, financial and bank institutions – and on the other hand, the "populations" whose holdings are limited to public endowments. While the former are determined to be reimbursed at all costs by public powers (so as to make good on their investments), the latter see their benefits sacrificed to the growing share of public funds and investments devoted to servicing the debt – since Greece's economy has become entirely dependent on the commitment of its government to give precedence to its creditors' expectations.

2. Executive Summary of the Report from the Truth Committee on Public Debt, 17 June 2015.

FROM DEBT RELIEF TO PUBLIC DEBT STRUCTURES

When a country has been bled dry and the gross domestic product has fallen by 25% in just a few years, it is certainly legitimate to resort to the instruments of judicial recourse and to describe Greece's debt as "illegitimate, illegal, odious." For not only is the state ordered to secure a primary budget surplus for the coming years,[3] but it is also under the obligation to make its creditors the primary beneficiaries of the money reserves thereby constituted – all of this to the detriment of economic growth and much needed public services. The description of debt as "illegitimate, illegal and odious" would be true for any country, state, or sovereign power pushed into similarly dark corners and led into the kind of impasse in which Greece finds itself today.

3. Primary budget surplus: the total budget before payment of debt interests. In Paul Krugman's words: "all of the resources a country is capable of transferring to its creditors." (NYT, March 1, 2015). These mandatory budgetary surpluses are on the order of 0.5% of the GDP for 2016, 1.75% for 2017 and 3.5% for the following years.

However, we must also wonder about what happens – or, more precisely, what else might happen – both prior to and in the aftermath of these emergency situations when the social and political movements calling for an alternative to the status quo see the "cancelation" of the debt, or the possibility of defaulting on it, as the only solution. The public debt question, which every country in the world must address at this point in time, also invites us to examine the political significance of *public debt structures*.

At stake here is regaining a form of collective control over the financing techniques of the state and over public and social expenditures. The fight for such a re-appropriation must take place alongside necessary struggles that aim at having illegitimate debts recognized for what they are. However, the difference between the two struggles is that activism concerning debt structures is situated upstream from the battles for debt cancelation: indeed, its purpose is to avoid these situations of ultimatum, where the fear of defaulting compels governments to keep their financial commitments, even at the cost of letting the populations under their care sink into misery.

Without casting an *a priori* judgment on the various forms of state financing, including debt financing, it is important to revisit earlier regimes, if only to dispel the notion that resorting to financial markets and thus submitting to the expectations and exigencies of private creditors is the obvious and only way to proceed. The main issue here is not the specific identity of the bondholders – as when the French Treasury and National Assembly establish a distinction between "resident and non-resident" holders of the French public debt, or between domestic and foreign financial institutions. Politically, the crucial question is that of the concrete modalities through which the state collects funds and issues its own debt. In other words, what is significant here are the chosen techniques of subscription.

What ultimately matters is therefore the composition of a public debt, or its "structure" in the strongest sense of the term: how the modes of financing, dictated as they are by power relations, determine how the collection and the uses of public finances are apportioned between the public and the private spheres, between what is devoted to shared resources and to individual appropriation. History is rich with examples where states did not draw their financial means from a market governed by the appetites and wishes of the financial class, but instead relied on regulations that were politically, administratively, and legally established.

For instance, at the end of the Second World War and in countries like Germany, Italy, and France, the share of the public debt was said to be "non-marketable"; the public debt, which was collected and managed through administrative and political regulations, was considerably larger than its "marketable" or commercial counterpart, which included the bonds that were issued, sold, and distributed in conformity with market procedures. In the United Kingdom, during that same period, the public debt was evenly divided into negotiable and non-negotiable portions. By 1993, however, the commercial share of the debt had risen to 82% in the UK while in Germany, it grew from 8% to 81% between 1953 and 1993.[4]

Altogether, the so-called "Golden Age" of capitalism – from 1945 to the mid-70s – was a time of intense experimentation with respect to off-market financing of the state. In the countries where the marketable debt had been hitherto dominant, its proportion diminished notably during those years. In Canada, from 1946 to 1976, public debt went down from 85% to 37%; in the Netherlands from 99% to 61%, and in Spain from 100% in 1945 to 22% in 1978. In France, even throughout the 1970s, three quarters of the techniques of state financing still pertained to the "non-negotiable," or in other words administered, share of the debt. From 1987 onward, however, the proportion was reversed and the "negotiable" instruments, subjected to the law of the financial markets, became predominant. There is thus nothing "natural" or obvious about resorting to the capital markets in order to finance the state; nor is it inevitable to expose the state's credit by allowing rating agencies and private investors to monitor public policies. To the contrary, between the beginning of the post-war reconstruction and the current period, governments were involved in a social, political, and institutional endeavor designed to undermine and deconstruct the power of banking and financial institutions: their purpose was to discipline the financial industry in order to make it the instrument of collective projects, broad public services, and social progress.

THE GOLDEN AGE OF THE FRENCH TREASURY CIRCUIT

In the last three decades, France has been one among many countries that has followed the international trend of predominantly resorting to financial

4. See S. M. Ali Abbas, Laura Blattner, Mark De Broeck, Asmaa El Ganainy, and Malin Hu, "Sovereign Debt Composition in Advanced Economies: A Historical Perspective." *International Monetary Fund*, Fiscal Affairs Department, September 2014.

markets in order to gather public funds. Yet, in the aftermath of the war and right up until the 1960s, the French state had several techniques at its disposal that made borrowing outside its own public circuits merely optional. A brief account of these mechanisms allows us to grasp the extent of the political change that has occurred in the recent period. It also allows us to realize that reclaiming these techniques might produce a departure from the current regime.

The first five-year plan for "modernization and equipment" (from 1945 to 1950) sought to "insure a rapid rise in the population's quality of life, and particularly with respect to food provision." Projected in the program were: (1) the reinstatement of basic industries that had been damaged or destroyed during the war (coal, electricity, steel, cement, agricultural engineering, and transportation); (2) the modernization of agriculture; (3) the assistance to the construction industry (buildings and public works); (4) the development of the export industries; and (5) the transformation of living conditions (particularly housing conditions). It is noteworthy how priorities were defined at the time, including by Charles de Gaulle – how what counted as absolute necessity had nothing to do with today's austerity and budgetary discipline: "as far as the economy is concerned," and in order to "use common resources for the benefit of all," de Gaulle declared, "the pursuit of particular interests must always give way to the regard for the general interest."[5]

After the war there were no reserves to pay for the first plan, and the structures capable of creating, sustaining and collecting the necessary funds needed to be reinvented. In 1945, the French Ministry of the National Economy was given the task of supervising the financing of public investments. Economic planning and a tight control of the banking system and financial markets, as well as a public and centralized system of collection and reallocation of savings in the national economy, embodied this deployment of state power. The Treasury established mechanisms that procured easy, regular, and secure resources for the state in order to provide "available liquidities in all circumstances."[6] As for covering public deficits, at the time there were hardly any constraints as we understand them today: the public authorities did not have to deal with interest rates established by financial markets – rates that may be low and profitable, as is currently the case, but nonetheless subject to inherent and often irrational volatility.

The organization of the cash flow at the time made the state the investor and the banker of the national economy: this was known as the "Treasury circuit." It included a variety of more or less constraining mechanisms and compelled a number of financial institutions to deposit resources they had themselves collected in the economy through the Treasury. The French Treasury thus functioned like a commercial bank, collecting deposits that allowed for a large proportion of public deficits to be covered almost automatically, outside of any market procedure: it received the funds deposited – mandatorily – by its correspondents and settled their expenses for them according to their orders, just like a commercial banker. At the same time, these deposits represented "spontaneous resources" (according to the administrative term of the time) for the Treasury, which passively centralized these flows, there again, like a present-day

5. September 12, 1944 speech by Charles de Gaulle at the Palais de Chaillot, cited by Claire Andrieu, *Le Programme commun de la Résistance, des idées dans la guerre*, Les éditions de l'Érudit, Paris, 1984, p. 114.

6. Jean-Pierre Patat and Michel Lutfallah, *Histoire monétaire de la France au xxe siècle*, Economica, Paris, 1986, p. 121.

large commercial bank.

This mode of financing is entirely different from the way we currently think about debt. When it did go into debt, the Treasury did not appeal to creditors outside its own purview but, instead, collected and mobilized the resources of its own network of savers – the "Treasury's correspondents." Far from making the state dependent on external lenders, the Treasury circuit was a structure that made for the deployment of a truly public financial capability. The contrast with today's regime is striking: within the circuit, the interest rates that were applied to the money deposited at the Treasury were determined by the state and thus not subjected to the law of supply and demand. Money circulated within a public network of individuals or institutions that acted as depositors and short-term lenders. The state, via the Treasury, was a privileged financial actor since the resources automatically came under its purview. By 1955, this system had made the Treasury the largest collector of funds (with the exception of the *Banque de France*) in the French economy: "It alone collects more capital (695 billion francs) than the banking sector (617 billion) and allocates more funds (783 billion) than the entirety of the public and private institutions involved in granting credits (715 billion)."[7] This "public marking of money"[8] is tethered to the nationalization of the banking and credit industry, two thirds of which – including the *Banque de France*, nationalized in 1945, and four major commercial banks[9] – was controlled at the time by the public and quasi-public sectors.

Thanks to this system, the issuing of middle- and long-term bonds, which exposes the state's credit to the judgment of the markets, is no more than an optional instrument – though one that provides a complementary lever to which the French state did resort. Regardless, the Treasury circuit acted as an efficient protection against the return of the so-called "wall of money" (*mur de l'argent*) – to wit, the obstacles previously raised by financial capitalists in order to undermine a government's attempt to engage in non-orthodox social, fiscal, and monetary policies, or, more generally, to take measures that go against their class interests.[10]

Throughout the thirty years following the end of the Second World War, the average debt to GDP ratio was stable: around 15% to 20% as opposed to almost 98% today. The Treasury circuit also enabled French authorities to spare themselves the political liability of turning too systematically to the *Banque de France* for an advance. While these advances, directly provided by the European Central Bank, are now perceived as the best solution for a member-state in need of money, at the time, a government that would consider such an option needed to get a parliamentary approval and was usually faced with a bit of a popular uproar and a heated public debate.

Though the Treasury circuit model is often associated with the danger of runaway inflation, it must be recalled that in its heyday, namely the 1950s and 1960s, inflation was contained below a 6% average.[11] Above all, one must bear in mind that, far from being limited to the management of the cash flow, the tools that were then allotted to the Treasury enabled the state to play an important role as a regulator for the *amounts* of currency and credit in circulation.

7. Laure Quennouëlle-Corre, *La Direction du Trésor, 1947–1967, op. cit.*, p. 244.

8. Viviana Zelizer, *The Social Meaning of Money. Pin Money, Paychecks, Poor Relief and Other Currencies* (New York, Basic Books) 1994. Vincent Gayon and Benjamin Lemoine, "Argent public," *Genèses*, n°80, 2010.

9. The Crédit lyonnais, Société générale, Banque nationale pour le commerce et l'industrie and the Comptoir national d'escompte de Paris, Nathalie Daley, "La banque de détail en France : de l'intermédiation aux services," *Document de travail*, CERNA, Mines Paris Tech, 2001.

10. In France, the expression became famous after the traumatic Treasury crisis faced by the so-called Lefts Cartel government in 1924. Edouard Herriot, then head of the government, coined it to characterize the hostility of the banking and financial milieus to his reformist agenda and their attempts to dissuade him by undermining the French economy. Jean-Noël Jeanneney, *Leçons d'histoire pour une gauche au pouvoir. La faillite du cartel (1924-1926)*, Seuil, Paris, (1977), 2003.

11. Inflation was indeed stable during that period, except for a non-negligible hike of 15.8% in 1958. However, it returned to double figures starting in 1974. Thomas Piketty, *Les hauts revenus en france au XX ème siècle. Inégalites et redistribution (1901–1998)*, Grasset, Paris, 2001, pp. 689–90.

For as early as 1948, the state also established a system of liquidities oversight according to which banks were obliged to acquire and keep a set amount of Treasury bills. Such a requirement was understood as a "forced loan." It was a matter of making sure that the banks did not get rid of the state securities, but also a way of controlling their activity: it worked somewhat as a system of mandatory reserves – but one in which the banks' liquid assets, instead of being deposited in the Central Bank, were systematically invested in Treasury bills.

Rather than a permanent opportunity for monetary *laissez-faire*, these obligatory Treasury bill provisions were a lever for monetary action that could work both ways: having to keep a certain amount of state securities in their coffers, banks were restrained in their ability to over-lend to companies or households in times of inflation – while still keeping the state afloat. In the name of the general interest, this technique introduced a political and administrative coordination of monetary and financial functions.

The political organization introduced by the Treasury circuit system seems utterly exotic today. At the time, the state stood above the market. Defining the interest rates on its bills was the state's sovereign prerogative. It set the value of its securities and issued them continuously: documents speak of "open faucet" or "open window" issuing. There was no market session then, no adjudication of the bonds and no auctioning organized by the *Agence France Trésor* – the agency currently in charge of financing public deficit, whose task it is to expose the credit of the state to the gaze and the capricious moods of bondholders.

The financing techniques of the "golden age" did establish a particular political relation between public authorities and financial institutions. Making it mandatory for banks to acquire its bills, the Treasury imposed an earmarking of their money supply. The continuous issuing of securities ensured that the needs of state were covered at all times and dispelled the threat that the markets would price its bonds unreasonably. It thus turned the state into an uncommon borrower, endowed with the power to make the rules regarding its own debt and to impose its authority to the banking and financial world. The state placed itself above the fray and, unlike every other debt issuer, did not have to expose its credit to the assessment of market agents.

The Treasury circuit constituted an experiment in the political enlistment of money, which embedded it in regulatory practices and through the mandatory cooperation of financial institutions. The dismantling of these mechanisms began at the end of the 1960s and with the precise goal of removing the state from its pedestal. The banker-state was undone in the name of competition and for the sake of "freeing" a sizeable portion of the financial sector. One must recall that the financial industry had been a longstanding detractor of the Treasury circuit system, accusing it of "financial repression." If anything, such grievances prove that, until then, the control of financial institutions had not been what it would be for François Hollande in 2012 – namely, a vapid electoral promise purported to give a left-leaning spin to the socialist candidate's presidential campaign: far from an unsubstantiated wish, it was then a reality, precisely organized by legal and technical mechanisms so as to balance the relation of power between public agencies and private financial institutions, or even to tilt the balance in favor of the former.

THE POLITICS OF MARKETABLE DEBTS

The successive reforms initiated from the middle of the 1960s on aimed at turning the state back into a borrower among others, a vulnerable and fallible agent that had to submit to the litmus test of capital markets. The fatal blow in France was struck between 1966 and 1968 by Michel Debré, the Minister of Finance at the time, and his young technical adviser, Jean-Yves Haberer, who was fascinated by the American model of market financing. Haberer explicitly sought to "dismantle the circuit [and] all the automatic mechanisms that enabled the Treasury, without lifting a single finger, to draw its fill of liquidities from all the French financial circuits."[12] He wanted the state to improve its managerial efficiency by way of undoing the regulatory mechanisms that gave it too much financial security. It is necessary to "make the State live like a borrower," Haberer claimed; "in other words, to put it in a position where it must ask itself the borrower's questions about the cost of loans and the service of its debt."[13]

12. Interview with Jean-Yves Haberer conducted by Laure Quennoüelle-Corre in 1995, CHEFF oral archives.

13. *Ibid.*

Such an approach already announces the current wisdom according to which it is up to the international financial markets to finance a state's sovereign debt. Only a real market, the reasoning goes, compels the state to be "transparent" and to prove trustworthy, particularly in regard to its credit and the soundness of its policies, and in the eyes of investors. The financial community thus appears as the privileged interlocutor of the state, as well as the main arbiter of what is good and bad, necessary and superfluous, in the realms of monetary, economic, and even social policy-making. For in order to sell its bonds, the state must always listen to the desires expressed by the financial markets and internalize what market actors conceive as the common good: to please investors, policy-makers must predicate the economy on free trade, give precedence to the fight against inflation, be mindful of fiscal discipline, and allow for a relatively high rate of unemployment in order keep salaries down and give their dues to external constraints.

While public debts have been given over to the markets and their criteria for some time, further developments are still in the works. The institutions that are spearheading neoliberal reforms – the International Monitory Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), and the European Union (EU) – are determined to complete the process that depoliticizes public debts by way of commodifying them. To that end, they seek to turn the state Treasury, as was done with the European Central Bank, into an "independent" agency, by which they mean an institution detached from the government and free from ministerial control. Such an agency for debt issuing and management, presumed to act exclusively in the name of technical imperatives, would transform Treasury bonds into a "pure instrument,"[14] entirely determined by market rules. Managed by traders, it would be shielded from political deliberation and emancipated from public oversight. Therefore, this issuing agency should no longer be situated, physically, in the confines of the Ministry of Finance but, instead, find a home in the closest proximity to the financial market –as is already the case for the British and German debt agencies, respectively located in the City of London and in Frankfurt.

14. Likewise, financial markets have at times called for the advent of a "neutral" currency, emancipated from political oversight, which would thus also be a "pure instrument." André Orléan, *L'empire de la valeur*, Paris: Seuill, 217. English translation: André Orléan, *The Empire of Value: A New Foundation for Economics* (Cambridge, MIT Press, 2014).

The hegemony of marketable debts comes with its own politics. State finances are exposed to the judgments and evaluations of savings collectors and lenders of all kinds (businesses, life insurance companies, banks, public institutions), rating agencies, and financial analysts. Having become regular borrowers, states are now constantly obsessed with their credit: looking attractive in the eyes of private investors and maintaining their rank in the competition for borrowing capital at the best price are their primary concerns. The primacy of marketable debts pulls states into a perpetual race the winners of which are those who satisfy budgetary requirements and manage to be the most market-friendly in terms of taxation and other public policy decisions.

As the credit measured by private investors becomes the state's chief obsession, the pursuit of a good rating defines what public finances and their management are about, what issues and what solutions must shape the public debate regarding debt. The latter thus focuses on budgetary factors: the state is customarily blamed for spending too much and managing its own finances badly – thereby letting deficits go astray. Within this causal and argumentative regime, there is of course no space for a discussion of the modalities of state financing. And when governments complain about what they must do to attract investors, the representatives of the reigning orthodoxy retort that complacent governments are prone to use the markets as scapegoats in order to present themselves as victims. Better still, the harbingers of fiscal discipline like to marvel about the fact that markets are increasingly attuned to public policies and that their conduct merely amounts to helping governments by means of holding out a mirror in front of them, thereby enabling them to see and correct their errors. Markets, the argument further goes, thus play the salutary role of "watchdogs," acting as a "normative counter-power" and "a safety rope" for governments.

One often hears the accusation that states "live above their means," that they are overly lax with respect to their budget: the charge that public officials are "big spenders" who do not speak the language of truth is pervasive in the rhetoric of mainstream media and in political debates.[15] Yet, omnipresent as these charges are, those who never tire of making them experience themselves as Cassandras, prophets preaching in the desert and endlessly alerting the public without being heard: so they keep at it, repeating on a daily basis that taxes are too high and that France's competitiveness can only be restored if social programs are slashed and if unproductive public services are no longer allowed to hinder economic growth.

To remain a "good" and thus attractive borrower – thereby dissuading lenders to raise the interest rates on its bonds – a state must exercise a strict discipline and be totally transparent with respect to its financial situation in order to show its budgetary good faith.[16] To keep governments under constant pressure, both the European Commission and rating agencies[17] resort to ratios, such as the debt to GDP ratio,[18] that are purported to remind ostensibly sovereign powers what their priorities must be.

SOCIAL VS. FINANCIAL DEBTS: THE LOOMING COMPETITION

Accounting methods, with regard to public expenses and debt, also undergo transformations in order to adapt to the expectations of financial investors. To prove their credentials to creditors, states, having become ordinary borrowers,

15. The presidents and members of the Finance Commission or the general budget reporters in the two assemblies, the National Assembly and the Senate, or else the Court of Auditors, play this role of institutional "whistleblowers" in budgetary matters.

16. This is what Wolfgang Streeck calls the "consolidation state": a debtor state seeking to consolidate its credit with private holders of capital through self-discipline. Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London/New York, Verso, 2014).

17. The three main credit rating agencies, Standard and Poor's, Moody's, and Fitch assess bond or debt issuers. They are companies that rate a debtor's ability to reimburse its debt by making timely interest payments and the likelihood of default .The issuers of bonds or securities may be companies, state, or local governments, non-profit organizations, or sovereign nations. Rating agencies make the distinction between what they call the "investment" grade for the lower risk attached to an issuer (rated as *AAA* for example) and the "speculative grade" for the higher risk attached to an issuer (from *BB+* to *D* for default).

18. For example, this is the case with the 60% debt of GDP threshold that became famous because it was one of the main public financial criteria that states had to meet in order to be qualified for entry into the European monetary union. Measured by Eurostat, the statistical office of the European Commission, it remains a tool for governing European public finances.

have to play the game of transparency and furnish all possible information. The financialization of state finances thus leads to the financialization of accounting methods. Organizations such as the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB) have long pleaded for the establishment of a metrology applicable to all economic agents, henceforth without distinction between states and private businesses.[19] Key in this ostensibly technical reform is the question of the "implicit commitments" – also called "off-balance-sheet" or "future debt." For the new method requires states to evaluate a still barely visible part of the administration's balance sheet, namely, the promises of future pension payments to civil servants. At stake is the determination of whether these commitments constitute an actual debt of the state to its employees – as actual, in other words, as the loan agreements that states sign with private creditors. Are future pension expenses to be included as liabilities in the state's accounts and, if so, do they impact the famous ratio of debt to GDP, which has become the focal point of debates on public finances? Alternatively, should these expenses be considered as one of the state's implicit, reversible, and amendable commitments, and thus kept off the balance sheets?

What this methodological reform entails is the replacement of "cash-based" accounting, in which expenses are recorded when they are paid – when money actually leaves the accounts – by a mode of accounting based on "commitments." This mode of accounting, also called "accrual accounting," takes into account all the debts "accrued-to-date," that is to say, all the debts that have been incurred up to the reporting day. Such a change in the mode of accounting potentially expands the purview of the public debt by including pension commitments as liabilities. Now, including these future disbursements among current liabilities also serves as an incentive for provisioning these ineluctable commitments of the state. Therefore, the ongoing restructuring of accounting methods can be understood as a "pedagogical" measure aimed at state representatives: as future risks regarding the state's commitments become more visible, public officials are enticed to reflect on the sustainability of pension plans and thus to reckon with the "necessity" of extending the duration of pension contributions. In other words, they are compelled to push back the legal age of retirement in order to avoid the state from going bankrupt.

To consider future pension payments as a liability of the state, an explicit commitment and an actual debt, is to acknowledge that civil servants have accumulated a claim on the administration and capitalized an asset. Historically characteristic of funded pension systems, this representation of the relationship between the state and its employees clashes with the spirit of the pay-as-you-go pension regime – which is still operative in France – and thus tends to alter its nature. For once a form of reasoning predicated on savings and individual capital accumulation is allowed to penetrate the pay-as-you-go regime, it inevitably undermines the latter's philosophy – which has always been about keeping the allocation of pensions separate from the logic of individual asset management.

The notion of a contract between generations is at the heart of the discursive strategy deployed by governments when they argue for a new approach to

19. Attempts to align the accounting methods of the public sector with international finance standards were initiated in the 1970s, when two private organizations –the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB) – united around the project of homogenizing international accounting. In association, these two private organizations established the International Public Sector Accounting Standards (IPSAS), norms that are supposed to apply globally to the public sector.

pensions. In France, as in other countries, senior finance officials are fond of claiming that the protection of future generations is a legitimate goal for them to pursue. As they envision them, however, these future generations are always already endowed with very specific moral values and political aspirations: primarily concerned with the protection of their own assets and feeling entitled to demand certain benefits from the social state, their particular sense of social justice seems limited to a form of responsibility vis-à-vis the future generations – and expressed by their wish to protect them from excessive debt. In short, the future generations share the concerns of today's governments, whose priorities consist of being accountable to their creditors and to the progeny of their constituents by way of revising their modes of accounting, showing more restraint in their expenditures and scaling down the commitments they have made to their citizens in the past.

The new debt order not only reforms the state and the way it spends and collects funds, but more radically, it changes the way the state thinks about the various populations to which it is accountable. How long can this order last, given that it is leaning on a social powder keg? Until recently, in order to remain socially acceptable, the hegemonic exponents of financial capitalism were still careful to allow for a modicum of public and social spending. However, their relentless anxieties about deficits and the perennial austerity to which governments must consent to appease their creditors are rapidly eating away at what is left of the welfare state of yore.

If future pension expenditures are considered as debts in the same way that Treasury bills and bonds are, then these social commitments established and guaranteed by public policies should be as firmly kept as the financial loan contracts, which are subscribed to by the state and which bind it to its private creditors. Herein resides the ambiguity of ongoing accounting reforms purporting to convert all expenses into actual debts. What is at stake is whether the state is equally committed to bondholders and to the future recipients of social benefits – whether the rights of the latter are as robust as the rights of the former, whether both types of "creditors" have the same chance of holding the state to its word. The very nature of what the public debt stands for and encompasses is in a way reopened by the current changes in accounting techniques: does the public debt only involve the contracts, protected by contract law, between a borrowing state and the holders of its bonds, or does it extend to the "promises" made by the state to future pensioners? Paradoxically, it appears that by turning all the obligations of the state into individual contracts, pro-market reformers end up recognizing the existence of a "social debt" that would be as solidly inscribed in contract law as the agreements between issuers and private holders of public bonds. This new approach to debt is not limited to the pension issue: for instance, the French *Cour des Comptes,* the equivalent of the British National Audit Office, is now in favor of including among the state's liabilities the cost to the Department of Public Education (*Ministère de l'Éducation nationale*) of a child from the age of six to sixteen.[20]

Now, in the mind of pro-market reformers, the idea of representing social benefits as "IOUs" was initially about alerting public opinion to the allegedly

20. Corine Eyraud, *Le Capitalisme au coeur de l'État. Comptabilité privée et action publique,* Éditions du Croquant, Paris, 2013, p. 146.

excessive weight of public spending: their purpose was to have ordinary citizens realize that the state was living above its means and that such profligacy constituted an unbearable burden not only for today's taxpayers but also for future generations. However, regardless of its promoters' intentions, the inclusion of social benefits among state's liabilities might in fact serve the interests of their recipients, to the extent that it would inscribe public policy commitments into a contract as binding as the ones that behold governments to their creditors.

Since 2010, the sovereign debt crisis that resulted from the banks' bailouts has certainly slowed down the process of identification between social and financial debts. Yet, at the same time, the social and economic conditions created by the European governments' responses to the sovereign debt crisis have brought the competition between the two types of claimants into stark relief. In other words, the question of which "creditors" should be given precedence by the state – the holders of its bonds or the recipients of its benefits – has clearly become the defining issue of our times.

Economists have shown that there are many disparities in the relation of citizens to public debt.[21] Among children, those who are born in privilege will benefit from the Treasury bonds that their families have in their portfolios, and the interest rates of which are often protected from inflation. Furthermore, the volume and value of such savings tend to increase as the tax burden on the wealthy becomes lighter – allegedly in order to boost economic growth.[22] If debt in political debate is considered a liability of the public Treasury and a burden for future generations, it must also be recognized as an asset, at least for some socio-economic portions of the citizenry – today and in the future. At the height of a crisis, these disparities necessarily intensify. Thus, in a still covert fashion, the opposition and potential conflict between those who are on the receiving end of social spending and those savers who hold state bonds tend to structure the current social and political debates.

Though they largely initiated the process, and did so in order to stress the excessive indebtedness of some states, national governments, European institutions, and private actors such as rating agencies are now quite worried about the consequences of treating social and financial public debts on a par – of giving them the same legal status. For instance, Vincent J. Truglia, an executive from the rating agency Moody's, says that, for his part, he has always been reticent to take a state's future commitments into account in the calculation of a sovereign debt's rating:

My fundamental view is that – it may sound very trivial – but there is no future. Everything is always in the present. The real argument is always about income distribution today. The only fundamental political argument there ever is; it's income and wealth distribution in the present.[23]

Private financial agents now feel that their own rights to the reimbursement of the bond securities they hold are "threatened" by the claims on the payment of the social debt. They thus reckon with the fact that the interests of bondholders are in direct competition with the "demands" of citizens expecting to benefit from public and social expenses. At the turn of the 2000s, Moody's even went so far as to predict that most developed states would probably default on their

21. Michel Husson, "Dette publique, rente privée," April 2006.

22. Bruno Tinel, Franck Van de Velde, "L'épouvantail de la dette publique," *Le monde Diplomatique*, July 2008. See also Michel Husson, "Dette publique, rente privée."

23. Interview with the author, 2012.

public debts. But, what the rating agency meant at the time, was that it was expecting states to default on their "social debts" and their pension funds:

Moody's expects almost every industrialized nation to "default" on its pension promises. We have concluded that, with few exceptions, it is nearly impossible for almost every major developed nation to meet the public sector pensions currently promised, including health care for seniors, without significant adjustments to future benefits. Benefits will have to be scaled back, in some cases, significantly.[24]

24. Vincent J. Truglia, "Can industrialized countries afford their pension systems?" *The Washington Quarterly*, vol. 23, 3, 2000.

Nowadays, the representatives of the financial industry are thus intent on reinstating an almost ontological difference between the social and financial debt. They fully appreciate the fact that public opinions seem to agree – that they also understand the financial debt to be a firm contract whereas the social debt is merely a conditional agreement, that calling it a debt is a social "convention" and that it is no more than a political "promise" that is reversible by definition. In short, bondholders and the managers of their portfolios are now primarily concerned with the rehabilitation of their special status of full-fledged creditor.

However, the consensus between financial institutions and the rest of the population regarding the difference of status between financial and social debts is bound to vacillate when a government's default on its social debt leads to a major impoverishment of its constituents. This is what happened in Greece, leading, in the general elections of January 2015, to the victory of Syriza. For a while, the new governing coalition was able to embody the hope of a break with the austerity regime of the European monetary zone and the injunctions of the so-called Troika – the representatives of Greece's main creditors, the European Commission, the European Central Bank and the International Monetary Fund.

This political change brought about by Syriza's victory opened a public conversation about the Greek debt: public authorities were asked to decide whether to give precedence to the needs of their constituents or to the claims of their creditors – to determine which types of commitments should be fulfilled in priority and which payments could be either shorn off or at least postponed. In April of 2015, resources and liquidities had grown so rare that the two types of obligations could no longer be met and a choice had to be made. Thus, the government announced that it was bound to take the unprecedented decision of defaulting on a payment to the International Monetary Fund. The Greek state could no longer afford to reimburse the 458 million euros it owed to the IMF on April 9 if it were to pay the salaries and distribute the social benefits that were due on April 14. Sources close to the Syriza party told the media:

We are a Left-wing government. If we have to choose between a default to the IMF or a default to our own people, it is a no-brainer.[25]

25. "Greece draws up drachma plans, prepares to miss IMF payment," *The Telegraph*, 2/04/2015. http://www.telegraph.co.uk/finance/economics/11513341/Greece-draws-up-drachma-plans-prepares-to-miss-IMF-payment.html

Thus, for a brief moment, a political party in power had chosen to act as the protector of the social debt, thereby assuming to challenge the wisdom and interests of the financial community – which, in the case of Greece in 2015, were represented by the various public institutions that had previously bought the Greek debt from private creditors. However, the moment of defiance proved indeed brief: the Syriza experiment ended in surrender, which shows that the competition between social and financial debts remains clearly rigged in favor of the latter. Yet, by virtue of exposing the asymmetric structures of a state's obligations, the standoff between Athens and its creditors points to the possibility of redeploying class conflict and social activism around the following question: why should we assume that financial contracts are irrevocably binding while, for their part, the state's commitments to the recipients of social benefits can be nullified by a new law on finances?

Barely a year after Syriza's first electoral victory, Greece is more than ever a "debt colony," as Alexis Tsipras called his country before becoming prime minister. Greek public goods and services are currently being auctioned and sold to private investors, under the guidance of Greece's creditors and the brokerage of the Hellenic Republic Asset Development Fund (HRDAP), in order to reimburse the country's debt. The objective of this operation is to maximize the value of sold public goods: the latter are listed in a catalogue and their sale to private investors is supposed to give a boost to the Greek economy while taking care of mature debts.[26] It is indeed in the name of reimbursing the debt that the Greek territory and its infrastructures are being converted into commodities and wrested from public control. What is happening to Greece is exemplary of a great reversal, still very much at work, whereby the state ceases to be what it was in the post-war period, namely *the thing that gives measure and value* by way of making political decisions and planning the economy, and instead becomes *the thing measured and valued* – assessed, rated, but also broken up and traded according to the rulebook of financial markets and under the authority of European institutions.

Current asymmetries between the valuations of social and financial debts sustain the hegemony of bondholders, prevent the political control of money and give perennial precedence to the service of the debt over any other consideration. Consequently, they not only result in the entrapment of nominally sovereign countries but also in the colonization of their future. Yet, as we have seen, the introduction of the notion that there is a competition between two kinds of debts – financial and social, contract- and status-based – could lead to the reopening of a public debate about the fundamental duties of the sate. Until recently, European governments – whether center-right or center-left – were prone to claim that they had to spend less for social programs and public services in order to "save" the welfare state from bankruptcy. It was a matter of necessity, they argued, and not of choice. However, once commitments made to citizens – in the form of pensions, public education, salaries of civil servants – and the contractual obligations to bondholders are both understood as debts, the question of choice – of choosing which creditor should be given priority in times of money crunches – can no longer be denied by public officials.

To reopen the question of the Treasury's infrastructure, including at the European level, to reintroduce the idea that the state can resort to a variety of techniques in order to borrow and fulfill its missions: these moves are essential both for challenging the hegemony of the current regime – according to which financial markets are the only place to look for a loan – and for checking the permanent blackmail exercised by financial institutions. Without giving in to

26. A catalogue of Greek public goods can be found on HRADF's website, hrdaf.com/en

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the nostalgia of capitalism's "Golden Age" – with its unbridled productivism and its "*dirigiste*" governing style – past experiments, discredited as they are by the official account of recent history, can usefully contribute to the critique of the present and to the search for an alternative. If the current debt order is to be subverted, a reassessment of the role and priorities of the state can no longer be deferred.

Translated by William B. Caroline

RECOMMENDED CITATION
Lemoine, Benjamin. "The Politics of Public Debt Structures" *Near Futures Online* 1 "Europe at a Crossroads" (March 2016): http://nearfuturesonline.org/the-politics-of-public-debt-structures-how-uneven-claims-on-the-state-colonize-the-future/