Austerity & Debt Interview

critisticuffs

1 Tell us a bit about yourself? A bit about Gruppen/critisticuffs/kittens journal?

I'm a member of the London-based group Critisticuffs. Some of us in Critisticuffs are also involved in the Kittens journal, together with some people from "Gruppen gegen Kapital und Nation" (groups against capital and nation). Our project is to explain and criticise capitalism, the nation and the wrong ideas that people have about them and each other, such as racism, sexism, antisemitism. For this, we mainly do workshops, seminars, reading groups and produce texts. This is because we observed that many people are aware of, say, the poverty around us, but unfortunately, they then also have wrong explanations for why this is, which leads to wrong practice.

2 What are we encouraged to think about austerity?

Austerity is actually a good example of wrong explanations being in circulation. Many people will know that austerity produces hardships but most people will misunderstand why. Most people on the left dismiss austerity as a (misguided) political project by conservative, "neoliberal" governments without any basis in economic necessity ("Tory cuts"). Against this, those who support austerity say it is a simply given necessity. In this narrative, sovereign debt is a result of frivolous spending, a deviation from good, sober governance. The argument usually put forward is an analogy to credit card debt. We are encouraged to think of the state's finances like consumer credit: you have to pay it off or the debt collectors take your TV: "you can't live beyond your means forever".

3 Why is that last bit wrong?

A capitalist state is not constrained in what it can spend in the way, say, a private household is. Furthermore, unlike a company, it does not earn money by partaking in capitalist endeavours: investing in order to make a profit. Instead, the state has the power to decide on its earnings itself – by collecting taxes.

4 So the state could just collect what it wants in taxes?

The way the state arranges its tax regime is that it participates in the economic success within its territory. Any economic activity gets taxed, from companies tax, to income tax and sales tax (VAT); the state takes a percentage of the economic activity of companies and private citizens. The income of the latter in turn again being dependent on the success of companies. In this way, the state makes itself dependent on the economic activity and success of the companies active on its territory, an activity which it neither controls nor wants to control.

At the same time, imposing taxes on companies means that they have less money available for investments which stifles their growth. Collecting taxes is detrimental to capitalist growth.

5 Is that an argument for lower taxes from the state's point of view?

Well, taxes are used to spend on infrastructure, the military, the police, education, healthcare, research and so on. Regardless of the popularity of the individual expenditures, they all aim to serve a common purpose: to create the conditions for and the continued success of the national economy. The police and judicial system make sure that the foundation of capital accumulation – private property – is protected through the maintenance of law. Education and healthcare are supposed to provide capital with a sufficiently healthy and competitive workforce, now and in the future. The creation of industrial areas and business parks allow new businesses to settle and to expand. Roads and public transportation allow the workforce, materials and goods to reach their destinations.

Hence, in order to provide the capitalist economy with the infrastructure it needs to function, the state spends money, which is why it can be precarious to implement massive spending cuts. From the standpoint of facilitating growth, therefore, cutting spending can be rather counterproductive.

6 So that's an argument for higher taxes from the state's point of view?

Indeed, the state has to deal with the following self-made dilemma: It uses taxes to provide the conditions for capitalist growth on its territory and its tax income is dependent on the success of the capital operating on its territory. But at the same time, these taxes also stifle growth, a purpose of the whole exercise in the first place: taxes are used to create the conditions for capitalist growth and taxes are detrimental to capitalist growth.

So we see, when it comes to the national budget it is not easy, arguments can be made both against higher taxation and against reduced spending. It is quite neat then that there is another way for a state to pay for the expenditures considered necessary, without immediately taking the money out of the economy: debt.

Debt allows a state to finance what it wants without impairing its capital's capacity to invest: now credit is used to finance the conditions under which future resources of revenue, e.g. taxable profits, are supposed to develop. By this I mean the following. For example, the state takes on new debt in order to finance high speed train lines to connect the South of England with the North, hoping for a revitalisation of a sluggish area. If this speculation works out then the new bit of infrastructure is a tidy boost for the national economy allowing it to grow. More debt in this sense then hopefully means more growth, which then justifies this debt.

The mounting debts of nation states are hence not the result of frivolous spending. Because there are always good reasons to spend, and because it is an apt way to pay for these things, we find that most states have a huge amount of outstanding debt and have had so for some time. This way successful capitalist states live permanently "beyond their means": so that their means develop in the future.

7 Austerity is a policy to tackle sovereign debt. What is the relationship between the two?

The point of austerity is not pay off the debt, to reduce the absolute amount of debt a state owes. Actually, no successful capitalist state would be able to pay off its debt obligations from taxation – contrary to popular belief that the taxpayer has to shoulder the burden of debt – unless it would be willing to severely impair its economy and ruin it. Instead, when states have to pay up to one investor they borrow the money from another (or the same) investor – a process called refinancing. Whether this works out, crucially depends on that they find investors who are willing to buy these debts.

States borrow by issuing bonds. Bonds are a form of loans. By purchasing a bond the buyer is lending money to the state – with the promise of repayment in full, at a certain time, with regular interest payments in between. In addition to having this entitlement on repayment, the bonds can also be sold to other people on the so-called secondary bond market. The secondary market is simply the name for the fact that those who bought these bonds trade them as well. The buyers of bonds are mostly financial institutions such as banks and pension funds on the one hand and other states on the other hand. Financial institutions buy bonds as a form of investment, in order to make profit, either by taking the interest paid or by reselling the bonds at a higher price. What makes bonds issued by successful capitalist states particularly interesting for financial institutions is that, firstly, they were and are considered comparatively safe investments, even though usually at the expense of paying only low interest. Secondly, successful capitalist states have issued a lot of these bonds and many investors are interested in them, which means there is a huge secondary market where these securities are traded. These two qualities of state bonds taken together mean that financial institutions hold on to rather safe titles of revenue streams that they can sell at any time – usually for a price which does not fluctuate much. To them it is almost like having money which also pays interest – the best kind of money.

Indeed, this is how these banks use state bonds and this usage is encouraged by state regulation. However, this also means that any doubt about the quality of a state as a debtor is of immediate relevance, not just for when its bonds mature a la "Will the UK be able to repay me in 10 years time?" Instead, the question affects the ability to sell these bonds on the secondary market now and hence can undermine their money-like quality: can I sell my bonds at any time for a stable price?

Since investors rely on other investors buying and selling bonds, they do not only have to consider their own assessment of safety of these bonds but also what the general market's verdict is. They speculate on the speculation of other investors. Doubt about whether other investors would be willing to buy a certain bond makes the bond less attractive, possibly leading to a downward spiral of devaluation.

In response to declining trust in its quality as an investment – expressed through changing assessments by rating agencies – states implement measures to boost confidence in themselves as debtors and/or have to offer higher interest rates to their creditors. So, when financial institutions distrust each other's willingness and hence their own ability to trade a state's debt, that debt becomes more expensive to maintain for the state. Therefore, the ability of a state to find someone to buy its new bonds at a good price (that is low interest), in order to be able to fulfil their old obligations and to spend money on future growth, is heavily dependent on the verdict that they are able and willing to service their debts.

And this is then what led to the consensus about why there was no alternative to austerity: In the past, the risk of sovereign defaults was generally seen as low for successful capitalist states. However, the financial crisis and subsequent sovereign debt crisis changed that. The growing deficit in most states, because of the bailouts, because of reduced income due to the recession, and because of increased spending to combat its effects on the economy led to an increased concern about the security of sovereign debt even of successful capitalist states like the UK. The shrinkage or stagnation of economic performance of their respective national economies only added to that concern. Even worse from the perspective of their creditors was that the states just spent all that money to secure bad debt of businesses which have failed in their purpose of capitalist growth. That is, money was spent unproductively – not on the development of national economies but merely to preserve the status quo – and it was put into question whether these states were still good investments. Austerity programmes are therefore mainly measures to boost trust from investors so that they keep on lending.

8 How does cutting spending restore trust from investors when state spending is necessary for the economy?

The key data point that investors use to gauge the quality of a state as an investment is the often referenced ratio of gross debt to GDP. This relates the total debt a state has with the Gross Domestic Product. This figure is meant to express the overall economic output of a national economy. The debt/GDP ratio is hence meant to express how much a state's debt is in line with the growth of its national capital. If the ratio remains steady both grow at the same rate, if the ratio increases – say from 60% to 100% – a state's debt has grown faster than the national economy.

While investors and (mainly) commentators use this ratio to assess a state's credit worthiness, it should be noted that none of the ratios discussed in the media for themselves express a "healthy" or "unhealthy" relationship. Regardless of whether the ratio is 60% as stipulated in the EU Maastricht treaty or 150%, no state could or plans to pay off its gross debt by confiscating 60% to 150% of its economy's output. As explained above, states rely on investors lending them new money whenever they have to pay back some other investor.

Still, regardless of whether these numbers are in themselves meaningful, a state now is concerned with managing capitalist growth of its national economy on credit where that economic growth justifies that credit. In this situation the point is not so much to achieve a specific debt to GDP ratio or certain absolute saving in expenses, but to demonstrate to investors that the government does everything necessary to restore growth to justify debt levels.

In this situation the state is especially self-critical in its spending. When it looks at all the areas it might want to spend money on, it always decides where to spend it based on considerations of what it considers most important. No expenditure is safe from this consideration. Creating a national budget means to compare the benefits of such wildly differing expenses as the NHS (keeping the population healthy enough so that it can function as human resources) and the nuclear warfare programme (for respect from other states in international competition). The questions simply are: will the potential target of expenditure be worthwhile in comparison to other priorities the state might have? And: will the potential target of expenditure justify the burden on the economy through taxation of deficit? Often the decision where to spend money and how much is not without tension: a lot of disagreements between political parties and factions are about what part of the budget is more important than another one. This is not different in an austerity budget, except that every item in the budget has to survive even more scrutiny regarding its usefulness for the power of the state and the growth of the economy.

9 Why does it always seem to be welfare spending which is targeted by cuts? What does the bedroom tax have to do with the UK's AAA rating?

Welfare spending is a common target of cuts. This is partly because it is a good chunk of state spending and also because it is easily identified as an unproductive expenditure. Merely providing for people who are not used by the national economy to produce profits – so that they can in the future – is considered a waste of good money. The bedroom tax is a good example of this. It sends the signal that the UK is revisiting all its expenditures and cuts those deemed superfluous for the purposes of a strong economy and state. In contrast, cutting down on nuclear weapon spending decreases the imperialist respect from other state directly, whereas cuts in the welfare sector "only" lower the standard of living of those on benefits.

Cutting welfare spending has another benefit. It does not just save money and simultaneously signals to creditors that the state will only spend money on what is now seen as productive projects. In addition, a reduction of welfare benefits will also put pressure on the unemployed, people with disabilities, or low income earners to accept (second) jobs. That is, to accept jobs regardless of how bad the pay is, working conditions are or the suitability of the job. By making it even harder to survive on benefits, the state can "persuade" people to accept worse jobs under worse conditions. This puts additional pressure on wages which in turn is a basis for increased profits for capital. Working 40 hours a week for less money than the dole makes little sense and hence out-of-work benefits effectively establish a minimum wage. More generally, if more people are competing on the labour market, this drives down the price of labour. Cutting benefits means worse conditions for those with a job.

10 The left frequently criticises austerity measures for punishing the poor and vulnerable. However, you state that "proposing alternative ways for the state to save money is missing the point: mass impoverishment is not a side effect but a deliberate goal of these policies" – could you expand on this?

The hardships of austerity are not a fact of life, a by-product of stripping away excess or an expression of a misguided policy. They are the direct result of

1. a programme which is intended to show to the financial markets that their concerns are being taken seriously, by cutting costs which are now considered superfluous. This way the government demonstrates that the costs of the state remain in balance with a nations' capital growth as demanded by the markets.
2. a programme which is intended not to burden the growth of capital. On the contrary, states improve the conditions for companies to accumulate, not least by making people more desperate jobseekers.
3. a programme which is intended to serve – if necessary – as a signal to express the government's willingness to implement even painful and unpopular measures against popular discontent in the interest of servicing the debt: servicing debt obligations is and will remain the highest priority.

11 Would there be any difference in the fiscal policies of an ostensibly left wing government?

The left response has been one of Keynesian measures: counter cyclical spending, deficit spending or stimulus packages. This is not completely off. For example, spending has been a response to the crisis from the very beginning. The government knows that state spending can be useful for the economy. However, in the left-wing variant, spending would go directly to the people in the form of increased welfare and tax cuts for the poor. This money then is supposed to generate demand for various goods and services which in turn stimulate the economy to meet this demand. This increase in economic activity then is supposed to allow the repayment of debt or to justify the increased sovereign debt when more is borrowed later. In short, what makes this variant of Keynesian ideas so interesting to people on the left or people campaigning against cuts to services is that they promise to bring about capitalist growth by giving poor people money – win-win, so to speak.

Note, though, that potential welfare programmes and hence welfare recipients play the role of a means not an end. Money spent on them ought to stimulate the economy; they are a means to the economy instead of the other way around. The end of this endeavour is economic growth and the state's ability to maintain the services it deems necessary through debt. These reformers campaign for a plan in which the role of those addressed is that of being material for the sake of capital and the state.

In fact, this topsy-turvy relationship of economic growth and provision for those producing it expresses itself in the moderation of the proposed demand. If state spending on poor people was such a great means to get an economy going, why not increase benefits massively? Why not give everybody on the dole £5,000 each month? That would surely generate much more demand than simply maintaining the meagre current benefits. By restricting their demands to the current poverty level these reformers indicate that they too have not found a convincing argument why material provision for everyone would make sense according to the principles of capitalist economic growth. They implicitly recognise that widespread poverty and national economic success belong together. It also implies that these Left reformers understand that the dole is a means to convince people to find a job with a company – it is only meant as a "safety net", a means to maintain the poverty of a worker – and not a means to end it.

That's the contradiction of the left which, on the one hand, campaigns against poverty but does this via well-meaning suggestions on how to reform the welfare state to be better at what it is for. They know that their demands are demands against capital, but they think if they moderate them enough they can make them compatible with its accumulation. We do not claim that this cannot work, but it always means committing to a situation where the premise of economic success is generalised poverty.

This text was first published in Organise! *iss. 85, autumn 2015, p. 17-20, the magazine of the* Anarchist Federation.