PUBLIC DEBT AND ECONOMIC GROWTH FROM A MARXIAN THEORETICAL STANDPOINT

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AIM OF THE PAPER

• Marx devoted little attention to the functions of the State (and, particularly, to the role of public debt) in the capitalist system, and, in more recent times, little attention has been devoted to this issue on the part of Marxist scholars.

• This paper aims at providing

• 1. a reconstruction of Marx’s theory of public debt (or “fictitious capital”), in order to study the effects of the expansion of public debt on the dynamics of income distribution;

• 2. some suggestions for interpreting the “Italian decline” from a Marxian theoretical standpoint
A RECENT (AND INFLUENTIAL) INTERPRETATION

• Michl (2009). He maintains that – in a Classical-Marxian theory of growth - “public saving can increase capital accumulation in the long run” (p.17). This happens for two reasons. First, if capitalists expect an increase in taxation on profits, they reduce their current savings, thus reducing investment. Capitalists’ reaction is motivated by two assumptions: i) they have an infinite horizon; ii) they save for “dynastic motives”, i.e. to transfer resources to their offspring, according to an altruistic intergenerational attitude. Second, “Because all debt is regarded by capitalists as net wealth, it will crowd out real capital in their portfolios, and thus retard the accumulation of capital” (p.106). He concludes that public debt both has a regressive effect on wealth distribution and reduces the growth rate.
To Marx, there is no single effect on income distribution and capitalist reproduction associated to variations of public debt. In particular, on the basis of textual evidence, the following mechanisms are in order:

- **Public debt and speculation.** Marx maintains that the increase in public debt encourages speculation on the part of capitalists, thus creating a class of financial aristocracy. Accordingly, growing amounts of accumulated profits tend to be used for speculative activities, giving rise to the following effects:
  
  - Capitalists’ speculation reduces investment. The increase in the supply of State bonds generates an incentive to speculate only for firms which operate in the financial markets, i.e. only for big corporations. This gives rise to a process of capital reproduction based on $M-M'$ for this part of capital, while the process of valorization – via exploitation in the production process – mainly pertains to the other part of capital which is not ‘financialized’. Accordingly, the increases in public debt reflect and trigger inter-capitalist conflicts (between small firms and big corporations). Furthermore, an increase in public debt is associated to a “crowding out” effect at the expense of small capital, which becomes more vulnerable to processes of acquisition on the part of big corporations. As a result, **increases in public debt contribute to an increase in the industrial concentration ratio**, thus amplifying the tendency towards monopoly capital.
  
  - The reduction of investment implies a reduction of employment, which, in turn, due to the enlargement of the ‘industrial reserve army’, means a reduction of wages. Wages fall not only because of the rise in the unemployment rate, but also because – insofar as fiscal policy reflects capitalists and workers’ bargaining power – the increase in public debt implies increases in taxes on wages. This case represents the **distributive conflict between “financial aristocracy” and labour**.
  
  - Disposable wages can drop even if the Government taxes firms, since firms can offload taxes onto prices, thus negatively affecting real wages.
MARX: PUBLIC DEBT AND PROFITS

• In Marx’s logic an increase in net public expenditure – and hence an increase in public debt – serves for capital reproduction, in the sense that it allows capitalists to obtain increasing monetary profits. The rationale for this effect is to be traced in the fact that public expenditure – mainly in the form of increased employment in the public sector and enlargement of state capital – increases both workers’ consumption, on the part of workers who are not hired by private capitalists, and the state’s demand for goods to be employed within its administrative structure. Accordingly, it is an additional influx of money that expands the domestic market (Baran and Sweezy, 1966).

• It is worth noting that, in line with Marx, public expenditure reduces the necessity for firms to contract debt with banks, insofar as it increases money revenues and, consequently, profits and internal funds. This relation states that increases in public expenditure redistribute income to the benefit of capitalists and at the expense of banks.
Gough (1975) points out that, though in a non-systematic way, Marx maintained that public intervention serves for supplying “state finance” and “state provisions”. In other words, the state produces social services which workers can acquire at lower prices than would be the case if they were produced by private firms. This is particularly so for public goods, which private firms do not find profitable to produce. Health services and education are the most significant examples (cf. Rowthorn, 1974). In view of this interpretation, public expenditure serves to implement a welfare state system, which, in turn, serves for capitalist reproduction insofar as it increases surplus value, independently of variations in the technical composition of capital and/or of prolonging of the working-day.
Economic policy is profoundly affected by the bargaining power of social classes with antagonistic interests. In particular, four macro-agents are to be taken into consideration: the Government, banks, capitalists and workers. Banks and capitalists have superior bargaining power in the political sphere because they threaten the Government, while workers (except in the case of social conflict) cannot. This occurs because i) banks are creditors of the State, and, for this very reason, they can react to taxation by refusing to buy state bonds; ii) capitalists, particularly if they are proprietors of big firms, can react to taxation via “capital strike” (i.e. by threatening delocalization). As a consequence, the tax system is necessarily designed in such a way as to generate “fiscal exploitation” at the expense of workers. Accordingly, policymakers do not aim at maximising social welfare.

As Marx points out, “Over-taxation is not an accidental occurrence, but rather a principle. [It is] the best system for making the wage-labourer submissive, frugal, industrious and overburdened with work”. Thus, fiscal exploitation can be regarded as a tool aiming at increasing working hours and hence absolute surplus value (cf. Bin, 2012).

A decline of wages below their subsistence level generates – according to Marx – deterioration of the quality of the workforce and, as a result, a decline of labour productivity. Marx approaches this question with reference to the variations of the absolute surplus value resulting from competitive pressures.

Therefore, if the lengthening of the work-day generates deterioration of the quality of the workforce, thus reducing labour productivity, why do capitalists find this strategy profitable? To Marx, it is competition among capitalists which produces this outcome, which, in a long-run perspective, damages capital as a whole:

This is a case of lack of coordination, and a major contradiction of capitalist reproduction. The individual capitalist is forced to increase surplus value to stay competitive, while this strategy proves counterproductive once all capitalists behave this way.
A DRAFT INTERPRETATION OF THE ITALIAN “ECONOMIC DECLINE” USING MARX (I)

• Starting from the beginning of 1990’s, Italy’s public spending in relation to GDP was systematically lower than the average of industrialized countries and was higher taxation: while public debt/GDP ratio was systematically higher, Italy also experienced the most severe reduction of the wage share in comparison with European countries, and the greatest distributive inequalities of all the OECD countries.

• Cutting public spending (and raising tax) has not been a successful strategy in reducing the ratio of public debt/GDP, which has kept growing above all – if not exclusively – due to the high interest rates on government bonds (Graziani, 1992).
A DRAFT INTERPRETATION OF THE ITALIAN “ECONOMIC DECLINE” USING MARX (II)

• Increase of taxation, mainly on labour – about 50.3% on GDP, + 0.1% from 2014 (Istat, 2015), to repay the debt.
• Reduction of net real wages
• Reduction of labour productivity (also due to average small firms sizes) and increase of working hours. OECD reports that the rate of growth in labour productivity in Italy in the period 2001-2010 is about 0%, while, on average, EU27 countries experienced a rate of growth in labour productivity, in the same period, of about 2%.
• Reduction of the rate of growth and increase of public debt/GDP ratio
• Redistributive effects in favour of financial rents at the expense of labour.
CONCLUDING REMARKS

• It has been argued that: i) an expansion of net public expenditure (and hence of public debt) raises money profits and at the same time encourages speculation, thus redistributing income to the benefit of rentiers; ii) the increase in public debt implies increasing taxation on wages, labelled “fiscal exploitation”. The repayment of public debt requires an increase in taxation which, both directly and indirectly, reduces real wages. Workers can react by increasing their working hours or it may happen that the decline in wages leads to a deterioration in the quality of the workforce, thus reducing labour productivity.

• Two further effects have been taken into consideration. First, an increase in net public expenditure – and hence an increase in public debt – serves for capital reproduction: it allows capitalists to obtain increasing monetary profits. Second, the increase in public expenditure can improve welfare services, increasing labour productivity. Accordingly, by contrast to the dominant interpretations, there is no single answer, for Marx, to the relation between public expenditure, capital reproduction and income distribution.

• The Italian case appears to confirm Marx’s theory that the increase of public debt reduces the rate of growth (via the reduction of labour productivity) and redistributes income at the benefits of rentiers and at the expense of workers.
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