Therefore, we do not understand – or at any rate very little – what public debt really is. A sovereign nation as described above does not have any obligation to create bonds and other Treasury bills to finance itself. Do countries which ask markets and investors for money, at sometimes prohibitive interest rates, know or are they aware that such a transaction is entirely voluntary? Indeed, it is a strategy – questionable or definable according to the circumstances – which means that the state in question decree that credit accounts deposited into its central bank would turn into revenue by converting them into bonds and other instruments of credit. Therefore, deliberate choice, on the part of a country which grants investors, private funds or other countries outright a say in its monetary policy and public spending. Entering the arena of financial markets for a country seeking funding amounts in effect to accepting – even promoting – a transfer of wealth, but also of power to and in favor of its creditors. This is why a state should identify those who purchase its Treasury bills, when it should simply not be selected prior to their issuance. This is an essential issue, even existential, for an independent country eager to maintain its sovereignty. The contemporary example that immediately comes to mind is the dependence of the United States vis-à-vis their first bondholder, namely China. After all, and this has already been seen since the European crisis with Western and modern countries, markets are very capable of paralyzing an economy, not when a country fails to meet its commitments, but simply whether markets are no longer convinced of its financial virtue. Issuing bonds is therefore a voluntary process on the part of a state which could just as easily have the same liquidities by requesting its central bank to credit its account and those of its service providers. Money has no smell or color, economic actors are very indifferent toward whether their stimuli, tax cuts, income and social benefits come from international investors or printing money. All this makes it possible to relativize considerably the fluctuations in interest rates, the success of issuing bonds, the identity of those which hold the Treasury bills and even the threats of insolvency.

So why all this anxiety and fuss around these issues of public deficits that are really not so? Probably because economists and leaders confuse
their pockets with that of the state! In fact, a country’s debt differs altogether from private debt. In this regard, there is debt and debt and it would be completely counter-productive not to distinguish them since, by doing so, we contribute actively to penalizing the state, therefore ourselves. In fact, a country’s debt differs altogether from private debt. In this regard, there is debt and debt and it would be completely counter-productive not to distinguish them since, by doing so, we contribute actively to penalizing the state, therefore ourselves. First, let’s note that when it generates deficit, that is to say, when it creates money, the state issues simultaneously an asset in favor of the private sector but without the latter having to offset this debt by a bond or constraint of any kind. Thus, public debt represents a net gain for the private sector and therefore for the economy. And this, contrary to the private sector which, not having the ability to print money, and not being capable of crediting accounts at will, cannot be indebted beyond a certain threshold. The private sector can thus easily switch to a Ponzi scheme. This term is, on the other hand, not found in the vocabulary of a state which has its own sovereign currency, and therefore which is not obliged to borrow. As a result, the obligation of governments – and which markets impose on them – to balance their budgets and public accounts can be revisited under another perspective. It becomes obsolete. Indeed, as we have seen before, however little a country has an independent monetary scheme, the mass of its debts and the limits of its deficits as the pace of issuing its bonds fall within its own decision, because no one would in theory be able to impose them on it. Contrary to the gold standard regime and the indexation of a national currency to another referenced currency, the floating exchange rate system therefore gives a nation latitude and freedom to act potentially fully and completely. Is this not peculiar to a sovereign nation? An extremely tough and generally widespread urban legend demands, however, that the state be “respectable and responsible” by balancing its budget – or at the very least that it gets close to balancing it – with the objective of not exhausting its national resources and not “spiraling” out of control. Paul Samuelson, born in 1915 and recipient of the Nobel Economics Prize in 1970, goes even further by calling this rule “superstitious” – foolish but globally a dogma – to maintain national budgets close to balanced accounts. He sees this as an exemplary value for the whole of society which should not let its expenses spiral out of control. According to him, the state should be present to lead citizens to the way to discipline to get them back on track… If this is the case, it is necessary to note that today we are witnessing a radical shift in paradigm since it is the turn of modern and evolved but extremely deficit States who need to get back on track! That does not matter: that this logic of reversal of values is pushed further and therefore we use to dismantle the myth of the frugal state. In fact,
the state – with a monopoly on printing money – is able to credit accounts, including those of its creditors. As such, it does not have to leave it to the markets to determine its financial costs, and even less its public policies. Ceding to market pressure by having to publicly borrow thanks to the bond instrument is therefore strictly voluntary for a state. This state believes in playing the game. In reality, it only plays the game of investors whose sole preoccupation is to grow their savings. That is why a country such as Spain, which abdicated its monetary policy (to the EDB), has today been reduced to borrowing from the markets at astoundingly high interest rates to finance itself. The Greek or Spanish cataclysmic experience further demonstrates the cruelty of markets and rating agencies which have completely taken control. Public deficits will continue to persist so long as the growth rate remains lower than the rate of return on the State’s bonds. In this regard, it is necessary to understand that the European Union is not really confronted with a debt crisis, but with a problem of sluggish growth, the effects of which naturally spill over into its public deficits. Weren’t the rates of refinancing Spain’s debt consistently between 5.4 and 5.9% between January 2000 through May 2002 without anyone worrying about it or predicting cataclysm? Robust growth would in fact allow the State to offset this charge while providing opportunities and confidence to financial players. This is precisely why it is now vital to focus exclusively on the growth rate of our economies, while relegating this obsession with deficit reduction to the background having the perverse effect of stopping the activity. Finally, as it is strange to note today that they are the same ones who did not see the financial crisis coming who persist on the path of austerity, orthodoxy and who set themselves up as great defenders of the public purse and large deficit slayers. Indeed, they were the same one who yesterday indulged in – and with – the financial markets fully delivered to themselves, and who often drew juicy profits, which have now – against all expectations – become fanatical, even fetish, about limiting public spending.

It suffices that the last-resort lender, i.e. the central bank, transfers cash into the Treasury’s account knowing that the other side of the coin is inflation. But is inflation really dangerous or, rather, when does inflation become dangerous? Almost all economists fear in fact – and with legitimate reasons – that that excessive money creation results in a surge in inflationary pressures. However, a State’s stimuli in favor of its economic actors, the reduction income tax and other increases in public spending never risk incurring inflation if the economy performs well below its abilities and as long as the government exercises price control. Therefore it is only when the economy is working at full capacity that extra public spending – but also businesses and households – induces inflation. Under this assumption of full capacity, inflation can be further
avoided by a gradual reduction in public spending which would, at any rate, be counterbalanced by increased investment by the private sector within a framework of a booming economy. The acceleration in public spending is therefore not likely to generate inflationary pressures by causing a run on consumption and aggregate demand in the context of an activity that is slowing down, no more so than it would threaten (as was seen above) the solvency of the sovereign state in question. Let’s therefore stop pretending that the creation of money and the monetization of debt lead to insolvency and inflation. Rather let’s try to qualify and put into perspective by understanding that a given economic context is able to “cash in” extremely liquidity injections and support a widening of its deficits while being able to bounce back. And let’s moderate our obsession with the ratios of our debts vis-à-vis our GDP which are only very reliable and worthy of interest in a system of fixed exchange rates or indexed to a metal. Indeed, these ratios and measures are from providing irremovable benchmarks within our globalized economies. Informed governments, advised by informed experts, would be better to analyze dynamically since there is no level of debts or deficits which would automatically or mechanically set off crises and which would reduce growth. The budget of a modern state with the so-called “integrated” economy is the result of inherently endogenous variables. It is narrowly related to the performance of the private sector, since it becomes deficit in nature when households decide not to spend and businesses increase their imports. If there are indeed limits to which a country can spend, they must not in any case be defined in terms of solvency. These limitations are rather functions of resources that the state intends to mobilize since deficits would be logically much more massive that the state commits to exploiting the abilities of its economy and putting its citizens to work.

Deficits and economic activity on the one hand, jobs and savings on the other hand, are the two facets of the same puzzle. Thus persistent unemployment (as it has been for decades in our Western countries) means that our deficits are too low and that the state should increase its spending or lower taxes! Stimuli would gradually be withdrawn in case of sustainable regression of unemployment or if the economy was no longer able to absorb investments, which would therefore lead to inflation. In other words, the only limit on public spending is not the lack of funding or the overflow of debts which would be too massive vis-à-vis GDP. The only obstacle to public spending is inflation. But therefore: Would Germany be correct in opposing all its forces to more stimuli to help peripheral Europe? The big problem with its approach is that it lacks total inventiveness, flexibility and that the Germans are barricaded behind a full theoretical and academic argument. The ridiculously low returns on the German Treasury bills indeed indicate that this country
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inspires total confidence and therefore benefits from a massive influx of liquidities which compresses its rates. But they also mean that the least inflationary threat is to be totally excluded. Germany should therefore never fear the 1923 hyperinflationary nightmare of Weimar (against which our central banks today have the tools to defend themselves) but rather the cataclysmic scenario of 1932 when the U.S. unemployment rates was over 30% of the U.S. population… Germany’s absolute priority – as the economic engine and Europe’s poster child – and good governance by the ECB should therefore lead to rebalancing the capital flows in the Union for better distribution. The misfortunes of Greece, Spain and the other fragile countries come from a scarcity in cash at their disposal while Germany, for its part, abounds in it, as reflected through the insignificant, or even negative, return on its treasury bills. It should therefore reduce its surplus, stimulate its consumption, and encourage a minimum level of inflationary pressure so as to induce an inverse movement with peripheral European countries. German deficits – or at least the reduction in surplus – would mechanically translate within the same monetary Union into a significant reabsorbance of the deficits of needy countries.

Let’s therefore once and for all get rid of these prejudices which surround us – even stifle us – and which raises a precondition to economic recovery to reduce deficits. The reality is totally different since the public purse can resuscitate – or at least invigorate – the private sector by boosting its revenues and savings. In time of crises, on the state is able – and has the duty – to protect the weakest and most needy and to make society prosper by guaranteeing it its social assistance and by making employment for all a priority. So long as there is unemployment, so long as our economy is not modernized, so long as our plants do not operate at full capacity, so long as our businesses cannot compete and citizens do not produce, a sovereign state can and must continue to stimulate the economy and create money. Letting deficits slip thus remains the only means of recovery for the private sector during a recession while helping to restore savings. Thus it is only thanks to the massive stimulus packages injected successively by the Bush and Obama administrations (respectively) that the U.S. economy did not plunge into depression despite a totally infected financial system and a crisis almost as severe as the Great Depression. It is also the massive program implemented by China in 2009 which maintained its growth rate despite the collapse of global economic activity which severely undermined its exports. Austerity and budgetary economies devastated European growth and plunged it into recession since the third quarter of 2011. For those who vilify money creation by invoking the aspect of “artificial” recovery it creates, my response is that if there is recovery, a reduction in unemployment and recovery of purchase power, the objec-
tive has been achieved. If printing money reestablishes confidence – and it does! –, I can hardly ask for more. There is therefore proof that, as long as the state is sovereign and it prints a floating currency, it is possible to build growth – and therefore ensure the comfort of citizens – with credit, when turbulent and unstable periods depress the private sector. It is up to the state to support these stimuli by implementing essential measures and regulations aimed at stabilizing the private sector and forcing it to settle its debts. There is therefore proof that, as long as the state is sovereign and it prints a floating currency, it is possible to build growth – and therefore ensure the comfort of citizens – with credit, when turbulent and unstable periods depress the private sector. It is up to the state to support these stimuli by implementing essential measures and regulations aimed at stabilizing the private sector and forcing it to settle its debts. It is up to the state to regulate activity to avoid speculative bubbles and excesses. However, its single and only limitation in terms of deficits is able to absorb its own economy, for injected money must only be considered as a tool to reestablish purchasing power and investment. Continuing to shrink deficits during times of crisis is tantamount to accepting high unemployment and a notorious decrease in the standard of living of all citizens, including those who kept their jobs. Let’s not sacralize money which is only a vehicle to move our economy forward more leniently and for our ship to arrive safely. It is not actually the means of transport which count, but the passengers. In the same vein, let us trivialize the action of raising or lowering interest rates, which is nothing sacred or difficult to understand or comprehend. Indeed, the central bank simply buys bonds in the markets (with the money it has already created) when it decides to lower its rates. It performs the reverse operation since it must go back, that is to say, it sells Treasury bills and removes the money received in return… In other words, as money is not a value, let’s use it sparingly and scrupulously since it allows us to achieve our objective.