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Jacques Fontanel

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Public debt as a political opportunity for national economy Pax Economica

Jacques Fontanel

Université Grenoble-Alpes, CESICE,

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Public debt is often analysed as the result of mismanagement by public authorities. However, when an economic crisis occurs, often caused by speculation by private actors, the state is called to the rescue and usually socialises the losses. Private debt then becomes public debt. For the liberal doxa, a debtor must pay his debts. In the case of public debt, this is not the case in practice, as the state has no time constraints. Therefore, it can "roll over" its debt and support a national economy in difficulty. Without its intervention, the economic crisis can lead to the collapse of societies and to particularly dangerous social and political problems, as economic history reminds us. It is usual to use particular indicators to underline the importance and dangerousness of public debt, but these indicators, too aggregated, do not give a satisfactory answer on the sustainability of the debt, whose temporal structure, the importance of the burden and the citizenship of the creditors modify its concrete interpretation.

La dette publique est souvent analysée comme le résultat d'une mauvaise gestion des autorités publiques. Pourtant, lorsque la crise économique survient, souvent provoquée par les spéculations des acteurs privés, l'Etat appelé à la rescousse socialise le plus souvent les pertes. La dette privée devient alors une dette publique. Pour la doxa libérale, un débiteur doit payer ses dettes. Pour la dette publique, il en va différemment dans les faits, car l'Etat n'a pas de contrainte de temps. De ce fait, il peut « rouler » sa dette et soutenir une économie nationale en difficulté. Sans son intervention, la crise économique peut conduire à un effondrement des sociétés et à des problèmes sociaux et politiques particulièrement dangereux, comme le rappelle l'histoire économique. Il est habituel d'utiliser des indicateurs particuliers pour souligner l'importance et la dangerosité de la dette publique, mais ces indicateurs, trop agrégés, ne donnent pas de réponse satisfaisante sur la soutenabilité de la dette, dont la structure temporelle, l'importance de la charge et la citoyenneté des créanciers en modifient l'interprétation concrète.

Public Debt, GDP, Sustainability, economic recovery, social policy.
Dette publique, PIB, Soutenabilité, Relance économique, Politique sociale

The payment of one's debts is, in principle, the basis for the morality of liberal policies. Financial debt is quantifiable, time-bound and costly. It must be repaid, or else suffer a severe economic sanction from the financial markets. However, one should not compare the debt of an individual with that of a state. Private economic agents have a limited time horizon, unlike a state, which is not destined, to disappear and which can hardly go bankrupt. The latter can therefore repay its debt over long periods by rolling over its debt, i.e. by borrowing to repay its debts. Not all public debt is virtuous. It may be the result of wasteful spending by a corrupt and mismanaged political system. However, in democratic states, parliament controls excesses and checks expenditures against the concrete economic and social situation of the country. Debt based on the reconstruction of a national economy destroyed by war is recommended, especially because the infrastructure necessary for the development of a country has been destroyed, either totally or partially.

Moreover, public debt helps to regulate the economy in times of crisis. The state does not have to manage its affairs "as a good father", because public debt also has a political connotation. The state's vocation is to organise the political and economic life of its citizens. The choices are therefore political in terms of expenditure, resources and debt. Several methods of analysis should be put in place to reason about the advantages and disadvantages of public debt. What is the capital expenditure on roads, community facilities, and education? Who pays the taxes and how? Who should finance the debt, the financial markets or the citizens directly?

In 2020-2021, the European rules have been broken, because due to the Covid-19 pandemic, all economic agents have called for the public effort. However, when the pandemic clouds move away, the liberal economy will again call for wage moderation and debt repayment, especially in favour of private financial institutions. Rules and laws protecting their capital, however, accommodate the functioning of a globalised market economy. Thus, patent protection favours monopolistic behaviour, just as the international opening of financial markets limits the moral obligations of shareholders towards their countries of origin.

If the weight of debt is not to be neglected, it is advisable not to minimise the interest of the operations that it allows in the preparation of the future of future generations, which will benefit from perennial public investments and important public services, even if the policies inspired by the liberal "doxa" tend to reduce their impact.

How to analyse the advantages and disadvantages of public debt? First of all, it is necessary to highlight the 'perverse' character of certain

indicators, and then to underline the advantages of public debt, particularly in times of economic crisis.

1) In 1992, the Maastricht Treaty established rules that the public debt and deficit must not exceed 60% and 3% of GDP respectively. These estimates have no scientific value. Moreover, the ratio of public debt, which expresses a stock, to GDP, which is a flow, does not produce meaningful information, at least for three reasons:

- First, GDP measures the sum of value added produced in a country in one year. This economic aggregate, particularly used by governments, has lost its relevance with the underestimation of the production of services and public goods, and the existence of international production chains that are particularly sensitive to the heterogeneous tax rates of the countries concerned¹. Tax optimisation and tax evasion have a significant impact on the calculation of a country's growth rate².

- Secondly, public debts represent a stock, the content of which must be analysed in order to measure its real weight on the national economy of today and tomorrow. Repayment requirements, the temporal structure of liabilities, the differentiated costs of operations or the nationality of creditors modify the impact of this public debt on all national activities and actors.

- Finally, to return to accounting reasoning, in the face of liabilities, we must analyse the assets. The French economy has positive net assets, estimated at 15,500 billion euros by INSEE in 2018, while its direct debt will probably reach 2,800 billion dollars by the end of 2021. The choice of these indicators, which have no theoretical basis, is political, based on a mistrust of public action and the crowding-out effects it could cause in private sector activities. However, when faced with a country's liabilities, it is preferable to compare it with its assets.

2) In France, public spending represents nearly 56% of GDP. This statistical observation is not very judicious, however, because it suggests that the private sector would ultimately receive only 44% of the wealth produced each year. This perception is obviously wrong. Public expenditure is not only a levy; it also finances household expenditure or supports private production, while providing a public service. Social benefits represent 20% of GDP, but are not spent by the state, but by the beneficiaries. Similarly, public services such as education, justice, police and national security are

¹ Guilhaudis, J.F. and Fontanel, J., 2019. Les effets «pervers» de l'usage du PIB pour la décision politique et les relations internationales. *Annuaire français de relations internationales*, 20.

² Fontanel, J. (2016), *Paradis fiscaux, pays filous. La fuite organisée des impôts vers les pays complices*, L'Harmattan, Paris

necessary for the overall economic system to function. If these services were not public, they would also have to be financed, with the addition of shareholders' dividends. The term compulsory levies does not emphasise the fact that the services provided are mostly not consumed directly by the state and that the state produces services that private activities are not able to finance.

3) The level of debt depends on the economic situation of a country. It is not on this basis alone that one can determine whether it is a good debt or a bad debt. The action of all states to combat the disastrous effects of Covid on national economies underlines this point, "whatever it takes". Without public debt, the economy would enter a recession, which would further reduce tax revenues. When the economy is not at full employment (which is definitely not the case today), the multiplier and accelerator effects of public spending make it possible to engage in counter-cyclical fiscal policy designed to revive or maintain national economic activity and avoid austerity policies that are both inefficient and socially unjust. Whenever austerity policies leading to debt repayment and privatisation of public enterprises have been implemented, the results have been catastrophic. The famous Washington Consensus, as applied to developing countries, is now being challenged by the IMF itself, which recognises the importance of public goods and services³ and the need for fiscal stimulus in the event of an economic downturn. However, the idea of high indebtedness may lead potential investors to disengage as a new creditor. However, France's indebtedness, for example, is not "perverse". Admittedly, slightly more than half of the debt is located abroad, but this is also a sign of the confidence of operators. Moreover, all the debt is denominated in euros, which eliminates exchange rate risks. Finally, restructuring procedures would be open to it in case of major risks, linked to an unexpected international economic crisis.

4) When a state is in debt, the quality of government management is politically questioned⁴. However, public indebtedness is not always the result of government imperialism. We need only recall the 2008 crisis, caused by the subprime system and abusive securitisation, to see that to avoid the collapse of the global banking system, states intervened by taking on debt. The result was a privatisation of gains, a cancellation of private debts and a socialisation of losses. Indebtedness can also come from tax

³ Fontanel, J. (2021), *Mondialisation privée et impasses du multilatéralisme intergouvernemental*, *Question internationales*, Janvier-Février.

⁴ Piketty, T. (2019), *Capital et idéologie*, Le Seuil, Paris. Fontanel, J., (2004). *Evaluation des politiques publiques*. Université Pierre Mendès France, Grenoble.

giveaways to the public sector or economic support to private companies. In the case of the Tax Credit for Competitiveness and Employment (CICE) or the Research Tax Credit (CIR), the state has committed many credits that have ultimately proved to be of little employment value, while being subject to excessive advantages for large companies and fraud that has weakened the competitiveness of companies based in France⁵. Finally, the fight against tax evasion could solve all or part of the public deficit, especially if international agreements could be put in place to avoid beggar-thy-neighbour policies⁶. The LuxLeak affair and Panama's Papers have highlighted the ability of multinational companies, financial institutions and wealthy individuals to circumvent the laws of the citizenry in order to reduce their contribution to the financing of public services. The example of the GAFAMs is, in this respect, very significant, as is the behaviour of Luxembourg to enrich itself at the expense of its neighbours⁷.

4) Today, the interest rates paid on France's public debt securities are close to zero, sometimes even negative. Under these conditions, the debt burden is low, and it allows for new investments useful for economic growth, and therefore for its repayment. The critical level of debt is not easily determined, as several criteria must be taken into account, notably the investors and the nationality of the creditors. In France, non-residents hold 52% of public debt. It should be remembered that today, public securities could no longer be held directly by households. Japan has a considerable public debt (250% of GDP), but Japanese citizens and residents hold the securities. In this case, when the government repays, the money stays within the national economy and can then be reinvested. The rates paid by the government will depend on the demand from private operators and the risk perceived by institutional investors and rating agencies. Thus, the trading community influences the economic policies of states, with the notion of risk and return. In the framework of the euro zone, the States do not control this currency and different interest rates are assigned to the member countries according to the policy undertaken by the States. For Europe, the question is more difficult to deal with, because the European Central Bank is independent and cannot buy public securities, except

⁵ Berr, A., et al. (2021) *La dette publique. Précis d'économie citoyenne*, Le Seuil. Paris. Pp. 115-129.

⁶ Fontanel, J. (2016), *Paradis fiscaux, pays filous. La fuite organisée des impôts vers les pays complices*, L'Harmattan, Paris. Fontanel, J., 2001. *L'action économique de l'Etat*. Editions L'Harmattan. Paris.

⁷ Fontanel, J., Sushcheva, N. (2019), *La puissance des GAFAM : réalités, apports et dangers*, AFRI, Annuaire Français des Relations Internationales, Paris. Suscheva, N., Fontanel, J. (2019) *La puissance des GAFAM*, Editions Université d'Etat d'Economie de Saint-Pétersbourg. [hal-02314440v1](https://hal.archives-ouvertes.fr/hal-02314440v1), Fontanel, J. (2019). *GAFAM, a progress and a danger for civilization*, Financial Architecture; Forced Economic Development ion the Context of External Shocks and Internal Inconsistencies, State University of Economy of Saint-Petersbourg (UNECON), Apr 2019, Saint-Petersbourg, Russia

through the policy of "quantitative easing" undertaken during the pandemic, despite the recriminations of the famous countries of the North concerned with a stingy and minimal state. For France, the current situation is therefore the result of a political choice that favoured the economic "decision-makers", those who, through the "trickle-down theory", were supposed to be indirectly in charge of the positive evolution of the wealth of all citizens. In fact, the interests of a few were thus justified in the name of a very questionable collective interest, especially since the increase in economic inequalities in the world has been noted⁸.

5) Public debt includes all the debts of all the administrations, the State, the municipalities, the regions or the social security system.) The State must take into account the structure of its debt, its dependence on the interest rate set by the markets and the life of the debt (almost 8 years for France, on average). The debt can be constantly renewed, so it is a question of "rolling over the debt". As soon as a debt has to be repaid, it is borrowed again. It is therefore a question of maintaining the confidence of creditors, in order to negotiate low but reassuring interest rates. It should be remembered that macroeconomic figures sometimes overwhelm the finesse of the analysis. It is clear that increased military spending in a country without a weapons industry will have a less attractive effect than investment in roads, urban development or communications. When Russia had to reduce its military spending and the size of its military-industrial complex, it sought external funding from international institutions to cope with this new situation, which led it both to transform the production of its factories and to retrain personnel for other activities⁹.

6) Debts can be particularly useful and socially justified. In France, the public deficit is mainly explained by public investment (60% by local authorities). Operating expenses do not increase the state deficit. "Thus, the public debt appears for what it really is: a democratic issue"¹⁰. However, public debt is held by the richest economic entities. Public securities offer those who can afford it a security of money invested, as well as a comfortable return. In fact, the choice of the state (and it is a political choice) is to borrow from the rich, rather than tax them. In these conditions, to say that with the public debt the state is putting the burden on the next

⁸ Saez, E., Zucman, G. (2020), *Le triomphe de l'injustice. Richesse, évasion fiscale et démocratie*, Seuil, Paris.

⁹ Shkaratan, O., Fontanel, J. (1998), Conversion and personnel in the Russian military-industrial-complex, *Defence and Peace economics* 9(4). Fontanel, J. Borissova, I, Ward, M. (1995), The principles of arms conversion in the case of Russia, *Defence and Peace Economics* 6(3). Brunat, E., Fontanel, J. (2015), *L'économie de la Russie, les grands défis à relever* (avec Eric Brunat), *Annuaire Français des Relations Internationales*, Paris, 2015.

¹⁰ Berr, E., Charles, L., Jatteau, A., Marie, J., Pellegris, A. (2021), *La dette publique. Précis d'économie citoyenne*, Le Seuil, Paris.

generations is at least partially inaccurate, since the heirs who own the resident public securities will always be remunerated. The debt finances public services, especially for very risky services whose profitability, at least in the short term, is not guaranteed. When the action of the state is contested under the pretext that its economic actions lead to "crowding out", at least in financial terms, the importance of public investments useful for private economic and financial activities are obviously minimised or more generally forgotten. This is the case for roads, public facilities, schools, hospitals, justice or police, all public services that favour the economic action of private entities. From an economic point of view, the debt will undoubtedly have enabled new investments to be made, which will directly or indirectly benefit future generations.

7) Public services make it possible to limit the effects of the growing inequalities made possible by an economic globalisation so favourable to the financial system, large companies and their owners. After taxes and social benefits, the gap between the disposable income of the poorest and the richest is halved¹¹, without taking into account the "equalising" potential of national education or national security for the present and future of the beneficiaries. However, the financing of the State is based on proportional rather than progressive taxes. Since 2016, the richest and the ultra-rich have seen their disposable incomes increase significantly, unlike the incomes of the middle classes. The historical periods of greatest national economic development have often been those with the highest marginal top taxes. It is necessary to question the tax niches that only serve those who can pay tax but are part of a "reduction" or "exemption" niche. When we attack the social security deficit and the need to reduce it, we are demanding a reduction in its action rather than an increase in taxes for the wealthiest populations. This reduces the strength of solidarity needed by a country and democracy itself is called into question.

8) In the face of the climate emergency, new infrastructures will have to be put in place to achieve the ecological transition. Only the State can, directly or indirectly, implement them, notably through debt. It is true that companies will be led to change their ecological behaviour through coercion or financial incentives, but firms in a market economy are too concerned about their returns from financial financing to commit themselves to an operation that is nonetheless crucial for the future of our children. Whatever people's opinions, if there is a burden to be feared for future generations, it is more the issue of global warming than that of debt,

¹¹ Brunner, A., Maurin, L. (2018) ; Impôts et prestations sociales réduisent les inégalités de revenus de moitié, Observatoire des Inégalités, 16 janvier.

which is only a potential problem for creditors (who could be blamed for not having taken the right measures to avoid an ecological catastrophe in such a short time).

9) When debt becomes too high, it is time to renegotiate the debt with creditors, rather than designing a drastic cut in social spending. Some economists call for the cancellation of sovereign debt securities held by the Eurosystem¹². In this way, private operators would not be harmed, as the only securities removed would be those held by the central bank. Another proposal is to ask the central bank to issue money directly to all economic agents (a proposal known as "helicopter money")¹³. This latter solution would have the effect of increasing the consumption of imported goods and services, without financing the investments necessary for the ecological transition.

For Josef Stiglitz¹⁴, the so-called trickle-down theory of the effects of economic growth and development on the poor is wrong. In the absence of specific government action, income and wealth gaps only increase, creating dissatisfaction that can lead to social movements that can challenge the very functioning of the market and the rights and obligations of individuals and corporations. On the contrary, the development of income and wealth inequalities is an essential, even determining, cause of economic crises.

Public debt is neither condemnable nor desirable in itself¹⁵. Everything depends on the reasons for its existence and its evolution. It is fundamentally a political choice, which the system of globalisation has made very difficult, by allowing the richest private agents to make choices that incite states to significantly modify their economic, budgetary, fiscal and sometimes even monetary policies, thus giving capital owners considerable power over the forms of financing and the distribution of income between capital and labour.

¹² Bridonneau, B., Scialom, L. (2020), Annulation des dettes souveraines par la BCE. Soyons iconoclastes, Alternatives économiques, 21Avril.

¹³ L'expression a été formulée par Milton Friedman dans *The Optimum Quantity of Money and other essays*, Aldine, Chicago.

¹⁴ Stiglitz, J. (2002), *La grande désillusion*, Fayard, Paris.

¹⁵ Duval, J. (2015), La dette publique, un problème politiquement construit? Regards croisés sur l'économie, n°17.

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