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Corporate Ownership of the Public Debt

Mapping the New Aristocracy of Finance

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Abstract

In various writings Karl Marx made references to an 'aristocracy of finance' in Western Europe and the United States that dominated ownership of the public debt. Drawing on original research, this article offers the first comprehensive analysis of public debt ownership within the US corporate sector. The research shows that over the past three decades, and especially in the context of the current crisis, a new aristocracy of finance has emerged, as holdings of the public debt have become rapidly concentrated in favor of large corporations classified within Finance, Insurance and Real Estate (FIRE). Operationalizing Wolfgang Streeck's concept of the 'debt state', the article goes on to demonstrate how concentration in ownership of the public debt reinforces patterns of social inequality and proceeds in tandem with a shift in government policy, one that prioritizes the interests of government bondholders over the general citizenry.

SER keywords: public finance; financial institutions; distribution; redistribution; financial crisis; class

JEL classification: H6; D3; G2

'By the aristocracy of finance must here be understood not merely the great loan promoters and speculators in public funds, in regard to whom it is immediately obvious that their interests coincide with the interests of state power. All modern finance, the whole of the banking business, is interwoven with public credit […] If in every epoch the stability of state power signified Moses and the prophets to the entire money market and to the priests of this money market, why not all the more so today, when every deluge threatens to sweep away the old states, and the old state debts with them?'

-Karl Marx, 1963 [1852], p. 104

1. Introduction

Focusing on the United States, this article forms part of a broader research project on the ownership of the public debt (Tett, 2013). A previous article focused on the household sector and revealed a rapid concentration in ownership of the public debt in favour of the top one percent of US households since the early 1980s (Hager, 2014). The current article extends this research by analyzing the distribution of the public debt within the US corporate sector. Taken together, both articles provide crucial yet hitherto unavailable evidence for longstanding debates about the ownership structure of the federal bond market.[1]

The history of political economy is filled with references to the banks and other financial firms that lent to government (Gottlieb, 1956; Hume, 1970 [1752]; Hudson, 2011). Of the earliest works, Karl Marx most explicitly discussed the political economy of public debt ownership. In various writings Marx made references to an 'aristocracy of finance' in Western Europe and the United States that dominated ownership and trading of government bonds (Marx, 1963 [1852], p. 104; Marx and Engels, 1970 [1846], pp. 79–80; Marx, 1990 [1867], p. 920). For Marx, ownership of the public debt not only empowered bondholders to influence government policies, it also had class redistributive effects. Concentrated ownership of the public debt was combined with regressive systems of taxation on 'the most necessary means of subsistence' (Marx, 1990 [1867], p. 920). And this dynamic, especially in Britain, meant that the public debt served to redistribute or 'expropriate' income from the laboring masses of taxpayers to capitalist bondholders.

Writing mid-nineteenth century, Marx offered no empirical evidence to substantiate his arguments regarding the aristocracy of finance. And despite the twentieth century rise of statistics and accounting, our understanding of the ownership of the public debt is still severely limited. Some observers of the US have suggested that large financial groups dominate ownership of the public debt (Adams, 1887; O'Connor, 1973; Canterbery, 2000). Yet, of the existing studies, only the work of H.C. Adams (1887) from over a century ago made a concerted effort to map the concentration in corporate ownership of the public debt. The patchy and outdated empirical record means that we lack even the most basic understanding of what has happened to the aristocracy of finance over the past 150 years.

The global financial crisis has brought in its wake increasing attention to the rise of finance, the consolidation of corporate and class power, intensifying income and wealth inequality, as well as skyrocketing public debts. And in this context, it seems that Marx's writings on the public debt might be as relevant as ever. This article revisits Marx's notion of an aristocracy of finance by addressing the following questions. Who are the dominant corporate owners of the US public debt? Has public debt ownership become more or less concentrated over time? Is the public debt still concentrated in the financial sector, or has the so-called financialization of industrial firms spread ownership across different sectors? Has the recent rise in money manager funds, including pension, mutual and other investment funds, transformed the class politics of public indebtedness? Does the public debt still redistribute income between classes? And finally, what are the political consequences of a given pattern of public debt ownership?

In short, the analysis uncovers a mixture of continuity and change. The research shows that over the past three decades, and especially in the context of the crisis, corporate sector holdings of the public debt have become rapidly concentrated in favor of large corporations classified within the Finance, Insurance and Real Estate (FIRE) sector. This rise in ownership concentration suggests that the aristocracy of finance is still a relevant feature of contemporary US capitalism. At the same time, however, the research also reveals significant changes in financial sector ownership of the public debt. In Marx's time it was traditional banking institutions owned by wealthy capitalists that were dominant. Today the major corporate owners of the public debt are money managers, many of which are widely owned.

Thus the class underpinnings of the public debt are now much murkier than they were in the nineteenth century, as broader swathes of the population have an indirect stake in the public debt owned by corporations. Yet this general observation conceals transformations in the types of money managers that own the public debt. Over the past three decades widely owned pension funds have seen their share of the public debt fall drastically, while mutual funds, which are heavily concentrated in the hands of the top one percent of US households, have seen their share increase. The findings therefore point toward the emergence of a *new* aristocracy of finance, composed of giant money managers and wealthy households.

The article then examines the consequences of increasing concentration in ownership of the public debt, first, by looking its class redistributive effects, and second, by gauging the extent to which concentrated ownership gives the new aristocracy of finance power over government policymaking. In exploring these two facets, the research in this article provides empirical grounding for conceptual arguments made by Wolfgang Streeck (2014) in his recent book *Buying Time: The Delayed Crisis of Democratic Capitalism*. The rise of progressive taxation and social spending indicates that the US public debt no longer redistributes income in the way that it did in nineteenth-century Britain. But this does not mean that issues of class and inequality are no longer relevant to the public debt. Operationalizing Wolfgang Streeck's (2014) concept of the 'debt state' helps us to grasp how increased ownership concentration and a rising public debt, along with tax stagnation and declining tax progressivity since the 1970s, have combined to reinforce existing patterns of social inequality. A content analysis of the *Economic Report of the President* reveals that, under the debt state, there has been a shift in government policy that prioritizes the interests of what Streeck refers to as the *Marktvolk* (the large financial corporations and wealthy households that dominate ownership of the public debt) at expense of the *Staatsvolk* (the general citizenry). In this way, the analysis reveals how growing inequality in ownership of the public debt has gone hand in hand with growing inequality in representation within government policy.

The remainder of the article is divided into four sections. Section two highlights some of the challenges in measuring concentration and maps the pattern of public debt ownership for the corporate sector. Section three explores the redistributive effects of this increasingly

concentrated pattern of public debt ownership, while section four undertakes a content analysis. A fifth and concluding section briefly discusses the relevance of the findings to financialization studies and considers how the research might inform public debate.

2. Mapping Ownership

To explore whether the aristocracy of finance is still a relevant feature of US capitalism we start with the category that matters most: ownership. It was concentrated ownership of the public debt that Marx and others emphasized for two main reasons. First, when combined with a regressive system of taxation, a concentrated public debt redistributed income from taxpayers to bondholders. Second, concentrated ownership gave owners of the public debt inordinate power over government policy-making. Our starting point in this section, therefore, is to map the share of the public debt owned by dominant finance as it unfolds over time.

2.1 The Measurement Problem

Measurement of ownership concentration raises a host of methodological issues. In their pioneering 'capital as power' framework, Nitzan and Bichler (2009) note that a consistent, historical measure of ownership concentration requires the use of either a fixed number or a fixed proportion of dominant owners (Bichler and Nitzan, 2012, p. 51). For example, in the context of this study, we can use the standard aggregate measure of concentration, taking the top 200 or top 500 corporations as our numerator, and measure their share of corporate holdings of the public debt. Or we can take the top one percent of corporations or the top ten percent of corporations and measure their share of corporate holdings of the public debt.

The exact cut-off point used to isolate dominant owners is to a certain extent arbitrary, but necessary in order to create a reliable measure of concentration. And this is precisely what is wrong with the only data set available to track the pattern of public debt ownership for dominant corporations, the IRS Statistics of Income (SOI). The SOI does not make publicly available a raw data set to freely choose our own cut-off point and the data that are publicly

available do not use a fixed number or a fixed proportion of top corporations to measure concentration over long periods of time. Instead, the SOI tabulates the share of the public debt owned by corporations divided into different categories based on the size of their total assets.

From 1954, when reliable data first surfaces, to 2000, any corporation with assets of $250 million or more was placed into the top asset bracket. In 1954, only 391 corporations, or 0.06 percent of total corporations, were included in the top asset bracket of $250 million or more. Yet by 2000, the last year that this cut-off point was used to designate the top bracket, 10,883 corporations, or 0.2 percent of the total corporations, had $250 million or more in assets. It was not until 2001 that the IRS refined its categories and made assets of $2.5 billion or more the top cut-off point. With the refined categories introduced in 2001, 1,896 corporations, or 0.04 percent of total corporations, were included in the top bracket of $2.5 billion or more in assets, and these totals increased to 2,772 and 0.05 percent respectively by 2010.

Keeping the cut-off point at a given level of assets means that the number of top corporations, the proportion of top corporations, and therefore the asset share of top corporations, increases greatly over time. Basing the cut-off point on the size of assets, rather than the number of corporations, the SOI data present obvious problems for our inquiry. Without a fixed cut-off point, a change in the share of public debt owned by corporations in the top asset bracket could reflect a change in the number of corporations, as well as a change in concentration.

2.2 A Roundabout Solution

The limitations of the IRS SOI data might help to explain why the empirical record of the existing literature is patchy and outdated. Without access to reliable data, it is little wonder that researchers have not mapped the concentration of public debt within the US corporate sector. But all is not completely lost. There is still a roundabout method that can be used to tease out insights from the SOI data.

This method involves playing around with the SOI asset class categories to come up with a fixed number of corporations in different snapshots of time. As was already mentioned, the SOI finally refined its asset classes in 2001, increasing the top cut-off point from assets of $250 million or more to assets of $2.5 billion or more. For the most recent five years (2006-10) around 2,500 corporations were included in this top asset bracket of $2.5 billion or more in assets.

It should be noted that the top 2,500 corporations do not represent an ideal proxy for dominant owners, as it is likely to contain not only the largest corporations, but also a significant number of medium-sized entities. But this is the limitation imposed by the SOI data. Going back historically, we can examine the SOI asset classes and isolate 2,500 top corporations at different points in time. For the five-year period from 1977-81 there were on average just over 2,500 corporations with assets of $250 million or more. If we go back further to 1957-61, there were around 2,500 corporations with assets of $50 million or more.

Using these three snapshots periods (1957-61, 1977-81, 2006-10) gives us a reasonably consistent, long-term view of ownership concentration for a fixed number of top corporations in the numerator. The historical snapshot data for these three periods are presented in Table 1.

Table 1
Historical Snapshots of Corporate Ownership of the Public Debt

Period	Large Corporations (total)	Large Corporations (% total)	Public Debt* (% total)	Total Assets** (% total)
1957-61	2,344	0.2	66	62
1977-81	2,676	0.1	65	70
2006-10	2,675	0.05	82	81

* Refers to the share of corporate holdings of the public debt that are owned by large corporations.

**Refers to the share of corporate holdings of total assets that are owned by large corporations.

Note: The values in the last three columns are calculated as simple averages for the corresponding five-year period. The cutoff point for large corporation is assets of $50 million or more for 1957-61, $250 million or more for 1977-81, $2.5 billion or more for 2006-10.

Source: IRS Statistics of Income (http://www.irs.gov/uac/Tax-Stats-2).

Skeptics will point out that the number of corporations in the first period (1957- 1961) in the second column of Table 1 is 14 percent lower than for the latter two periods. But this discrepancy is compensated for when we take into account the third column of the table, which measures the proportion of top corporations. The successive decline in the proportion of top corporations through the three periods is far more significant than the increase in the fixed number of corporations from 1957-1961 to 1977-1981. Given the successive halving in this proportion, we could argue that these data *understate* the level of ownership concentration for the more recent periods.

2.3 The Aristocracy

The data in the fourth column of Table 1 track the corporate share of the US public debt owned by large corporations. As we can see, the ownership share of large corporations was remarkably steady at around 65 percent from the postwar Golden Age (1957-1961) through the early years of the neoliberal period (1977-1981). Where we start to see significant changes is from the second period to the third period.

Based on the available data we can see that there has been an increase in ownership concentration over the past three decades. Although the top 2,500 corporations make up only 0.05 percent of total corporate tax returns in 2006-2010, they now own 82 percent of the corporate share of the public debt. What is perhaps most interesting, and which is not reflected in the data in Table 1, is the increase in ownership concentration that has taken place in the context of the global financial crisis. In 2006 before the onset of the crisis, large corporations owned 77 percent of the corporate share of the public debt and this share grew to 86 percent in 2010.

Finally, the fifth column in Table 1 maps the share of total corporate assets owned by large corporations. What stands out is the remarkable synchronicity of public debt and general asset concentration. From the postwar to the early neoliberal period, the share of total corporate assets owned by large corporations grew modestly from 62 percent to 70 percent. Yet over the past three decades there has been rapid concentration, as large corporations in 2006-2010 owned 81 percent of total corporate assets.

The data in Table 1 tell us at least three important things. First, the rise in ownership concentration suggests that there is still an aristocracy of large corporations at the heart of the US public debt. Second, the data also indicate whose interests have been served by increases in the public debt during the global financial crisis. The market for US federal debt has been a traditional 'safe haven' for investors in times of turbulence and during the crisis there has been a 'flight to safety' to federal bonds (Noeth and Sengupta, 2010). What the data in Table 1 show is that an unequal dynamic underpins the safe haven: it is overwhelmingly large corporations at the top of the business hierarchy that have enjoyed the current 'flight to safety'. And third, the data show that ownership concentration in the public debt is bound up with a broader movement toward asset concentration.

2.4 Is the Aristocracy Still Financial?

Of course the 'aristocracy' Marx identified was specifically an aristocracy of *finance*, a group that comprised not only the 'loan promoters and speculators' (the modern day equivalent of investment banks) but 'all modern finance' and 'the whole of the banking business' that dominated the ownership and trading of government securities (see quote at the beginning of this article). It remains to be seen whether 'finance', understood narrowly as financial firms, is still the dominant owner of the public debt within the US corporate sector.

This line of inquiry has relevance for the literature on the financialization of advanced capitalist economics since the 1970s. One aspect of financialization has to do with the rising profits of the finance insurance and real estate (FIRE) sector (Krippner, 2005; Foster and Magdoff, 2009; Tomaskovic-Devey and Lin, 2011). Emphasizing this aspect of financialization, we might expect to see an increase in FIRE's share of the US public debt alongside its growing share of profits. Yet another aspect of financialization involves the trend towards diversification and conglomeration, with traditionally 'industrial' corporations such as General Electric and General Motors taking on more activities related to financial intermediation (see Froud *et al.*, 2006; Lin and Tomaskovic-Devey, 2013). As a result of the financialization of industrial firms, we might just as well expect ownership of the public debt to spread across different sectors and thereby decrease the share owned by the FIRE sector.

When it comes to ownership of the public debt, it is the former aspect of financialization that holds sway. Figure 1 traces the share of corporate holdings of the public debt owned by corporations within FIRE. We see that over the past half century, the financial sector has greatly increased its share of the public debt. Even at its lowest point of 81 percent in 1959, the FIRE sector was by far the most significant corporate owner of the public debt, and over the past five decades its share has steadily increased. From 2000 to 2010 FIRE owned on average 98 percent of the corporate share of the public debt. Thus ownership of the US public debt has become concentrated into the hands of not just *large* corporations, but *large FIRE sector* corporations.

Figure 1 FIRE's Share of the Public Debt Held by Corporations

Note: The series appears broken at points because of missing observations for those years.

Source: IRS Statistics of Income (http://www.irs.gov/uac/Tax-Stats-2).

2.5 The Rise of Money Managers

To this point our analysis has ignored one of the most fundamental changes within the financial sector over the past half-century: the rise of money managers, including pension, mutual and other investment funds.[2] In Marx's time, the financial sector included mostly banks, whereas today it includes a host of non-traditional intermediaries. And while ownership of banks in Marx's time was dominated by the capitalist class, money managed funds are generally owned by broader swathes of the population. The rise of money managed funds forces us to think in more nuanced ways about the class underpinnings of the public debt. If most investment funds are widely held, this could mean that individuals outside of the ruling elite are the indirect beneficiaries of these concentrated holdings of the public debt.

There is no denying that money managers have become major players in the federal bond market. As the thin series in Figure 2 indicates, the share of the US public debt owned by these entities rose sharply from the early 1970s to the mid-1980s and has remained fairly stable from 1985 to the present.[3] To illustrate the changes, we can compare the share of the public debt owned by money managers to that of the banking sector (the thick series). Here we see that the share of the public debt owned directly by banks has fallen precipitously since World War II and now stands at a miniscule three percent of the total.

But to what extent has the emergence of money manger funds transformed the class politics of public debt ownership? To answer this question we need to dig deeper, first, to disaggregate the category of money managers and examine their ownership structures, and second, to map the share of the public debt owned by the various types of funds. Pensions funds, for their part, are indeed widely owned, with the top percentile of US households owning only 15 percent of their total assets in 2010 (up from eight percent in 1983).[4] The ownership of mutual funds, however, is heavily concentrated, with the top percentile owning 47 percent of their total assets in 2010 (up from 40 percent in 1983). Put simply, this means that the middle class is the indirect beneficiary of the public debt owned by pension funds, but not by mutual funds. It follows that in order for the financial sector's holdings of the

public debt to serve the middle class, we would have to see evidence that pension funds are the major owners of the public debt within the category of money managers.

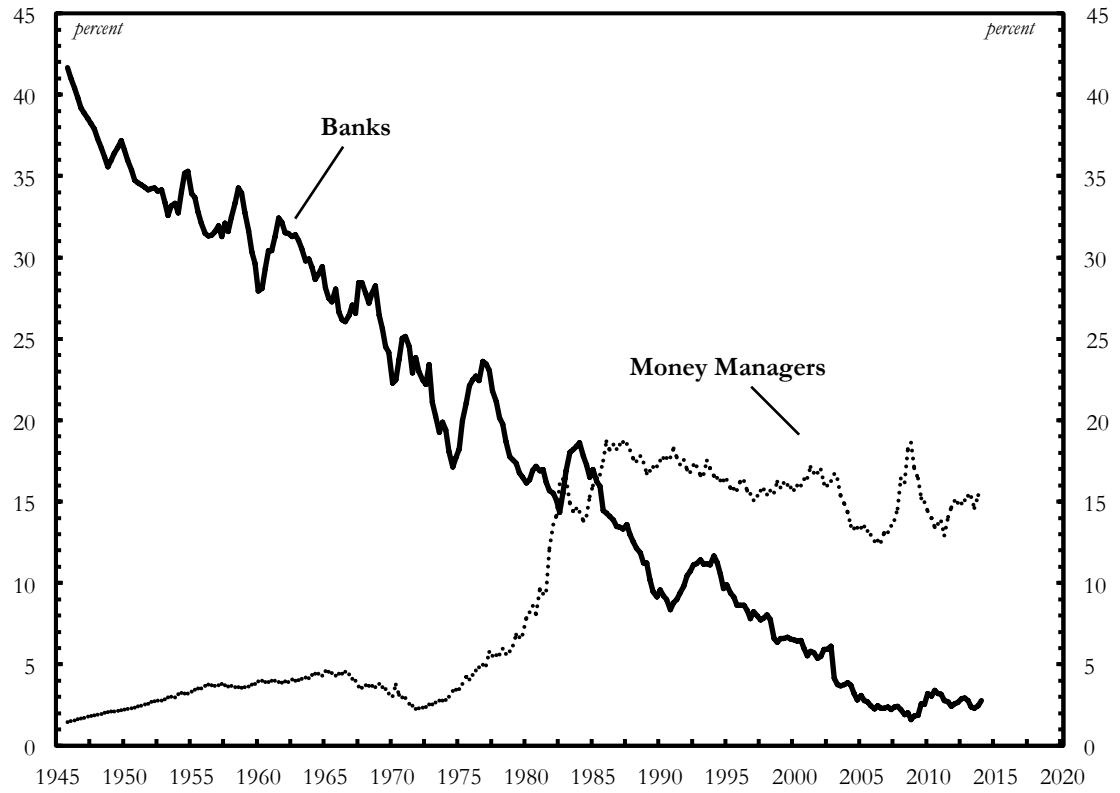

Figure 2 The FIRE Sector's Share of 'Debt Held by the Public'

Note: 'Debt held by the public' includes domestic private, official and private foreign and Federal Reserve holdings of Treasury securities. Money managers include private pension funds, state and local government retirement funds, federal government retirement funds, money market mutual funds, mutual funds, closed-end funds and exchange-traded funds. Banks include U.S.-chartered depository institutions, foreign banking offices in the U.S., banks in U.S.-affiliated areas and credit unions. Data are quareterly from 1945 to 1951 and annual onward.

Source: Federal Reserve's Flow of Funds accounts (table L.209).

Figure 3 provides a breakdown of the ownership of the public debt by money managers. As we can see, the share owned by pension funds has fallen sharply from 14 percent in the mid-1980s to six percent in 2014. Meanwhile, the share owned by mutual funds has increased steadily since the early 1980s and, despite a significant dip in the past few years, still stands at around 10 percent. Expressed as a ratio, the share of the public debt owned by heavily concentrated mutual funds was on average only 25 percent of the share owned by widely

held pension funds in the early 1980s (1980 to 1985). In the past five years (2009 to 2014) mutual fund holdings of the public debt were on average 1.7 times *larger* than the holdings of pension funds.

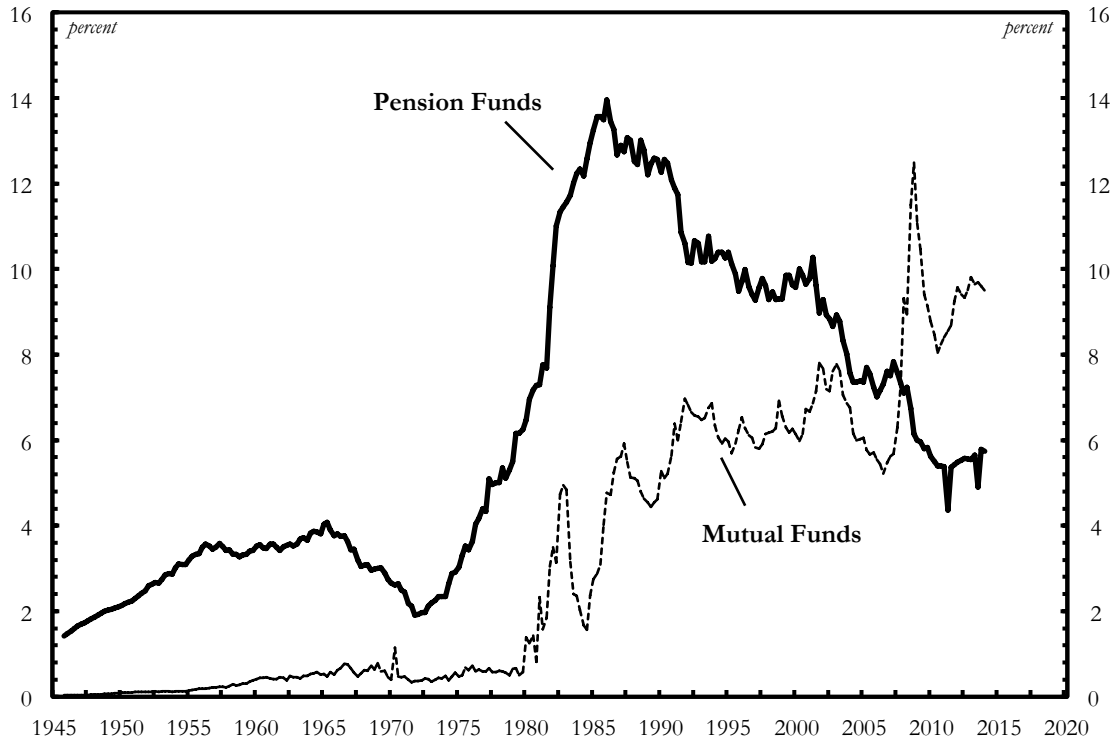

Figure 3 Money Managers and 'Debt Held by the Public'

Note: 'Debt held by the public' includes domestic private, official and private foreign and Federal Reserve holdings of Treasury securities. Pension funds include private pension funds, state and local government retirement funds, federal government retirement funds. Mutual funds include money market mutual funds, mutual funds, closed-end funds and exchange-traded funds. Data are quarterly from 1945 to 1951 and annual onward.

Source: Federal Reserve's Flow of Funds accounts (table L.209).

The institutionalization of savings into money manager funds is undeniably significant. But in and of itself the increasing significance of money managers has not counteracted increasing concentration in the financial sector's direct ownership of the public debt. On the contrary, funds that are widely held have seen their share of public debt fall over the past three decades, while the share of concentrated funds has increased.

While Marx's aristocracy of finance was comprised of banks and their capitalist owners, the new aristocracy includes a whole array of intermediaries, many of which cannot be said to work exclusively in the interests of the wealthy elite. Yet over the past three decades, funds that are more concentrated in the hands of the top percentile of US households have increased their share of the public debt. This means that the top one percent of households are increasingly the indirect beneficiaries of the concentrated share of the public debt owned within the FIRE sector. These findings are consistent with previous research, which found that, in terms of direct household ownership, the top one percent has greatly increased its share of the public debt over the past three decades (Hager, 2014). Thus the new aristocracy of finance is best conceptualized as a power bloc comprising not only dominant financial corporations, but also US households at the top of the wealth and income hierarchy.[5]

3. Public Debt and Class Redistribution

For Marx, one of the most important consequences of concentrated ownership of the public debt was that it redistributed income upward from the laboring masses of taxpayers to the aristocracy of government bondholders. The redistributive logic appears straightforward. Ownership of a government bond entitles its owner to a stream of interest payments. And if the class identity of bondholders is separate from the taxpayers that finance those interest payments, then income will be redistributed from the latter to the former.

3.1 Then and Now

Historical statistics allow us to illustrate the class conflict underpinning the public finances of Marx's time.[6] With British public debt well in excess of 100 percent of GDP, often exceeding 250 percent of GDP during major wars, interest income constituted a major component of government spending. From 1800 to 1850, debt service charges made up anywhere from 25 to 58 percent of total British government expenditures. Until the mid-1800s government spending was almost solely dedicated to war and debt servicing. In fact, military spending and debt charges as a share of government expenditures oscillated counter-cyclically. New military campaigns would bring with them an upsurge in military spending and a decline in debt charges. The conclusion of conflict would result in decreased military

spending and an increase in debt charges, as the British state began to repay some of the debt contracted during the war.

While interest payments constituted a substantial share of government expenditures during this period, the bulk of government revenues came from indirect forms of taxation. Indirect taxes, especially excise taxes on consumption goods, are generally regressive since they are assessed on goods that, as a percentage of income, are primarily purchased by the poor (Marx's 'most necessary means of subsistence'). Meanwhile direct taxes, especially property and income taxes, are generally progressive, exempting lower incomes and falling inordinately on the wealth and income of the rich. In the first half of the nineteenth century, 66 percent of British government revenues on average came from indirect taxes, while income and property taxes constituted a meager 16 percent. There was little in the way of social spending to offset the tax burden borne by the working masses.

Fast-forward to the contemporary US and things are not as clear-cut.[7] During the global crisis US public debt levels breached the 100 percent of GDP mark, the only time they have done so outside of World War II. But low interest rates mean that debt service makes up a small component of federal expenditures. In fact, from 2008 to 2013 interest charges on average have made up just over six percent of annual federal expenditures, while military spending made up 20 percent. But unlike in nineteenth-century Britain, the US federal government also dedicates around 35 percent of its spending to social security and healthcare, a substantial proportion of which benefits lower and middle income Americans.

There are also major differences in the tax structures of nineteenth-century Britain and contemporary America. In 2013, 61 percent of US federal revenues came from individual and corporate income taxes and a miniscule three percent from excise taxes. And although some economists have argued convincingly that the US federal tax structure of the past three decades has declined in progressivity (Piketty and Saez, 2007), it is nowhere near a return to the regressive tax structure of the nineteenth century.

With the rise of progressive taxation and social spending, the class redistributive effects of the public debt are harder to pin down. Corporate income taxes make up only 10 percent of

total US federal revenues, but the large corporations sampled in Table 1 contribute most. In fact in the most recent period of 2006-2010, the top 2,500 corporations paid 68 percent of all corporate income taxes. Household income taxes make up nearly half of all federal revenues, and the top one percent of Americans pays a large share. According to recent data from the Congressional Budget Office (CBO) (2014), the top one percent paid 35 percent of household income taxes in 2011, nearly double the amount it paid in 1979. With large corporations and wealthy households paying the bulk of federal taxes, the US public debt does not redistribute income from the taxpaying masses to the aristocracy of government bondholders as it did in nineteenth-century Britain.

But this does not mean that issues of class and inequality are no longer relevant to the public debt. Instead, a new, more complex, type of conflict between the social classes has emerged. This new conflict is captured in Wolfgang Streeck's concept of the 'debt state'.

3.2 The 'Debt State'

In *Buying Time: The Delayed Crisis of Democratic Capitalism*, Streeck (2014) traces the transformation of capitalism within the advanced democracies from the postwar to the neoliberal period. Key to this broader transformation has been a shift in public finances from a postwar 'tax state', which relied primarily on progressive taxation to finance its expenditures, to a 'debt state' of the past four decades, which finances its expenditures through borrowing. There are two main features of this 'debt state' that are relevant to our discussion here: namely, tax stagnation and declining tax progressivity. Both of these features help us to understand the contemporary link between public debt and class inequality.

We start with the issue of tax stagnation. As mentioned above, the financial aristocracy now pays a substantial share of federal taxes. However, this observation ignores the fact that the tax revenues as a percentage of national income have stagnated since the early 1970s. Figure 4 plots US federal expenditures and tax revenues as a percentage of GDP from 1950 to 2014. In the postwar period increasing federal expenditures were met by increasing tax revenues, resulting in a low public debt. But this started to change from the 1970s onward. With the exception of the 1990s, federal revenues have been increasing, while federal taxes

have been stagnant. The growing gap between revenues and expenditures accounts for the growing levels of public indebtedness over the past four decades.

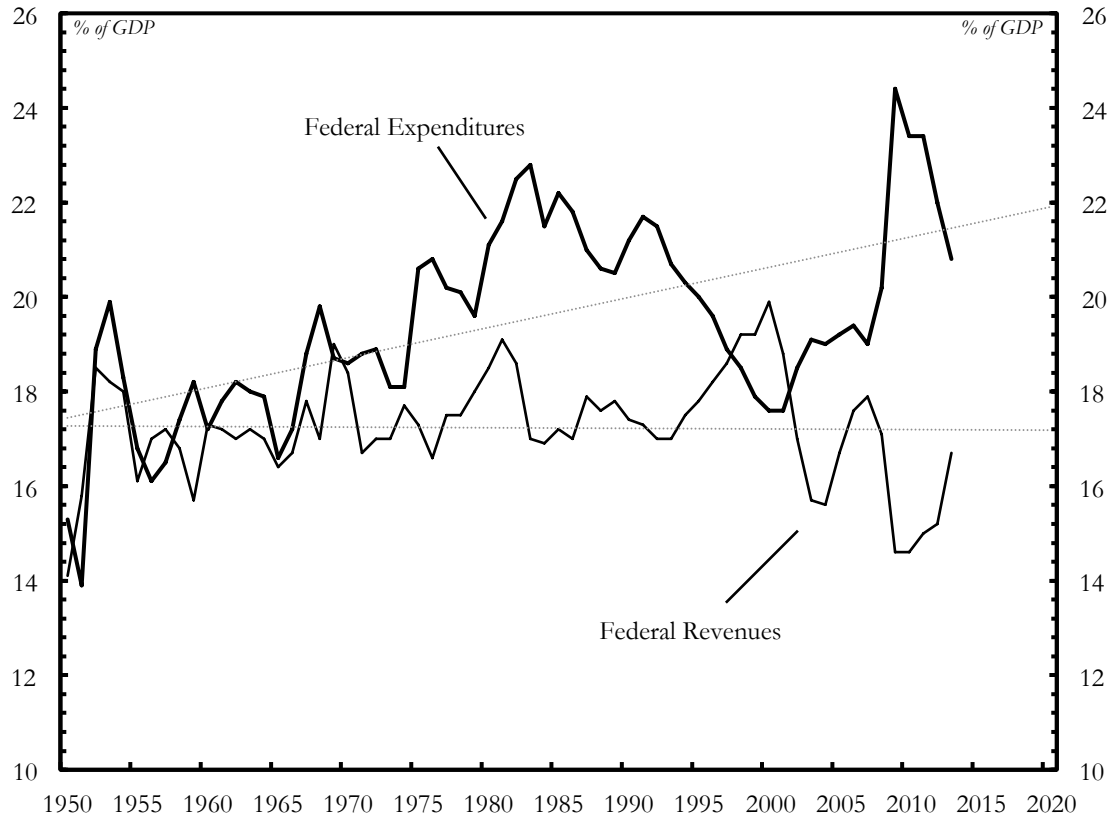

Figure 4 From Tax State to Debt State

Note: Revenues and expenditures include both on-budget and off-budget items.

Source: White House Office of Management and Budget (Table 1.2).

Drawing on some of the classical work of fiscal sociology, Streeck (2014, pp. 70-75) sets out to explain these changes. He suggests that increasing government expenditures are a function of development. As the capitalist market deepens, the state must spend more on things like infrastructure and social protection. Stagnating tax revenues are, however, more overtly political. As wealth and income becomes concentrated in the hands of dominant property owners, governments face difficulties extracting revenues from them. Thus for Streeck, the main factor that explains the emergence of the debt state over the past four

decades has been the successful tax resistance waged on the part of increasingly powerful elites.

How does tax progressivity relate to the issue of tax stagnation? Though large corporations and wealthy households pay a significant portion of the federal tax bill, they are paying less and less tax as a proportion of their total income. The effective federal tax income rate for the large corporations sampled in Table 1 held steady over the course of the neoliberal period, increasing from 22 percent in 1977-1981 to 23 percent in 2006-2010. This represents a significant decline from the postwar period of 1956-1961, when the effective corporate income tax rate stood at 45 percent. CBO (2014) data suggest that the effective federal tax rate for households has fallen from 35 percent in 1979 to 29 percent in 2011. Earlier research by Piketty and Saez (2007), which ignores the role of transfers and is therefore not directly comparable to the CBO data, finds that the effective tax rate of the top one percent fell from 44 percent in 1960 to 38 percent in 2001.

As Streeck (2014, pp. 76-77) points out, declining tax progressivity means increasing inequality and, *inter alia*, increased savings for those at the top of the wealth and income hierarchy. Those that have gained the most from declining tax progressivity have more money to invest in safe, secure, interest-bearing financial assets. And here is where we find the link between class inequality and public indebtedness. The public debt grows in part because of the successful efforts of the wealthy to resist progressive taxation. The wealthy in turn have more savings to invest in the public debt, and come to own a greater share of it. Under the debt state, the laboring masses do not pay the financial aristocracy's interest income. Yet with tax stagnation and declining tax progressivity, the aristocracy cannot be said to finance its own interest income either. Instead, when increased ownership concentration and a rising public debt are coupled with tax stagnation, the government comes to finance its expenditures, on interest and everything else, by borrowing from the rich, instead of taxing them (see also Piketty, 2014, p. 540). In this way, Streek (ibid, p. 78) argues, the '…debt state serves to perpetuate extant patterns of social stratification and the social inequality built into them'.

4. Public Debt as Political Power?

In addition to its role in reinforcing inequality, there has always been an assumption that concentration gives owners of the public debt political power to shape government policymaking (Di Muzio, 2007). Does concentrated ownership of the public debt empower the aristocracy of finance? And if so, how can we empirically demonstrate the power that it wields?

Empirically analyzing the relationship between public debt ownership and power is difficult, because governments are complex entities, subject to many different influences. Although the bond market is central, especially to fiscal and monetary policy, it is not the only site where influence over government is exerted. There are many avenues through which the aristocracy of finance could influence government that go well beyond the power conferred by ownership of the public debt. The most obvious example here is the pressures for financial deregulation that large financial corporations exert through lobbying and revolving doors between their upper management and government institutions (see Hager, 2012). This example is crucial because the emergence of the debt state was inextricably linked to financial deregulation, which enabled the financial sector to expand credit in order to meet the state's increasing borrowing requirements (Krippner, 2011; Streeck, 2014). It is difficult to determine with any precision, especially given patchy data, to what extent a change in government policy was brought about by a change in the pattern of public debt ownership or by lobbying, or both. In short, public debt ownership concentration and financial sector lobbying are *entangled* in the same underlying process: the rise of finance.

Despite these limitations, what we can do is examine the extent to which government policy has transformed in ways that prioritize the interests of government bondholders over other segments of the population. This exercise does not tell us much about the causal effects of public debt ownership concentration, nor does it address the rather contentious theoretical question of how policy discourse translates into power (Frow 1985). But this exercise does allow us to assess in general terms the extent to which government itself has absorbed the logic of finance.[8] This is significant in itself because it allows us to gauge the role policy plays in reinforcing or counteracting the social inequality that we have identified with the debt

state. Our analysis explores two main questions. What are the interests of the new aristocracy of finance? And how do these interests conflict with other segments of the population? Once again, Streeck offers some guidance in addressing these questions.

4.1 Staatsvolk versus Marktvolk

In modern debt states, Streeck (2014, pp. 80-82) argues that governments have to juggle the interests of two main stakeholders, which are driven by conflicting logics of control. The first stakeholder is the general citizenry or *Staatsvolk*, which exerts influence over the political process through the rights of democratic citizenship. For the *Staatsvolk*, influence over government comes from voting in periodic elections and voicing public opinion in between them. As a nationally bound constituency, the *Staatsvolk* uses its influence mostly to preserve social rights and public services. The second stakeholder is the market people or *Marktvolk*, who, through concentrated ownership of the public debt, seek to influence government through the constant threat of imposing higher costs on government borrowing. The transnationally oriented *Marktvolk* is concerned primarily with the creditworthiness of government and maintaining confidence in the bond market as a safe and secure investment outlet. Streeck (*ibid.*, p. 82) admits that, given the paucity of research on the public debt, it is not clear who the *Marktvolk* actually are, but he associates it with wealthy individuals and large financial corporations.

Due to increasing levels of indebtedness, coupled with increased concentration in ownership of the public debt, Streeck argues that the debt state has come to serve the interests of the *Marktvolk* at the expense of the *Staatsvolk*. The conflicting interests of the two groups of stakeholders are presented in a highly stylized form in Table 2.

In what follows, we engage in a simple empirical exercise, subjecting the framework in Table 2 to content analysis. Here we are interested in measuring the frequency with which the respective terms associated with the *Marktvolk* and the *Staatsvolk* appear in government documents. For our purposes we concentrate our efforts on the three historical snapshot periods used previously (1957-1961, 1977-1981, 2006-2010) to examine the relationship between public debt ownership concentration and government policy. Put simply, when

government prioritizes the interests of the aristocracy of finance, we would expect to see the terms associated with the *Marktvolk* to gain prominence over the terms associated with the *Staatsvolk*.[9]

Table 2
The Two Subjects of the Debt State

Staatsvolk *(general citizenry)*	**Marktvolk** *(market people or aristocracy of finance)*
national	international
citizens	investors
civil rights	claims
voters	creditors
elections (periodic)	auctions (continual)
public opinion	interest rates
loyalty	confidence
public services	debt service

Source: Streeck (2014, p. 81)

Our analysis examines the content of the *Economic Report of the President* (ERP), produced annually by the Chairperson of the President's Council of Economic Advisers. The ERP is singled out because it is the key document through which the US President, the main elected figure in federal politics, justifies their economic policy to the wider population. There are also practical reasons for choosing the ERP. The reports span the time periods in which we are interested and have been digitalized, allowing for more expedient analysis.

Table 3 plots the results of our content analysis of the ERP. In absolute terms, we see considerable changes in the references to the two subjects of the debt state. References to the *Staatsvolk* increase from the first period to the second (from 617 to 824) and then decrease in the third (577). Meanwhile references to the *Marktvolk* increase steadily through the three periods. What matters most, however, is not the absolute number of references, but the relative references to the two subjects, which are expressed as a ratio in the bottom line of the table. A ratio of less than 1 indicates that the terms associated with the *Staatsvolk* appear more often in the ERP than the terms associated with the *Marktvolk*. A ratio of more than 1 indicates that the terms associated with the *Marktvolk* appear more often in the ERP than the terms associated with the *Staatsvolk*.

Table 3

The Two Subjects of the Debt State in Government Policy

1957-1961		1977-1981		2006-2010	
international	national	international	national	international	national
261	572	491	751	564	538
investors	citizens	investors	citizens	investors	citizens
19	26	53	12	222	34
claims	civil rights	claims	civil rights	claims	civil rights
8	0	55	0	70	0
creditors	voters	creditors	voters	creditors	voters
0	0	5	2	11	0
auctions	elections	auctions	elections	auctions	elections
0	4	13	5	47	1
interest rates	public opinion	interest rates	public opinion	interest rates	public opinion
126	10	350	3	140	0
confidence	loyalty	confidence	loyalty	confidence	loyalty
40	0	35	2	50	0
debt service	public services	debt service	public services	debt service	public services
0	5	3	49	1	4
Marktvolk	Staatsvolk	Marktvolk	Staatsvolk	Marktvolk	Staatsvolk
454	617	1005	824	1105	577
ratio: 0.74		ratio: 1.22		ratio: 1.92	

Note: The numbers under each term represent the number of times that term is referred to in the Economic Report of the President over the five-year span. The ratio in the bottom row is the number of references to terms associated with the Marktvolk relative the number of references to terms associated with the Staatsvolk (see Table 2). Data and coding procedures are available from the author on request.

Source: Economic Report of the President (various years).

As we can see, the results of the content analysis are not perfectly correlated with ownership data in Table 1. The aristocracy of finance's share of corporate holdings of the public debt was constant from the postwar to the early neoliberal period. Yet the number of references to the terms associated with the *Marktvolk* relative to those associated with the *Staatsvolk* increased over this time. One reason for this increase might have to do with the turbulence of the early neoliberal period, which fuelled federal government worries about inflation and the role of interest rates in containing it. Where we start to see significant change is from the early neoliberal period to the crisis. Over the past three decades, references to the terms associated with the *Marktvolk* have become much more frequent. In line with the dramatic increase in public debt ownership concentration, the ERP now makes twice as many references to the *Marktvolk* than to the *Staatsvolk*.

This simple content analysis does not prove that increasing concentration in ownership of the public debt leads to increased power over government policy. But what it does do is

illustrate how the emergence of the debt state has been accompanied by a transformation in policy, one that provides an ideological climate that privileges the interests of government bondholders. Under the debt state, inequality in ownership of the public debt and inequality in representation within government policy have gone hand in hand.

5. Conclusion

The burgeoning literature on the financialization of contemporary capitalism draws attention to the rise of finance as both a class *project* and a transformative *process* (Overbeek, 2005, p. 49). As a class project, financialization involves, at its core, the proliferation of financial assets and serves the interests of the large corporations and wealthy households that own and manage them. As a transformative process, financialization entails a change in the behaviors and strategies of key actors, with 'financial motives' taking precedence within the governing logic of capitalist societies (Epstein, 2005, p. 3).

What the research in this article suggests is that both of these mutually reinforcing aspects of financialization are key to understanding the US debt state as it has evolved since the early 1980s. The explosive rise in public indebtedness is part and parcel of the class project of financialization insofar as it reinforces inequality and empowers a new aristocracy of finance that dominates ownership of federal bonds. At the same time, a rising and increasingly concentrated public debt is integral to the transformative process of financialization, as it is accompanied by a shift that makes creditworthiness one of the overriding objectives of government policy. Above all, the research suggests that financialization is not a narrow 'economic' phenomenon, but a holistic *political economic* one that has permeated everything from the corporation to everyday life to the institutions of modern government (van der Zwan, 2014).

The political economy of the public debt has changed since Marx. But the recent rise of finance means that the nineteenth century concerns with ownership concentration and power have resurfaced. The new aristocracy of finance shares similarities with its nineteenth-century counterpart, but has also been shown to differ in important respects. This pattern of continuity and change becomes intelligible only once we embark on the type of systematic

empirical research conducted in this project, unearthing, for the first time, the basic facts surrounding corporate ownership of the public debt. As Thomas Piketty (2014, 3) notes, social scientific research on the basic facts in general, and on the distribution of wealth and income in particular, is a necessary first step to go beyond speculation and generate rigorous knowledge that can '…inform democratic debate and focus attention on the right questions'. In the context of this research, one area of debate involves exploring in greater detail the implications of this changing pattern of public debt ownership for democracy itself. This would constitute an ideal starting point for public debate, as well as future research, into the topic.

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Notes

1. Broadly speaking, three main entities own the US public debt: US households, US businesses (both incorporated and unincorporated) and the rest of the world (both foreign official and foreign private investors). According to the Federal Reserve's Flow of Funds data, over the past five years (2009-2014) US households owned on average nine percent of the US public debt, US businesses 23 percent and the rest of the world 48 percent. In the 1950s, US households owned on average 31 percent of the US public debt, US businesses 52 percent and the rest of the world only three percent. Domestically, US business remains dominant, owning on average 44 percent of the domestic share of the US public debt over the past five years. In future research, this project will explore the rise in foreign ownership of the public debt, assessing its implications for US power, and exploring its relation to domestic class politics.

2. The late Keynesian economist Hyman Minsky (1996) and his followers have labeled the phase of capitalist development in the US since the 1970s as 'money manager capitalism' (see Nersisyan, 2012). One of the main features of this new phase is that highly leveraged institutional investors have replaced banking intermediaries as the '…proximate owners of a vast proportion of financial instruments' (Minsky, 1996, p. 358). It should be noted that the significance of this development for the distribution of power within financial sector is

unclear given that banks, either directly or through multi-layered subsidiaries, are often the managers and owners of investment funds.

3. Note that the data in Figure 2 and Figure 3 are from the Federal Reserve's Flow of Funds accounts. The flow of funds data are for the business sector as a whole, while the IRS data used in Table 1 and Figure 1 are for the corporate sector. In the end, however, the distinction makes little difference given that corporations are the dominant form of business enterprise in the US. According to the IRS's Integrated Business Data, since 1980 corporations have, on average, accounted for only 20 percent of all business tax returns, but 87 percent of the business sector's total sales and 71 percent of its net income.

4. The data on mutual funds for 1983 (taxable and tax-free mutual funds) and 2010 (stock mutual funds, tax-free bond mutual funds, U.S. government or government backed bond mutual funds, other bond mutual funds, combination funds, other mutual funds) are from my own analysis of the Federal Reserve's Survey of Consumer Finances, as are the data on pension funds for 1983 (thrift-type pension account assets, private pension benefits, IRA and Keogh accounts). The data on pension funds for 2010 (IRA and Keogh and other retirement accounts) are from Edward Wolff (2012, p. 69).

5. These arguments have affinities with financialization literature that links the fortunes of the financial sector with the top one percent of households (Volscho and Kelly, 2012; Goda *et al.*, 2014).

6. The data in this paragraph and the following one are from Mitchell (1988).

7. The data in this paragraph and the following one are from the White House Office of Management and Budget (http://www.whitehouse.gov/omb/budget/Historicals).

8. This line of inquiry also has potentially valuable insights for our understanding of the rise of finance. As van der Zwan (2014, p. 118) notes, the effects of debt financing on the institutional architecture of government is an 'underexposed topic' within financialization studies.

9. As a final precautionary note, it is worth mentioning that the terms Streeck associates with the *Marktvolk* and *Staatsvolk* are very general. In the ERP the term 'confidence' shows up frequently in the analysis, but usually in reference to investor confidence in the economy as a whole, and not specifically in relation to the government bond market. Still, the contention here is that even these general references provide an ideological climate favourable to dominant owners of the public debt.

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