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It’s the debt state all over again

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Debt is now the big consensus: Black Zero never again! The Left, which always had to defend itself against accusations of reckless deficit-making, triumphs as the Right goes along with, or even presides over, the biggest ever public borrowing campaign in peacetime. Indeed one doesn’t hear much from the Right. Are they so depressed about the end of their beloved austerity?

To many commentators, the enormous new wave of public lending in the wake of the corona pandemic amounts to a victory of Keynesianism. But note that Keynesian debt must be repaid, out of taxes, when it has done its service: move the economy out of a slump into a boom. The new European debt, however, national and soon supranational, comes on top of an already existing huge mountain of public debt accumulated, essentially all over the capitalist world, since the 1980s, in almost linear fashion, alongside declining economic growth even in better years. Whatever this is, Keynesian it is not.

Listening to the public debate, one finds the Right, where it lets itself be heard at all, insisting that the new supranational debt envisaged at the European level has to be paid off, in something like ten or twenty years, rather than being refinanced with new debt. European debt-making is to be a one-time affair in an emergency, not to turn into a habit, like national debt-making has. Here it is the Left that keeps silent, unless it suggests in so many words that debt is not a problem in the first place, especially today when interest rates are as low as they are. With interest rates near zero, doesn’t debt come for free, at no fiscal cost? And, lo and behold, if economic growth rates exceed interest rates, debt relative to the size of the economy declines on its own, no austerity and no repayment needed.

If only it was that easy. There are now ever new theories that insist that interest rates will remain negligible practically forever. But what if they are wrong, as other theories maintain? Should the huge wave of post-corona public borrowing as such not drive interest rates up? An increase in the interest on public debt of just one or two percentage points can, if debt levels are a hundred or more percent of GDP, as they often are, easily break a national budget. And given the dismal growth performance of most national economies since 2008 (except Germany, which has been sucking the other EMU countries dry), who can guarantee that growth will be above the rate of interest, rather than below? Incidentally, the new corona money can cause growth, if at all, only to the extent that it is invested in projects that improve aggregate economic performance, as measured in terms of GDP, instead of being consumed. (One hears that the European money is to be primarily invested in “digitization”, which may cost a lot of jobs in the absence of an effective labor market policy and strong trade unions.)

Moreover, the debt-financed EU corona “reconstruction” fund, projected originally at 750 billion Euros to be spent from 2021 to 2027, will have to be serviced from 2028 onwards out of the regular EU budget, unless new European-level taxes can be agreed upon by all 27 member states. This, however, seems unlikely, also because it would cut into member states’ tax bases. So debt service may either be paid for by more debt, turning EU debt into external, and presumably growing, debt, or it may have to be paid out of the regular EU budget, funded by member states through either higher contributions or lower EU support. Or will some white knight enter and pull out his (or her) wallet? Famously Yannis Varoufakis, newly appointed Finance Minister of Greece, let it be known in an interview with *La Tribune* (January 26, 2015): “Whatever the Germans say, in the end they will pay”. This was a miscalculation then, and is likely to also be one seven years from now.

Believe it or not, however, these are only smaller problems. It is worth wondering what 750 billion euros, as much as they seem to be at first glance, can do for twenty-seven states over seven years. Originally the Commission expected to transfer up to 172.7 billion to

Italy and 140.4 to Spain, early in the budget period that will end in 2027. For comparison, Germany has already passed two national corona emergency budgets for 2021 alone, together worth no less than 374 billion euros. Leave aside the fact – so often noted by people like this writer, and as often hastily suppressed by the busy men and women running what they call "the European project" – that one-time handouts cannot cure the structural conditions that have made the handouts necessary, and remember this is a capitalist world, not a "solidarity" world, meaning that when it comes to the crunch, the strong suffer less than the weak while having more resources to lower their suffering. The result is that when the emergency is over, the strong are even stronger and the weak even weaker (the German GDP is to decline by just 6 percent in 2020, far less than in the Mediterranean countries and France where the decline will be around 10 percent).

This, finally, gets us to crux of the matter: the relationship between public debt and economic inequality. Public debt is private capital. States have to borrow on a current basis because they don't have the power to tax their societies to finance the collective goods that these require. The capital states borrow has mostly accumulated in the bank accounts of the wealthy, who are highly skilled at moving it into tax havens and extorting tax cuts from governments. That there is today a so-called savings glut, alongside permanent public deficits, is the result of the rapid increase in domestic inequality that we have seen in recent decades. Private capital is growing but cannot find investment opportunities because of a lack of purchasing power — of aggregate demand — resulting from the very same income gap that has made the accumulation of surplus capital possible. Firms like Apple and Google sit on huge cash hoards which they keep as insurance against global uncertainty, or for buying up their stock. One way to keep the idle capital safe — a sort of money laundering, if you will — is to invest it in public debt. What the state should have confiscated it now borrows, safeguards, and in normal times even pays interest on. The wealthy, rather than having their excess profits taken away from them, can keep them, make the state watch over them on their behalf instead of taking it from them, and when they die they can pass their government securities on to their offspring, thereby fortifying the class structure in which they thrive. A capitalist paradise if there ever was one, for the Left to think about.