The Genealogy of Consent

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Popular Sovereignty and Sovereign Debt

What does the friction between popular sovereignty and sovereign debt entail for our democratic orders? Are we experiencing a loss of popular sovereignty in the sovereign debt crisis?

Voices from both the left and the right decry the austerity measures devised by supranational institutions as amounting to nothing less but an assault on popular sovereignty. As fiscal hawks chip away at the welfare state in their “give-no-quarter” pursuit of balanced budgets, many a political pundit has donned the populist cape and rushed to the rescue of the “sovereign people”. Indeed, the austerity-medicine shoved down the throats of most European citizens -without their consent- has brought to the fore what now appear as two diametrically opposed concepts: popular sovereignty and sovereign debt.

It is easy at this point to slip into demagoguery, claiming that sovereign debts are illegitimate because, after all, “the people” did not cause the crisis. Blame the bankers, right? What is harder, however, is to understand what the friction between the concepts of popular sovereignty and sovereign debt entails for our democratic regimes. A look into the past at one of the first moments in history when this tension surfaced will help us understand the matter more profoundly.

The years were the 1690s in England, a period also known as the Financial Revolution. In 1694 the Bank of England was established to supply fresh credit to a cash-strapped Crown for the expansion of the Royal Navy’s fleet. For the first time individuals and firms could invest in the fortunes of government on the assumption that they would be paid back with interest at later date. Future revenues from taxation and/or economic growth of the nation would serve as collateral for investment – hence the build-up of national, or sovereign, debt[1].

The institution of national debt however was not well received. In fact, it implied a radical re-thinking of the relationship between the people and government. In the late seventeenth century this relationship had been defined by the political theories of civic republicanism (Harrington, Milton) and social contract theorists (Pufendorf, Locke) as one based explicitly on the consent of the governed. It was the people’s responsibility, as bearers of god-granted rights and as free citizens, to erect a government through the election of public magistrates (or monarchs) which would rule in their stead. Sovereignty ultimately resided with the people who enjoyed the right to revoke the mandate given to their representatives if their trust was breached. Late seventeenth century political consciousness generally conceived of a legitimate government as one founded upon on the will of the people and upon some idea of a social contract.

Accompanying the idea of "the people" as the original source of political sovereignty was the concept of civic virtue. The civic virtues were those qualities required by citizens and governments alike to be in control of their destiny and not succumb to external dominion. Civic virtue entailed political agency: participating in the political affairs of one's community as a means of protecting individual freedoms. In fact, the very notion of personal liberty was intimately connected to the idea of civic virtue. Liberty was defined by a certain degree of political self-determination which ensured autonomy from external rule (the arbitrary rule of a monarch or of another nation for example). On the contrary, not being free was caused by being dependant on the will of someone or something else. *Un*-freedom thus entailed the condition in which one lost human agency and the ability to defend and define one's liberty[2].

Within this conceptual universe, the idea of sovereign debt clashed with both the concepts of popular sovereignty and civic virtue. While before the fate of the nation was conceived as inextricably tied to the political agency of the sovereign people, now sovereign debt chained the fortunes of government to the will of anonymous investors. As nations increasingly relied on external and private credit (and eventually on the issuing of bonds), it was perceived that the people would steadily lose political agency and control over the fate of their nations. Sovereign debt therefore created a condition of *dependence* of government towards creditors. And, as we have seen, dependence signified the loss of civil freedom[3].

In such a way, the stability of government was no longer sustained by the civic virtue of its citizens, nor from that holy pact called the social contract. Now, government was to rely on the fickle nature of investors and what would eventually become the almighty bond market. As the historian J.G.A. Pocock puts it:

> *"Stability of government in the present became linked to the self-perpetuation of speculation concerning the future … government and politics seemed to have been placed at the mercy of passion, fantasy and appetite, and these forces were known to feed on themselves and to be without moral limit"[4]*
>
> *"Booms and busts, bulls and bears became the determinants of politics"[5]*

The lesson we may draw from this historical example is not that sovereign debt is intrinsically bad. Every modern government must at some point take up debt in order to deliver on its responsibilities. The lesson here is in recognizing the dangers posed by the loss of democratic control over the institutions of public governance. Increasingly the policies of sovereign nations are unduly influenced by credit rating agencies, international markets and anonymous investors through their speculating and passing judgment over sovereign debt. Brought to an extreme this situation becomes incompatible with the basic tenets of democracy. Subsuming popular sovereignty to the arbitrary whim of capricious markets robs the concept of the social contract of its fundamental source of legitimacy, namely, what Locke called the "consent of the governed".

The political discourses of the late seventeenth century show us that, at times, the machinations of the world of finance and the balanced functioning of a democratic regime may be at odds. It also warns us that dependence of our governments on unaccountable institutions minimizes the political agency of citizens, thereby curbing our democratic freedoms first of which is the exercise of democratic control over government. No matter how serious the sovereign debt crisis may be, democracy and popular sovereignty must remain non-negotiable.

Bibliography

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Skinner, Q. 1990. "The Republican Ideal of Political Liberty", **in** Bock, Skinner & Viroli ed. *Machiavelli and Republicanism*, Cambridge University Press: Cambridge

[1] Pocock 1985, p69

[2] Skinner 1990

[3] Pocock 1985, p69

[4] Pocock 1985, p112

[5] Pocock 1985, p112

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3 responses to "*Popular Sovereignty and Sovereign Debt*"

Alan Hertz

May 11, 2012 at 11:18 am

As usual, Giulio, I think you have hit an admirable balance between progressive instincts, common sense, philosophical learning, and historical accuracy. The post clarifies my thoughts quite elegantly. I don't know much at all about Dutch predecessors of the Bank of England — were they involved in the management of sovereign debt?

You might also think about the Bank's role in the management of the currency; I believe this was an even more important early function than the management of debt. We live in an age when governments, whatever they may claim, no longer has effective control of the money supply. It can be and is manipulated for private profit. Isn't that also a significant threat to democratic control and legitimacy?

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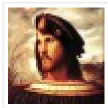
May 11, 2012 at 11:37 am



Dear Dr. Hertz

Thank you for reading my work and taking time to comment on it. It is always greatly appreciated.

Don't really know much about the Dutch Bank, perhaps your right, they may have been issuing something akin to bonds before the bank of England was established.

Regarding the management of currency, I agree wholeheartedly. Currency management has always been a tool (or weapon) with which to wage financial warfare. However, the ability to devalue currency is not inherently wrong, indeed if the member countries of the EU were allowed to do so we would be in less of a mess than we are in today.

And you are right: who calls the shots for currency devaluation/appreciation are no longer governments (supposedly acting in the public interest) but, alas, unaccountable financial institutions (FED, ECB, Credit Rating Agency and so on…)

Grazie mille!

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Ray Hilditch

May 12, 2012 at 7:20 am

An excellent treatise, Giulio.It’s worth noting that the “Old Lady” remained in private hands until 1946, but effectively became the Central Bank in 1844 when the Bank Charter Act gave it the sole right to issue notes. Of course the response to this was the creation of chequing accounts (and later credit cards), which rather supports Alan Hertz’s comment about the inability of the Central Bank to control the money supply in any real way.

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