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Public Debt as Corporate Power: Mapping the New Aristocracy of Finance

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WORKING PAPERS ON CAPITAL AS POWER

No. 2015/01

Public Debt as Corporate Power 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 paper offers the first comprehensive analysis of the pattern 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 corporate holdings of the public debt have become rapidly concentrated in favor of large corporations classified within Finance, Insurance and Real Estate (FIRE). Drawing on Wolfgang Streeck’s concept of the ‘debt state’, the paper 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.

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

This paper forms part of a broader research project on the political economy of the public debt. Focusing on the United States, the research examines the distribution of the ownership of the public debt and how this distribution has evolved historically (Tett, 2013). A previous paper mapped household ownership of the US public debt (Hager, 2014). The research in the previous article uncovers a U-shaped pattern of distribution in household ownership of the public debt over the past century, and in particular, reveals a rapid concentration in ownership of the public debt in favour of the top one percent of US households since the early 1980s. This concentrated pattern closely resembles the general pattern of wealth and income distribution in the US of over the past century. The current paper extends this research by analyzing the distribution of the public debt within the US corporate sector.

Taken together, both pieces provide crucial yet hitherto unavailable factual 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 dominate ownership of the public debt (Gottlieb, 1956; Hume, 1970 [1752]; Hudson, 2011). Of the earliest works in political economy, it was Karl Marx who most explicitly and systematically 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, concentrated ownership of the public debt not only empowered bondholders to influence government policies, it also had clear class redistributive effects. Concentrated ownership of government bonds meant concentration in the share of interest income received on those bonds. Since ownership of the companies themselves was highly concentrated, interest payments on the public debt served to enrich the capitalist class. At the same time, 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 data to substantiate his arguments regarding the aristocracy of finance. And despite the twentieth century rise of statistics and accounting, our empirical understanding of the ownership of the public debt is still severely limited. Some observers of the US political economy have suggested that large financial groups dominate ownership of the public debt (Adams, 1887; O’Connor, 1973; Canterbury, 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 ownership of the public debt within the corporate sector. 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 notion of an aristocracy of finance might be as relevant as ever. To what extent, then, is this notion of an aristocracy of finance still relevant for the era of neoliberal financialization in the US?

This paper revisits the contemporary relevance of 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 the pattern of public debt ownership become more or less concentrated

over time? Is ownership of the US public debt still concentrated in the financial sector, or has the so-called financialization of industrial firms spread ownership across different sectors? In what ways 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 social classes? And finally, what are the political consequences associated with 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 current 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 reveals significant changes in the identity of financial sector owners of the public debt. In Marx's time it was traditional intermediaries, especially banking institutions owned by wealth capitalists, which dominated ownership of the public debt. Today the major corporate owners of the public debt are money managers, many of which are widely owned. Thus the class underpinnings of public debt ownership 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 of the public debt increase. Take together, the findings point toward the emergence of a *new* aristocracy of finance, composed of giant money managers and the top one percent of households that now dominate ownership of the public debt.

The paper 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 aristocracy of finance power over government policymaking. With the rise of progressive taxation and social spending in the twentieth century, the analysis suggests that the US public debt no longer redistributes income from the taxpaying masses to the financial aristocracy 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. 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. Given the complexity of modern government and the multiple avenues through which the financial sector can exert influence, the task of empirically assessing the extent to which concentration in ownership of the public debt furnishes the aristocracy of finance with political power is difficult. Yet a content analysis of

the *Economic Report of the President* reveals that, under the debt state, there has been a shift in policy discourse that prioritizes the interests of government bondholders at expense of the general citizenry. In this way, growing inequality in ownership of the public debt has gone hand in hand with growing inequality in representation within policy discourse.

The remainder of the paper is divided into five sections. Section two highlights some of the methodological issues surrounding the measurement of ownership concentration and discusses some of the shortcomings of the main data source, the Internal Revenue Service's (IRS) Statistics of Income. The third section goes on to map the pattern of public debt ownership for the corporate sector. Section four explores the redistributive effects of this increasingly concentrated pattern of public debt ownership, while section five undertakes a content analysis of government documents. A sixth and concluding section summarizes the empirical findings and discusses briefly how the research might inform public debate.

2. Ownership and Method

To explore whether the aristocracy of finance is still a relevant feature of contemporary US capitalism we should 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 wealth from taxpayers to bondholders. Second, concentrated ownership gave owners of the public debt inordinate power over government policy-making and behavior. Our starting point, therefore, should be to map the share of the public debt owned by dominant finance as it unfolds over time.

Yet measurement of ownership concentration raises a host of methodological issues. In their pioneering 'capital as power' framework, Nitzan and Bichler (2009) discuss some of the issues involved in choosing a relevant cut-off point to measure ownership concentration. To develop a consistent, historical measure of ownership concentration, we need to use either a fixed number of dominant owners 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 ownership concentration, taking the top 200 or top 500 corporations as our numerator and measuring their share of corporate holdings of the public debt (the denominator). 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 always to a certain extent arbitrary, but necessary in order to create a reliable historical measure of ownership concentration. And this is precisely what is wrong with the only available data set that will allow us 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 that would enable us 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 ownership 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 the total number of 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, made the cut of \$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 cut-off point for the top asset bracket. 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 for top corporations at a given level of assets, whether \$250 million or \$2.5 billion or any other number, means that the overall 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 efforts to map the pattern of public debt ownership for the corporate sector. Without a fixed cut-off point, a change in the share of public debt held by corporations in the top asset bracket could reflect a change in the number of corporations, as well as a change in ownership concentration.

3. Mapping Ownership

The limitations of the IRS SOI data might help to explain why the empirical track 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 in order 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 in assets or more.

It should be noted that the top 2,500 corporations do not represent an ideal proxy for dominant owners of the public debt. The top category using this cut-off point is likely to contain not only the largest corporations at the center of the accumulation process, but also a significant number of medium-sized entities. But this is the limitation imposed by the SOI data: the top 2,500 is the absolute minimum number of corporations that we can use as our cut-off point for measuring ownership concentration.

Going back historically, we can examine the SOI asset classes and try to 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 only around 500 corporations that meet the criterion of having assets in top bracket of \$250 million or more. But if we include corporations with assets of \$50 million or more, we come close to 2,500 top corporations for 1957-61.

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>).

Here we see that the number of corporations included in the top asset bracket is nearly constant. 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 number of top corporations as a proportion of the total number of 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 the fixed proportion of top

corporations, we could argue that these data *understate* the level of ownership concentration for the more recent periods.

3.1 The Aristocracy

The data in the fourth column of Table 1 track the corporate share of the US public debt held by large corporations. As we can see, the ownership share of large corporations held remarkably steady at around 65 percent from 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 a rapid increase in ownership concentration over the past three decades. From 65 percent in the early stages of neoliberalism, large corporations have steadily increased their share of corporate ownership of the public debt in the latter stages of the neoliberal period. 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 rapid increase in ownership concentration that has taken place in the context of the current 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 that are owned by large corporations. What stands out here is the remarkable synchronicity of public debt ownership concentration and general concentration for the corporate sector. From the postwar to the early neoliberal period, large corporations' share of total corporate assets increased modestly from 62 percent to 70 percent. Yet over the past three decades there has been a rapid move toward concentration, with large corporations in 2006-2010 owning 81 percent of total corporate assets.

The data in Table 1 tell us at least three important things. First, the rapid 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 tell us something about whose interests have been served by the explosive rise of public debt in during the current crisis. The market for US federal government debt has been a traditional 'safe haven' for investors in times of turbulence and during the current 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 of federal debt: it is overwhelmingly large corporations at the top of the corporate 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 within the corporate sector over the neoliberal period.

3.2 *Is the Aristocracy Still Financial?*

Of course the ‘aristocracy’ that 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 paper). It remains to be seen whether ‘finance’, understood narrowly as financial intermediaries, is still the dominant owner of the public debt within the contemporary US corporate sector.

This line of inquiry has direct relevance for the recent literature on the financialization of advanced capitalist economics since the 1970s. One aspect of financialization emphasized in the existing literature 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 corporate holdings of the US public debt alongside its growing share of corporate 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 firm activities, we might just as well expect ownership of the public debt to spread across different sectors and thereby decrease the share of the public debt owned by the FIRE sector.

When it comes to ownership of the public debt, we see that 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 the Finance, Insurance and Real Estate (FIRE) sector. We see clearly that over the past half century, the financial sector has greatly increased its share of the US public debt owned by the corporate sector. Even at its lowest point of 81 percent in 1959, the FIRE sector was by far the dominant corporate owner of the public debt, and over the past five decades its share has steadily increased. From 2000 to 2010 the FIRE sector owned on average 98 percent of the corporate share of the public debt.

Ownership of the US public debt has become concentrated into the hands of not just *large* corporations, but *large FIRE sector* corporations. And in this sense, the data point toward the emergence of a new aristocracy of finance during the neoliberal era and especially in the context of the current crisis.

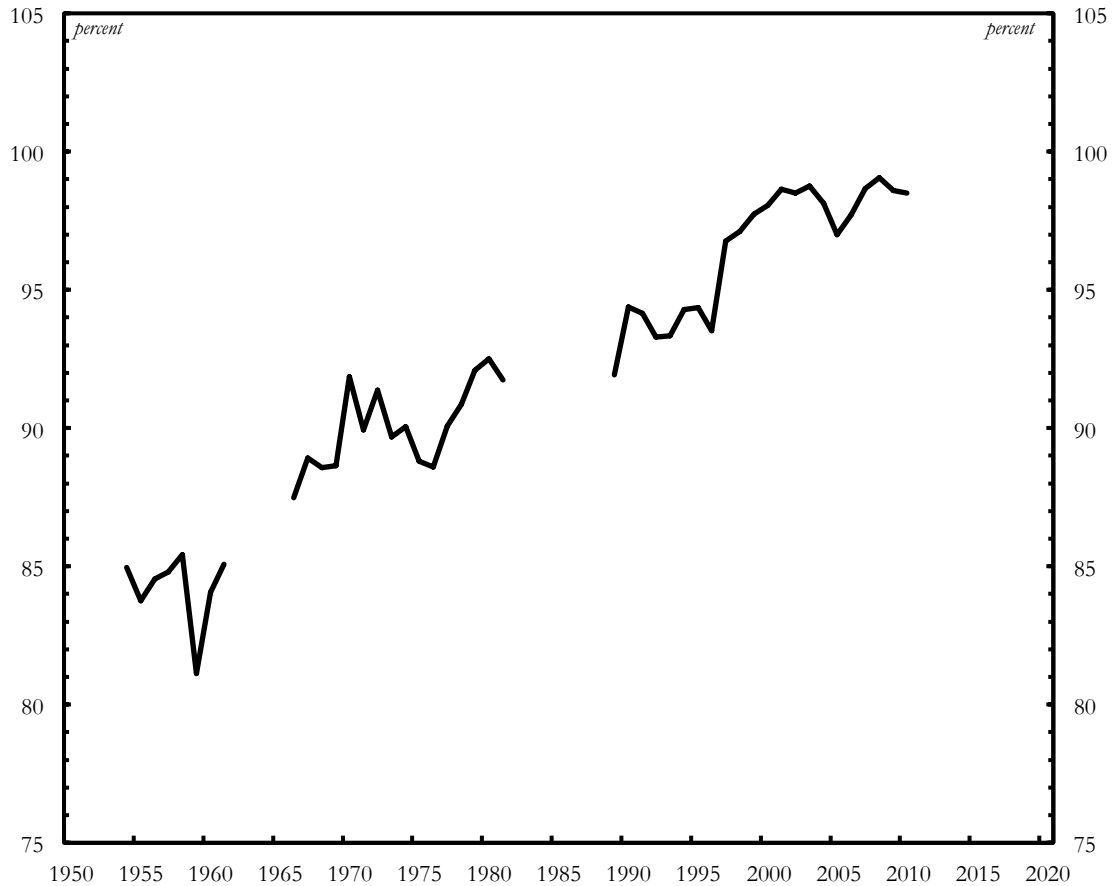


Figure 1 FIRE's Share of the Public Debt Held by Corporations

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>).

3.3 *The Rise of the Money Managers*

To this point our analysis of the pattern of public debt ownership 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 was comprised of traditional financial intermediaries, mostly banks, whereas today the financial sector includes a host of non-traditional intermediaries and money managers. And while ownership of the financial firms of Marx's time was dominated by the capitalist class, money managed funds are generally owned by much broader swathes of the population. The rise of money managed funds forces us to think in more nuanced ways about ownership of the public debt and its class underpinnings. If most types of investment funds are widely held, this could mean that individuals outside of the ruling elite are the indirect beneficiaries of these concentrated holdings. If this were indeed the case, the

significance of public debt ownership concentration within the financial sector would be seriously diminished.

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, fluctuating only slightly around an average of 16 percent from 1985 to the present.³ To illustrate the changes in the pattern of public debt ownership within the financial sector, 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.

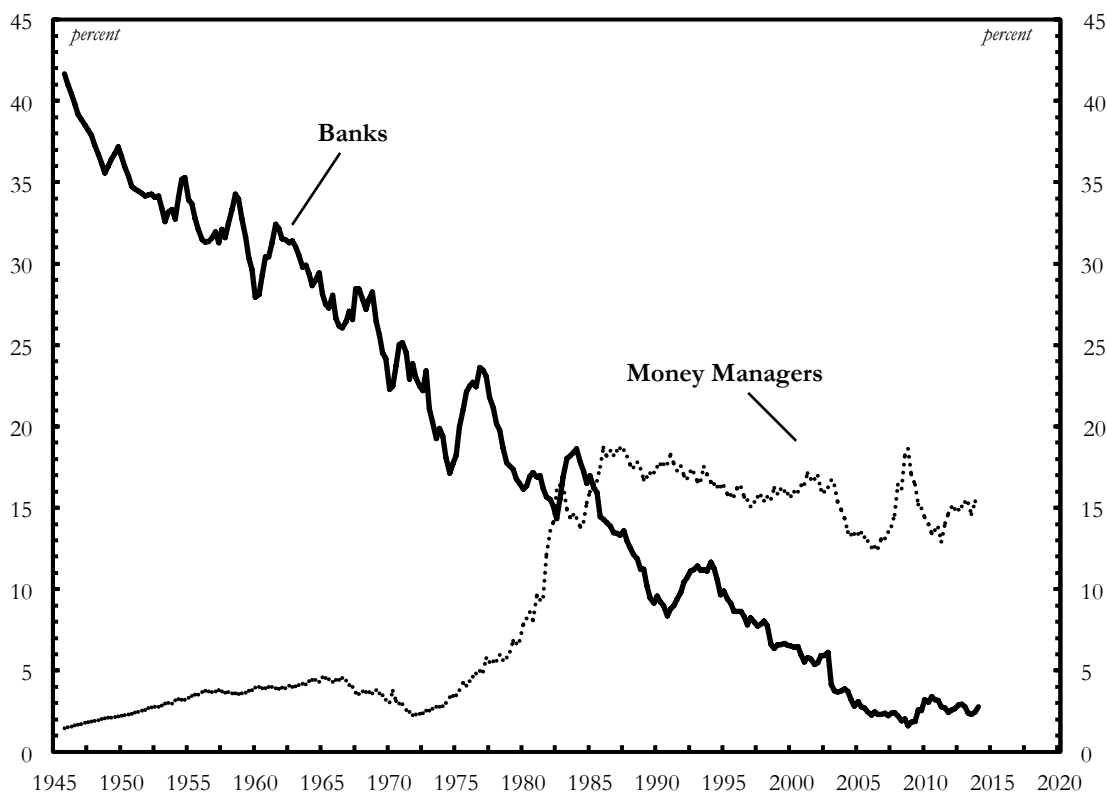


Figure 2 The FIRE Sector's Share of 'Debt Held by the Public'

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 quarterly from 1945 to 1951 and annual onward.

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

But to what extent has the emergence of money manager 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 of the public debt owned 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 3 provides a breakdown of the ownership of the public debt within the category of money managers. As we can see, the share of the public debt owned by pension funds has fallen sharply from 14 percent in the mid-1980s to six percent in 2014. Meanwhile, the share of the public debt 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.

The institutionalization of savings into pension, mutual and other investment funds is an undeniably significant development within the US political economy. Since the early 1970s, managed funds, many of which are incorporated, have become major players in federal bond market. But in and of itself the increasing significance of money managers in the federal bond market has not counteracted the 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 past three decades, while the share of concentrated funds has rapidly increased.

While Marx's aristocracy of finance was comprised of banks and their capitalist owners, the new aristocracy of finance includes a whole array of financial intermediaries, many of which cannot be said to work exclusively in the interests of the wealthy elite. Yet over the past three decades it is funds that are more concentrated in the hands of the top percentile of US households that 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 by 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 and in the context of the current crisis (Hager, 2014). Thus the new aristocracy of finance at the heart of the public debt is best conceptualized as a power bloc comprising not only of dominant financial corporations, but also the US households at the top of the wealth and income hierarchy.⁵

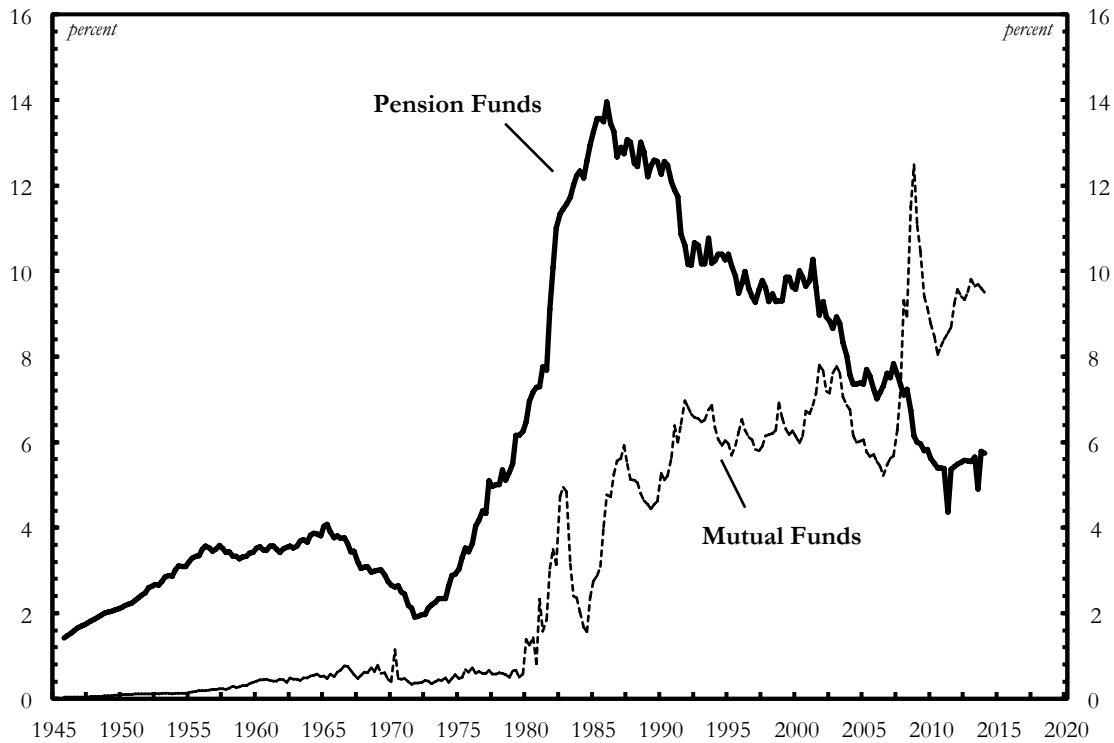


Figure 3 Money Managers and 'Debt Held by the Public'

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).

4. 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 government bondholders is somehow separate from the taxpayers that finance interest payments on the public debt, then income will be redistributed from the latter to the former.

4.1 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, the interest income of the aristocracy of finance constituted a substantial component of government spending. From 1800 to 1850, debt service charges, which include the amount total amount the government pays in interest and principal on its obligations, made up anywhere from 25 to 58 percent of total British government expenditures. Until the mid-1800s government spending was almost solely dedicated to two activities: 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 as percentages of government expenditures. The conclusion of military conflict would result in decreased military spending and an increase in debt charges, as the British state began to repay some of the debt burden 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 considered 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 considered 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 on average constituted a meager 16 percent of all government revenues. There was little in the way of social spending to offset the regressive tax burden borne by the working masses.

Fast-forward to the contemporary US and things are not as clear-cut.⁷ During the current crisis US public debt levels have 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 US federal expenditures. In fact, from 2008 to 2013 interest charges on average have made up just over six percent of yearly federal expenditures. Over the same period military spending made up 20 percent of federal expenditures. 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), no one suggests that we are anywhere near a return to the regressive tax structure of over a century and half ago.

With the rise of progressive taxation and social spending, the class redistributive effects of the public debt are harder to pin down. Today large corporations and wealthy households pay most federal taxes in the US. Corporate income taxes make up only 10 percent of total US federal revenues, but the large corporations sampled in Table 1 pay most of these taxes. 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 of these taxes. 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 upward 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 or to the public finances more generally. 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'.

4.2 *The 'Debt State'*

In his recent book *Buying Time: The Delayed Crisis of Democratic Capitalism*, Wolfgang 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 the shift in public finances. For Streeck, the advanced democracies have all shifted 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 total federal taxes. However, this observation in itself ignores the fact that levels of tax revenues themselves 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 starts to change from the 1970s onward. With the exception of the 1990s, federal revenues have been increasing, while federal revenues have

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

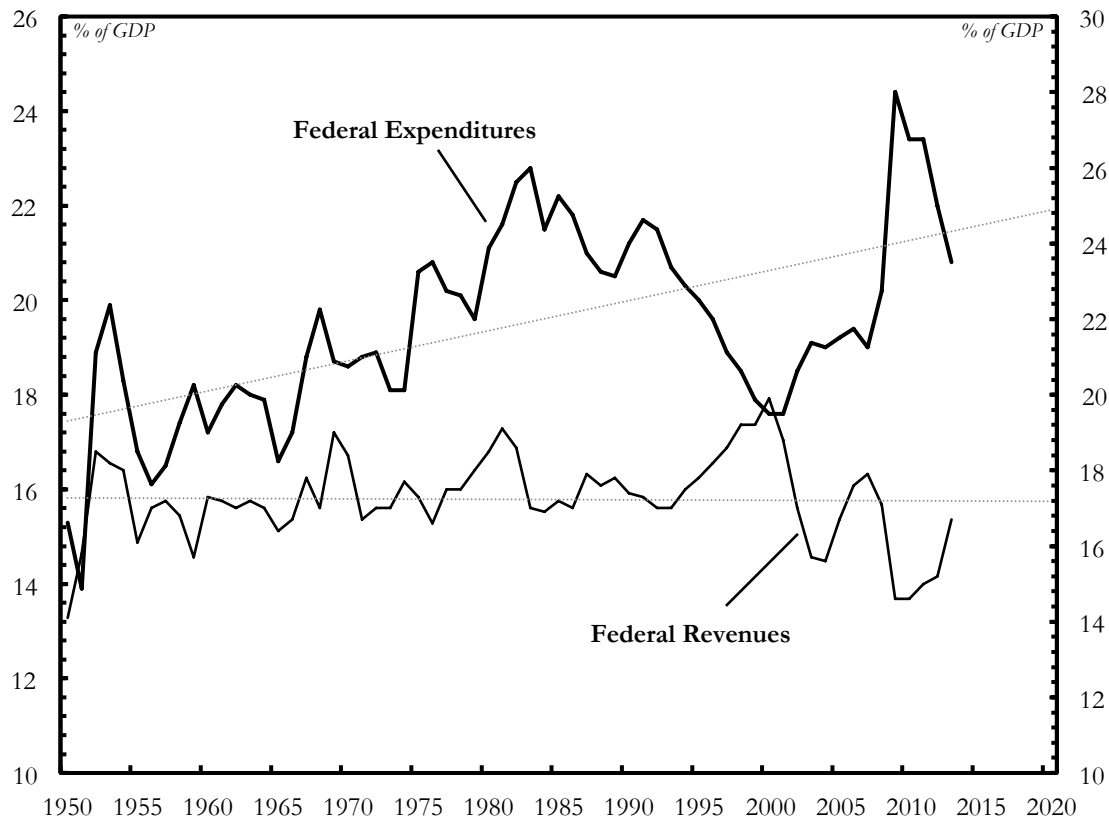


Figure 4 From Tax State to Debt State

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 this relationship between increasing expenditures and stagnating taxes. 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, are more overtly political process. As wealth and income becomes increasingly concentrated in the hands of the dominant property owners, governments, face increasing 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 has 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 suggests 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 government 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 funds to invest in safe, secure, interest-bearing financial assets. And here is where we find the link between class inequality and increased levels of 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, it is further government borrowing that finances this interest income. 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, Streeck (*ibid*, p. 78) argues, the '...debt state serves to perpetuate extant patterns of social stratification and the social inequality built into them'.

5. 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 and behavior (Di Muzio, 2007). Does concentrated ownership of the public debt empower the aristocracy of finance? And if so, how can we empirically demonstrate this power that the aristocracy of finance wields?

This issue of empirically demonstrating the relationship between public debt ownership and power proves to be difficult. And this is the case precisely because contemporary 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 on the government 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 or public debt ownership or by lobbying, or by both. In short, public debt ownership concentration and financial sector lobbying are *entangled*; they are part and parcel of 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 over time in ways that might prioritize interests of government bondholders over other segments of the population. Though this exercise does not tell us much about the causal effects of public debt ownership concentration, it does allow us to assess in general terms the extent to which government itself has absorbed the logic of finance.⁸ This in itself is significant because it allows us to gauge what role government policy plays in reinforcing or counteracting the patterns of social inequality that we have identified with the debt state. In order to address these issues, we need to tackle two questions. What are the interests of the aristocracy of finance? And are there other segments of the population with which these interest conflict? Once again, Streeck offers some guidance in addressing these questions.

5.1 *Staatsvolk versus Marktvolk*

In modern debt states such as the United 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 by exercising 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 above all to try 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 above all with the creditworthiness of government and maintaining confidence in the government 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. Yet he associates the *Marktvolk* with wealthy individuals and large financial corporations and thus for our purposes can be seen as a direct corollary to the aristocracy of finance.

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.

Table 2
The Two Subjects of the Debt State

Staatsvolk <i>(general citizenry)</i>	Marktvolk <i>(market people or aristocracy of finance)</i>
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)

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* in Table 2 appear in US federal government documents. For our purposes we concentrate our efforts on the three historical snapshot periods used previously (1957-1961, 1977-1981, 2006-2010), in order to make sense of 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* within policy discourse.

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 US 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. 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*.

As we can see, the results of the content analysis are not perfectly correlated with the pattern of public debt ownership outlined in Table 1. The aristocracy of finance's share of corporate holdings of the public debt was constant from the postwar to 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 financial 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 current 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*.

Table 3
The Two Subjects of the Debt State in Government Policy

1957-1961		1977-1981		2006-2010	
international 261	national 572	international 491	national 751	international 564	national 538
investors 19	citizens 26	investors 53	citizens 12	investors 222	citizens 34
claims 8	civil rights 0	claims 55	civil rights 0	claims 70	civil rights 0
creditors 0	voters 0	creditors 5	voters 2	creditors 11	voters 0
auctions 0	elections 4	auctions 13	elections 5	auctions 47	elections 1
interest rates 126	public opinion 10	interest rates 350	public opinion 3	interest rates 140	public opinion 0
confidence 40	loyalty 0	confidence 35	loyalty 2	confidence 50	loyalty 0
debt service 0	public services 5	debt service 3	public services 49	debt service 1	public services 4
Marktvolk 454	Staatsvolk 617	Marktvolk 1005	Staatsvolk 824	Marktvolk 1105	Staatsvolk 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 for the content analysis are available from the author on request.

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

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 discourse, one that prioritizes investor confidence in an international context. This transformation provides an ideological climate that privileges the interests of government bondholders, what Streeck refers to as the *Marktvolk* or, following Marx, what we have termed the new aristocracy of finance. Under the debt state, inequality in ownership of the public debt and inequality in representation within government policy discourse have gone hand in hand.

6. Conclusion

To recap, the analysis has uncovered rapid concentration in the ownership of public debt within the corporate sector. From 65 percent in 1977-1981, large corporations increased their share of corporate holdings of the public debt to 82 percent in 2006-2010. There has also been an intensification of concentration in light of the current financial crisis. In 2006, immediately prior to the onset of the crisis, large corporations owned 77 percent of the corporate share of the public debt, and by 2010, this share increased to 86 percent. The large corporations that own this increasingly concentrated share of the public debt are classified within the FIRE sector and their share of corporate holdings of the public debt have increased from just over 80 percent in the 1950s to 98 percent today. Within the FIRE sector, money manager funds, especially those concentrated in the hands of the top percentile of US households, have replaced traditional bank intermediaries as the dominant owners. The findings point to the emergence of a new aristocracy of finance, composed of large FIRE corporations and wealthy households, that now dominates ownership of the US public debt.

The analysis went on to consider the consequences of increased concentration in ownership of the public debt. As we saw, the contemporary US system of public finance no longer redistributes income from the taxpaying masses to the financial aristocracy as it did in nineteenth-century Britain. But operationalizing Streeck's concept of the debt state, we saw that increased ownership concentration and a rising public debt, along with tax stagnation and declining tax progressivity, have combined in ways that reinforce social inequality. A content analysis demonstrated that, alongside increased concentration in ownership of the public debt, there has been a general shift in federal policy discourse that prioritizes the interests of the new financial aristocracy at expense of the general citizenry.

Clearly the class politics of the public debt have changed since Marx. But the recent rise of finance means that the nineteenth century concerns with ownership concentration and power have resurfaced. This pattern of continuity and change become 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 there are three main entities that dominate ownership of the US public debt: US households, US businesses (a category that includes incorporated and unincorporated businesses) and the rest of the world (a category that includes 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 rapid rise in foreign ownership of the US public debt over the past four decades, assessing its implications for US power and influence in the global political economy, and exploring how it relates to the domestic class politics of US public finance.

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 of capitalism is that highly leveraged institutional investors, especially pension and mutual funds, have replaced traditional banking intermediaries as the '...proximate owners of a vast proportion of financial instruments' (Minsky, 1996, p. 358).

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 on the corporate sector. In the end, however, the distinction makes little difference given that the corporate sector is the dominant form of business enterprise within the US political economy. According to the IRS's Integrated Business Data, since 1980 the corporate sector has, 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 recent 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 increasing use of debt instruments by governments and how this transforms the institutional architecture of contemporary capitalist societies is an 'underexposed topic' within financialization studies.

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