How to tackle public debt?

For the right, the answer is simple: reduce government spending, increase tax pressure as little as possible or reduce it. This is austerity.

The left fears a drop in activity, a spiral of impoverishment, and maintains that there is room for maneuver: an income tax weighing more heavily on the richest, and more rigorous taxation of large companies.

In practice, we fear perverse effects, failing public services, capital flight, the exile of taxpayers, fewer investments or jobs, reduced pensions, and no convincing path is proposed.

I see four.

(1) ***The expenditure tax*** (proposed by James Meade) (*). All income forms the taxable base, including salaries, fees, dividends, interest, rents, sales proceeds and even borrowed sums. On the other hand, repayments and all savings and investment outflows are deducted, which should help to bring forgotten assets out of the shadows. A chosen lifestyle is taxed with progressive taxation and without weighing on private investment. (**). A separate taxation of income from work and property, accused of fostering inequalities, is no longer justified. And to the extent that this tax will duplicate VAT, often criticized as being unsocial, and if it is maintained, it would allow it to be reduced and prices to fall.

(2) ***Capital tax*** (according to Maurice Allais). (***) A flat-rate tax, estimated by Allais at 2% per year, on physical capital alone (land, buildings, equipment and stocks) regardless of the owner. It would replace the taxation of corporate profits and in France the property tax and the housing tax (the real estate « preaccount » tax in Belgium). These assets are impossible to hide, difficult to underestimate, especially if their acquisition was declared as an investment. A good manager will make money, a bad one will be encouraged to sell to a more efficient operator. Economic efficiency is encouraged and tax evasion is almost impossible. Allais wanted to tackle the waste of resources and the uneconomic taxation of activity.

This capital tax treats those who hold it as tenants of a public good, a concept applicable to groups of workers concluding contracts with the State to produce goods or services. One difficulty is meeting the needs of young companies that sometimes take years to balance their accounts and make a profit. Some form of exemption, such as depreciation deducted from the capital tax, will probably be necessary for them, at least for a few years.

> The articulation of Allais' capital tax and Meade's expenditure tax does not pose any particular problem if the former is deducted from the taxable base of the latter or if it provides a tax credit. The same principle can be applied to companies: the capital tax establishes a minimum that may be sufficient, but it does not exclude taxing profits that exceed a threshold. The reform would also tackle real estate speculation, by bringing prices closer to production costs. Furthermore, the 2% rate is debatable and a reduction is possible for the main residence.

(3) ***The restoration of seigniorage***. In the past, only the lord could "mint money", a form of tax that provided resources to the community. This function has been largely replaced by money-creating credit. But once repaid, the loan returns to the banks (compared to counterfeiters), not to the State. The problem is that the European Central Bank (ECB) is prohibited from financing States. On the other hand, it has the right to pay money to individuals, and economists have proposed that it do so in the form of "helicopter money", a one-off payment intended to improve purchasing

power. Another solution would be a regular basic income to increase tax revenues, directly if it is included in the tax base, and indirectly by stimulating the economy.

A more radical proposal, perhaps more relevant or easier to implement, would be the "micro tax" on bank money. Any electronic transaction is subject to a "painless" levy (minimal, 0.5%). The return hoped for by its promoters is significant, probably overestimated, remains to be confirmed but would make it possible to reduce other taxes or replace them (****).

(4) ***Better pensions***. In the post-war period, the financing of pension funds often moved from capitalization to distribution (but not completely: for example, the French civil servants' pension fund still holds significant reserves). This was seen as progress in solidarity, between generations and compensating for the differences between branches of the economy. It has been less understood that this was also a form of dispossession, taking away the fruits of savings from the working class and weakening the financing of pensions. The growing tension between an increasing life expectancy and contributions that do not increase in the same proportion has brought this problem to the forefront, as the French opposition to the extension of careers has highlighted.

The Netherlands did not follow this path and their experience is not without interest. Pension funds there hold part of the national economy, taken from the wealthy, and pay back to workers a substantial fraction of capitalist profits. This allows for better pensions earlier. The funds are part of Social Security, they are supervised to exclude speculation, promote the local economy, and protect reserves.

If the Dutch have better resisted hostile relocations and acquisitions, they probably owe it at least in part to their pension system. Seeing this as a complete form of social ownership of the means of production and exchange would be excessive, but these pension funds, which are not subject to inheritance tax, nevertheless carry out an expropriation of capital for the benefit of the working class. It could intensify, develop and become part of a socialist project.

Capitalism reserves exclusive access to economic power to a fraction of society, subjecting decisions to short-term profits, indifferent to needs and priorities, today threatening the planet and democracy.

Its overcoming requires the economic and political hegemony of the majority working people to free up initiatives and better serve the public interest. In this regard, nationalizations are not the only path to socialism, nor the best one, and they are not enough.

Inattention to the needs and aspirations of the dominated classes is a temptation that permeates the dominant ideology and the State. Despite the agricultural policy, suicides of French farmers crushed by debt are regularly reported. The British National Health Service has been and remains the victim of severe rationing. And we have seen where the bureaucratic illusion has led Russia: to an unequal and oligarchic private economy resulting from a social but stagnant State capitalism, stifled, parasitized by an authoritarian caste (the "nomenklatura").

On the other hand, it can be argued that to the extent that Social Security escapes the State, employers and privatization, it is a counter-power which prefigures a democratic social revolution and prepares it.

Baudouin Petit, march 26, 2025

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(*) James Meade (Nobel Prize in Economics 1977), close to the British Labour Party, had doubts about the feasibility of his proposal, which dates back to the post-war period, but that was before computers. He summarized his political ideas in a small book: "The intelligent radical's guide to economic policy" (available in electronic version).

(**) Thomas Piketty (in « A brief history of equality ») links the excessive remuneration of certain business leaders to the decline in tax progressivity. In the United States, before Reagan, it was strong and its egalitarian effect extended to pre-tax income. And for liberal economist Paul De Grauwe, no one should inherit more than ten million euros.

(***) Maurice Allais (Nobel Prize in Economics 1988) called himself "liberal and socialist". This article presents his capital tax: https://www.premierage.be/afep-diemerlallement juillet2012

(****) https://mikrosteuer.ch/site/assets/files/1323/20240826_e_a_minimal_tax_on_finance_transactions_to_replace_all_taxes__august_2024__six_statistics_1_7_2024.pdf