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**Economy :**

# **Cancelling debt or taxing capital: why should we choose?**

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**On the occasion of the publication of two major works, *Le Capital au XXI<sup>e</sup> siècle* and the French translation of *Debt The First 5000 Years*, Mediapart organized a meeting between the authors, namely Thomas Piketty and David Graeber. It is available on the Mediapart website in French [\[1\]](#).**

How can we escape the snare of the debt? This crucial question that was raised at the start is also at the core of our activist actions and deliberations. We have therefore wished to carry on this fruitful exchange through the following collective text, which comments on and questions the respective points of view and arguments which the two authors put forward.

## Cancelling the debt or taxing capital?

Piketty and Graeber's dialogue revolves around the respective merits of taxing capital and cancelling public debt. Relying on an extensive historical and anthropological erudition Graeber stresses the fact that cancelling all or part of public or private debts has repeatedly occurred in the history of class struggles over the past 5,000 years. Considering that debt is a central instrument in capitalist domination today, he does not see why it should be any different in the coming years.

Piketty considers that the burden of the debt can be significantly relieved through taxing large fortunes, this would be socially more appropriate since it would not hit the small savers who are holders of a large part of public debt (via mutual funds run by banks and insurance companies).

Though it was not made explicit by either of the two, we can probably trace their different approaches to different political and philosophical assumptions. Belonging as he does to an anarchist tradition Graeber sees cancellation as preferable because it does not rely on the action of a national State and even less on some supranational institution: it can result from the debtors' direct action (see the 'strike debt' project [\[2\]](#) put forward by Occupy Wall Street), or from popular pressure on governments. Piketty, who belongs to a social-democrat tradition, sees a global taxation of capital as a necessary move and national tax measures taken by reformist governments as a first step forward.

In the light of the two authors' arguments, we suggest that there is no need to choose between taxing capital and cancelling debts. The two measures can and should be carried out simultaneously.

## Is cancelling debts a socially unfair measure?

Piketty rejects debt cancellation on the ground that most creditors would be small savers who would be unfairly deprived while the very rich would have invested only a small part of their wealth in public debt securities. But we object that the debt auditing that we support aims not only at differentiating legitimate (i.e. debts that serve the general interest) from illegitimate debts, but also at identifying creditors so as to treat them differently according to their status and the amount they hold. In fact suspending payment is the best way to find out who holds what since it compels security holders to show themselves.

According to the Banque de France, in April 2013 French negotiable government debt was held for 61.9% by non-residents, mainly institutional investors (banks, insurance companies, pension funds, mutual funds...). Of the 38.1 % held by residents, banks held the lion's share with 14% of French public debts, next to insurance companies and other asset managers. [3] Small investors (who run their security portfolio themselves) are a tiny minority among public debt holders. When public debts are cancelled, small savers who have invested in public securities as well as wage earners and old-age pensioners who had part of their social security contributions (old-age, unemployment, disease or family benefits) invested in institutions or bodies that run the same kind of securities can very well be protected.

The cancellation of illegitimate debts has to bear on major private financial institutions and the very rich households. The rest of the debt must be restructured so as to radically reduce both its stock and its charge. Such reduction/restructuring can indeed rely on a tax on the patrimony of the very rich, as proposed by Piketty. [4] Cancelling illegitimate debts and reducing/restructuring the remaining part of the debt must occur simultaneously. A wide democratic debate must decide on where to place the cursor between small savers who must be protected and those who can be dispossessed. We can then set up a progressive tax on capital that would hit hard on big money, the 1%, who Piketty has shown hold over a quarter of the total wealth in Europe and the US. [5] This one shot tax would make it possible to absorb all public debts. Subsequently a strongly progressive taxation on income and capital would prevent further patrimonial inequality, which Piketty rightly sees as incompatible with democracy.

Who profits from debt cancellation?

Although we disagree with Piketty when he says that "debt cancellation is not at all a progressive solution", he is right to doubt the kind of piecemeal debt forgiveness accorded to Greece since March 2012 by the Troika (the European Commission, ECB, and IMF). The accompanying measures are violations of the economic, social, political, and civil rights of the Greek people, and are sending them further down the stairway to hell. It is in fact a mean trick, to help the foreign banks (mainly French and German) wriggle out of a tight bind with the least losses, to recapitalise Greek banks at the cost of the taxpayers and to durably tighten [the hold of] the Troika's hold on Greece. In 2009, Greek public debt was equivalent to 130% of GDP, in 2012, after debt write-downs, it had nevertheless jumped to 157% and reached a new peak of 175% in 2013. Over a similar period unemployment has grown from 21.6% in 2010 to 27% in 2013 (50% for the under 25s). In agreement with Thomas Piketty, we also refuse the "haircut" approach supported by the IMF that keeps the captive alive in order to keep sucking its blood. Debt cancellation or sovereign default must be decided by the debtor country itself, and under its own conditions, to achieve the greatest benefits (as did Argentina in 2001, and Ecuador in 2008-2009).

## Debt and wealth inequalities are not the only problems

Graeber and Piketty disagree on whether it is debt or [if it is] unequal distribution of wealth that is the principal political issue. In our opinion, the problems encountered by our societies are not limited to these issues. First, it is worth remembering - and Graeber reminds us of this systematically - that the level of private debt is much greater than that of public debt [6], and the recent sharp increase in the latter is largely due to a great deal of private debt being transformed into public debt when the banks were bailed out. Second, and most importantly, the debt issue must be understood in the global economic context, from which it has emerged, and of which it is only one aspect.

We argue that taxes on capital and debt cancellation must be part of a much larger programme of far-reaching and complementary measures that would spark-off a transition towards post-capitalist and post-productivist social forms. Such a programme, which must become pan-European, even if it may start in one or a few countries, would notably abandon austerity policies, reduce working hours while maintaining wage levels and hiring the necessary supplementary workforce, socialise the banking sector, introduce widespread tax reforms, take measures to

guarantee gender equality, and apply ecological transition policies in a determined manner.

Graeber insists on debt cancellation because he believes, as we do, that this objective, although insufficient in itself, can be politically motivating and part of a radically egalitarian and anti-capitalist project. The essential criticism that can be made of Thomas Piketty is that he thinks that the solution may be found within the current framework. To redistribute wealth and maintain democratic rule he proposes a progressive tax, but does not question the system and conditions that have produced the problems. He considers only one aspect of the situation without tackling the underlying causes. If a tax on capital were applied as a result of social struggle, the great danger is that its product would be swallowed up by repayment of illegitimate debt if it is not first cancelled. We cannot be content with a fairer share of the wealth produced by a system if this system is predatory, has no respect for people or common property, and destroys the planet at an ever faster rate. Capital is not only a useful means of production that deserves a regular 5% return as Piketty mentions, it is also an important vector of social relationships of domination by the possessing classes over society as a whole. Capitalism as a means of production is not only the cause of more and more unbearable social inequalities, domination, exploitation and alienation of the people, it is also a menace to our ecosystem, the justification for the plundering of common property, accumulations that turn humanity into spiritually enslaved individuals obsessed by owning things to the detriment of the underlying immaterial basis of our relationships.

The big question that Piketty does not raise, but which is obvious to anybody who observes relations of power in our society, and the hold that the financial oligarchy has on States, is the following: Which government, which G20 will decide on a Worldwide progressive tax on capital without a powerful social movement first forcing the dismantling of the global financial markets and the cancellation of public debt, which is one of the oligarchy's principal sources of domination?

Like David Graeber, we think that debt cancellation must be achieved by the "pressure of the social movements". This is why we are active in the Citizens' Audit Collectives (CAC [7]), so that the cancellation of illegitimate debt would flow from the people upward. We remain doubtful about the idea that "current production methods are based on moral principles more than on economic considerations", because "neoliberalism has favoured political and ideological considerations over economic considerations". We do not think there is any contradiction between these domains, which the neoliberal system manipulates in its own fashion. Capitalism has not favoured political and ideological considerations over economic considerations; it has brought them to heel and put them at the service of maximum private profits, with a certain amount of success if we are to judge by the data presented by Piketty. This system certainly creates enormous disequilibria – like the levels of public and private debt – and is not in the long term compatible with an emancipated society, but for the moment it continues to dominate.

Beyond our differences – less significant with Graeber, more profound with Piketty – which we have just made clear, we are of course prepared to go along the path of illegitimate debt cancellation AND that of a progressive tax on capital. Once we come to a point where one of the paths indicates a way out of capitalism, we will have the choice, all together, to take up the discussion again in the light of the lessons we have learned.

Translated by Christine Pagnouille, Mike Krolkowski and Charles La Via.

[CADTM](#)

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[1] <http://www.mediapart.fr/journal/cul...>

[2] [ [www.strikedebt.org](http://www.strikedebt.org)]

[3] Reuter, Â« Les 50 plus gros détenteurs de dette française <http://fr.reuters.com/article/compa...>, 28 December 2011.3]

[4] T. Piketty, Le capital au XXIe siècle, Le Seuil, 2013, p. 887.

[5] T. Piketty, *ibid.*, p. 556.

[6] In 2011, in the eurozone, total sovereign debt was 82 % of GDP, that of households 61%, non financial societies 96 %, and financial societies 333 % ( Morgan Stanley data) :<http://www.ecb.europa.eu/stats/mone...>

[7] See the site of the CAC (in French only) :<http://www.audit-citoyen.org/>