ROSA LUXEMBURG FOUNDATION

IS THE WHOLE WORLD GOING BANKRUPT?

Government Debt: What It Is and How It Functions

luxemburg argumente

In the 1990s, it was "globalization." Now "government debt" is considered the central problem of the world economy. The reason: for the first time since the Second World War, it is not the so-called developing countries that are experiencing a debt crisis, but rather established industrial countries. In Europe, a few governments have become insolvent and have to be financed by other states. In the United States, government debt has grown to levels that are otherwise only reached during wars. That is why *Bild,* Germany's biggest tabloid, asked: "Is the Whole World Going Bankrupt?" (July 13, 2011), while the headline of the newsweekly *Der Spiegel* (32/2011) asked: "Is the World Going Bust?"

In the public discourse, two things seem to be clear: first, government debt is bad. And second, there is too much of it. "Saving" is therefore the order of the day. States want to become "trimmer," public property is being privatized, and national wage levels are to be lowered in order to raise the level of "competitiveness" of the nation as a location for business. Government debt thus engenders the same political measures as the specter of "globalization" a decade ago.

Now all governments of the industrial countries have resolved to save more drastically. This affects the poor primarily in the form of social cuts – in all countries. Why is that the case? Where does all this debt come from? Why do all states incur debt – even though it is generally considered to be something bad? And why not just cancel these debts, if the whole world is suffering under them? These are some of the questions that this brochure seeks to answer. It does not attempt to assert that government debt is actually not a problem. Rather, it attempts to demonstrate the purposes that government debt serves, and when it becomes a problem – and for whom. Because ultimately, questions of debt are questions of distribution: some have to pay, while others benefit.

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1

THE THRIFTY HOUSEWIFE AS A ROLE MODEL: "YOU CAN'T SPEND MORE THAN YOU EARN"

At a convention of her party, the German Christian Democrats (CDU), in December of 2008 in Stuttgart, Chancellor Angela Merkel invoked the image of the thrifty Swabian as a role model for state economic activity: "We should have just asked a Swabian housewife here in Stuttgart, in Baden-Württemberg. She would have related a piece of wisdom which is as brief as it is correct: 'In the long run, you can't live beyond your means.'" It seems so simple and true.

What Truth is There to That?

The comparison between government and household budgets is beloved by politicians when their aim is to explain the state's distress to the population. But the comparison with the housewife is misleading. A government budget functions according to different rules than that of a household budget. If a private household takes out a consumer loan, to purchase a new wall unit for example, then it is an act of anticipatory saving: the household doesn't first save up the money in order to purchase the furniture, but rather takes on a loan, buys the wall unit, and then repays the loan to the bank – including interest. The loan thus makes the household poorer (since it pays the purchase price of the wall unit, plus interest to the bank). The state, on the other hand, takes out a loan and uses the money to build roads, schools, and telecommunication networks. It thus improves the conditions of doing business in the country for companies and attempts to attract investment and make it profitable. For the state, incurring debt is a means of stimulating economic growth. For example, the state provides subsidies for young "growth industries," and uses military expenditures as a means of securing the global business of domestic companies. Furthermore, debt-financed expenditures can strengthen social demand, so that a crisis can be more quickly overcome. The central index for the state is therefore not the absolute level of debt in dollars or euros, but rather the so-called debt-to-GDP ratio. This divides the total government debt by economic performance (Gross

Domestic Product or GDP). This ratio measures whether growing debt is accompanied by an increase in GDP – thus whether debts function as a lever for more economic growth.[1] As long as that functions, government debt is no big problem and the state achieves its goal: the growth of national wealth. Incidentally, a business also cannot be compared to a private household: it borrows in order to build a car factory, for example. It invests, so credit is capital for a business: external finance. The factory – according to the plan – yields a profit. From this profit, the business repays the principle and interest on the debt. If things go according to plan, the business is not poorer as a result of the debt, but richer.

So of course, a government can spend more than it earns in the long term, since it can increase its income with the expenditures. A housewife cannot do that. In contrast to a private household, a country can even become richer by taking on debt. It all depends upon what the government uses the credit for.

2

"OUR GRANDCHILDREN WILL HAVE TO PAY BACK OUR DEBTS"

The German weekly newspaper *Welt am Sonntag* (June 26, 2011) explained to Sigmar Gabriel, chair of the Social Democratic Party of Germany (SPD): "We're living at the expense of our grandchildren and great grandchildren, since they have to pay for all of that." In every talk show debate, the remark always comes up at least once that "we" cannot incur debt at the expense of our children and grandchildren. That is a requirement of the fundamental principle of "intergenerational justice". The dramatic picture is clear: debts incurred today have to be paid back in a few years or decades. If new debts are taken on every year, then the pile of debt becomes larger.

1 The Gross Domestic Product is not the property of the state, but it represents the wealth the state can potentially draw upon by means of taxes.

The more debts accumulate, according to this argument, the less money there is for other expenditures, for example for education, road construction, and social programs.

What Truth is There to That?

This picture is also wrong. First of all, assets such as roads or schools that are financed by credit are also available for use by future generations. Second of all, with government debt, no redistribution between generations occurs, but rather redistribution within a generation: generally, from "below" to "above". How does that work? "Our grandchildren" do not just inherit the debt, but also the claims upon the debt, so they also inherit wealth. One can picture this using the example of a family: when the mother lends 100 euros to the father, and both die, the children do not just inherit the 100 euro debt of the father, but also the mother's claim. So who inherits the debt and who inherits the claim? Who has lent money at interest to the state? And above all else: who pays this interest and where does the money come from?

For example, in the year 2008, German government debt alone yielded 69 billion euros in interest. The debt instruments are held overwhelmingly by banks, institutional investors, and the wealthy. They lend their spare money to the state by purchasing government bonds, and collect interest in return. The interest paid by the state comes from tax revenues. In Germany, as a result of the tax reforms of the last ten years, roughly two-thirds of taxes are paid by wage workers. That means that there is no redistribution between generations occurring (the sum of claims and obligations balances out). Rather, we are dealing here with a transfer of wealth from those whose tax payments finance the repayment of interest and principle, to those who pocket billions of euros every year as owners of government bonds.[2]

2 However, government debt is not the cause of the interest collected by owners of wealth, but rather their wealth itself. "Interest income arises solely from the fact that some households are in a position to accumulate savings. So there is no problem of justice arising from government debt that didn't already exist with regard to preexisting disparities of income and wealth" (Norbert Reuter, "Inter-generational Justice in Economic Policy", PROKLA 121/2000, p. 547–556).

By the way, government debt is not “paid back”; rather, it is serviced. That means that the state’s pile of debt is usually not paid off or settled so that a state at some point again becomes debt-free. If a debt becomes due, meaning that the sum originally borrowed as credit has to be paid back, this occurs in the form of a *roll over*: to pay back old debts, new credit is taken on. The debt due is replaced by new debt in a quasi-permanent process that is hardly ever explicitly mentioned. For example, since 1965 the Federal Republic of Germany has never entirely paid off its debt, but always rolled it over instead. Only new credit which exceeds the amount rolled over counts as “new debt.” That means that if no new debt is taken on, the pile of debt remains the same as before. Future generations will proceed in the same manner. Debts will not be settled, but instead serviced. As long as economic performance grows, that is not a problem. It is not “our grandchildren” who have to repay debts in the future that “we” incur today. Rather, the wage workers of today pay for the financial investors of tomorrow. This distinction between winners and losers of government debt is obscured by the national “we.”

3

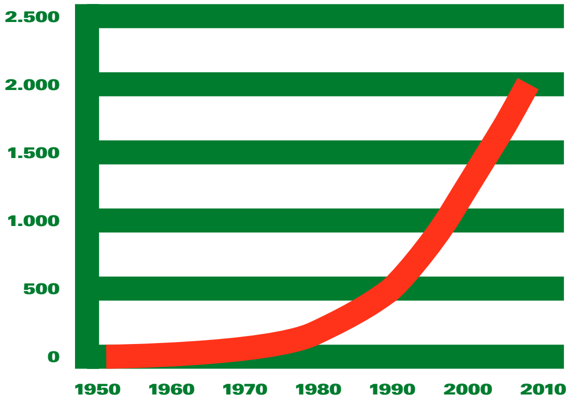
“WE’VE ALL LIVED BEYOND OUR MEANS”[3]

The German chancellor claims that “the Germans” have incurred too many debts. By that she means not private businesses or private households, but rather the state. She nonetheless suggests that this applies to everyone. In 1950, the government debt of the Federal Republic of Germany was still at 9.5 billion euros. In 1990, it was 538 billion euros. Between 2007 and 2010, debt grew drastically as a result of the economic crisis by almost 30 percent, from 1,550 to 2,000 billion euros. In the United States, government debt has risen by a fourth to 16 trillion dollars since the beginning of the crisis, and in Japan by almost a fifth, to 1120 trillion yen.

3 Angela Merkel (Potsdamer Neueste Nachrichten, May 15, 2010).

Germany: Growing Government Debt

Gross government debt in billions of euros



All of that is supposed to be "our" debt. After all, "we are all the state."[4] This is usually expressed as the per capita share of debt. In Germany, this rose between 1950 and 2010 from 190 to 24,500 euros. In the United States, it is about 40,000 euros at the moment (see point 10). In other words, we are living beyond our means.

What Truth is There to That?

Concerning the first point, it is true that government debt has risen drastically. But what does that mean, "our" debts? In most countries, the finance ministry draws up a budget. It predicts state revenues and expenditures. When expenditures exceed revenues, the difference is financed by taking on new debt, meaning that the government borrows money. The budget and the new debt are then usually approved by the parliament. The population at large does not share in this decision-making process. It can follow the budget debates in the media and form its own opinion. It can be satisfied or dissatisfied with the state's

4 According to the German government on its webpage "regierenkapieren. Die junge Seite der Bundesregierung" ("Understanding Government. The Youth Webpage of the Federal Government") under the section "Wo kommt das Geld her und wo geht es hin" ("Where does money come from and where is it going").

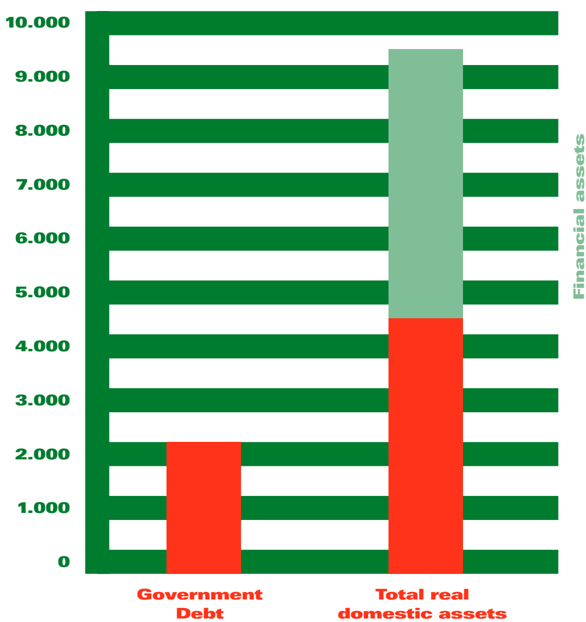
financial conduct. But it has no influence upon the level of new debt.

The state's debt is not the debt of its population. Ultimately, the government debt per capita increases regardless of how thrifty the individual worker or unemployed person lives. As a private person, one can not repay the debt, even if one wanted to. And when, for example, somebody goes to a bank in Germany and wants to take out a loan, no bank will reject the loan application with the words: "but you already have 24,500 euros in debt through the state!"

Government Debt and Private Wealth

In billions of euros for the year 2010 in Germany

Government debt total wealth



Government debt may not be the debt of the population. But ultimately, the population is liable for government debt. If debts are to be paid down, the population has to pay higher taxes, wait longer for its retirement pensions, work more, earn less, or get by with less state benefits. Thus, the state makes its debt "our" debt.

Concerning the second point: from the point of view of society as a whole, it cannot be said that the industrialized countries are "living beyond their means" – that is to say, spending more than they are taking in. At least, that is the case if one considers society as a whole. The state's debt is increasing, but every loan that somebody takes out has a corresponding debt claim. Every debtor has a creditor. If Ms. A lends 100 euros to Mr. B, then it is not the case that both have lived beyond their means. Rather, Mr. B has a debt and Ms. A has a claim, a financial asset from which she earns interest. Both balance each other out (see point 2). If the German government borrows a million euros from the Deutsche Bank, then "we" have not lived beyond "our" means. Rather, the government has incurred a debt and the bank has a debt claim from which it pockets interest.

If one takes the "we" seriously, and calculates all the debt and financial assets of each member of the population, then one is forced to conclude with regard to most industrialized countries: "we" have not lived beyond "our" means. "We" are not highly indebted, but rather rich. Let's take the example of Germany: the government debt amounts to about 2,000 billion euros. Private net wealth[5] on the other hand was more than 9,000 billion euros, even in the crisis year of 2009.[6] That can also be calculated per capita: for a government debt of 24,500 euro per capita, there is a net private wealth of more than 90,000 euros.[7] So "we" are wealthy,[8] at least on average. In reality, however, government debt is borne by everyone, since it is public. Wealth, on the other hand (and financial claims

5 In the case of private net wealth, debt is already subtracted from the total. **6** See the DIW Wochenbericht 50/2010. If one calculates only private net wealth in a stricter sense – so, subtracting insurance assets, as well as life insurance policies or retirement pensions, and household wealth such as automobiles or personal belongings – then one still arrives at a sum over 7,370 billion euros. **7** See Basel Institute of Commons and Economics (http://commons.ch/). The corresponding values for government debt/private wealth per resident/household in euros for the year 2010, rounded off, are: Greece (24,000/56,900), Ireland (23,500/74,700), Italy (29,300/120,300), USA (32,800/49,700). However, the numbers for the USA are only marginally comparable to those of Europe. **8** By the way, if one considers Germany's financial position with regard to other countries, Germany has a net – subtracting for foreign debt – has a positive balance of more than 1,000 billion euros.

upon government debt, for example government bonds, belong to this category) is in the hands of a few private individuals. In 2007, 60 percent of the total wealth belonged to the richest ten percent of the German population. Ninety percent of the wealth belonged to the richest 30 percent of the population.[9] In other countries, wealth distribution is considerably more unequal.

4

"POLITICIANS WASTE MONEY – AFTER ALL, IT ISN'T THEIRS!"

Politicians are suspected of extravagance. State revenues are constantly insufficient for financing their desired expenditures.[10] The consequence is high government budget deficits. This is frequently explained in terms of the supposed myopia of politicians,[11] their quest for greatness, or their desire to beguile the electorate with favors. The bill arrives – but only after the generous politicians have long since retired. For that reason, the German neo-liberal think tank "Stiftung Markwirtschaft" (Market Economy Foundation) demands "daring to have more democracy without gifts: let's have successful politics without striking Santa Claus poses."[12]

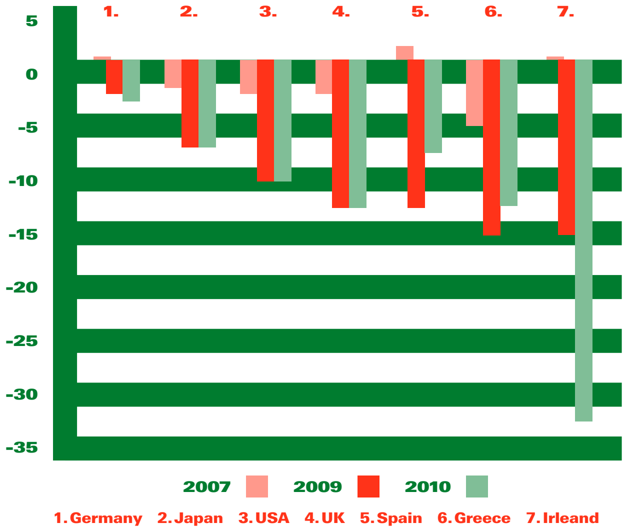
What Truth is There to That?

Little. Sure, there is sometimes waste, and every year various taxpayers' associations and government inspection agencies add up the numbers and complain. But if politicians really exclusively acted extremely shortsightedly, it would be a wonder if they did not incur even more debt than they already do. If politicians actually "bought" votes, then there would not be any debt in dictatorships, or at least less than in democracies (which is not the case). Politicians do not just spend money without hesitation. When they incur debts, they do not ignore

9 DIW Wochenbericht 50/2010. **10** "Why does the government incur debt? The finance minister breaks out in a sweat every year when faced with the number of expenditures. Revenues, although they are so high, are not enough to cover the costs. We are living, as used to be said so finely, beyond our means" (www.regierenkapieren.de). **11** Governments "have to finally start thinking beyond the next election" (Spiegel 32/2011). **12** Marktwirtschaft: Ehrbare Staaten? Argumente zu Marktwirtschaft und Politik, Dezember 2011.

Crisis: Less Revenue, More Expenditures

Budget deficits as a percentage of GDP



the wellbeing of the economy; rather, the wellbeing of the economy is their goal (see point 1). However, particularly in the last few years, that has not worked. Debt has grown much faster than economic performance. This is demonstrated by the debt-to-GDP ratio in all industrialized countries.

That was less the result of a high level of expenditures on the part of the state. On the contrary: state expenditures in Germany even declined in real terms (adjusted for inflation) between 1998 and the beginning of the crisis in 2008. There were two other reasons for the rise in the debt-to-GDP ratio: first, there were huge tax cuts in Germany since 1998. The tax rates for the wealthy declined, as did the taxes on capital gains and taxes on businesses. In 2010, the German state would have taken in 51 billion euros more in revenues, if the old tax laws of 1998 had still been in effect.[13] The second

13 See the press release of September 8, 2011, “Staatsausgaben trotz Krisenabwehr real kaum gestiegen”, by the Hans-Böckler-Stiftung.

Debt-to-GDP Ratio

Gross public debt as a percentage of GDP

	2005	2006	2007	2008	2009	2010	2011
Germany	68.6	68.1	65.2	66.7	74.4	83.0	81.2
France	66.7	64.0	64.2	68.2	79.2	82.3	85.8
Italy	105.4	106.1	103.1	105.7	116.0	118.6	120.1
Spain	43.1	39.6	36.2	40.2	53.9	61.2	68.5
USA	67.9	66.6	67.2	76.1	89.7	98.6	102.9
Great Britain	42.5	43.4	44.4	54.8	69.6	79.6	85.7
Japan	186.4	186.0	183.0	191.8	210.2	215.3	229.6

reason was the economic crisis. When economic performance tanked at the end of 2008, businesses no longer invested so much and households no longer consumed so much. The state jumped in to intervene in all countries. It took on credit, rescued banks, and substituted state demand for missing private demand in order to ameliorate the effects of the crisis.[14] This was also successful. Without these interventions, economic performance would have collapsed even more dramatically. Nonetheless: the debt ratio increased. However, this was not a sign of wastefulness on the part of the state, but rather of the fact that the state was using public money to keep the business of private enterprises halfway functional. The result: the profits of German as well as American businesses once again reached record levels in 2011. Governments in Germany as well as in other European countries have imposed austerity programs in which labor

14 This is even more the case for countries like Ireland or Spain. There, the debt ratio had declined constantly until the outbreak of the crisis. But then the governments had to rescue the banks. As a consequence, the debt ratio in Ireland and Spain between 2007 and 2012 increased from 28 percent to 113 percent and 42 percent to 80 percent of GDP, respectively. This shows how absurd the accusation of wastefulness is.

and social benefits are most impacted by cuts.[15] In the United States, such a step is expected for 2013.

5

"WE HAVE TO SAVE!"

In light of increasing government debt, politicians and economists demand that governments save more. Conservative economists say that the state has to decrease its expenditures. Leftist economists say that the state has to increase its revenues. Both paths can be used to decrease the level of indebtedness.

What Truth is There to That?

"Saving" is not that easy for a state. A state can simply cut its expenditures, but then it no longer plays the role of consumer. The state "buys" less schools, roads, tanks, etc. Or it can lay off employees, who then become unemployed and buy less. Or it cuts pensions, which decreases the purchasing power of retirees. In all of these cases, the total consumer demand of society decreases. The situation is similar when the state raises taxes, for example the value-added tax. That makes commodities more expensive, and the buying power of consumers declines.

A drastic example of this is the austerity programs of Greece since the year 2010: the government cut pensions, salaries, laid off thousands of public employees, raised taxes, and at the same time cut its expenditures. The consequence: consumer spending collapsed and with it, economic performance as a whole. With that, the tax revenues of the state also declined. Furthermore, the state had to spend more money on the unemployed. The end effect was that Athens did not reduce its debt; on the contrary, it increased. Radical austerity can also ruin an economy.

15 So in general one can say that in "normal" times, government debt serves economic growth. In times of crisis, it serves to prevent an even more drastic decline in economic performance. Wars are a special case. Here, the state no longer takes into consideration the relationship of GDP to government debt, but rather regards its expenditures as absolutely necessary.

That is why in most cases "saving" does not mean that the state only spends as much as it takes in, or that it spends even less than it takes in, and "saves" the difference for a rainy day. This occurs only in times of crisis or under pressure, as is the case with Greece. But usually, state savings is not a question of spending a lot or a little, but rather a question of "what should money be spent on?" When a government saves, it rearranges its expenditures and revenues. By means of "austerity programs", the "conditions of doing business" for companies is supposed to be improved, in order to increase economic growth. The aim is not to reduce the level of debt, but rather a reduction in the debt-to-GDP ratio – the ratio of debt to GDP by increasing GDP.

Correspondingly, austerity programs usually look like this: taxes on businesses, wealth, or capital are not raised. Instead, the government cuts social expenditures and wages (primarily in the public sector), and raises taxes in the sphere of consumption (the sales tax or value-added tax). Additionally, the state attempts to decrease wage levels by means of legal regulations in order to create better conditions of investment for businesses, so that economic performance grows and the debt-to-GDP ratio declines.[16]

In Europe, these programs exist under such names as "European Semester", "Euro-Plus Pact", and "Europe 2020." Their model is the German Agenda 2010 of the former SPD-Green government, the explicit goal of which was to liberalize the labor market, increase pressure on the unemployed and thus put downward pressure on unit labor costs. With such programs, Europe is supposed to become the most competitive region of the world. With the so-called fiscal pact and debt brake, the European states are also setting strict limits to expenditures. All of this serves one purpose: winning back the "confidence of the financial markets"; in other

16 An example from Germany: In 2002, federal finance minister Hans Eichel (SPD) raised warnings about a "ticking time bomb" of government debt (ARD-Magazin Panorama, episode of April 18, 2002). Between 2003 and 2005, drastic labor-market reforms were implemented and regulations of temporary work were loosened. This contributed to the fact that average wages in Germany stagnated for ten years.

words, making Europe attractive as a sphere of investment or income property for finance capital, so that governments can once again borrow money at low rates of interest. With asceticism and an impoverishment of the population, the European states compete among and with each other against the rest of the world for credit, for access to global money capital. This money capital in turn is to be used to improve the conditions of these countries as locations for doing business. The general aim is so-called debt sustainability, the ability of a country to service its debts permanently and securely.[17]

The consequence of all this is that wage workers pay for the crisis. The task of businesses and the financial markets on the other hand is to earn a lot of money and thus stimulate economic growth. So it is not the case that "we all" have to save. "Saving" is a program of redistribution.

Such austerity programs have to be politically implemented. Debt can be useful in making the population prepared to "tighten their belts." Politicians are very aware of this. The German economist Peter Bofinger writes: "If one wants to restrict the role of the state, its financial resources have to be taken away. [...] As a first step, comprehensive tax breaks are carried out. [...] This leads to an increase of new indebtedness in the case of an unchanged level of expenditure. If at the same time one nurtures a great fear of government debt in the population, at once a high level of political pressure to cut expenditures is created."[18]

It should be noted: if the states were to at some point stop incurring debt, the financial markets would have a huge problem. With all their risky speculation in derivatives, commodities markets, and stocks, financial investors know of one "safe harbor": government bonds, the stable value of which they can rely upon. The industrialized nations alone have issued bonds amounting to 33,000 billion US dollars, which effectively constitute the foundation of world finan-

17 See, Kaufman, Stephan, 2011, "Sell your islands, you bankrupt Greeks" (http://www.rosalux.de/publication/37664/sell-your-islands-you-bankrupt-greeks.html). **18** WSI-Mitteilungen 7/2008, p. 351.

cial markets. “Modern financial systems are reliant upon government bonds.”[19] This was demonstrated, for example, in August of 2011: the debt crisis and fears of a recession led to a collapse of stock markets. Investors fled for “security” in the government bonds of Germany or the United States, for example. The prices for these government bonds reached record highs, whereas their interest rates fell. And that, in spite of a crisis of government debt! That shows that without government bonds – thus without government debt – the whole financial system would falter.

6

“WE’RE BANKRUPT!”

According to a poll by the German newsweekly *Stern* in May of 2012, government debt, with 62 percent, led the “list of worries” of Germans. “Is the whole world going bankrupt?” asked the tabloid *Bild* in July of 2011, in light of the growing amount of debt in Europe and the United States. And since the beginning of the 2010, experts are constantly asserting that Greece is “bankrupt”. In July of 2011, John Boehner, Republican speaker of the US House of Representatives, said, “listen, we’re broke”.

What Truth is There to That?

One thing is clear: “the whole world” cannot be bankrupt because the sum of global debt is just as high as the sum of global claims on debt, or better said, of wealth (see point 3). The situation is different for some individual states. Two questions arise. First: when is a state bankrupt? And second: what does that even mean?

“Bankrupt” is a difficult concept when applied to states. In the case of a business, it is less complicated: the firm can no

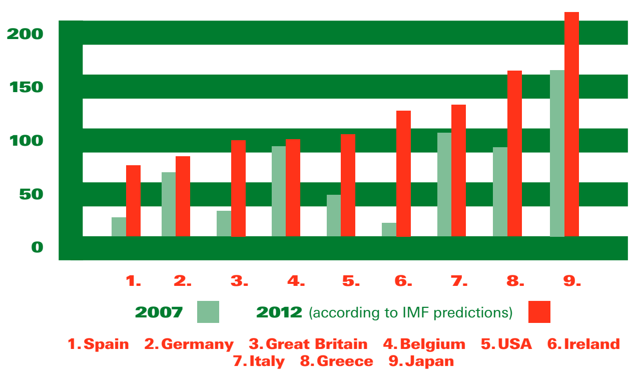
19 Government bonds play “an outstanding role as a means of security, a vehicle for preserving savings for retirement and as an instrument for securing liquidity and equity management […] the call raised in some quarters for debt relief for governments would not only considerably affect small investors […] but the financial system as a whole” (DIW Wochenbericht 44/2011, p. 9).

longer pay its bills or interest on loans, and thus receives no more credit from banks. Insolvency proceedings follow. If the liquidator comes to the conclusion that nothing can be saved, the business is liquidated. Whatever can be is sold off, and creditors are serviced from the proceeds of these sales as best as possible. Then the company no longer exists.

But when is a state bankrupt? This cannot be established on the basis of the level of debt, and also not on the basis of the debt-to-GDP ratio. In 2010, Greece's debt level was 140 percent of GDP, and it was regarded as bankrupt. Spain, with a level of 60 percent of GDP, was regarded as being in danger. Japan, on the other hand, with a debt level of 200 percent of GDP, was considered relatively solid.

Higher Debt Levels in All Countries

Public debt as a percentage of economic performance



The interest burden ratio – the amount each state has to pay each year for interest – is not a clear indicator of insolvency. As Greece went into crisis at the end of 2009, it had to pay interest at the level of five percent of its GDP. That is a lot, relatively speaking. But in the year 1996, its interest burden ratio was double that.

Furthermore, what distinguishes governments from private households or businesses is that they can independently determine their expenditures and revenues. If they are missing money, they can simply raise taxes or, for example, lower expenditures for the unemployed (that also has its limits, of course. See point 5). Or, a government can attempt to borrow more money on the international financial markets. If that does not work, it can simply force domestic financial enterprises to lend it money.[20] In an emergency, a state can also borrow from itself: the government issues a bond, and the central bank of the country purchases the bond. In this case, the central bank prints money and lends it to the government. Most central banks of the world do this to a greater or lesser extent. In the years 2010/2011, the US Federal Reserve bought US government bonds to the tune of 900 billion US dollars.[21] As a result of the euro crisis, even the European Central Bank (ECB) temporarily resorted to this actually forbidden measure. In order to lower the interest burden for primarily Southern European countries, the ECB bought government bonds in the amount of more than 200 billion euros through the middle of 2012, and announced further purchases. So a government has many ways of securing its solvency.[22] So one could say, a sovereign default is approaching:

- when a government has a high level of debt;
- when it has to continue taking on new debts in order to finance its expenditures and service its old debts;
- when it only obtains this new credit at high rates of interest, so that the debt-to-GDP ratio of the country increases more rapidly and an increasing amount of state expenditures are used to service debt.

So whether or not states are insolvent is thus dependent upon the assessment of lenders and the financial markets. They are the judges; they determine interest rates for credit (see point 5). If the financial markets lose confidence in the

20 This tactic is known as "financial repression" (http://en.wikipedia.org/wiki/Financial_repression). **21** The Fed did not buy these bonds directly from the government, but rather from investors who had already purchased them. But the effect was ultimately the same. **22** This is the case for large industrial countries. Developing countries that incur debt in foreign currencies have less room to maneuver. So if a developing country has debt denominated in US dollars and has to service it, it cannot simply print dollars.

solvency of a country, interest rates rise, which can lead to a debt crisis, like in Greece from 2010 until now.

But as opposed to a business, a state cannot just disappear from the face of the earth in the case of a bankruptcy.[23] Bankruptcy thus means that a government negotiates an easing of the debt burden with its creditors: debts are extended, cancelled, or interest rates are lowered. If creditors – mostly banks – agree to this, the debt level declines, and the country is once again solvent. Germany also profited from such debt relief in the past: in 1953, half of its pre-war foreign debt was waived. The bankruptcy of a state is thus a political decision: the government of an overly indebted country determines that its debt is too high and it will no longer carry it.[24] And foreign governments refuse to support the country in the form of cheap credit. So, countries like Germany and the United States are far from going bankrupt.

7

"THE FINANCIAL MARKETS TAME THE POLITICAL SPHERE"

Market-liberal intellectuals in particular are happy that financial markets exist. After all, these markets lend money to states and permanently check whether a state solidly manages its budget, and thus whether it earns the trust of the markets. The more solid a state's finances are judged to be, the lower the rate of interest the markets demand for lending it money. If a state takes on a lot of debt, interest rates rise; servicing its debts becomes increasingly difficult and new credit more expensive. This was the case in Greece, Ireland, and Portugal in the years 2010/2011, when interest rates increased so much that these countries could no longer

23 Exceptions prove the rule: when Newfoundland was over-indebted in the 1930s, the parliament and government dissolved themselves and the independent state of Newfoundland became a province of Canada. **24** A state can also refuse to service its debts. For example, after the United States occupied Cuba after the Spanish-American War in 1898, it refused to recognize the debts of the Spanish predecessor government. Since the United States were very powerful, Spain was powerless to impose debt payments. So debt is a legal relationship: might makes right.

pay for new loans and therefore faced bankruptcy. This was the "interest rate truncheon," gushed the German daily *Frankfurter Allgemeine Zeitung*. "This is the only language politicians understand; only this forces them to react" (August 16, 2011), which means reducing debt. And Jens Weidman, president of the German Bundesbank, sees rising interest rates as "an impetus to force politicians to do their homework and to win back the confidence of the financial markets by means of reforms" (Reuters, April 18, 2012).

What Truth is There to That?

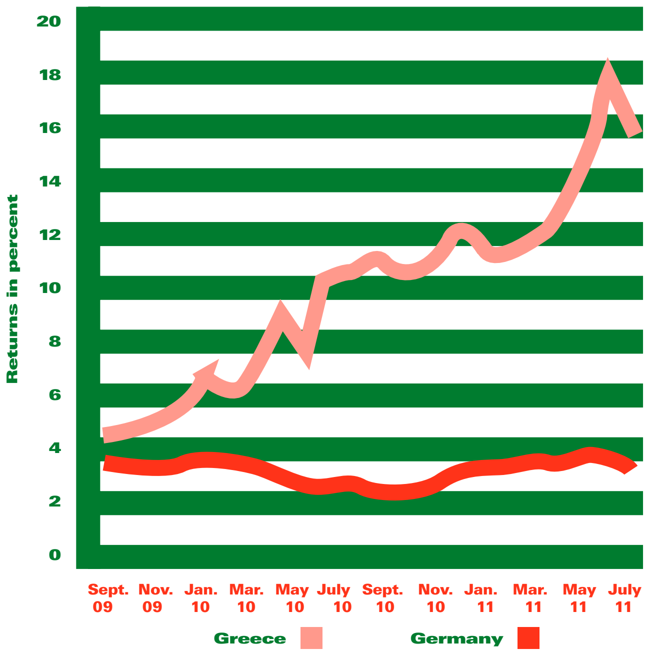
In the financial markets – banks, investment funds, insurance companies, etc. – the money of the world is collected: the money of the rich and that of the "common people", who for example save for retirement through their life insurance policies or private pensions. On behalf of their clients, or by their own accord, financial institutions invest this money. In short: they want to increase the amount of this money. To achieve this they buy, among other things, government bonds, debt certificates from states, from which financial institutions collect interest. Government bonds are beloved by investors, since they are regarded as a safe bet. After all, the state is a reliable debtor, since it – in contrast to businesses or private households – can simply collect money by decree from its population.

Financial institutions buy government bonds – and can also sell them instantly; namely, on the stock exchange. They are allowed to do this. Government bonds are permanently traded. They have a price that changes constantly. So government bonds are objects of speculation. Investors inspect the state's revenues, its expenditures, its debts, its economic growth, its policies, its wage levels, etc. Thus they check to see whether a state constitutes a worthwhile investment.[25] To that extent, one could say that financial markets control politics, which moved Joschka Fischer, the former foreign

25 The rating agencies help them in this endeavor. Rating agencies constantly judge the credit-worthiness of states. Various factors play a role in this. For example, the rating agency Standard & Poor's lowered the credit rating for Venezuela in August 2011, among other reasons because President Hugo Chavez's illness from cancer made the policies of the government unpredictable.

When Investors Lose Confidence

Returns on 10-year government bonds



minister of Germany, to state that "one cannot pursue any policies in opposition to the financial markets" (Badische Zeitung, September 3, 2009).

However, financial markets are not a single, unified agent that evaluates the solvency of states. Rather, financial markets are the sum total of all investors, who all want the highest possible return on their investment. That is why herd behavior and speculation dominate the financial markets.[26] In 2009, for example, there was doubt – at the beginning, just doubt! – con-

26 Here "speculation" means that buying and selling on the financial markets is based upon expectations of the future value of financial assets. So a security is bought because an increase in its price is expected. If many agents on the financial markets act in this way, then the growing demand for such securities leads to an increase in its market price – the market price rises because a rise in price was expected.

cerning Greece's solvency. As a result, some investors got rid of their Greek bonds because they were afraid they would lose value. This fear of losses by itself pushed down the prices of Greek bonds. That was the signal for more investors to get rid of their Greek bonds, which caused the value of these bonds to decline even further – a classic example of herd instinct.

This loss of value of government bonds in turn has an effect upon the state's finances. How? Here is a very simplified example: the state pays a fixed rate of interest on the bond, let's say five percent on a bond of over one million euros. So the investor lends the state a million, and pockets 50,000 euros in interest every year (five percent of a million euros). If the price of the bond falls by 20 percent on the financial markets, an investor can only sell it for 800,000 euros. The rate of return on the bond has thus risen, since the state continues to pay 50,000 euros in interest. The new rate of return is 6.25 percent (50,000 euros on a principle of 800,000). If the government wants to float a new bond, the interest rate is based upon the return on the old bond. So the state now has to promise investors not five percent, but rather 6.25 percent (see the Glossary for further information). When Greek bonds collapsed at the beginning of 2010, the rate of return shot into the stratosphere, and new loans became very expensive for Athens.[27]

This in turn was interpreted on the markets as a sign that Greece might have problems repaying its debts. The consequence: the value of bonds declined further, returns increased. This is a vicious circle in which financial markets do not neutrally evaluate the credit-worthiness of states; rather, this evaluation damages their credit-worthiness. Investors, expecting Greece to have financial problems, dropped the bonds, thus precipitating the crisis. At the same time, other countries were "infected": in order to avoid expected losses, investors threw Portuguese and Irish bonds onto the market – with the same consequences. To that extent, it is true that, with regard to their funding, states depend upon the

27 For the reasons behind the collapse, see Kaufman, Stephan, 2011, "Sell your islands, you bankrupt Greeks" (http://www.rosalux.de/publication/37664/sell-your-islands-you-bankrupt-greeks.html).

judgment of the financial markets. However, it is not true that the markets "tame" the states like some wild animal – as if "wild" states stood opposite "rational" investors.[28] First of all, financial markets are not rational. Herd instincts and self-fulfilling prophecies dominate this circus. Second of all, even in normal times, investors evaluate the states of the world according to a very simple standard: the highest possible and most secure returns. They treat people, workplaces, countries and entire continents like machines for permanently augmenting their monetary wealth, and submit them all to this standard. That is rational according to the logic of maximizing profit, but what is reasonable about that?

8

"WE SHOULD JUST CANCEL THE DEBTS!"

If debt is such a problem for the economies of so many states, for the world economy, and for hundreds of millions of people, then this raises the question: why not just cancel all these debts? Then the problem would be solved!

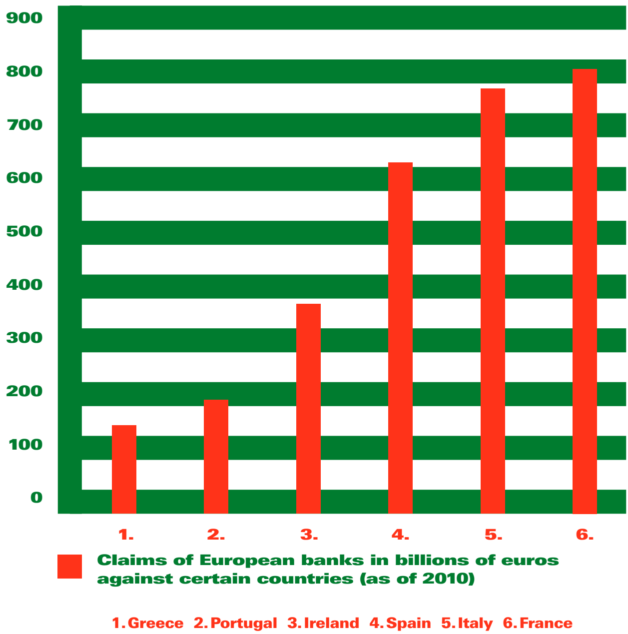
What Truth is There to That?

First of all, debts which put so much pressure on the states are wealth to somebody else. For creditors (banks, investment funds, insurance companies), government bonds are capital – money capital, a sum of money that yields a return. If the states were to be relieved by cancellation of their debts, then this wealth would be devalued.[29] A bank could quickly go bankrupt in such a situation.

Secondly, there is the risk of a domino effect, as was the case with Greece in 2011. The European Union decided to release Greece from some of its debt or extend the maturity of its debt. That meant losses for creditors, meaning banks,

28 But the German newsweekly *Der Spiegel* thinks this is the case: "The ominous financial markets are neither good nor evil. They simply act rationally" (Spiegel 32/2011). **29** Incidentally, this also happens when only the interest on bonds is lowered for the sake of debt relief, since the value of a bond is measured by the amount of its return. If that declines, so does the value of the bond itself.

The Risk of the Banks



and investment funds. Now many of these creditors feared that Portugal or Ireland would also be released from some of their debt. As a consequence, they sold their Portuguese and Irish bonds, which made the situation in those countries even more acute (see point 7). A crisis of the financial markets can also arise in this manner. Thirdly, if a state refuses to service its debts or cancels its debts, it can be sure that lenders will notice this. Its credit-worthiness would be shot, at least for a while. And every state knows: soon it will need new loans. But a cancellation of debts frightens investors and thus endangers the financing of the state's programs.

In exceptional cases, creditors agree to a cancellation of debts, which means a reduction in their claims. This was the case with Greece in 2011.[30] The creditors assume that a state

30 See, Kaufman, Stephan, 2011, "Sell your islands, you bankrupt Greeks" (http://www.rosalux.de/publication/37664/sell-your-islands-you-bankrupt-greeks.html).

is so highly indebted that it can no longer service its entire accumulated debt. The cancellation of a part of the debt is supposed to put the state in a position to reliably service the rest of the debt. Debt cancellation does not serve simply to relieve the debtor. Rather, this relief is intended to rescue the remaining claims of creditors. Debt cancellation therefore functions only with the agreement and for the benefit of creditors. It is therefore correspondingly seldom and small in amount.

9

"WE NEED STRICTER REGULATIONS"

In 2009, Germany incorporated a so-called "debt brake" into its national constitution. It is supposed to limit government debt and bindingly regulate the reduction of debt from 2011 on. New debt cannot exceed 0.35 percent of GDP. German states, regional government entities, cannot take on any new loans at all. There are exceptions for natural disasters or an economic recession. At the initiative of Angela Merkel and France's former President Nicolas Sarkozy, a similar debt-brake was adopted for other European countries within the framework of the European Fiscal Compact. Germany was able to achieve that only those countries would receive financial assistance under the European Stability Mechanism which had, among other things, implemented the debt limitations foreseen by the compact into their own respective national laws. The idea behind this is that if politicians won't budget thriftily, they have to be forced to by law.

What Truth is There to That?

It is striking: there already exist various regulations that limit state expenditures, for example, the Stability and Growth Pact of the European Union. The Stability and Growth Pact establishes that a euro country can only have a maximum amount of new debt of three percent of GDP and a maximum debt-to-GDP ratio of 60 percent. However, many countries had already violated this rule in the past – particularly Germany.[31] So there already were plenty of regulations and instruments that were supposed to limit a government's expenditures. Why are such regulations unable to guarantee a decline in government debt? And why will new regulations or prohibitions do little to change that? The reason is simple: the "stability" of state finances is not something that can be enacted by decree. Economic dynamics do not proceed according to directives, and crises don't make appointments with ministries of finance. Sure, regulations can simply limit state expenditures (or raise revenues). However, under certain conditions this is harmful, for example when the business cycle takes a nosedive. Then, the state has to take on credit and spend money in order to prevent the situation from getting worse. If it does not, in order not to violate such regulations on debt, the crisis can deepen. This in turn leads to a further decline in economic performance, and the debt situation – measured in terms of debt-to-GDP ratio – is exacerbated, precisely because the state adhered so strictly to the rules.[32]

That is why at the European level, if there is enough political pressure, the rules are regularly modified: France, for example, was able to ensure in 1997 that the stability pact demanded by Germany would only be realized as a Stability and Growth Pact. A growth component was also tacked onto the Fiscal Compact of 2012 under pressure from other countries. At the same time, it's almost certain that the regulations involved will also be violated. So maybe a regulation limiting debt does not make too much sense. However, such a regulation makes it easy for governments to implement spending cuts or tax increases. It can simply refer to the regulation and thus justify its policies: the law requires this step; the government's hands are tied. The situation is similar with the Euro-Plus Pact adopted by the European Union, which obligates member states to become more competitive and lower their debt levels. The EU regards unit

31 As opposed to countries such as Italy or Spain, which are today regarded as crisis countries. **32** That is why many economists expect that Germany will at some point abolish its debt-brake or soften it. For example, Dennis Snower, head of the economic research institute IfW: "It is completely unclear to me why a country like Germany is submitting itself to a hard debt-brake, and even wants to export this model" (Berliner Zeitung, August 26, 2011).

labor costs as an important indicator of "competitiveness". The Pact has provisions for an inspection of wage developments in all member states. The goal is moderate wage agreements (particularly in the public sector), tax "relief" for the "labor factor", and labor market reforms that make labor "flexible", that is to say, cheap. Through the Euro-Plus Pact, these wage decreases no longer seem like political decisions (subject to criticism), but rather simply like a consequence of the legal situation (with no alternative). Stricter regulations are therefore a form of "authoritarian stabilization": alternatives are simply excluded.

10

CONCLUSION: "SO IS GOVERNMENT DEBT GOOD OR BAD?"

If one listens to politicians, debt appears to be something bad; their main argument is that the state has to use an increasingly large portion of its revenues to pay interest. For that reason, the level of debt should be reduced. "Every fifth euro is used to pay off interest [...] only when no new credit is taken on can the already accumulated debt be slowly paid off, thus reducing interest payments. The state would thus be able to do more sensible and useful things [...] What a nice idea."[33]

On the one hand, debt is regarded as something bad. At the same time, the state constantly takes on new debt. This apparent contradiction is resolved when one regards government debt for what it is, an instrument with which the government attempts to reach a certain goal: economic growth. With borrowed money, the state finances its expenditures. Above all, it attempts to improve local conditions for doing business and to stimulate economic growth. Concerning the "appropriate" volume of government debt, how much debt is allowed, one cannot say more than: not "too much".

33 According to the self-portrayal of the German federal government (see www.regierenkapieren.de).

This “too much” is subject in practice to a single measure: economic growth. Government debt is supposed to serve growth, and should not harm it. The question of whether government debt is good or bad therefore amounts to the question: how good or bad is capitalist economic growth?

Debt and Economic Performance

Government debt per resident and GDP per resident in euros (Federal Republic of Germany, figures until 1990 not counting the German Democratic Republic)

That government debt can increase economic growth is not subject to debate, but rather a fact. It does not matter whether the debt is passively accepted (in the case of a loss of tax revenue) or intentionally taken on as a part of “active economic policy.” However, it is also a fact that it is a problem when higher debts are not accompanied by higher economic performance and higher revenues for the state, and a greater portion of the state’s budget is therefore allocated for servicing debt.

So government debt is – like the debt of businesses – a sort of pre-financed growth. By means of state borrowing, governments and their lenders – the financial markets – speculate that debt will generate greater economic performance and more revenues for the state. With its debt, the government makes its population liable for the success or failure of this wager. This liability is illustrated by the statistical figure of "government debt per capita."

It is mistaken to ask whether government debt is a problem "for us" or for a country, since people are affected in very different ways by this debt, according to their position and function in society and in the economy. For creditors, government debt is money capital, wealth that can be increased. They profit from the debt burden in the form of interest payments.

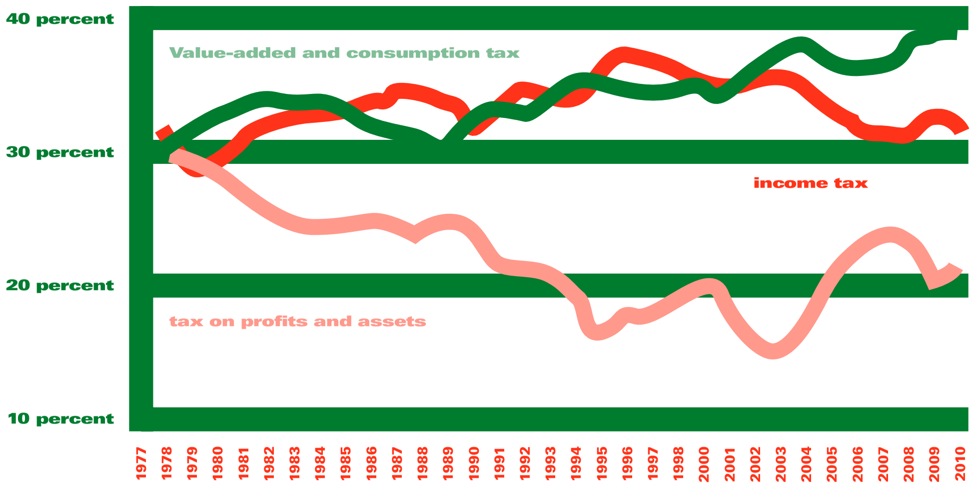
Whether their wager succeeds is the responsibility of others. That is particularly clear when a state has problems with servicing its debt and wants to "save." This "saving", logically, always impacts the same group of people: recipients of government entitlements, workers, and consumers. On the other hand, "drivers of growth," i.e. businesses and financial institutions, are supported. They are supposed to invest and make loans, they are supposed to earn money from this, they are supposed to "create" jobs and thus increase economic performance. That increases in the sales tax and decreases in wages and pensions lead to a decline in the purchasing power of the masses, thus reducing social demand, thus impairing growth, is a contradiction in this program (see the example of Greece in point 6). All this makes it clear who bears the brunt of "saving" whenever there is talk about how "we have to save."[34]

It should also be noted: there is constant complaining about how the state spends too much, but the revenue side is seldom criticized. Yet there are two developments worthy of criticism. First of all: it is clear that the state could tax finance capital instead of borrowing from it and paying interest. Yet it does not do this, or only to a small extent. In

34 "How can it be that there is haggling over every additional euro for recipients of Hartz IV [colloquial term for long-term unemployment benefits in Germany – translator's note], but the failure of a few bankers is enough to open the state's coffers?" (Süddeutsche Zeitung, September 30, 2008).

Relieving the Burden on Profits and Wealth (Germany)

Shares in tax revenues, Source: Federal Board of ver.di, Economic Policy Division



*) Corporate income tax + business tax + assessed income tax
Capital gains tax + interest income tax + tax on assets
Source: National economic accounts, Federal Statistical Office, author's calculations

Germany, since the great financial reform of 1969, credit is a regular instrument for financing state tasks. Second of all, it is remarkable who the state takes money from in order to pay its debts – who pays (the interest on) debt. Here, developments are unmistakable: since 1977, the tax burden in Germany – and not only there – is increasingly borne by wage workers (who also pay sales and consumer taxes for the most part). The burden on capital gains and wealth, on the other hand, has been declining. The trend has been that the tax rate has declined, while wealth has grown. So it is clear: tax policy is essentially a policy of redistribution. This trend has been exacerbated by the crisis: politicians, in order to consolidate state finances, have increasingly favored taxing consumption; the value-added tax has been considerably increased in all euro crisis countries.

Wage workers, on the other hand, who bear about two-thirds of the entire tax burden, pay not only for the greatest share of

government debt. They are also supposed to curb their wage demands and at the same time have been expected to accept the consequences of cuts to state social services for years.

So the question of debt is a question of redistribution and not least a question of power, as the German sociologists Jens Beckert and Wolfgang Streeck have formulated it: "As the increases in GDP during the last thirty years have benefited primarily the upper layers of the population, the debt crisis raises the question of whether and with what means the well-to-do will attempt to defend their position, even at the price of a massive social and political crisis" (Frankfurter Allgemeine Zeitung, August 20, 2011).

11

GLOSSARY

Bond markets and stock exchanges are where financial instruments such as stocks (shares in the ownership of a company, which pay dividends), government bonds, or derivatives are traded. Large exchanges can be found in

New York, Chicago, London, Tokyo, or Frankfurt am Main. Bond and stock markets are essentially synonymous with financial markets (see below). Here, buyers and sellers of securities meet each other. The sum of money for which a bond or stock is traded is its price (or “course” in the case of a stock). Investors usually buy securities because they think they can sell them at a higher price in the future and thus make a profit; they sell them when they expect a loss in value. So expectations are decisive here and usually become self-fulfilling. Here is one example: trader A buys security B because he thinks that its value will rise. If a lot of traders also expect that security B’s course will go up, they buy it, too. The high demand for security B causes its course to go up – the merely expected increase in its value becomes a reality. The reverse is also the case: if traders expect that a security’s price will fall, they sell it and make the expected loss a fact. But it is not just expectations that become reality on stock and bond markets; the situation is even stranger. A trader will only sell security B if he expects that all the other traders expect its course to go up, because only then will the course actually go up. So the expectations of investors are constantly oriented to the expectations of other investors. The markets act in a circular manner. For that reason, the economist John Maynard Keynes compared securities trading with a beauty contest in which judges do not vote for the candidate they find the most beautiful, but rather for the one that they think all the other judges find most beautiful.

The Debt-to-GDP ratio indicates how high the total indebtedness of a country is in relation to its economic performance. Germany’s total debt is about 2,000 billion euros, and its GDP is about 2,400 euros. So its Debt-to-GDP ratio is about 83 percent (2,000: 2,400). The budget deficit expresses the new debt in a year in relation to GDP. In Germany, the federal government, states, and municipalities in the first half of 2011 had revenues of over 555.1 billion euros and expenditures of over 570.7 billion euros. So the new debt was 15.6 billion. Economic performance (GDP) was 1.274 billion euros. The budget deficit was therefore 1.2 percent of GDP. One speaks of a “balanced budget” when revenues and expenditures are equal.

Financial markets are those markets on which "financial products" are traded. The term first emerged in the 1970s and usually encompasses capital markets (for securities like stocks and bonds), the money market (for short-term transactions between banks and the central bank), and the foreign exchange market for currencies. The market in derivatives is also usually counted among the financial markets. Derivatives are securities "derived" from other assets – "derived" in the sense that with derivatives, one can speculate on the rise or fall in value of other securities such as stocks, bonds, interest rates, or commodities. Actors on the financial markets are primarily banks, investment funds, pension funds, (life-) insurance companies, and wealthy individual investors. In common parlance, the financial market is usually synonymous with its actors, for example: "financial markets are losing confidence in Greece."

A government bond is a security with a fixed rate of interest and the most important form in which states borrow money on the financial markets. Bonds of the Federal Republic of Germany are issued by the German Finance Agency. The Agency belongs to the federal government and implements debt management. A bond has a "face value." It is issued at this value, and this is the value that its fixed rate of interest is based upon. For example, to raise credit of a million euros, the Finance Agency issues ten bonds with face values of 100,000 euros each. Since Germany is regarded as a safe debtor, it does not have to pay so much interest – at the moment, around 2.2 percent (in the following example, for the sake of simplification, let's say 2 percent). The duration of a bond is usually 10 to 30 years. During this period of time, owners of bonds receive annual interest payments, two percent on 100,000 euros, meaning 2,000 euros. After the end of the bond's duration, the face value of the bond is repaid – to repay bonds, the state usually takes on fresh credit (a "roll over"). Bonds are also traded during their duration, meaning bought and sold on exchanges, but not necessarily at their face value. Here is a simplified example: if the creditworthiness of Germany drops and it has to pay a higher rate of interest for fresh credit, then the old bonds will only be bought if they yield an equally high return. Otherwise, investors would be stupid to buy the less profitable bonds. What does that mean? If, in the case of a newly issued bond of 100,000, the interest rate rises from two percent to four percent, the owner of the bond receives 4,000 euros annually. That is double the older bond, despite the equal face value. So the older bond can no longer be sold for 100,000 euros, since nobody would buy it. If the current market interest rate is four percent, traders ask how much a bond would be worth if it yielded a return of 2000 annually at an interest rate of four percent. Those are the conditions in the case of the older bond. The result: a bond with a value of 50,000 euros would yield this return at a rate of four percent. That means that even though the old bond has a face value of 100,000 euros, it can only be sold for 50,000. That means its profitability would be equal to that of the new bond. This mechanism is also in effect when investors expect a higher interest rate and are therefore not willing to pay the full face value of a bond. That happens when newspapers run headlines like "Yields on Greek Bonds Soar." Conversely, the decline of a bond's course is regarded as an indication that interest rates have to increase; the creditor no longer exhibits good credit-worthiness. In the real bond trade, other factors are taken into consideration – the duration of a bond, for example.

The government budget is the budget by means of which the "public hand" financially organizes its expenditures. It encompasses revenues and expenditures, but is not a balance, not a "profit and loss statement" in the business sense. Rather, the state determines which services must and should be financed. In creating a budget plan, a sort of "balance due" is determined that needs to be financed. This is placed opposite revenues. If expenditures are higher than revenues, the state has to finance them with credit. It creates a budget deficit. This budget deficit corresponds to new debt.

Gross Domestic Product (GDP) is the sum of goods and services that are produced within a country in a year. GDP is regarded as the most important indicator of economic performance and growth.

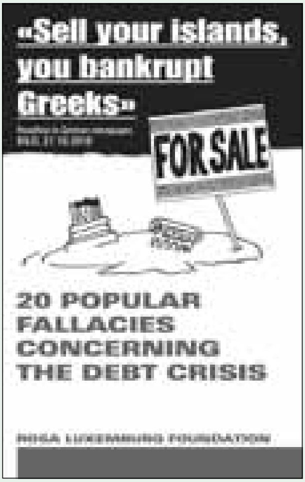
The interest burden ratio expresses the share of interest payments in relation to total state expenditures or in relation to economic performance. In 2010, the interest payments of the German state amounted to about 2.7 percent of GDP (debt payments of 65 billion euros divided by GDP in the amount of 2.400 billion euros). The interest burden ratio most closely expresses what is eagerly referred to as the "limitation on the states room for maneuver." It specifies the sum that a government has to pay creditors, the sum that therefore is not available for funding other expenditures. The interest-to-tax ratio on the other indicates how high the share of tax revenues is that goes to interest payments.

The acquisition of capital goods, such as machines or buildings, with the aim of offering goods or services is referred to as investment. The money expended for this, however, only counts as capital if the aim of increasing the original sum of money invested is actually achieved. The state does not invest with the goal of making profit. Its investments are intended to make certain use-values available (schools, roads, etc.). However, state investments are supposed to improve the conditions of valorization for capital.

The rate of return expresses the profit in percentage of a financial investment and is usually annual. For example: if an investor buys a security for 100 euros, which he earns five euros on, the return is five percent. The rate of interest is the most well-known return indicator. The interest rate is the price that a borrower pays for borrowing money.

Rating agencies are private businesses. They regularly evaluate the credit-worthiness of states, municipalities, and businesses. They issue grades for this credit-worthiness: ratings. Financial investors orient themselves to these ratings: a good grade means higher credit-worthiness and thus more security for the investor. Businesses and states with good ratings therefore pay lower rates of interest than debtors with bad ratings. If the rating declines, the interest-rate rises. So the judgments of the three biggest rating agencies, Standard & Poor's, Moody's, and Fitch, are immensely important to governments.

PUBLICATIONS IN ENGLISH



«SELL YOUR ISLANDS, YOU BANKRUPT GREEKS»
20 POPULAR FALLACIES CONCERNING THE DEBT CRISIS
(ALSO IN GREEK AND FINNISH LANGUAGE)

It's that time again! Greece needs more loans and the governments in Europe are arguing about whether it's really necessary and who should foot the bill. There is widespread opinion in Germany that Greece itself is to blame for the problems it now finds itself in. It first of all cheated its way into the Eurozone, then the government spent too much and the governed worked too little, many believe. Latently nationalistic patters of interpretation of this kind have been nourished by German politicians and the media, who have no end of proposals for how to «solve» the crisis. For example, the Greeks should save more, work more and sell their public property – and if all of these measures do not help, then Greece will just have to leave the Eurozone or declare itself bankrupt. The stupid thing is, neither are the causes of the crisis that have been named actually correct, nor will the proposed ways out of the crisis achieve their goal.

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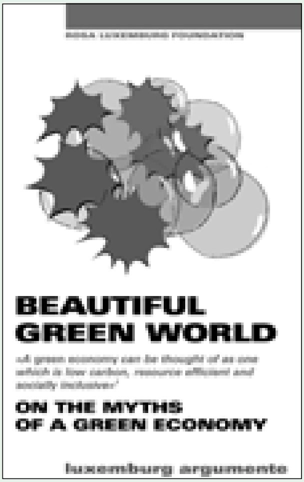

BEAUTIFUL GREEN WORLD

ON THE MYTHS OF A GREEN ECONOMY
luxemburg argumente no. 3 by Ulrich Brand

In the UN's Rio+20 conference in Rio de Janeiro in June 2012, the green economy was about to become a new central concept of global policy. The conference took place on the 20th anniversary of the 1992 United Nations Conference on Environment and Development, where the magic formula «sustainable development» was coined. In 2012 the green economy was on everyone's lips. For 20 years now people have been rhapsodising over the greening of capitalism. At the same time it is clear that somehow sustainable development is not faring so well. CO_2 emissions are increasing. Biological diversity is contracting. Famine, impoverishment and social inequality are increasing in many countries. The much feted «conciliation of ecology and economy» is proving hard to construct. The green economy is not what many want to see it as: a magical formula which will offer solutions on a silver tray for many problems.

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