# Cancelling a debt we already own has a false allure

socialeurope.eu/cancelling-a-debt-we-already-own-has-a-false-allure

Anne-Laure Delatte, Michel Husson, Benjamin Lemoine, Éric Monnet, Raul Sampognaro, Bruno Tinel and Sébastien Villemot

9 March 2021

**The proposal to cancel ECB-held sovereign debt is not the best riposte to the looming renewal of austerity.**

While an end to the pandemic is not yet in sight, austerity is nonetheless making a discreet comeback in public debate. If fiscal orthodoxy could allow that states stood by an economy hampered by health restrictions, it affirms once more that newly-contracted sovereign debt would have to be repaid through cuts in pensions and public services, as well as tax increases for the vast majority of the population.

Anne-Laure Delatte

Nothing would be more destructive. The deteriorating socio-economic outlook, the urgent need for reconstruction of public services and a green transition require the launch without delay of a major public-investment plan. Broadly speaking, states must develop ambitious responses to social and ecological needs, as well as to future pandemics—and this course of action requires resources.

Michel Husson

## Fetishising the debt ratio

In this context, some of our colleagues, with whom we otherwise have a great deal in common, last year proposed the following solution: cancel the governments' debt securities held by the European Central Bank (ECB). According to them, such cancellation would significantly expand the fiscal space. Although this contribution has helped further the economic and monetary debate, we do not however share the analysis.

The proposal amounts to fetishising the ratio of debt to gross domestic product, when the creditworthiness of most eurozone countries' is not under stress. It even evacuates the subversive strength from the message of debt cancellation. It also gives no new room for manoeuvre—quite the contrary.

Behind the technical illusion, its radical nature is just a facade: an accounting trick alone cannot shift the balance of power inside the eurozone or between states and capital markets. So why invest so much political capital in defending a proposal which distracts from what is at stake in the current context?

Benjamin Lemoine

"Social Europe publishes thought-provoking articles on the big political and economic issues of our time analysed from a European viewpoint. Indispensable reading!"

The catchy motto 'cancellation of the debt held by the ECB' brings a powerful symbolic significance but it does not correspond as advocated to the reality of the operation. This debt is not directly held by the ECB but by the national central banks (through the Eurosystem).

Éric Monnet

The implication would be, for instance, that the *Banque de France* would write off its claim on the French state. The capital of the *Banque de France* is however 100 per cent owned by the state. This would therefore amount to cancelling a debt which the French state owes to itself. How can we believe such accounting gimmickry could have a real, positive and lasting impact on public finances?

States have an unlimited lifespan and thus can roll over their maturing debt indefinitely: when its sovereign bonds are about to mature, a state issues new securities to repay the expiring bonds. The central issue is therefore the conditions of sovereign-debt refinancing—particularly interest rates, which may vary for institutional, economic and political reasons. Yet rates on French sovereign debt are negative for bonds with maturities below 20 years and close to zero beyond that.

Raul Sampognaro

### No critical threshold

The level of public debt is never a problem *per se* for an advanced economy, such as Germany, France or Spain. Empirical studies have not been able to identify any significant critical debt threshold. Under these conditions, it makes no sense to cancel the debt to return to a supposedly sustainable level.

In addition, a debt-to-GDP ratio of 60 per cent in the 2000s—close to the Maastricht-treaty eurozone limit—did not stop the supporters of neoliberal orthodoxy from carrying out their destructive austerity policies, which fuelled the pandemic crisis by weakening our public-health systems. Even if it has shown its ineffectiveness, fiscal discipline is an autonomous economic policy: its implementation is not determined by quantitative data but is the product of ideologically motivated choices.

Bruno Tinel

To neutralise potential speculative attacks on eurozone sovereign bonds, it is necessary to break with the logic of market-based financing of states. Yet the proposal to cancel the debt held by the Eurosystem entails doing exactly the opposite. It consists in cancelling the debt held outside the market, to replace it with a new debt that would be 'greener' but still issued in the sovereign-bond market. Such an operation could reinforce the disciplinary role of financial markets.

The promoters of debt cancellation put forward another argument: their proposal would certainly not be a panacea but would have the merit of being politically easy to implement without 'harming anyone'. It is based on the premise that private and public creditors would form two sealed communities and that financial markets would approve this operation, because it pertains solely to the securities held by the ECB. Sovereign-debt restructuring and, more recently, the Greek sovereign-debt case reveal on the contrary how the interests and beliefs of technocracy and finance are entangled.

Sébastien Villemot

In the end, the expected fiscal space freed by the debt cancellation would very quickly be reversed by the risk premium which the markets would charge the state for borrowing. Given that the benefit is doubtful at best, the bet is definitely not worthwhile.

## Other solutions

There are however other solutions for guaranteeing stable and sustainable public finances, as well as protecting our economic sovereignty. It would be important to consider re-establishing fiscal room for manoeuvre by taxing high-net-worth individuals and multinationals (whose taxes have been falling for the past 40 years) or by taxing the extraordinary profits made by certain activities as a result of the pandemic.

Important political capital should be invested in abolishing the EU's restrictive fiscal rules and in the institutionalisation of a legitimate political governance for co-ordinating fiscal and monetary policies. The eurozone should enshrine in the treaties the role of the ECB as the purchaser of last resort of states' securities. We should seek replacement at maturity of the sovereign bonds held by the Eurosystem, by so-called perpetual debt at low interest, and the introduction of an overdraft facility for national treasuries at the ECB.

It is vital too to think seriously about financial-market regulation, by recreating a public banking hub and inventing a 21st-century European Treasury Circuit, partly inspired by past experiences. This would notably co-ordinate credit control, its channelling and allocation, and treasury financing (through for instance prudential policies requiring a mandatory holding of treasury bills by private banks).

No doubt, these proposals will meet fierce opposition from defenders of the *status quo*. But at least they convey a real emancipatory potential.

*This article also enjoys the support of around 80 economists from France and beyond. A French version of it has appeared in* Le Monde.


### About Anne-Laure Delatte, Michel Husson, Benjamin Lemoine, Éric Monnet, Raul Sampognaro, Bruno Tinel and Sébastien Villemot

Anne-Laure Delatte is an economist and researcher at the *Centre national de la recherche scientifique* (CNRS), Paris Dauphine University. Michel Husson is an economist and researcher at the *Institut de recherches économiques et sociales*. Benjamin Lemoine is a researcher in sociology at CNRS based at the *Institut de recherche interdisciplinaire en sciences sociales*, also Paris Dauphine. Raul Sampognaro is an economist at the *Observatoire français des conjonctures économiques*, Sciences Po. Bruno Tinel is associate professor of economics at Paris Panthéon-Sorbonne University. Éric Monnet is an economic historian, professor at the *École des hautes études en sciences sociales* and at the Paris School of Economics. Sébastien Villemot is an economist at the *Centre pour la recherche économique et ses applications*.