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Article

The quiet side of debt: public debt management in advanced economies

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Abstract

Whilst both the level and the make-up of public debt are high salience issues, the management of public debt seldom commands public attention. This study examines the quiet politics of public debt management in advanced capitalist societies, comparing debt management reforms and the everyday practice of debt management in Germany and the UK. We present evidence of two factors contributing to the political quietude around public debt management: a persistent absence of partisan contestation and conflict; and the dominance of 'market discipline' as an interpretative frame, which prevents changes in interest rates and debt servicing costs to be seen as the product of faulty debt management. We also find that this quietude creates a space for the coordination and cooperation between contemporary capitalist states and large dealer banks, whose capacities effectively to act within their respective domains depend on each other.

Key words: infrastructural power, public debt management, quiet politics, market discipline, central banks, fiscal policy

JEL classification: G18 General Financial Markets: Government Policy and Regulation, P16 Capitalist Systems: Political Economy, H63 Debt, Debt Management, Sovereign Debt

1. Introduction

All but a few modern states are in the red; some (much) more, some (much) less. Since the end of the Bretton Woods era, public indebtedness has been on the rise with sharp increases in times of crises, be it financial meltdown or pandemic. Among advanced economies, average public debt shot up from 30% of gross domestic product (GDP) in 1973 to 103% of GDP in 2012, before reaching new heights at 124% of GDP in 2020 (IMF, 2020). Even if debt servicing costs (the interest payments governments make to service their debt) relative to outstanding debt have continually declined, the costs of borrowing remain significant.

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Even for rich countries with access to deep capital markets, the servicing of debt costs governments dearly (see Figure 1). The public debt portfolio is usually the largest outstanding stock of debt. In Germany, for example, the debt portfolio to be managed in 2021 stood at €132.5 billion with €21 billion in interest payments (European Commission, 2022). In the UK, the Debt Management Office's (DMO) annual cash management transaction volumes are in excess of £5 trillion (HM Treasury, 2021). In short, the management of public debt is a multi-billion-euro business and a key determinant of states' capacity to spend. While fiscal policy affects *how much* countries borrow, debt management is about *how* countries borrow.

The way governments manage public debt has changed drastically over the course of the past decades. By the turn of the millennium, most governments had reformed public debt management formalizing market structures, creating (quasi-)autonomous debt management agencies and introducing new debt management practices such as the use of derivatives. Across the OECD, countries converged on a financialized model of debt management which relies on financial markets as a governance mechanism and adopts a financial economics (as opposed to classic macroeconomics) sense-making framework (Fastenrath *et al.*, 2017; Preunkert, 2020).

Public debt management refers to 'the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set' (IMF, 2001: 2). This process involves trade-offs. Cheap funding might save some money in the short term but will sometimes come with increased risk in the long term. Decisions must be made about the maturity and denomination of bonds, how to attract foreign investors and how to use derivatives to manage risk. These decisions also influence the financial system more broadly: certain investor groups rely on a steady supply of government bonds to satisfy their investment mandates, as a benchmark asset for the valuation of other financial instruments, or as collateral for borrowing in the money markets that serve as a transmission mechanism for monetary policy (Gabor, 2016). Public debt also impacts financial stability by implication of the economic welfare and security of households and individuals in a financialized economy (Chwieroth and Walter, 2019). Public debt is

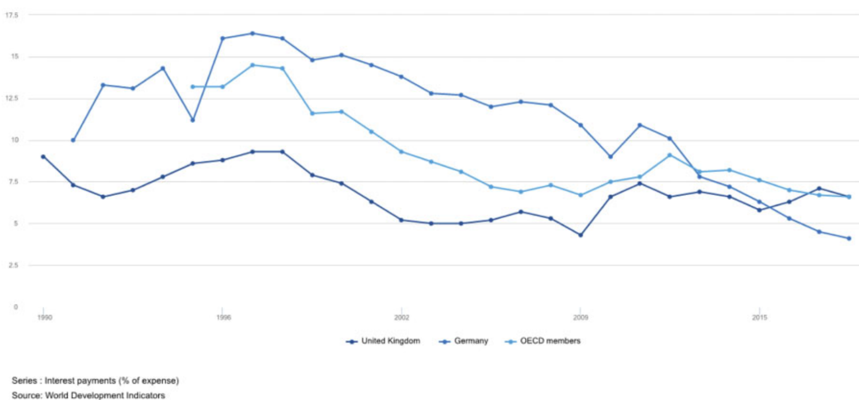

Figure 1 Interest payments as percentage of government expenses.

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thus at the heart of the politics of 'macro-finance', linking together issues of financial stability, fiscal and monetary policy (Gabor, 2020).

Considering the importance of public debt in contemporary capitalist societies, it seems odd that little attention is paid in the social sciences as well as in broader public debates as to how that debt is managed. Questions about how much governments (can) borrow and how they can or should spend have been extensively researched. Similarly, in the wake of the global financial crisis, questions around monetary policy have become the object of significant scholarly debate. The question of *how* modern 'debt states' (Streeck, 2014) finance themselves, however, much less so (for exceptions, see, e.g. Lemoine, 2016; Fastenrath *et al.*, 2017; Dutta, 2018; Preunkert, 2020). While public debt and monetary policy reside in the lobby of noisy politics, debt management occupies quiet dwellings. This discrepancy throws up several questions: *Why is public debt management so quiet? And what implications does this quietness have for state–finance relations?* Empirically, public debt management is consequential; theoretically, its quietness is not preordained.

Drawing on Culpepper's concept of 'quiet politics' (2010), this article answers these questions by unpacking the quiet politics of debt management in Germany and the UK. A crucial aspect of Culpepper's argument about quiet politics is that when politics remains quiet, business actors tend to get their way; business power thrives in the absence of noisy contestation. In this article, however, we conclude differently: rather than constituting a space for business power to hold sway over state actors, the quietude around public debt management creates a space where private actors and government officials can cooperate in maintaining a stable market for public debt. This space of mutual dependency and coordination, we argue, is an essential feature of the 'financialized' model of public debt management where states rely almost exclusively on market mechanisms to maintain their debt.

In making this argument, we make three contributions to the literature. First, we argue that the politics of debt management does not map neatly onto the partisan landscape; we also do not find any evidence of partisan bias in debt management reforms. The case of public debt management thus lends support to the convergence thesis, which posits the reduced significance of partisanship in states' relation to the financial sector since the 1980s (Thomas, 1980; Kurzer, 1993). Secondly, we contribute to the literature on quiet politics by showing how quietude may serve not only business interests but how it may also be in the interest of modern states to create informal governance spaces for coordination with financial market participants. To the extent that states as debtors rely on these actors for capital market access, which most modern debt states do, states and markets may have a shared interest in quietude. This quietude, moreover, can be maintained, thanks to a shortage of relevant and publicly available information on debt management performance, the ambiguous nature of price signals and the persistence of the market discipline frame. Thirdly, our main contribution is to further advance our understanding of the politics of debt management. As in the case of monetary policy (e.g. Walter and Wansleben, 2020), we find that under a system of financialized debt management, state and market actors are mutually dependent and tend to have shared preferences, especially with respect to infrastructural issues, which is conducive to infrastructural coordination in the quiet dwellings of informal governance spaces.

The article proceeds as follows. The next section presents an overview of our theoretical and methodological research framework. The main empirical sections focus on Germany and the UK, analysing (a) the reforms of public debt management and (b) the practice of

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managing public debt. Foreshadowing our conclusion, we confirm two factors that prevent public debt management to turn noisy, namely the absence of partisan contestation around debt management reforms, and barriers to public and political scrutiny of debt management decisions. This quietude creates a space for the coordination among debt managers and dealer banks to maintain a market for public debt.

2. Researching debt management as quiet politics

The starting point of our analysis is that debt management involves trade-offs with distributional implications. Debt managers must make decisions about the rights and obligations of primary dealers[1]; about whether and how primary dealers are 'rewarded' for their services; about the kind of instruments that will be issued (or cease to be issued, as was the case with retail bonds in the UK and Germany), about whether to cater to foreign or domestic demand and to accommodate the demands of long-term institutional investors by linking coupon payments to inflation; about the potential issuance of green bonds; and about whether and how to use derivative instruments. There are, in other words, many different debt management strategies and these strategies are not neutral. They have implications for monetary policy, fiscal policy, financial stability and income inequality. Debt management decisions, for example, feed into models of debt sustainability, which are used by both public and private actors to assess the sustainability of a government's debt burden. Credit rating agencies include both the average maturity of the outstanding public debt as well as the share of (relatively 'footloose') foreign investors in the calculation of their sovereign bond rating exercises. Building on Maxfield's (1998) and Cohen's (1998: 284) arguments on the power of foreign investors, Rommerskirchen (2020) finds that market pressure does not present a uniform motivation for fiscal retrenchment but is instead contingent on the size of the foreign investor base. This means that debt management's decision to increase the share of non-resident bond holders, via international road shows and by wooing international dealer banks, has implications for government's (perceived) room to move.

2.1 The quiet politics of public debt management

Considering the stakes of public debt management, it is not self-evident that it remains confined to the realm of quietude. Our contention is in line with Morgan and Ibsen's argument that a policy issue is not inherently quiet or noisy (2021: 7). Quietude is not preordained and indeed a growing literature has documented how previously quiet politics can turn noisy (Culpepper, 2010, 2021; Mach *et al.*, 2021; Calcara, 2022). In the context of this study, the example of the new noisy politics of central banking is particularly noteworthy (e.g. Braun and Düsterhöf, 2021). To examine how and why the quietude of debt management is maintained, we draw on Culpepper's (2010) framework, which defines quiet politics as politics with little to no audible public or political contention, and takes media coverage as a prime indicator of loudness.

1 Primary dealers have exclusive access to primary auctions, and commit to market making in the secondary market, buying and selling government bonds to and from investors on demand. In most countries, the relation between governments and primary dealers is formalized, with clear expectations about the rights, responsibilities and obligations of primary dealers.

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We divide our analysis into two parts. First, we analyse the reforms of debt management through a partisan model of macroeconomic policy, in which ideologically different political parties pursue systematically different policies. This, in turn, yields a partisan bias in public policy, for instance, in the area of central bank independence and fiscal policy matters of taxation and redistribution (Hibbs, 1977). Translating the partisan hypothesis to the issue of debt management is not a clear-cut exercise. On the one hand, left-leaning governments might be more likely to champion debt management reform if it is perceived to provide cheaper funding, especially where they stand to win reputation gains for 'market-friendly' reforms (Cioffi and Höpner, 2006). On the other hand, it may be that right-leaning governments are more convinced of the merits of technocratic reform promising professionalization of debt management. Conversely, reforming debt management may not map onto partisan affiliation at all. The most prominently cited motive for reform is the reduction in both risk and costs of the national debt. This motive is not intuitively associated with a party-ideological programme and fits with the declined significance of partisanship in policy preferences regarding financialization in other domains (e.g. Wiß, 2019). What is more, where politics are quiet, we should expect little partisan contestation. Quiet politics refers to situations where voters 'evince little sustained interest in and knowledge about' a policy, and as a result 'battles [over the issue] ... take place away from the public spotlight' (Culpepper, 2010: 4). Politicians usually have few incentives to get involved in quiet politics as voters are said to either know little about the underlying issues, care little about them, or indeed both.

Secondly, we consider debt management practices. In the model of quiet politics, we would expect to encounter low salience and high complexity. The reforms of debt management concern the so-called agenda-setting stages, where political conflicts about reforms are said to be visible and contentious (Culpepper, 2010, see also Busemeyer et al., 2022). Looking also at the practice of debt management allows us to consider quietude in different modes of formality. Here we follow Culpepper's framework (2010: 181) which distinguishes between informal and formal 'governance spaces'. Debt management reforms are mostly a formal affair as legislation by definition is a formal process. However, in macrofinance more broadly, and especially within the agency model of increased flexibility, the relationship between states and financial market actors also relies on informal and flexible networks of coordination. While our examination of debt management reforms examines salience through a partisan politics lens, our analysis of the practice of debt management reforms examines salience through the lens of informational barriers to public and political scrutiny of debt management decisions. Here we consider in particular media coverage surrounding debt management and parliamentary scrutiny of debt management decisions.

Our analysis departs from Culpepper (2010) in our framing of market–state relations: in public debt management, this is not necessarily an antagonistic one. Our argument here relates to a broader literature on the state–finance–nexus. We find an alignment of preferences similar to the alignment of central banks with market-based banking (Walter and Wansleben, 2020). Access to liquid capital markets enhances the capacity of modern 'debt states' (Streeck, 2014) to borrow and boost spending without having to implement sluggish fiscal reforms or taking recourse to outright monetary financing (cf. Copley, 2022 on 'palliative strategies'). Government bond markets not only enhance the capacity of the state but also strengthen the position of infrastructural actors—for example, the intermediating dealer banks who 'make' markets in public debt—to the extent that these actors can refrain from

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performing their infrastructural role (Braun, 2020). This reliance strengthens the latter's position cementing 'financial dominance': the imperative for central banks to de-risk key financial assets in order to maintain financial market stability and corporate access to credit (Gabor, 2016; Diessner and Lisi, 2020). The de-risking of key financial assets—in which government bonds loom large—also eases financing conditions for states. The interests of the states and their dealers have thus become intricately entangled, making the modern debt state also a '*partner state*, associated horizontally with the banks and the private organizations of the financial market' (Lemoine, 2013: 3; emphasis in original). Markets for public debt are then best viewed not through the frame of antagonistic state–finance relations but as a space where the interests of state and market actors may overlap. Within this setting, quietude facilitates coordination and cooperation.

2.2 Empirical strategy

We analyse the cases of Germany and the UK which are frequent companions or foils in cross-country comparison (e.g. Lütz *et al.*, 2011). In so doing, we examine the politics of debt management reforms in different settings. Variation in political economies more broadly, and in macrofinance specifically, allows us to ask whether the noisiness of managing public debt is impacted at all by these variations. Germany, due to its multiple veto points, should be a least-likely case of debt management financialization (Trampusch, 2015). Reversely, with only a few veto points, the UK should be a likely candidate. Related to these variations in political systems is the different track record of embracing financialization more broadly. The academic debate as to whether global financialization has led to a convergence of national financial systems is far from settled—although the portrait of German macrofinance as conservative or backwards has convincingly been challenged (see Hardie *et al.*, 2013, Germann, 2021). At the same time, few would argue that the UK and Germany are similar political economies. Picking manifestly different cases introduces variation on the input side of our model, where the output side persistently reads the same variable: silence. Despite systemic differences, debt management routinely flies under the radar in both countries; in this outcome, they are representative cases across rich countries where, to the best of our knowledge, no deviant case exists. The rationale for case selection thus follows the 'most-different' strategy (Tarrow, 2010) where all roads appear to lead to Rome.

We draw on evidence from primary archival sources, financial industry magazines, public documents and background interviews. The archival material has been gathered from the German *Finanzagentur*'s archive, digital newspaper archives, the parliamentary archives of the Bundestag and the House of Commons, the UN Library in Geneva, as well as from over 300 pages of newly (2021) transferred files on the UK's debt management reforms at the National Archives. We furthermore draw on 18 background interviews with current or former senior employees at national DMOs and independent debt management consultants as well as 16 interviews at primary dealer banks. Particularly useful was participation in three international meetings attended by staff of DMO in Geneva, Paris and Rome, as well as two international banking industry conferences in London. We do not quote these interviews, but rather use their insights to guide and corroborate evidence based on publicly available documentary sources.

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3. Reforming debt management

For most of the 1990s, in both Germany and the UK, public debt was still managed by central banks. Whilst the Bundesbank adopted a 'conservative, passive and long-term debt strategy' (Trampusch, 2015: 121), the Bank of England already auctioned a modest share of its debt in marketable form. Nevertheless, governments in both countries decided to reform the organization of debt management by setting up independent debt management units separately from the central bank. In the UK, the setting up of the DMO was motivated by the desire to separate monetary policy from debt management decisions to avoid that borrowing decisions were influenced 'by short-term considerations over monetary policy' (National Audit Office, 2007). Less than 2 years after the establishment of the DMO, the wave of reforms hits the German government, which moved responsibility of debt management to an independent agency, the *Finanzagentur*. The emphasis in the German case was not so much on compromised central bank independence and independent monetary policy (the delegation of monetary policy to the European Central Bank would reduce this risk), but on making the outdated model of debt management fit for the 21st century (and especially the eurozone). In both cases, these reforms mostly happened quietly. This is not to say that there was an absence of media coverage or political commentary (e.g. Trampusch, 2015), but in the end, reforms passed without major partisan fractions or open acrimony.

3.1 The British case

As part of the monetarist experiment in the early 1980s, the Bank of England issued long-term government bonds for monetary policy purposes. Within the monetarist frame, the issuance of long-term debt had monetary implications because it allowed the central bank to curtail the expansion of private credit by committing private resources to the sustenance of long-term public debt. 'In effect', Allen (2012: 26) writes, 'the volume of gilts sales ... was being determined by the rate of bank credit extension, which was in turn determined by the banks and not the government'. The practice of blending monetary policy with debt management was put to a halt in 1985, when the Chancellor of the Exchequer, Nigel Lawson, decided that debt should be issued to fund budget deficits and not for monetary policy purposes (Goodhart, 2012). This separation of monetary policy and debt management was cast in concrete in 1997 when the new Chancellor Gordon Brown moved debt management out of the Bank of England into a newly established DMO. Copley (2022) chronicles the accidental origin of financialization in the UK, locating it in the 1970s. Thirty years later, the creation of the DMO was a deliberate Treasury project designed to introduce a 'banking model' (including the now standard setup of DMOs divided into front-, middle- and back office) to the management of public debt.

Debt management reform emanated from within the executive, marshalled by a small group around Chancellor Gordon Brown. Labour's newly elected cabinet ministers were not involved in the joint reform of central bank independence minus debt management. Under conditions of quiet politics, these reforms were equipped with low electoral salience. The divorce between debt management and monetary policy, moreover, had already been 'so complete ... that when one of the couple (debt management) was moved out of the nuptial home (the Bank) into new quarters, at the Debt Management Office, hardly anyone even noticed' (Goodhart, 2012: 126). The DMO continued many of the practices already initiated by the Bank of England and consulted on a regular basis with its primary dealers (the so-called

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Gilt-Edged Market Makers)—a system that had already been in place since the 1986 Big Bang reforms and replaced the prior market structure, which revolved around 'jobbers' and 'brokers' (Dutta, 2018). This primary dealer system provided a space for coordination among debt managers and dealers, with frequent consultations, giving GEMMs for instance a strong influence on the electronification of the bond market (author, 2022b).

Initial fears that the reforms were 'likely to encounter stiff resistance from the Bank of England [and . . .] may provoke accusations that the Bank is effectively being dismembered'[2] did not come to fruition. Two factors are worth highlighting. First, because debt management reforms were closely linked to increased independence for the Bank, reforms were in the end hardly a demotion. Secondly, even where Bank of England officials disagreed with the scope and direction of reforms, as archival material clearly documents, disagreement was kept indoors.

3.2 The German case

In Germany, debt management reform was embedded within a broader project of financial liberalization and reorientation (e.g. *Finanzplatz Deuschland*) and chimes with what Röper (2018) calls 'non-hegemonic financial paradigm' surrounding the emergence of finance capitalism in the 1990s prevailing across the political spectrum. Despite initial fears that the project would harm the Bundesbank's standing, parliament approved the reforms without dissenting votes (the CDU abstained). The parliamentary debate suggests a broad consensus on the benefits of modernized debt management. According to Oswald Metzger from the Green party, it was 'precisely these experts that the state needs, as they can reduce the federal government's interest payments with clever derivative transactions' (*Tagesspiegel*, 2000). A speaker from the far-left party likewise conceded that these reforms, possibly also with an eye on practices abroad, were 'long due'. A review of plenary protocols suggests that parliament here was not an 'arena of struggle' (Culpepper, 2010: 181) as befits quiet politics.

European monetary integration contributed to the quietude of debt management reform because it weakened the position of the once powerful Bundesbank, the key veto player (Trampusch, 2015). Within the increasingly competitive space of the European public debt market (Preunkert, 2020), moreover, the *Finanzagentur* later reported that 'All thoughts were dominated by the goal of the issuer to secure the benchmark position of its bonds among the increasing competition of the Euro capital markets'.[3] Indeed, Germany's financial sector at large welcomed the reforms (similar to the response in the UK, cf. National Archives 23/2/1). According to an industry magazine, the creation of the *Finanzagentur* 'accomplished several good things at once' (Kreditwesen, 2007) and by bringing different debt management competencies under one Frankfurt-based agency was perceived as strengthening the banking community's centre (Raettig, 2011). For dealers, the reforms would de-risk market making[4] by increasing the transparency and regularity of issuance, concentrating issuance on a few benchmark bonds and introducing new auction systems that reduced the time lag between auctions and sales. For the providers of technological infrastructure, the reforms provided a business opportunity too (see Fastenrath *et al.*, 2017: 273; author 2022*b*).

2 Letter from Gareth Pulman to Jonathan Portes, January 4, 1995, National Archive.
3 Newsletter German Government Securities, October 2004, *Finanzagentur* Archive
4 For a broader debate on state de-risking, see Macartney *et al.* (2020).

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The debt management reforms were accompanied by the adoption of a more consultative approach with financial market actors, as in the UK. In the mid-1990s, for instance, foreign dealer banks still complained about the Bundesbank's non-communicative approach to debt management. Although the Bundesbank would regularly meet with an 'inner circle' of bund dealers participating in syndications, important decisions had typically already been made. For foreign dealers, these meetings appeared 'largely a matter of prestige', as claimed by the internationally oriented magazine *Euromoney*. 'Even the Bundesbank claims to be surprised that bankers take the trouble to travel to Frankfurt from all over Germany for a meeting that lasts less than 10 minutes and where members of the inner circle rarely offer any comment on the Bundesbank's pricing suggestion' (Euromoney, 1997). Today, however, the *Finanzagentur* consults closely also with foreign investors and dealers and operates in a way that is more aligned with market preferences: through regular auctions and in a limited range of instruments covering the entire maturity spectrum.

Unlike the UK (and indeed most other countries), Germany lacks a proper primary dealer system (author, 2022*a*, *b*). This also means that *Finanzagentur's* communication with market participants tends to be more informal. The *Finanzagentur* meets every 2 years with the members of its Bund Issues Auctions Group to discuss the technicalities of the auctions. In between, however, the *Finanzagentur* maintains open lines of communication with both *bund* dealers and investors and meets on a regular and bilateral basis with its most important dealer banks and investors. Indeed, the previous managing director of the *Finanzagentur* told the professional press that he spends a lot of his time 'on the road talking to investors…Investors obviously appreciate having the opportunity to discuss' (Moore, 2011). Regardless of the style of communication, debt management reforms in both Germany and the UK passed without partisan discord and contributed to the creation of a space for coordination between debt managers and market participants.

3.3 The absence of partisan politics in debt management reforms

It is interesting to note that two countries with different political systems followed the same executive-driven reform playbook. This finding adds nuance to the claim that politically salient issues favour executive-driven and centralized policymaking (Bell and Hindmoor, 2017). Moreover, the well-documented difference in interest group intermediated between Germany and the UK (e.g. Iversen and Soskice, 2009; Martin and Swank, 2012) was not evident during debt management reforms. The financial industry largely welcomed debt management reforms. The reform approach is broadly similar in both countries, where financial market stakeholders (at both firm and association/group levels) were repeatedly consulted. Furthermore, the working relationship between dealer banks and debt managers was supported by network effects of revolving doors in public debt management (Silano, 2022). A consultative approach is perhaps not striking, given the mutual dependence: governments after all must secure access to willing buyers and dealers—a telling anecdote in this regard, is a charity run by staff of the freshly created UK DMO and stopping at each headquarter of their London-based primary dealer banks (*Evening Standard*, 1998).

In both Germany and the UK, the ultimate decision to move debt management out of central banks was made by left-leaning governments. Yet ideas for reform emerged well *before* the Blair and Schröder governments took office and cannot be attributed to one party. In the UK, the origins of debt management reform go back to 1989 in the context of monetary integration, and the reform was already mentioned in Lawsons' resignation speech. The

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groundwork for the break-up of monetary policy and debt management was officially laid with the 1995 Debt Management Review under the auspices of the Conservative Major government. In Germany, the modernization of debt management had already picked up under Theo Waigel (CDU) with a shift towards active debt management in 1997 (Fastenrath *et al.*, 2017). The reforms thus did not respect the boundaries of partisan or cabinet lines.

Eventually, internal central bank opposition was drowned out by bigger debates, namely operational independence for the Bank of England and the future of the Bundesbank within the Eurozone project. The politics of central banking is firmly situated in the territory of noisy politics, drawing away attention from debt management reforms. Whilst, as McNamara notes, 'central banks continue to make policies which have important, identifiable distributional effects and thus remain resolutely political and therefore partisanal institutions' (2002: 53), the same cannot be said for public debt management. This argument is also supported by a wider comparison of 14 reforms in advanced economies between 1990 and 2001 where no strong partisan correlation is found (see also Trampusch, 2019).[5] In Lemoine's words (2016), reforming debt management 'corresponds to a kind of *Realpolitik* in a financialized and globalized environment that is no longer examined or questioned by political leaders but instead taken as given'. Yet this consensus risks obscuring the inherently political nature of public debt management: 'acting as if they were willing to "depoliticize" public debts and delegate their management to supposedly apolitical market actors, these reformers made a political choice' (Barreyre and Delalande, 2020: 371). Debt management is part of the politics of 'depoliticization' (Burnham, 2001). This echoes Eich's argument that attempts to depoliticize money are 'a magician's sleight of hand—insofar as they disavow that such calls are themselves political moves within the politics of money' (2022: xv, see also Binder and Spindel, 2017; Kirshner, 2018; Braun, 2020; Diessner and Lisi, 2020).

4. The practice of financialized debt management

Having established similarities in debt management reform between the German and British cases, we now focus on the practices that contribute to the quietude of public debt management across these cases. In both cases, we find that the political quietude around debt management is partly maintained by public debt managers eschewing the public spotlight. This hesitancy can be traced to the fact that government debt managers are not only participants in the market for their own sovereign debt, but they also participate in setting the formal and informal rules for trading in both the primary and the secondary market; debt managers, for instance, decide on auction procedures, and through primary dealer systems, they may set informal expectations and formal secondary market requirements. In a market-based system, debt management decisions cannot be seen as politically motivated, which might reduce banks' willingness to participate. Instead, the shroud of quietude yields space for coordination among debt managers and their dealer banks. The predilection for quietude

5 Reforms were more frequently carried out by left-leaning governments (eight cases: Austria, Finland, Germany, Greece, Iceland, Italy, Portugal and the UK) than right-leaning governments (six cases: Australia, Belgium, Denmark, France, Luxembourg and Ireland), but the difference is small. Data on reforms were taken from Fastenrath *et al.* (2017) and updated by the authors. Data on the partisan affiliation of governments is found in the World Bank's Database of Political Institutions (Beck *et al.*, 2001).

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is also expressed in the fact that DMOs are often located in emphatically unremarkable buildings. In the UK, during the search for a new premise, 'several properties were ruled out on grounds of cost and/or ostentation'.[6] On the few occasions, we can read about debt managers in the media; moreover, they indeed tend to highlight the virtues of quietude and in both countries press articles often highlight the obscurity of public debt management. In the *Financial Times*, for instance, the DMO's CEO Robert Stheeman readily concedes that 'most people in the real world do not know what we do and that's fine. It means everything is going smoothly' (Stubbington, 2020).

There is nothing inherently noisy or quiet about specific policy issues. Even so, scholars of quiet politics suggest that a high degree of technicality will more likely mean that an issue remains in the realm of quietude until the issue becomes contested on its technical dimensions (Culpepper, 2010; Morgan and Ibsen, 2021). In this section, we elaborate on this suggestion by highlighting three different ways in which the technicality of public debt management is structured: (a) the absence of meaningful performance criteria in debt management, notably regarding the use of derivatives; (b) the informal reward/support mechanisms for primary dealers; and (c) the market discipline lens as a shield when debt servicing costs rise. The scope of debt management activities is quite broad, as noted earlier, and includes also a range of other practices such as cash management. We think, however, that the risk–reward trade-offs are starkest—and thus best illustrate our points—where the use of derivatives and the management of the dealer system are concerned.

4.1 Performance criteria

The lack of performance evaluation criteria for parliament (beyond closed-door committees) as well as for the public more generally fosters the low salience of debt management. One example of this concerns derivative instruments such as swaps (Fastenrath *et al.*, 2017). Swaps allow debt managers to exchange (i.e. swap) fixed interest rates into floating rates and vice versa, or to swap interest payments in one currency for interest payments in another currency. In Germany, the Federal Budget Act caps the increase for swap transactions annually, initially set to a notional amount of €20 billion in 2000 and raised to €80 billion in 2005 where it has stayed since. To put this number into context, the total issuance volume of 2019 stood at €199 billion. This means that the *Finanzagentur* can engage in swap deals on around 40% of the debt issued every year. However, systematic data on these contracts are neither publicly available nor published in the annual issuance plan on grounds that this sensitive information could influence capital markets. Parliamentary oversight exists via the Federal Financing Committee whose members are obliged to maintain secrecy. The UK's DMO likewise is authorized to use swaps mainly for hedging currency risk via foreign exchange swaps. Data on derivatives are available in the DMO's annual report, yet no information about the nature of contracts and any losses is associated.[7] Derivatives tend to

6 National Archives, 1995, NDO 23/4/2: Part 3 of 3. Similarly, a report of *DW* reports that 'The German Finance Agency is housed much more modestly [than the Bundesbank]: In a sober office building on the northern outskirts of the city' (Ulrich, 2012). Note, however, that this is not the case for all debt management organizations. The French Agence France Trésor, for instance, is located in the flashy building of the French finance ministry.

7 In 2017, the derivatives outstanding amounted to a nominal value of £4 billion and a 'fair value' of negative £7 million (DMO, 2018). The stark difference between the nominal and the fair value of

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obscure exposure levels, which help cover government bond markets in a cloud of confidentiality (Piga, 2001).

The reporting requirements around swap usage in Germany and the UK align with a broader picture in advanced economies where parliaments are not comprehensively informed about financial risk (Trampusch and Gross, 2021). With high degrees of autonomy, debt management is practiced in informal political arenas, far removed from parliamentary scrutiny (cf. Culpepper, 2010: 180, Trampusch and Gross, 2021)—indeed, we find a lack of parliamentary and public oversight in different political systems. Performance evaluation is a key aspect of democratic accountability and is a reliable lightning rod for noisy politics. At the *Finanzagentur*, performance is assessed by comparing the current portfolio with a reference portfolio.[8] Although the UK DMO has an in-house benchmark and a small proportion of salaries is linked to performance,[9] there is no benchmark for evaluating the efficacy and efficiency of its operations because such benchmark could 'encourage short-term thinking and opportunistic behaviour to meet current targets, for example, by taking advantage of short-term market conditions to make a quick gain' (National Audit Office, 2007).[10] The issue of accountability predates reforms. For example, a note on the German system written by UK Treasury staff reads that 'The Finance Ministry has no way to control the Bundesbank or to measure its performance; nor is it clear that the Bundesbank does so either' ('Note for the Record, Visit to Germany', December 19, 1994, National Archives). Indeed, transparency and oversight have increased with the creation of the *Finanzagentur* and the UK DMO. And yet, the lack of data availability stands in the way of assessing whether or not debt management agencies are doing a 'good job' in general, and whether swap contracts are in the interest of taxpayers in particular. Debt manager remuneration, moreover, tends to be unrelated to performance benchmarks and pales in comparison to some of the top salaries and bonuses seen in the private sector, further contributing to keeping debt management out of the limelight (cf. Bell and Hindmoor, 2017).

4.2 Maintaining the market infrastructure

The shroud of confidentiality that confines debt management to the realm of quietude creates a space for public debt managers where they can coordinate their actions with private market participants. An important aspect of this is that states 'de-risk' their debts by making sure that the market's infrastructure can maintain liquidity even in times of stress. A comparison between the UK and Germany reveals that debt managers may pursue different strategies to achieve this. The UK DMO, for instance, operates a primary dealer system, in which primary dealers commit to pre-defined market shares at primary auctions as well as to making the secondary market by buying and selling gilts on investors' demand. In exchange, primary dealers enjoy privileged access to primary auctions and repo facilities. Primary dealers, moreover, can participate in debt syndications, which typically come with hefty fees (on average £1.8 million per £1 billion syndicated debt).

Participation in debt syndication is seen as a lucrative business, and it is therefore used by the DMO as an informal reward mechanism for primary dealers. Around 20% of the

derivative instruments further suggests how difficult it is to gauge the volume and risk of business just from numbers alone.

8 Newletter German Government Securities, October 2003, *Finanzagentur* archive.

9 In 2017, these ranged between £10 000 and £20 000 for senior DMO Staff (DMO, 2018).

10 https://www.dmo.gov.uk/media/14544/nao2007.pdf

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British public debt is issued through syndication, and participation in these syndications is based on performance rankings. The idea is that this provides an incentive for dealers to live up to their commitments and that it enhances their willingness to maintain primary dealerships. Though not strictly unconditional (for participation depends on market activity), syndication fees may be seen as a form of corporate welfare to the extent that they do not depend on primary dealers' continued commitment to market making (cf. Bulfone *et al.*, 2022). Recently, for instance, the MP Mel Stride raised questions about the cost of the syndication deals, wondering whether these deals had 'not [been] priced keenly enough, to the taxpayers' detriment'.[11] The syndication fees, Stheeman suggested in response, were 'an important factor for primary dealers in their decisions to support the programme more generally and to invest in their gilt franchises... whilst the outcome of each individual operation must clearly be judged in terms of value for money for the taxpayer, the programme as a whole must also be resilient to exogenous shocks'.[12] Informality, in other words, affords debt managers space to maintain their ties with primary dealers and assure continued commitment even—debt managers hope—in times of stress.

The German *Finanzagentur*, in contrast, does not operate a primary dealer system properly but maintains market liquidity by operating its own dealership. Membership of the Bund Issues Auction Group—the group of banks participating in primary auctions—is non-exclusive and obligations are close to none. Germany is quite exceptional in this regard. One explanation for this is that German sovereign debt enjoys a status advantage relative to other members of the eurozone, which effectively guarantees high demand (Gabor and Vestergaard, 2018). A corollary of this privilege is that the *Finanzagentur* only rarely issues debt through syndication. To maintain liquidity, however, the *Finanzagentur* relies on *Marktpflege* (which could be freely translated as 'market care'), a practice inherited from the Bundesbank, whereby the *Finanzagentur* retains around 20% of the debt issued on its own books to sell off directly in the secondary market or as part of its repo facilities in between biannual debt auctions. The legal space afforded to the *Finanzagentur* to perform *Marktpflege* as part of its 'liquidity planning' also enables it to act as the market maker of last resort, buying and selling to and from dealer banks to secure market liquidity if needed. Although they rely on different support mechanisms, both the UK DMO and the *Finanzagentur* thus operate in informal governance spaces to maintain market liquidity, which benefits from and contributes to the quietude of public debt management.

4.3 The market discipline lens

If we assume that debt management matters, poor debt management will lead to increased public expenditure. Yet, the cost of servicing these debt levels rarely commands public attention, even if debt *levels* frequently feature in news reporting. For instance, between 1990 and 2020, the *Financial Times* ran 226 stories covering debt servicing costs and 29 701 stories on government debt.[13] In the same period, 276 articles touched upon government debt management,[14] focusing mostly on the UK and other advanced economies. Servicing debt, it

11 https://committees.parliament.uk/publications/3565/documents/34443/default/
12 https://committees.parliament.uk/publications/3565/documents/34443/default/
13 Search terms: 'debt servicing cost' or 'cost of servicing' and 'public debt' or 'debt costs' and 'public debt'///other 'public debt' or 'government debt'.
14 Search terms: 'public debt management' or 'public debt' and 'debt management'.

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appears, is not a politicized budget item in contrast to, for example healthcare, education or defence spending. This is not a matter of size. In 2022–2023, gross debt interest payment in the UK is expected to reach £83 billion representing 5.2% of the total public spending and thus remaining far ahead of the defence budget of £48 billion.[15] Increases in debt servicing costs, however, may be the product of any number of circumstances. A change in interest rates can be taken as a signal of overall changing macroeconomic circumstances and a worsening of financing conditions. It can be taken as a signal of markets reappraising governments' creditworthiness, or as evidence of poorly functioning market for sovereign debt. It can also be taken as evidence of poor debt management, both past and present.

Any headline figure on interest payments, in other words, is not immediately interpretable and would have to be considered in relation to other variables (such as the overall debt level or the market environment) as well as counterfactual scenarios to be a useful indicator. For example, according to the rating agency Fitch, the UK's issuance of fixed-rate medium- and long-dated gilts prior to a period of disinflation was estimated to have an additional cost of £55 billion in debt servicing costs.[16] A recent study of the costs of bond issuance in the past century by Ellison and Scott (2020) suggests that UK government debt in 2017 would have been around 24% of the GDP lower had the government only issued 3-year bonds throughout the 20th century and early 21st century. Blame attribution, however, is not straightforward. In the case of the Fitch IBCA study, the UK Treasury dismissed the findings as hindsight calculations. The argument that it is difficult to assess the performance of debt management is not simply a feature of modern 'financialised debt management'. Reflecting on the surge in public debt to finance British war efforts during the First World War, for instance, Bill Allen notes that the Treasury did not even attempt to assess the effectiveness of debt management. Even if the Treasury had attempted to calculate the cost of debt management, Allen suggests, 'interpreting the results would have been problematic... Precise performance evaluation was logically impossible, and was rightly not attempted' (Allen, 2019: 188). In the context of DMO reforms, the minutes from the Minister of State of the Chancellor similarly concede that it 'is impossible to prove [underlined] that moving to a more predictable and transparent system would save us money [...]'.[17]

The ambiguity of price signals fosters the quietude around debt management and enables the depoliticization of fiscal policy through the rhetorical narrative of market discipline (cf. Flinders and Buller, 2006). A reduction in debt servicing costs is easily interpreted as a triumph of modern debt management. An increase in debt servicing costs, however, is rarely considered as evidence of poor debt management. The role that policymakers have carved out for market discipline to keep ostensibly errand governments on the fiscal straight and narrow is key to understanding this. Here the quiet politics of debt management meets the loud politics of bond market vigilantes. According to the Institute of Fiscal Studies, even in times of pandemic and substantial central bank purchases of sovereign bonds, 'the interest rate on government

15 Figures were taken from the Office of Budget Responsibility (https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/debt-interest-central-government-net/; accessed August 9 2022) and the House of Commons Library (https://researchbriefings.files.parliament.uk/documents/CBP-8175/CBP-8175.pdf; accessed August 9, 2022).

16 Treasury—Sixth Report, Session 1999–2000, May 22, 2000, available at: https://publications.parliament.uk/pa/cm199900/cmselect/cmtreasy/154/15402.htm (accessed August 31, 2022).

17 Draft Minutes from the Minister of State to the Chancellor on the Debt Management Review, February 21, 1995, National Archives.

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borrowing is determined by market forces' (Emmerson *et al.*, 2020: 249). Yields are the invited voice of bond investors expressing, in the words of the former UK's Chancellor of the Exchequer, their 'verdict on the credibility of [. . .] economic policy'.[18]

The role of market discipline in what Gill (1998) terms 'disciplinary neoliberalism' has proven remarkably resilient in the face of crises and inconsistencies and continues to enjoy support across the political spectrum (Rommerskirchen, 2019). Particularly in the context of eurozone membership, with weak internal coordination, market discipline is frequently touted as corrective. Where bond markets exert this function, the blame sits squarely with policymakers, not (technocratic) debt managers. Writing on an uncovered[19] UK bond auction in 2009, for instance, the DMO was quickly exonerated: 'To be fair, no one is blaming the DMO, which is in essence little more than an operations office for the Treasury's funding needs' (Aldrick, 2009). Blame avoidance is baked into the wider programme of depoliticization through market discipline (cf. Krippner, 2007: 479).

5. Conclusion

This article identified two factors that prevent public debt management to enter the realm of loud politics: (a) the awkward mapping of the political aspects of public debt management on partisan landscapes and (b) the confidentiality around debt management practices and the ambiguity of price signals. Though the ambiguity of signals applies to macroeconomic policymaking more generally, the market discipline frame gives these signals meaning only in the context of monetary policy and fiscal policy, thereby confining public debt management to the realm of quietude, whilst making fiscal and monetary policy available for contestation. Within the contemporary macrofinancial setup, markets for public debt (and their management) thus truly perform an infrastructural role: as long as they work, their workings remain hidden in the background. We have furthermore seen how these factors prevented public debt management reform and the everyday strategies of public debt management from turning into loudly contested political issues in the UK and Germany. The resulting political quietude around public debt management, we suggested, creates a space for coordination among debt managers and dealer banks to maintain market liquidity.

In line with other studies, we are sceptical to see the marketization and financialization of public debt management as evidence of capture, clientelism, political malfeasance or crony capitalism (e.g. Gabor, 2016). The modernization of debt management sought to reduce the costs and risks of public indebtedness and was part of the broader messy politics of financialization (see Krippner, 2011; Streeck, 2014; Copley, 2022). Although widely embraced by the financial sector at large, these reforms create winners and losers, both within the state (notably central bankers) and within financial markets. For example, the introduction of the primary dealer system in the UK put jobbers out of business in line with Hopkin and Shaw's argument that the Big Bang reforms ran counter to the interest of (previously shielded) City elites (2016, see also Germann, 2021: 152). Rather than capture or crony capitalism, we see the financialization of

18 House of Commons Debates December 5, 2012, columns 889–890.

19 In an uncovered auction, bids fall short of the debt on offer. The actual cash shortfall is usually not that important: the borrower can simply raise the additional money at a later date. But a failed auction can look like a damaging vote of no confidence and may lead to higher yields at future auctions.

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public debt management involves a deliberate attempt by states with a reduced capacity to tax, to gain access to private market liquidity and a collateral-based financial system.[20]

Debt management reforms thus do not necessarily spell a retreat or defeat of the state. The pursuit of risk hedging, investor diversification and increased competition in sovereign debt markets has led to an increased state presence in bond markets (even before the current decade of highly involved central banks). Power in sovereign bond markets is protean and varies across time, issue and country setting. One such shift is described by a veteran bond investor as a transformation from 'rottweilers to poodles' (*The Economist*, 2020). Rather than undermining Culpepper's adversarial claim that quietude endows business with exceptional power resources, however, we want to add a qualification to this argument by stating that quietude may also aid (more or less) effective coordination in a governance regime that relies on the (more or less) voluntary engagement of private market actors. Taking cue from the concept of 'infrastructural power' (Braun, 2020), we observe that when state capacity depends on the willing cooperation of private market actors, quietude may actually enhance it. However, to the extent that this also obscures important questions with distributional implications (e.g. whether states should issue inflation-linked bonds or retail bonds), it is questionable whether this is also in the public interest.

With debt servicing costs tamed amidst soaring debt levels, public debt management can be painted as a success story. Some of this is an 'innocent bystander effect' as the costs of debt have declined throughout advanced economies. In the wider transformation of capital markets, DMOs benefit from being the 'collateral factory' (Gabor, 2016). Debt management's role is, however, neither passive nor accidental as the embrace of repo markets to support cash management and market liquidity suggests (author, 2022*a*), but exhibits another instance of public entanglement with financial markets (e.g. Helleiner and Lundblad, 2008; Babic *et al.*, 2020; Schwan *et al.*, 2021). Its apparent success—reflected in rapidly declining borrowing costs since the 1980s and 1990s (see Figure 1)—gives debt managers ground for appeals to output legitimacy, but these appeals appear lopsided. Even as borrowing costs soar—as is currently for instance the case in the UK, where the government has issued nearly a quarter of its debt in the form of inflation-linked bonds—debt management is likely to continue residing in quiet chambers. This is not because debt management could not 'go wrong', but because of barriers to information from both the public and policy audience and the interpretative straightjacket of the market discipline frame.

An open question remains how well these insights travel beyond the UK and Germany, which enjoy generally enviably favourable borrowing conditions relative to other countries. A cursory examination of cases like Greece and Portugal suggests that the asymmetrical treatment of market signals has played an important role in keeping public debt management in the realm of quietude. Whereas the Greek government was widely portrayed as 'deservedly' losing the trust of the market with its reckless fiscal spending spree, its return to the bond market was also the success story of its new debt management unit wooing investors back: 'quietly, and through a well thought-out, methodical process [Greek's] Public Debt Management Agency has been righting the ship' (*Risk*, 2018). In sum, there is a tendency to apply different logics to market signals. On the one hand, higher bond yields are not the result of suboptimal debt management decisions, but a welcome corrective response of

20 See also the corporatism literature for a different articulation of this premise (Ebbinghaus and Naumann, 2018).

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investors voicing dissatisfaction. Lower yields and a reduction in borrowing costs, on the other hand, are a sign of competent debt management fulfilling their mandate. This asymmetry provides a soundproof chamber for the workings of the quiet politics of debt management.

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