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# What Happened to the Bondholding Class? Public Debt, Power and the Top One Per Cent

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## Abstract

In 1887 Henry Carter Adams produced a study demonstrating that the ownership of government bonds was heavily concentrated in the hands of a 'bondholding class' that lent to and, in Adams's view, controlled the government like dominant shareholders control a corporation. The interests of this bondholding class clashed with the interests of the masses, whose burdensome taxes financed the interest payments on government bonds. Since the late nineteenth century there has been plenty of debate about the ownership of the public debt. But the empirical evidence offered to support the various arguments has been scant. As a result, political economists have few answers to questions first raised by Adams over a century ago: how has the pattern of public debt ownership changed? Can we still speak of a powerful 'bondholding class'? Does public debt redistribute income from taxpayers to public creditors? This article develops a new framework to address these questions. Anchored within a 'capital as power' approach, the research indicates a staggering pattern of concentration in the ownership of US public debt in the hands of the top one per cent of US households over the past three decades. Accordingly, the bondholding class is still alive and well in contemporary US capitalism.

**Keywords:** public debt, power, distribution, redistribution, bondholding class, inequality, top one per cent

The capitalists are in a very small minority, and any legislation repudiating in whole or in part the obligations of the bonds of the government would fall most severely upon widows, orphans and people of small capital . . . Out of the three million subscribers to our various public loans, over nine-tenths are of the class called the people (Jay Cooke, cited in Macdonald 2003: 398; original emphasis)

## **Introduction**

Debates about the ownership of the public debt have raged in the United States since the country gained independence from British rule. But it was only in the late nineteenth century that any concerted effort was made to theorise and empirically map the pattern of US public debt ownership. In 1887, Henry Carter Adams published a pioneering study that examined the ‘concentration of bondholding interests’ in the US (Adams 1887: 44). Focusing specifically on household and corporate sector holdings, Adams (1887: 44) uncovered the ‘spectacle of a highly centralized public debt’. The public creditors, in Adams’s view, formed a powerful ‘bondholding class’ that controlled the government much like dominant shareholders control a corporation. Adams (1887: 41) went on to suggest that the public debt reinforced a strict class division between the majority whose burdensome taxes financed government debt servicing, and the tiny elite of bondholders that received tax-financed interest payments.

Over a century has passed since Adams produced his groundbreaking analysis. And in that time there has been plenty of heated debate about the pattern of US public debt ownership. Some emphasise continuities with Adams’s era and claim that the public debt is still heavily concentrated and that interest payments on government bonds still redistribute income regressively from poor to rich (Schmid 1982; Michl 1991; Canterbury 2000). Others stress change and insist that the public debt has become widely held and that interest payments on government bonds now redistribute income progressively (Eisner 1986; Cavanaugh 1996). The debate has become so polarised that contemporary political economists, whether ‘mainstream’ or ‘critical’, cannot agree on even the most basic facts concerning ownership of the US public debt and its potential redistributive effects. As a result, political economists have failed to give any convincing explanation of what has happened to the bondholding class that Adams theorised and mapped over a century ago.

My purpose in this paper is to shed much-needed light on the political economy of US public debt ownership. Theoretically, the approach that I take here builds upon a growing body of literature that conceptualises capitalism as a mode of power (Nitzan and Bichler 2009; Di Muzio 2013). This new approach to political economy argues that capitalist power is rooted in private ownership. As a process of power, the distribution of ownership is top-down; in other words, it is focused not on the ownership share of capital in general but on the dominant capitalists at the centre of accumulation. Furthermore, the power conferred by ownership is both dynamic and differential. In order to gauge changes in power we need to analyse changes in the pattern of ownership as they unfolded over time and relative to other social groups.

Few would deny that questions concerning distribution and redistribution – in asking ‘who gets what?’ and also ‘who gets what at whose expense?’ – are ultimately rooted in concerns over power. And these linkages between ownership and power are often drawn implicitly within existing studies of US public debt ownership. But I argue that it is only by rendering these theoretical linkages explicit that we are able to develop a set of transparent criteria and accounting techniques for empirically exploring the changes in the power of the bondholding class over the past century.

Despite the heated debate and rhetoric, the existing empirical record is patchy. There has been only a handful of studies that have attempted to empirically map the ownership pattern of US federal government bonds over the past century, and even fewer efforts to measure the redistributive effects associated with a given ownership pattern (see Table 1). Anchored within this new power-centred framework, my empirical analysis offers the first systematic effort to map the historical dynamics of distribution and redistribution that lie at the heart of the public debt. Focusing specifically on the US household sector, my argument unfolds in three steps.

First, I map the share of the public debt owned by the wealthiest one per cent of the US population over the past century. I show how concentration in the ownership of the US public debt follows the general U-shaped pattern of wealth and income inequality in the US. Over the past three decades or so the concentration of the public debt in the hands of the top one per cent has increased at a rapid rate; by 2010, ownership concentration was nearly as high as it was in the early 1920s, the period of the highest concentration for which reliable data first becomes available.

Second, I explore the redistributive consequences associated with this growth in inequality in the distribution of the public debt. I demonstrate how the federal income tax system has done little to offset the increasingly regressive pattern of public debt ownership. While the distribution of federal interest income has become more concentrated in favour of the top one per cent over the past three decades, the relative federal income tax rate that the top one per cent pays relative to the average has remained steady.

Third, I assess the claim made by some orthodox Keynesians that the intra-governmental portion of the public debt, the debt held by the federal government in trust fund accounts such as social security, serves the interests of ordinary Americans. I argue that the distribution of government transfer payments provides an indirect measure of the interests served by the federal government's holdings of its own debt. Recent data collected by the Congressional Budget Office (CBO) indicate that the top one per cent of households has never had much of a stake in transfer payments. But this is no reason to celebrate intra-governmental debt as a progressive force. If we dig deeper and examine the distribution of transfer payments within the bottom 99 per cent, it becomes clear that over the past three decades intra-governmental debt has, if anything, intensified social inequality and polarisation.

These observations lead me to conclude that over the past three decades the public debt has come to serve as an institution of power that works increasingly in the interests of the most affluent Americans in general and the top one per cent in particular. Though much has changed since Adams's time, the analysis here indicates that there is indeed still a powerful bondholding class in the US; one whose power has augmented rapidly over the past three decades.

The remainder of the article is divided into four sections. In the first section I offer a critical review of the existing literature on the political economy of public debt ownership in the US. In the second section I develop my alternative framework that places power at the centre of the analysis. In the third section I discuss my own empirical findings following the three-step argument outlined

above. I then conclude with some general thoughts on the distributive and redistributive dimensions of the public debt and their implications for orthodox Keynesianism.

### **1. Public debt, distribution and redistribution: a survey**

Since the very founding of the American republic, politicians, political economists, the media and ordinary citizens have fiercely debated the distributive and redistributive consequences associated with public indebtedness. The original system of public debt, established in 1790 and based on Treasury Secretary Alexander Hamilton's Report on Public Credit, drew the ire of critics who argued that it created a 'new monied [sic] interest' that produced nothing and wished only for 'oppressive taxes' (Wright 2008: 153).<sup>1</sup> Robert Livingston (1790: 4), an early opponent of the US system of public debt, claimed that only 0.025 per cent of the US population owned government bonds. The inequalities in the ownership of the public debt, Livingston suggested, would become a source of great social instability, as the taxes of the many would go to enrich the few public creditors (see Wright 2008: 162).

During the American Civil War (1861–4) President Abraham Lincoln claimed that the large increases in the public debt would create political and social unrest unless efforts were made to ensure that government bonds were widely distributed amongst the US population.<sup>2</sup> In 1865 Lincoln's successor, Andrew Johnson, suggested that the country had failed to widely distribute government bonds and that the Northern States had instead come under the political control of a powerful 'aristocracy' of public creditors. Jay Cooke, a banker and government loan contractor during the Civil War, vehemently denied these claims.<sup>3</sup> According to Cooke, his campaigns to market government bonds to the masses had made large capitalists minority investors in the public debt. Attempts to repudiate the public debt would, as far as Cooke was concerned, bring great harm to all of the widows, orphans and small-time investors across the US that had invested their meagre savings in the public debt (see opening quote).

In the early years of the American republic these sentiments were often based on political expediency rather than any systematic theory. Furthermore, there were no attempts to subject these claims about the distributive and redistributive dimensions of the public debt to any rigorous empirical scrutiny. With little data available on the distribution of the public debt, the arguments were backed up by little more than rumour and conjecture.

By the late nineteenth century, however, this all started to change. In his *Public Debts: An Essay in the Science of Finance*, Henry Carter Adams (1887) developed a coherent theoretical framework for analysing the effects of public indebtedness on the class structure of capitalist societies. What is more, Adams sought to substantiate his theoretical claims through a careful empirical examination of US Census data from 1880. For the first time, the distributive and redistributive consequences of the US public debt were to be subjected to serious theoretical-empirical research.

*From the bondholding class . . .*

In general terms, Adams (1887: 39) argued that the public debt could potentially have two separate effects on class relations within capitalist societies: it could either change the existing class structure or it could ‘render permanent such classes as are already established’. For Adams (1887: 41), the public debt could only have the latter effect because ‘private property must have been concentrated to a considerable degree before the borrowing system could have been developed’.

Adams claimed that in reinforcing, rather than creating, the class divisions of capitalist society, the public debt enriched the ‘moneyed interest’ of wealthy city-dwellers and large corporations, a group he referred to collectively as the ‘bondholding class’. This bondholding class that received interest payments on the public debt was distinct from the majority of taxpayers whose taxes went towards debt servicing (Adams 1887: 41). Given that the identities of these two classes are separate, Adams suggested that the act of public borrowing redistributes income from the class of taxpayers, a group he never actually defines or investigates, to the bondholding class. This redistributive dynamic not only reinforced social inequality, but paved the way for political inequality, even in democratic societies. Through concentrated ownership of government bonds, the bondholding class exerts control over the government apparatus; in Adams’s own words, ‘. . . they lend to a corporation controlled by themselves’ (1887: 9).

Adams (1887: 44) sought to empirically substantiate some of his theoretical propositions by empirically measuring the ‘concentration of bondholding interests’ in the US.<sup>4</sup> His empirical research uncovered the ‘spectacle of a highly centralized public debt’ for both the US household and corporate sectors (Adams 1887: 44).

According to Adams’s analysis of US Census data from 1880, the top 1.4 per cent of individual government bondholders held approximately 48 per cent of the individual share of the public debt, while the top 35 per cent of corporate bondholders held 93 per cent of the corporate share of the public debt (1887: 46). The data compiled by Adams appears to confirm his arguments about the public debt being concentrated in the hands of a ‘bondholding class’. There was no reason to suggest that the public debt is ‘a good thing because it permits easy and safe investments for the funds of those who are weak and dependent’ (Adams 1887: 47). Given the level of concentration in the hands of society’s most powerful elements, Adams (1887: 48) held it ‘ludicrous’ to suggest that the public debt was maintained for the benefit of widows, orphans and other members of society in need.

In many ways, the timing of Adams’s pioneering study was inopportune. In the late nineteenth century, the level of US public debt had declined significantly. As Figure 1 indicates, the level of US public debt as a percentage of GDP fell from around 32 per cent in the immediate post-Civil War period to 12.6 per cent in 1887, the year Adams’s study was published. With the public debt in decline, debates about the distributive and redistributive effects of the public debt all but disappeared. It was not until the first half of the twentieth century, which witnessed two World Wars, the Great Depression and the largest expansion of public debt in US history, that the debates would resurface.

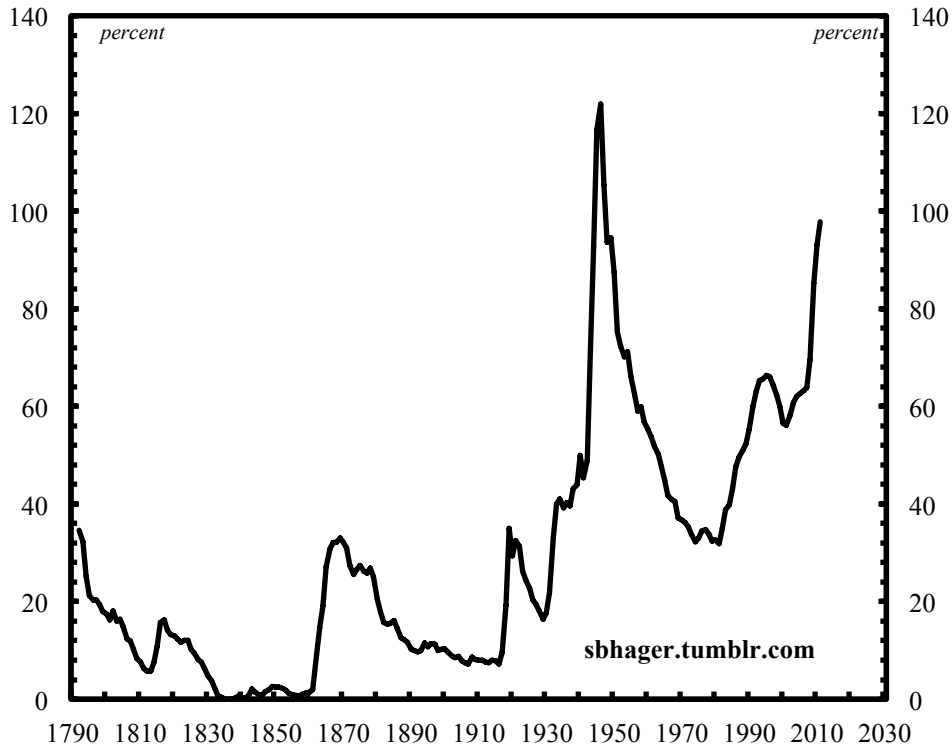
... to 'John Q. Public'

Concerns about the distributive and redistributive effects of the public debt accompanied the rise of Keynesianism in the 1930s. With unemployment exceeding 20 per cent in the US and the UK during the Great Depression, Keynes and his followers dismantled the unquestioning liberal faith in the self-regulating market and, in turn, provided the first systematic theoretical justification for active government intervention from within the liberal tradition. Part and parcel of the new Keynesian 'macroeconomics' was to supplant the liberal faith in a doctrine of sound finance, which called for balanced budgets and minimised government borrowing, with a new approach that called on governments to spend and to borrow as much as was needed in order to achieve non-inflationary full employment. In the 1940s, two of the most prominent early Keynesians, Alvin Hansen and Abba Lerner, took up the task of re-thinking the role of the public debt within capitalist societies.

Despite the differences and nuances in their respective frameworks, both Hansen (1941: 174) and Lerner (1948: 260–1) recognised that a rapidly growing public debt might have negative effects on income and wealth distribution. Hansen (1941: 179), for example, argued that lower and middle class investors could purchase the majority of government bonds in the event of small, gradual increases in the public debt and that this would prevent any regressive effects on distribution. But he went on to suggest that the rich would disproportionately purchase government bonds in the event of large increases in the public debt and that this would only serve to intensify existing inequality. The negative effects of public debt on the distribution of wealth were in Hansen's (1941: 179) view '... the most fundamental objection that can be raised against financing mainly by borrowing'.

Early Keynesian theorists of the public debt were uncomfortable with the idea that government borrowing could potentially have such adverse effects on the distribution of wealth and income. Although it is never made explicit in the work of Hansen or Lerner, any regressive effects of a growing public debt on distribution would only aggravate the deficiency of 'effective demand' that Keynes had identified as the main source of instability in capitalist societies. The so-called 'propensity to consume' was, after all, much higher for those with lower incomes, and a pattern of distribution skewed towards top earners would, if unequal enough, eventually undermine, rather than enhance, the much vaunted 'multiplier effect' (Dillard 1948: 102–3; Brown 2004). These dynamics, if pushed far enough, would eventually undermine the government's ability to engage in counter-cyclical deficit spending.

Though they recognised the potential distributive and redistributive dynamics of the public debt, the early Keynesians did not believe that these dynamics were of much practical concern. Hansen, in an article written with Guy Greer (1942: 497), declared unequivocally that the distribution of government bonds in the 1940s was more equitable than at any other point in history, and that, as a result, it is 'not true that the wealth represented by the [federal] bonds is mainly concentrated in the hands of a relatively few of the very rich'.



*Figure 1 Gross US Public Debt as a Percentage of GDP*

Note: Gross public debt includes both 'debt held by the public' and intra-governmental debt.

Source: [www.usgovernmentsspending.com](http://www.usgovernmentsspending.com)

Furthermore, both Hansen (1941: 181) and Lerner (1948: 261) argued that the negative effects of the public debt on distribution would, within certain limits, be a reasonable trade-off for the attainment of full employment. Finally, both Hansen (1941: 179) and Lerner (1948: 261) were confident that any lingering distributive inequality created by the public debt could be offset through progressive taxation.

In the immediate aftermath of World War II, a pair of empirical studies surfaced, both of which appeared to corroborate the arguments of Hansen and Lerner. Donald Miller (1950) found that, for 1945, the share of taxes paid and the share of federal interest income received by the top income earners in the US was more or less equal. This led Miller (1950: 142) to claim that the public debt was not an important 'redistributive force'. In a short article, Jacob Cohen (1951: 267) used rough estimates to gauge the distribution of federal interest and federal income taxes; he declared that in 1946 the public debt actually had a '... distributive effect in favor of lower-income groups'.

Later in the postwar period, much like in the late nineteenth century, the debates concerning distributive and redistributive effects once again faded into the



background along with substantial decreases in the public debt (see Figure 1).<sup>5</sup> Aside from various studies of wealth and income inequality in general, which contain traces of data on the ownership of government bonds, there were no stand-alone studies of the ownership of public debt and its redistributive effects from the 1950s through the 1970s (Lampman 1962; Smith 1974).

But after the postwar lull, these debates have once again gained momentum. Since the early 1980s a growing number of political economists have become embroiled in a renewed debate about the distributive and redistributive dynamics of the public debt. On the one hand, a group of heterodox political economists continue to insist that ownership of the public debt is highly concentrated and that interest payments on government bonds redistribute income from the majority of taxpayers to a tiny elite of bondholders (Schmid 1982; Michl 1991). For some the ‘bondholding class’ still uses its power over the government purse strings to influence policy in contemporary US capitalism (Canterbery 2000, 2002). Analysing data for 1982 from the Federal Reserve’s Survey of Consumer Finances, Thomas Michl (1991) found that the top one per cent of the population ranked by gross income owned 6.2 per cent of savings bonds, 43.3 per cent of other Treasury issues, and estimated that the top one per cent received 22.5–33.3 per cent of direct and indirect interest payments and paid 11.9–14.6 per cent of federal taxes. The results led Michl (1991: 364) to conclude that ‘interest on the national debt redistributes income regressively’.

On the other hand, orthodox Keynesians follow the line of argument first laid down by Hansen and Lerner. Economist Robert Eisner (1986: 42; cited in Michl 1991: 352), for example, argued that although the rich hold the bulk of government bonds they also pay the bulk of taxes, leading him to suggest that a ‘large public debt does not particularly affect the distribution of income as between rich and poor’.

Francis Cavanaugh (1996: 63–8) goes even further by making a series of claims that purportedly dispel the ‘myth’ that the public debt creates an inequitable interest burden. First, he suggests that the public debt is widely held, mostly in savings bonds, ‘which are especially designed for people with modest sums to invest’. Second, he suggests that the public debt held by institutions, and especially by government trust fund accounts such as social security, largely benefit ordinary Americans. Third, he cites data from a US Treasury report that suggests that the interest payments on the public debt are more progressively distributed than the payment of federal taxes. This leads Cavanaugh (1996: 68) to conclude that there ‘. . . is no basis for the widely held view that interest on the public debt is paid to investors who are much wealthier than the average taxpayer, who gets stuck with the interest bill’. Based on these three claims, Cavanaugh (1996: 63) confidently asserts that the ‘principal investor in US Treasury securities is John Q. Public, not John D. Rockefeller’.

## **2. Public debt, ownership and power**

Why, then, do political economists have difficulty agreeing on even the most basic facts concerning the ownership of the public debt and its redistributive effects? Why do some political economists insist that the public debt serves the interests of a powerful ‘bondholding class’, while others claim that it serves the

interests of ‘John Q. Public’?

One of the main reasons, I contend, is that, despite centuries of debate and discussion, the empirical record on the disaggregate ownership of the US public debt is patchy. Table 1 outlines the existing studies that have offered some form of empirical mapping of the pattern of public debt ownership and redistribution. At least three things stand out. First, even though data have become more readily accessible, existing studies have done little to improve upon the rather rudimentary empirical methods developed by Adams in the late nineteenth century. Like Adams, the subsequent studies offer narrow ‘snapshot’ measures for single years.

*Table 1 Existing Studies of Public Debt Ownership*

<b>Author, Date of Publication</b>	<b>Study Year(s)</b>	<b>Findings</b>	<b>Conclusions</b>
<b>Adams (1887)</b>	1880	1.4% of private investors in the public debt owned 47.8% of privately held US federal government bonds. Top 35% of corporations hold 93% of corporate share.	Revealed the ‘spectre of a highly centralized public debt’ (44).
<b>Miller (1950)</b>	1945	5.31% of taxpayers in the top income class (\$5000 or more) paid ca. 50-56% of all federal taxes and received 58.7% of interest payments on the public debt.	The progressivity of the federal tax and public debt structures the same; the public debt does not redistribute income.
<b>Cohen (1951)</b>	1946	The top income class (\$5000 or more) paid 47-55% of all federal taxes and received 39% of interest payments.	Public debt has distributional effects in favour of lower income groups.
<b>Michl (1991)</b>	1982, 1984 for taxes	Top 1% of households owned 6.2% of savings bonds, 43.3% of other Treasury issues, received 22.5-33.3% of direct and indirect interest payments and paid 11.9-14.6% of federal taxes	“It seems clear that the conventional textbook wisdom that we ‘owe to ourselves’ is wrong. Interest on the national debt redistributes income regressively” (364).
<b>Cavanaugh (1996)</b>	1992	Lorenz curve for 1992 shows that distribution of interest on the public debt more progressive than federal income taxes.	“...the principal investor in U.S. Treasury securities is John Q. Public, not John D. Rockefeller” (63).

Second, all of the subsequent studies use different methods to measure ownership concentration and redistribution. This diversity makes it difficult to adjudicate between their competing claims and impossible to compare their research results over time. Third, there has been no serious attempt to measure the pattern of public debt ownership and its redistributive effects since 1996.

These empirical shortcomings, I contend, are the product of deeper theoretic-

cal problems in the existing literature. Though the existing studies often employ the slogans, concepts and categories of conventional theories of political economy, they make little effort to theorise in any systematic way the distributive and redistributive dimensions of public indebtedness. Adams comes closest in offering some theoretical framework. Even if only implicitly, Adams's research draws conceptual linkages between the ownership of the public debt on the one hand and the exercise of social power on the other. The power of the 'bondholding class' implicitly rests on its concentrated holdings of federal government bonds. Thus the uniform quantitative architecture of distribution and redistributive is, within Adams's work, the key indicator that is used to map the power of the bondholding class.

Few would deny that issues of distribution and redistribution are inherently bound up with the question of power. But these power dimensions and their linkages to the uniform quantitative architecture of ownership are not theorised in existing studies. Explicitly and systematically recognising power as the universal basis of ownership allows us to develop what is sorely missing from the existing studies in Table 1: namely, a set of transparent and uniform conceptual criteria through which to map the distributive and redistributive effects of the public debt.

### *Conventional theories*

How do we then go about integrating power into the analysis? It is not at all certain that conventional theories of political economy are equipped to help us theorise and empirically map the power underpinnings of public debt ownership and redistribution.

Neoclassical economics, by far the most dominant approach within liberal political economy, faces severe difficulties in accounting for the power relations underpinning debt and credit. This is because the assumptions of neoclassical economics place the acts of lending and borrowing money in the power-less 'economic' realm of perfect competition and equilibrium (Graeber 2011: 22). In general terms, the only way power can enter the 'economic' realm of neoclassical frameworks is through the back door as a 'distortion' (Bichler and Nitzan 2012a: 67).

Marx (1867: 914–26), for his part, put power at the centre of his analysis of the public debt in the final section in Volume I of *Capital*. The development of the public debt, according to Marx, engendered a clear-cut conflict between the public creditors and the masses of taxpayers. The interest payments on the public debt that flowed to idle rentiers, Marx (1867: 921) argued, were financed by over-taxation of 'the most necessary means of subsistence'. This over-taxation was not accidental: for Marx (1867: 921) it was an entrenched 'principle' of public indebtedness. But Marx confined his analysis of these dynamics within the precapitalist context of primitive accumulation. Once the transition from feudalism to the advanced capitalism mode of production is completed, then the true conflict pits industrial workers against industrial capitalists (Marx 1867: 921). In advanced industrial capitalism, the public debt and other forms of finance get demoted to the status of 'fictitious' capital (Marx 1893: 423, 1894: 590–606). 'Industrial' capital embodied in the 'means of production' replaces

‘fictitious’ capital as the engine of capitalist development and the key site of class struggle (Bichler et al. 2012: 8).

Taken together, the empirical and theoretical shortcomings in the existing literature suggest that there is a clean slate to rethink and research the distributive and redistributive dimensions of the public debt. My analysis here contributes to a new alternative approach to political economy that conceptualises capitalism as a mode of power.

#### *An alternative*

According to the ‘capital as power’ framework pioneered by Jonathan Nitzan and Shimshon Bichler (2009), finance is not a fiction and power is not merely a distortion. Rather, power is the primary means and ends of the process of capital accumulation and this power finds expression in the nominal magnitudes of finance. The institution of private ownership, which confers on owners the power to exclude others from using that property, represents the central power institution of capitalist societies. The exclusionary power conferred by the institution of ownership extends far beyond machines to anything that can be owned.

Debates over the precise nature of the public debt, and if and how it differs in any fundamental way from private debt, have raged for centuries.<sup>6</sup> But when viewed in terms of capital as power, there is one crucial aspect that unites the two together at their root: namely, they are both symbolic representations of a power relation between creditor and debtor. In particular, this relationship, codified in the legal institution of ownership, represents a claim by the creditor on the future earning capacity of the debtor. In the case of government bonds the earning capacity derives primarily from the state’s power to tax its citizenry. As with all other forms of private property, the power that ownership of a government bond confers on its owner is based on the principle of exclusion. In other words, ownership of the public debt confers power only to the extent that others are excluded from using it. Framed as a guiding hypothesis, we can propose that the accumulation of ownership claims on the public debt by a particular group of bondholders augments the power of that group over society (see also Di Muzio 2007).

The social power conferred by ownership is top-down, relative and dynamic. As a top-down process, the focus here is not on capital in general but on the dominant capitalists: the largest corporations and wealthy individuals at the centre of the process of accumulation. As dominant capitalists augment and increase the market value of their ownership claims, they achieve differential accumulation and augment their power relative to other social groups. And as an inherently dynamic process, the way to gauge the trajectory of capitalist power is to map the changes in ownership over time.

These alternative theoretical propositions provide a conceptual basis for the development of alternative empirical methods and accounting techniques. A focus on relative or differential accumulation leads to the use of cut-off points that separate dominant capital from the wider population. The exact cut-off point that is chosen to represent dominant capital is always to a certain extent arbitrary. In my analysis here I focus on the top one per cent of households as the cut-off

point because it has become the focus of a wide-range of current debates about wealth and inequality in the US, not only for more radical movements such as Occupy Wall Street, but also for mainstream debates within the economics profession (Stiglitz 2012).<sup>7</sup> The top one per cent will therefore serve as my proxy for the ‘bondholding class’. A focus on the dynamic aspects of power leads, where possible, to the replacement of ‘snapshots’ of ownership data with long-term historical time-series that map the ownership pattern as it changes over time.

### **3. The dynamics of distribution and redistribution**

#### *Mapping distribution*

With this background information in place, it is now time to present my own efforts to map the disaggregate dynamics of distribution and redistribution that underpin the public debt. My alternative framework takes the institution of ownership as the analytical foundation for the analysis of power. As the review of existing literature made clear, there is no consensus on the ownership of the public debt. With patchy empirical evidence based on snapshots of data, some have claimed that the public debt is widely held while others claim it is heavily concentrated. An analysis of the ownership distribution of the public debt therefore provides an effective starting point for my alternative analysis. Figure 2 offers what is, to my knowledge, the first attempt to map the long-term historical share of the public debt that is held by the top one per cent of US households (ranked by net worth).<sup>8</sup>

In 1922, ownership was heavily concentrated with the top one per cent owning 45 per cent of the public debt. This ownership share fell gradually over the course of the next four decades, and reached its nadir, at least according to the available data, of 17 per cent in 1969. In 1983, the next year for which data is available, the ownership share of the top one per cent increased to 33 per cent. And by 2010, the last year for which data is available, the ownership share of the top one per cent approached the level of 1922, climbing to 42 per cent. Figure 2 already reveals some cracks in the arguments suggesting that the public debt has become widely held. As far as the level of concentration is concerned, in 2010, the ownership share of the top one per cent is nearing the highs of the 1920s.

Expanding beyond snapshots and looking at the dynamic or historical rate of concentration, the existing data in Figure 2 suggest that there has been a rapid increase in the ownership share of the top one per cent over the past four decades. However, any claims we make about the historical pattern of public debt ownership concentration must be tempered by the fact that the data in Figure 2 are incomplete (see Appendix). In particular the 1970s present an empirical blind spot as no data are available for public debt ownership concentration during this decade. Put simply, the nadir of ownership concentration may have come sometime in the 1970s rather than in 1969. And if that were the case, then the upward trend towards concentration highlighted in Figure 2 could span three decades instead of four. Missing data should always make us err on the side of caution.

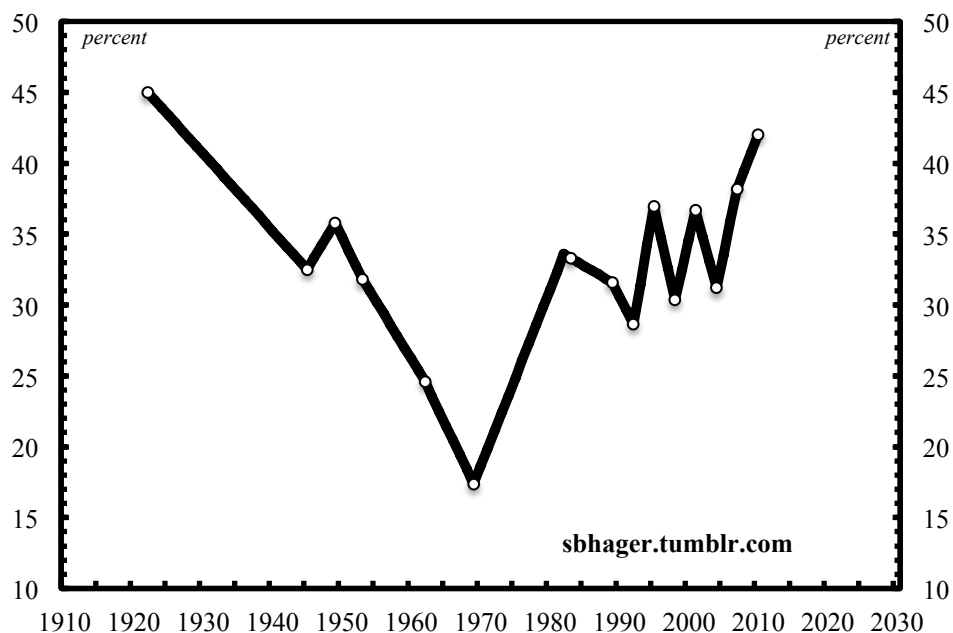


Figure 2 The Top 1% Share of the Public Debt

Note: Missing data are interpolated linearly by connecting adjacent observations. See data appendix for further details.

Source: Lampman (1962) for 1922-1961; the Federal Reserve's Survey of Consumer Finances for 1962-1968, 1970-2010; the IRS's Personal Wealth Report for the 1% share of the public debt in 1969: <http://www.irs.gov/pub/irs-soi/69inpwar.pdf> Smith (1974) for individual ownership of the public debt in 1969.

And with this in mind, we can say that over the past three decades at least the top one per cent has rapidly increased its ownership share in the public debt. This steady upward trend towards concentration takes place through the so-called neoliberal phase, starting in the 1980s, through to the current global financial crisis.

In order to deepen the analysis, Table 2 disaggregates the category of public debt further and measures the top one per cent share of various types of federal government bonds alongside other major asset categories. The table shows that the level of concentration of federal government bonds as a whole has historically been lower than for corporate stocks and corporate bonds, but much higher than for life insurance plans and pension assets. Ownership concentration for savings bonds is very low, approximating the levels of the most widely held financial assets. The limited data available for bond funds indicates a similarly diffuse pattern of ownership until 2010 when the ownership share of the top one per cent increased dramatically. When it comes to other US federal government bonds, the level of concentration is comparable to the levels for corporate stocks and corporate bonds.

*Table 2 Breakdown of the Top 1% Ownership of Financial Assets (percentage share)*

	1922	1953	1962	1983	1992	2001	2010
<b>Total Federal Bonds</b>	45	31.8	24.6	33.6	28.7	36.7	42.0
<b>Other Federal Bonds*</b>			87.4	39.9	52.3	59.6	72.9
<b>Federal Bond Funds</b>					16.1	15.3	47.1
<b>Savings Bonds</b>			8.6	12.7	9.1	18.5	7.8
<b>Corporate Stocks</b>	61.5	76	61.0	56.8	48.8	52.8	51.3
<b>Corporate Bonds</b>	69.2	77.5	39.0	57.1	68.7	64.3	68.7
<b>Life Insurance</b>	35.3	11.5	12.4	14.8	7.3	12.7	21.2
<b>Pension Assets</b>	8	5.5	4.6	8.5	14.3	13.7	15.3

\*Includes all Federal securities (notes, bills, certificates) other than savings bonds.

Source: For 1922 and 1953, Lampman (1962); For 1962-2010, Federal Reserve's Survey of Consumer Finances.

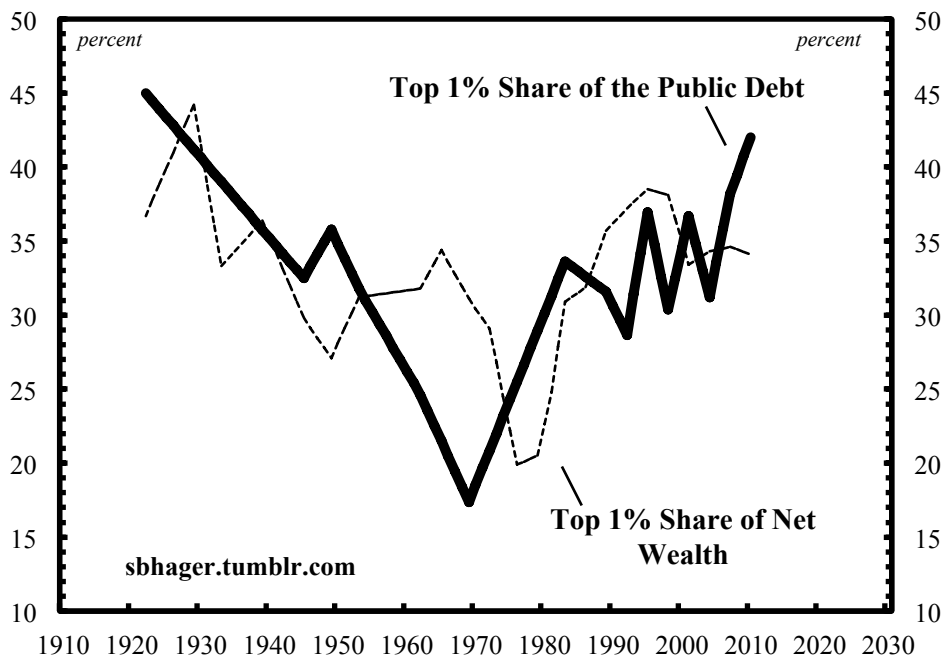
Table 2 gives some insights into why the misleading image of a widely held public debt persists. Recall from the discussion above the arguments made by Francis Cavanaugh, who backs up his assertion that the public debt is widely held by claiming that most direct holdings of the public debt by US individuals and households comes in the form of savings bonds. As Table 2 shows, household ownership of savings bonds is indeed very diffuse. Savings bonds were introduced in the 1930s with the express purpose of 'democratizing' public finance (Tufano and Schneider 2005: 2). Offering a safe and secure asset in smaller denominations, savings bonds were meant to appeal to lower and middle class households. During World War II, propaganda posters called on ordinary Americans to fulfil their patriotic duty by investing in war savings bonds, a move that not only would ensure ally victory, but that would also help ensure financial security for the bondholders. In the 1950s and 1960s, 'national bond drives' headed by NASA, as well as Hollywood and Broadway celebrities, continued to play on patriotic sentiments, urging Americans to 'underwrite' the might of the US government by investing in savings bonds (US Department of the Treasury 1991: 36-46). Most personal encounters with the public debt are likely to come from investment in savings bonds or, at least for older generations, from exposure to these high profile campaigns. And so it is little wonder that the image of a widely held public debt comes from its association with mass investment in savings bonds.

This image, however, is a relic of a distant past. In the brave new world of complex and highly vendible finance, savings bonds have been dying a rapid death. According to flow of funds data, savings bonds on average accounted for just over 20 per cent of the outstanding net public debt in the postwar period (1945-70). By the 1980s, this share fell to just over six per cent and has fallen steadily ever since. In 2011, savings bonds made up a meagre 1.8 per cent of the public debt. Thus the U-shaped pattern of concentration that we witnessed in Figure 2 can at least in part be explained by the replacement over the past four

decades of widely held savings bonds with more heavily concentrated types of federal government bonds.

How does inequity in the ownership of the public debt compare to the distribution of wealth in general? Much has been made in recent years about growing wealth inequality in the US. In his pioneering study in the mid-1990s, Edward Wolff (1996) unveiled a U-shaped pattern in the share of wealth of the top one per cent of US households in the twentieth century. Wolff demonstrated that the top one per cent share of wealth had increased rapidly starting in the 1980s, leading him to proclaim that the distribution of wealth in the US had become increasingly 'top heavy'.

Figure 3 charts the top one per cent ownership of the public debt alongside its share of net wealth.



*Figure 3 Top Heavy: The Top 1% Share of Net Wealth and the Public Debt*

Note: Missing data are interpolated linearly by connecting adjacent observations.

Source: For public debt, see Figure 2; For net wealth, Wolff (1996, 2010) cited in Domhoff (2012):

<http://www2.ucsc.edu/whorulesamerica/power/wealth.html>

The observation for 2010 is based on my own calculation from the Federal Reserve's 2010 Survey of Consumer Finance.

The thin dashed series reproduces the research results from Edward Wolff's



original study, as well as some of his subsequent studies that have updated this research to 2007, and which I update to 2010. As is clear in Figure 3, the top one per cent share of the public debt follows more or less the same U-shaped pattern as its share of wealth in general. The results are clear: if wealth distribution is to be deemed increasingly ‘top heavy’, so too is the ownership of the public debt. In fact, in the context of the current crisis, concentration in the ownership of the public debt has increased much more rapidly than the concentration of wealth.

Whether we treat the public debt in relation to other financial assets, or in relation to wealth more generally, we cannot escape the fact that the top one per cent of households has rapidly increased its ownership share since the postwar period. Using the top one per cent as a proxy for Adams’s bondholding class, we see that over the past three decades at least, the power of this class has been rapidly resurgent. This power of the bondholding class has augmented at the expense of small-time investors or ‘John Q. Public’.

### *Mapping redistribution*

What are the underlying consequences of this growing concentration in the ownership of the public debt? As the existing literature makes clear, one of the most important implications of increased concentration in the ownership of federal bonds lies in the effect it has in redistributing income. Once again, the existing literature has come to no consensus on this issue. Those who claim that the public debt has become widely held accept, by definition, that the distribution of interest income on federal bonds is also diffused, and in turn claim that the public debt redistributes income progressively from wealthy taxpayers to lower and middle class public creditors. Meanwhile those who claim that the distribution of the public debt and the interest income that derives from it are heavily concentrated, claim that the public debt redistributes income regressively from lower and middle class taxpayers to wealth public creditors.

The underlying issue can be summarised as follows. Ownership of federal government bonds confers public creditors with exclusionary power over the stream of interest payments on those bonds. If the group that receives the interest payments on the public debt (that is, the public creditors) is not the same as the group that pays the taxes that finances those interest payments (that is, the taxpayers), then the public debt will serve as a mode of redistribution from the latter to the former. So in order to analyse the possible redistributive effects of the public debt, it is first necessary to map the distribution of federal interest payments. In accounting terminology, the ‘stock’ of federal bonds (wealth) provides public creditors with a ‘flow’ of interest payments (income).

Since Wolff’s study of wealth inequality, other researchers have unearthed similar U-shaped patterns in the distribution of income in the US (see Piketty and Saez 2003). Piketty and Saez’s (2003) historical data on income distribution are plotted alongside my own estimate of the distribution of federal interest payments in Figure 4. As is clear in Figure 4, the distribution of federal interest payments mirrors the U-shaped distribution of income much like the distribution of federal bonds mirrors the distribution of wealth. But in order to examine the redistributive effects of this pattern of distribution, we need to know precisely whose taxes are financing the top one per cent share of federal interest. This task

of measuring the redistributive effects of the public debt is much more difficult than the existing literature would have us believe.

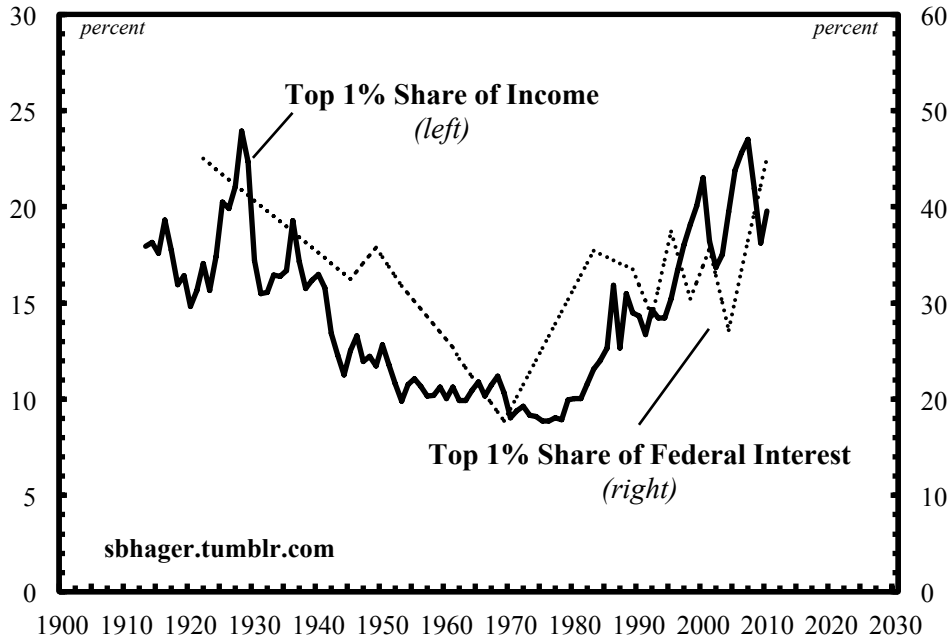


Figure 4 The Top 1% Share of Income and Federal Interest Income

Note: Missing data are interpolated linearly by connecting adjacent observations. From 1922-1961, the top 1% share of federal interest is assumed to be equal to the top 1% share of the public debt. From 1962-2010, interest payments for both the top 1% and all debt holders are imputed by multiplying the dollar value of different types of Treasury securities held by the group (savings bonds, 'other' federal others and 'bond funds') by their corresponding year-end interest rate, and then adding the sum of these products.

Source: For ownership of the public debt, see Figure 2. For interest rates, the US Treasury's Monthly Statement of the Public Debt reports: (<http://www.treasurydirect.gov/govt/reports/pd/mspd/mspd.htm>). For the top 1% share of income, The World Top Incomes Database: (<http://topincomes.g-mond.parisschoolofeconomics.eu/>).

The few existing studies that attempt to measure the redistributive effects of the public debt offer some comparison of the share of federal interest received by top income groups relative to the amount top income groups pay in total federal taxes or in federal income tax (Miller 1950; Cohen 1951). Yet the problem with these existing measures is two-fold. First, these measures overlook some of

the technical aspects of government accounting. Although interest payments constitute an important component of federal expenditures, there is technically no way to determine precisely who pays the taxes that finance interest payments on the public debt.<sup>9</sup> This problem stems from the fact that in government budget accounting there is not a particular subset of taxes ‘earmarked’ for government debt servicing (see Bell 2000; Wray 2012).

The second and far more glaring problem is that the share of taxes paid by the top one per cent is a questionable indicator of the progressivity of the federal tax system. From introductory economics textbooks to more advanced studies, the progressivity of taxation is generally defined in relation to the ability to pay (Samuelson and Nordhaus 2001: 39; Suits 1977).<sup>10</sup> A useful definition of tax progressivity is offered by Piketty and Saez (2007: 4), who state that a ‘progressive tax is one in which the share of income paid in taxes rises with income’. As such, there is a broad-based consensus that the progressivity of the tax system is not determined by the share of taxes paid by the top one per cent but by the tax rate that the top one per cent pays as a percentage of its income relative to lower income groups. The effective tax rate, or the amount of tax paid as a percentage of taxable income, is therefore a more appropriate measure of tax progressivity than the share of taxes paid by the top one per cent.<sup>11</sup>

One way around these measurement problems is to estimate and compare the share of the top one per cent in gross (before-tax) federal interest payments to this group’s share in net (after-tax) share federal interest payments (Piketty and Saez 2007: 5).<sup>12</sup> Though there is no way to determine with any precision whose taxes finance whose interest payments, it is nevertheless possible to get a sense of the role that the federal income tax system plays in redistributing the interest income received by the top one per cent. A progressive federal income tax system will make the federal net interest share of the top one per cent smaller than its gross interest share (the difference between the gross and net shares will be positive). A regressive federal income tax system will make the federal interest share of the top one per cent greater than its gross share (the difference between the gross and net shares will be negative). A neutral federal income tax system will keep the net and gross federal interest share of the top one per cent the same.

Expressed in dynamic or historical terms, an increasing gap between the top one per cent gross and net shares of the federal interest will indicate an increasingly progressive federal income tax system; a narrowing gap between the top one per cent gross and net shares of the federal interest will indicate a decreasingly progressive federal income tax system; and a steady gap between the top one per cent gross and net shares of federal interest will indicate a federal income tax system whose progressivity remains unchanged.

Figure 5 uses this template to gauge the effects of the federal tax system on the distribution of federal interest income. The top two series measure the gross and net share of federal interest received by the top one per cent, while the bottom series is a ratio of the top one per cent net and gross shares of federal interest. The closer the ratio is to 1, the less substantial the impact of the federal income tax system on the distribution of federal interest income. Fluctuations in the ratio at the bottom of Figure 5 give us an indication of the changing effects of the federal income tax system on the distribution of federal interest income:

when the ratio is rising/falling, the tax system becomes more/less progressive.

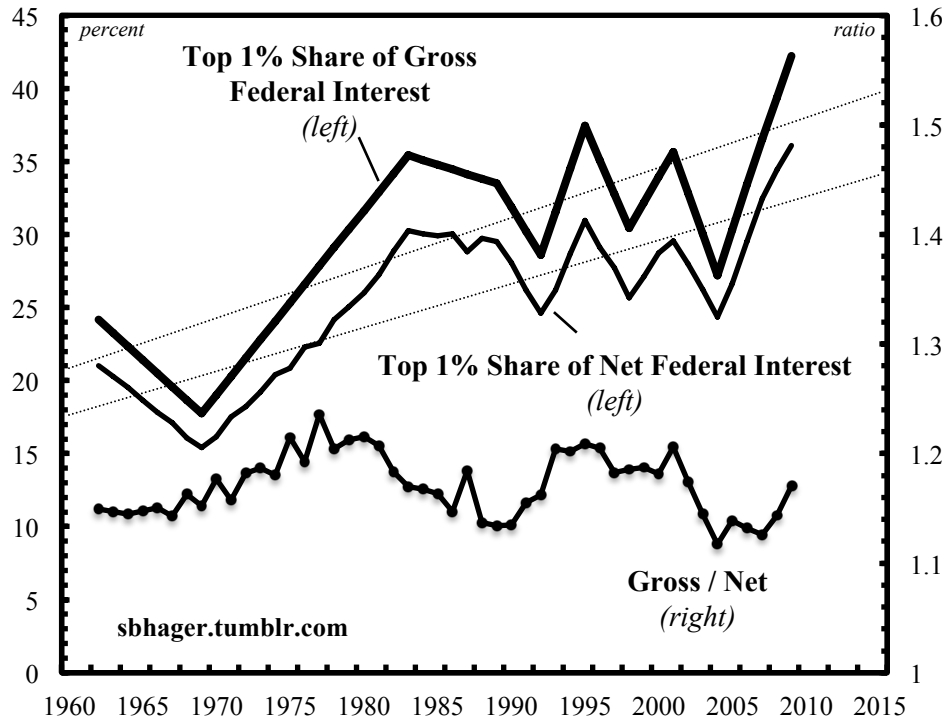


Figure 5 Giving and Receiving: Gross versus Net Federal Interest Income

Note: Missing data are interpolated from the trend growth rate. The net share of interest is calculated by multiplying the top 1% share of total gross interest by the differential complements of the income tax rate (see note 8).

Source: For the top 1% share of federal interest, see Figure 4. For the effective tax rate from 1962-2004, Piketty and Saez (2007): (<http://elsa.berkeley.edu/~saez/>).

From 2005-2009, the IRS Statistics of Income: (<http://www.irs.gov/pub/irs-soi/12inwinbulratesshare.pdf>).

In the 1960s, the ratio of the net to gross interest shares moved sideways, indicating that the federal income tax system had neutral effects on the distribution of federal interest income. The data in Figure 5 suggest that in the 1970s the federal income tax system became more progressive, as the net interest share fell relative to the gross share. But again, missing data forces us to avoid making any definitive claims about this decade. In the 1980s, the federal income tax system became less progressive, as the ratio of net to gross interest began to trend downwards. In the next decade or so, the federal income tax system once again had increasingly progressive effects, as the ratio followed an upward trend. In

the early- to mid-2000s the ratio began to trend sharply downwards. In the context of the current crisis, the ratio has begun to trend upwards. This is unsurprising given that the incomes of households in the bottom 99 per cent, and therefore the rate at which they are taxed have fallen significantly since 2007, while the tax rates of the top one per cent declined only slightly or not at all.

As we can see from the ratio series in Figure 5, the effect of the federal income tax system on the distribution of federal interest income has fluctuated historically. Over the long term, however, the effect of federal income tax on the distribution of federal interest income has been fairly constant. Over the past five decades, keeping in mind the empirical blind spot of the 1970s, the gap between the net and gross series has widened, but only very slightly. Meanwhile the distribution of federal interest has become rapidly concentrated.

In broad terms, there has been a massive concentration in the distribution of federal interest towards the top one per cent, while at the same time the federal income tax system has done little to offset the growing inequity in the distribution of federal interest payments. Put another way, what the top one per cent gives to the federal government in income taxes as a percentage of its income has, at least since the early 1980s, failed to keep pace with what it receives in federal interest payments.

#### *Intra-governmental debt*

There is still one more argument that ardent naysayers could potentially invoke to downplay the regressive dynamics of distribution and redistribution that underpin the public debt. Recall one key argument made by orthodox Keynesian Francis Cavanaugh (1996: 68), who suggested that the holdings of the public debt in federal government trust fund accounts such as Social Security, Medicare and Medicaid represent the interests of ordinary Americans or ‘John Q. Public’.

Intra-governmental debt is a peculiar outcome of the government budget accounting process. The public debt held in government trust fund accounts represents the accumulated surpluses in the federal government trust funds. Unlike general government revenues and expenses where there is no one to one correspondence between revenues and the expenses they fund, government trust funds are budget accounting devices that ‘earmark’ certain types of taxes to corresponding expenditures (see Wray 2004). For example, federal payroll taxes are earmarked specifically for the Social Security trust fund account. When the amount the federal government takes in from payroll taxes exceeds what it pays out in social security benefits, the social security trust fund account accumulates a surplus, which the federal government is required by law to invest in special interest-bearing Treasury securities. Intra-governmental holdings of the public debt are significant. In 2011, they stood at US\$4.6 trillion, equivalent to nearly half the US\$10 trillion of the public debt held by private investors.

How, then, do we go about exploring empirically Cavanaugh’s claim that these substantial intra-governmental holdings somehow benefit ordinary Americans? And what bearing would this empirical exploration have on our analysis of the regressive dynamics of private household ownership of the public debt outlined above?

In and of itself, the overall level of intra-governmental debt tells us nothing

about the underlying interests that are served by it. But technically speaking, when the federal government pays out social security benefits and other forms of transfer payments, what it does is cash in some of the Treasury securities from its trust fund account to pay out transfer payments to individuals and families in dollars and cents. It is therefore possible to examine the disaggregate flow of transfer payments in order to determine indirectly whose interests are served by intra-governmental holdings of the public debt. In the context of this analysis, the bottom 99 per cent of households has served as a proxy for the ordinary Americans or ‘John Q. Public’. In short, if the bottom 99 per cent of households receives the bulk of government transfer payments, then intra-governmental debt would indeed serve ordinary Americans rather than the top one per cent bondholding class.

A recent study by the Congressional Budget Office (2012) on income inequality offers a rare glimpse into the distribution of government transfer payments since 1979. The CBO data indicate that the share of transfer payments received by the top one per cent of households has changed little over the past three decades. Since 1979, the top one per cent has received on average a paltry 0.89 per cent of transfer payments, and this share fell even further to 0.68 per cent in 2009. As a result, there is really no question that over the past three decades intra-governmental debt has been an institution that serves the interests of the bottom 99 per cent.

But the fact that the bulk of transfer payments flow to the bottom 99 per cent of households should not lead us to overstate the role of intra-governmental debt as a progressive redistributive force. The reason for this can be seen once we start to break down the distribution of transfer payments within the bottom 99 per cent. Though the 99 per cent has in recent years become a catchall category used to distinguish the majority from the wealthy elite, it is, in reality, a very diverse group with its own hierarchical structure. The bottom 99 per cent includes social groups ranging from the ‘power belt’ of professionals in the 90th to 99th percentiles of income distribution that ‘surrounds, serves and protects’ the top one per cent (Bichler et al. 2012: 5), all the way down to the 46 million Americans that live below the poverty line (Denavas-Walt et al. 2012: 13). And once we take into account the hierarchical structure within the bottom 99 per cent into our analysis of the distribution of transfer payments, then we see that sweeping transformations have taken place over the past three decades.

Figure 6 offers a breakdown of the CBO data on the distribution of transfer payments within the bottom 99 per cent of households. Specifically, the figure is divided into two broad categories: the thin line shows the share of transfer payments received by households in the 60th to the 99th percentiles of income distribution (that is, the top 40 per cent minus the top one per cent), while the thick line shows the share of transfer payments received by households in the bottom 40 per cent. The CBO data indicates that the share of government transfer payments received by the upper strata of US households has increased modestly over the past three decades from 15 per cent in 1979 to 20 per cent in 2009. Meanwhile, households in the bottom 40 per cent saw their share of transfer payments fall from 73 per cent to 63 per cent over the same period. The fall has been particularly dramatic for households that are most likely to rely on gov-

ernment transfers for survival, with the share of transfer payments received by households in the bottom 20 per cent falling markedly from 54 to 40 per cent from 1979 to 2009.

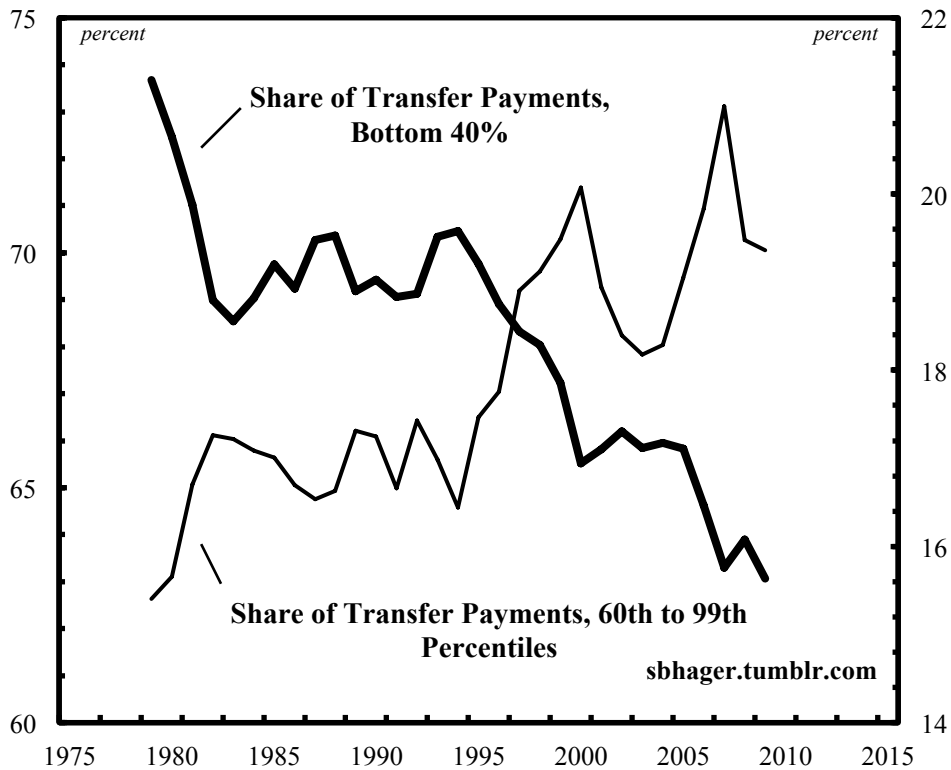


Figure 6 Transfer Payments and the Bottom 99%

Note: Transfers include federal, state and local government cash (e.g. social security) payments and in-kind (e.g. voucher) payments.

Source: The Congressional Budget Office (2012): <http://www.cbo.gov/publication/43373>

Invoking intra-governmental debt to downplay the distributive and redistributive dynamics of the public debt turns out to be rather misleading. It is true that the top one per cent of households has never had much of a stake in the transfer payments that flow from the intra-governmental debt held in government trust fund accounts. And in this sense the intra-governmental portion of the public debt can be said to broadly represent the interests of the bottom 99 per cent of households. Yet once we begin to dig deeper and break down the distribution of transfer payments within the bottom 99 per cent, we see that over the past three decades intra-governmental debt has, if anything, intensified social inequality and polarisation.

#### **4. Conclusions**

In the 1940s, the early Keynesian theorists of the public debt were willing to acknowledge the potentially negative consequences of their policy prescriptions. An expansionary fiscal policy would lead to a growing public debt that in turn would, if large enough, be swallowed up by the rich. Unless kept in check by progressive taxation, the unequal distribution of federal bonds, early Keynesians feared, would redistribute income regressively. Government fiscal policy, originally intended to make capitalist markets more humane and stable, would instead be beholden to the interests of wealthy Americans; a 'top heavy' distribution of the public debt would eventually stifle, rather than stimulate, effective demand.

Yet early Keynesians always considered this a hypothetical situation, and argued that circumstances in the mid-twentieth century would ensure that these negative threats would not materialise. Indeed, the empirical record for the postwar period, as evidenced by previous studies and by the research I have presented here, indicates that the early Keynesians were justified not to worry about these negative consequences. The image of a powerful bondholding class looked to be a relic of the late nineteenth century. In the 1950s and 1960s the public debt had become more widely held than in previous decades. And there was little evidence to suggest that the public debt served to redistribute income regressively.

Since at least the early 1980s, however, disregarding the distributive and redistributive dimensions of the public debt has become ever more indefensible. As I have shown here, the distribution of federal bonds and the interest income on them, much like the distribution of wealth and income more generally, has become increasingly unequal over at least the past three decades. The federal income tax system and the growing intra-governmental debt held in federal trust fund accounts have done little to reduce inequality. In short, all the hypothetical fears of early Keynesians have become a reality in contemporary US capitalism.

In the past three decades the public debt has come to serve as an institution of power working in the interests of the top one per cent. In the current context there is simply no evidence to support the claim made by contemporary orthodox Keynesians that the public debt serves the interests of 'John Q. Public'. Though much has changed since Adams's time, the analysis presented here indicates that there is indeed still a powerful bondholding class in the US, one whose power has augmented rapidly over the past three decades.

Even the most conservative measures indicate that pre-tax inequality has increased rapidly over the past three decades and that government, through the institution of the public debt, has in important ways intensified and reinforced this trend towards greater inequality. With wealth and income inequality reaching the high levels of 1920s, any further increases to the public debt that are purchased domestically are likely to be absorbed by the rich. Such additions would push inequality in the distribution of federal bonds to a level that is without precedent, at least in the past century for which reliable data is available.

The situation, therefore, is potentially explosive and raises the question of how much further this trend toward concentration in the ownership of the public



debt can continue without encountering any fundamental resistance from the bottom 99 per cent. And that in turn raises the related question of whether any concerted efforts to reverse this concentration in the ownership of public debt can occur without facing any counter-resistance from the bondholding class.

Given the paltry empirical record of the existing literature, it is no wonder that the role of public debt in directly reinforcing and intensifying inequality is conspicuously absent from debates about growing wealth and inequality in the US. The power-centred approach I have developed here suggests that government does not just externally ‘mediate’ the income and wealth inequalities generated by the market. Instead, my research suggests that government, primarily through the institution of public debt, along with capitalist markets, have become enfolded in the same power processes of distribution and redistribution; power processes that increasingly favour those at the very top of the hierarchy of power (Bichler and Nitzan 2012b: 48). By mapping the dynamics of distribution and redistribution that underpin the public debt we gain a better understanding of the possibilities for, and also the barriers to, more progressive alternatives to a political economic regime that a growing number of people now believe works in the interest of the top one per cent.

## Notes

An earlier version of this working paper was presented at the Third Annual Forum on Capital as Power, York University, Toronto, 28–30 September 2012. I wish to thank Gerhard Fries and Alice Henriques from the Federal Reserve for their helpful advice on the Survey of Consumer Finances. I also wish to thank Joseph Baines, Jordan Brennan, Shimshon Bichler, Peo Hansen, Shai Gorsky, Mark Peacock, two anonymous referees and especially Jonathan Nitzan for helpful feedback on earlier drafts of this paper. All shortcomings and mistakes are my own. Funding from the SSHRC Joseph-Armand Bombardier Canada Graduate Scholarship and the Ontario Graduate Scholarship are gratefully acknowledged.

1. An important part of Hamilton’s (1790: 15–21) plan called for the federal government to assume the debts incurred by individual states during the Revolutionary War. As John Steele Gordon (2010: 26–30) points out, these debts, incurred mostly in Northern States, were held largely by a powerful oligarchy whose ‘. . . loyalties lay mainly with their respective states and the cozy local societies in which they had grown up’. Part of Hamilton’s rationale for federal assumption of state debts, at least according to Gordon (2010: 28), was to shift the oligarchy’s loyalties to the federal government (see also Beard 1914).
2. The account in this paragraph relies on Macdonald (2003: 392–9).
3. Cooke’s role in financing the Civil War is told in Matthew Josephson’s (1934: 53–8) masterful history of US capitalism. It was likely Cooke that Marx (1867: 940) had in mind when he proclaimed that the Civil War had led to ‘the creation of a finance aristocracy of the vilest type’.
4. Robert E. Wright (2008: 162) accuses Adams of underestimating ‘. . . for political gain the dispersion of the national debt as it then stood’. The main reason for the underestimation, Wright (2008: 162; emphasis added) claims, is that Adams measured concentration only in ‘registered’ federal debt, ‘which was probably more concentrated than ownership of the government’s [unregistered] bearer bonds’. But alas, Wright does not make any attempt to estimate, even roughly, how unregistered bonds would alter the pattern of ownership concentration. Without even a rough estimate, one could just as easily accuse Wright of underestimating Adams’s findings for his own ‘political gain’.
5. Instead, political economists in the postwar period became preoccupied with debating whether the public debt redistributes wealth and income between ‘generations’ (see Buchanan 1958; Ferguson 1964).
6. The theoretical and historical dimensions of public indebtedness are explored in more detail in my PhD dissertation, *Public Debt, Ownership and Power: The Political Economy of Distribution and Redistribution* (forthcoming 2013), York University.
7. In a recent interview with Tim Di Muzio, Nitzan and Bichler (Bichler et al. 2012: 5) argue that a narrow focus on the top one per cent of households does not tell us everything about the ruling class and dominant capital, but it does offer ‘. . . an indirect proxy for capitalist power’.
8. The Survey of Consumer Finance data that Figure 2 is based on include the total direct holdings of federal securities by households as well as some of the indirect holdings in federal bond funds.

9. According to the Office of Management and Budget, since 1980, the ‘net interest’ paid by the federal government has on average accounted for 14 per cent of current expenditures, and represented about two-thirds of the amount dedicated to military spending. Over this same period, the amount paid by the federal government in interest has on average equaled about 27 per cent of total federal tax receipts. In the context of the current crisis, historically low yields on federal bonds mean that the federal government’s interest expenses, even despite the massive build-up in debt, have been held in check (see also Johnson and Kwak 2012). OMB data indicates that, from 2007 to 2012, net interest payments on average accounted for nine per cent of total federal government expenditures, 19 per cent of military spending and 21 per cent of federal tax revenues.
10. Political economists have long grappled with the normative foundations of progressive taxation. In the seventeenth century William Petty (1623–87), a disciple of Hobbes and one of the founders of political economy, argued that the state exists to protect private property and that individuals should therefore be prepared to contribute taxes in direct proportion to their individual property (Roll 1942: 102–3). According to the logic of this argument, the more property one owns, the more state protection one needs and, in turn, the more taxes one should pay.
11. A simple arithmetic example can be used to illustrate the differences in using the share of taxes paid and the effective tax rate as measures of tax progressivity. Let’s assume that the total tax bill in society A is US\$100 and that the top one per cent of households pays US\$50 or 50 per cent of that tax bill. Let’s also assume that the distribution of income in society A is fairly equitable: out of a total societal income of US\$1000, the top one per cent holds US\$100 or a 10 per cent share. In society A, the top one per cent share of taxes paid equals 50 per cent and its effective tax rate also equals 50 per cent. Now let’s envision another society (society B) that is similar to society A in every respect except for the distribution of income. Of the total societal income of US\$1000 in society B, let’s assume that the top one per cent holds US\$500 or a 50 per cent share. The tax bill in society B is also US\$100, and the top one per cent continues to pay US\$50 or 50 per cent of total taxes. The top one per cent share of taxes paid in society B still equals US\$50, or a 50 per cent share of taxes paid, but its effective tax rate is only 10 per cent. As a result, the tax systems of even the most wildly unequal societies could in principle be deemed progressive if we use the share of taxes paid as our measure of tax progressivity.
12. The net share of the top one per cent in federal interest is calculated as follows:
$$\frac{\text{top 1\% federal gross interest received}}{\text{total federal gross interest received}} \times \frac{1 - \text{top 1\% effective federal income tax rate}}{1 - \text{average effective federal income tax rate}}$$
13. Lampman (1962) also includes estimates of the top one per cent ownership of various types of wealth for 1929 and 1939. Yet the data observations for these years seem to radically over-estimate the share of wealth held by the top one per cent. For federal bonds, Lampman’s estimates suggest that the top one per cent in 1929 and 1939 held 100 per cent and 91 per cent, respectively. For state and local bonds, Lampman’s estimate even suggests that the top one per cent held more than 100 per cent for both of these years. Lampman (1962: 209) suggests that these irregularities may be due to a number of factors, including sampling errors and double counting of assets. I exclude the data for 1929 and 1939 from my analysis for these reasons.

## Notes on contributor

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## Appendix

Though the time series in Figure 2 spans from 1922 to 2010, it is based on observations for only 15 years. The data for the missing years are interpolated linearly, by connecting adjacent observations. Data on the top one per cent share of the public debt for 1922, 1945, 1949 and 1953 are from Robert J. Lampman's (1962) pioneering study *The Share of Top Wealth-Holders in National Wealth, 1922–56*, which in turn relies on federal estate tax data from the Internal Revenue Service (IRS).<sup>13</sup> The data for 1969 are pieced together from two sources: for the top one per cent holdings of the public debt (the numerator), I rely on the 1969 IRS Personal Wealth Report, again based on IRS estate tax data, and for the total amount of public debt held by individuals (the denominator), I rely on the estimates of James D. Smith (1974: 174). The data for 1962, 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007 and 2010 are based on my own analysis of micro-data from the Federal Reserve's Survey of Consumer Finances.

Figure 2 thus relies on two main data sources: the IRS federal estate tax database (ETD) and the Federal Reserve's Survey of Consumer Finances (SCF). There are two important differences between these two sets of data. First, the primary unit of observation for SCF data is the household and includes all of the interdependent adults living at the same residence, while the primary unit of the ETD is the individual (Johnson and Moore 2005: 82). Second, the SCF data is survey based, while the ETD is based on information gathered from estate tax filings with the IRS.

The SCF consists of a two-part survey design: 'a standard, geographically based random sample and a special oversample of relatively wealthy families' (Bricker et al. 2012: 3). The most recent 2010 SCF is based on a sample of 6492 US households, which contains detailed questions about household income, savings and net worth, as well as the composition of their assets and liabilities (Bricker et al. 2012: 3). Data compiled for the ETD are based on estate tax filings with the IRS. In 2010, descendants were required to file estate tax returns if the gross assets in the estate exceeded US\$5 million and there were just over

15,000 that reached this filing threshold. In their filings, descendants are required to report in detail the components of income and the asset composition of the gross estate. Both data sources use multiplier variables for each group to ‘blow up’ the data sample to represent its corresponding size in the US population as a whole.

Despite the differences in the purpose and design of both data sets, Johnson and Moore (2005: 87–96) suggest that the statistics of SCF and the ETD in general, and in regards to the measurement of ownership concentration in particular, ‘compare quite favorably’. Johnson and Moore (2005: 96) go on to conclude that SCF and the ETD are ‘complimentary sources of data on both wealth and income’. As such, it seems reasonable to splice together data from these two different sources in order to develop a long-term historical time series of the top one per cent ownership share of the public debt.