Escaping from Bondage

Mary Mellor

June 2010 saw Britain, along with many European countries, subjecting its population, and particularly the public sector, to an austerity budget. The Conservative-Liberal coalition claimed that the country was deeply in deficit and therefore under threat from adverse financial markets. The prize that would be lost was the treasured AAA rating that ensured lower rates of interest on state borrowings. The rating agencies sitting in judgement on sovereign debt were the same organizations that had failed to see the pending collapse of the banking system and its labyrinthine "financial products." The financial crisis caused by the self-same credit certifiers and financial organizations peddling debt had led to increased government expenditure through bailouts and fiscal stimuli. State deficits also rose as the resulting recession saw a collapse in state revenues. Private debt and market failure had now become public debt. The resulting deficit in government spending was blamed not on the banking or financial system, but the beleaguered public sector that was trying to keep its finger in the dyke of economic collapse.

A notable case was Greece. As a weaker economy with high levels of tax avoidance, the new socialist government in Greece needed temporary support while structural problems in the economy were addressed. Faced with domestic pressure, the stronger economies, particularly Germany, wagged their fingers but did nothing. Only when the collapse of the euro seemed likely did these countries offer the necessary loan guarantees while the European Central Bank broke its strict Maastricht rules to support Greece. What may have concentrated minds was the fact that many of the bonds facing default were held by German and French banks, together with the Swiss. Default would mean that major banks in the home countries might once again have to be supported. It was also obvious that central bank and cross state support for Greece (and other countries) would be necessary if the euro were to survive.

The reluctance to offer support along with attacks on the public sector and state deficit in the face of the financial crisis is central to the ideological baggage of neoliberalism. State bad, private good! The forlorn expectation is that "rolling back the state" (once again) will release the pent-up energy of the private sector. This despite the fact that apart from speculative finance and unsustainable dotcom and construction booms, the private sector has not exactly indicated it is straining at the leash. However, it is not only neoliberals who are playing the "state as enemy" card. The Left is also ambivalent, and the neoliberal critique has gone deep. There is a massive "democratic deficit" where people do not trust the political system to deliver progressive social policies. This, in turn, reflects the fact that center-left governments have also swallowed the neoliberal dogma, most notably the Clinton and Blair/Brown governments.

Government financial deficits are funded by borrowing through the issue of bonds. The willingness of the financial markets to take up these bonds and the level of discount (i.e. interest) governments have to give is crucial to the ability to maintain the flow of borrowed funds. Austerity governments are arguing that the ability of governments to borrow could be curtailed if public expenditure is not cut. This means that the capacity of governments is not being determined by the willingness of populations to be taxed, but the willingness of the financial markets to lend. The combination of neoliberal mantras and the democratic deficit has meant that taxation, in turn, is seen as an imposition on the people, and the idea of collective expenditure for the collective good has no place. The ability of governments to govern is instead being directed by the non-elected financial market and the tirade of the neoliberals against the principle of collective goods being funded by collective payments (i.e., tax).

However, many of the bondholders who hold such sway over sovereign states are the people themselves wearing another hat as institutional investors. Government bonds have been seen as secure investments for institutions such as pension funds and insurance companies. These funds are being invested for the people's future to enable them to purchase goods and services in times to come. The bonds, in turn, are secured upon the ability of the government to tax its future population. The huge flow of money into institutional investment was initiated by governments themselves as they urged people to secure their old age privately through their "personal pot" of savings rather than collective insurance. The fear was that the demographic time bomb would lead to insufficient taxpayers to fund the elderly. People therefore put their money into the hands of private and institutional finance, which only had two main choices for investment: the stock market or government bonds. Initially this led to a stock market boom (as did endowment mortgages where the repayment element of the mortgage was invested in the stock market to enable "capital growth"), but the inevitable collapse has meant that those who retired during the downside of the business cycle saw their pensions slashed.

A safer home was government bonds. In this sense, governments do not need to fear the institutional bondholders, because they have nowhere else to go (although worryingly, some institutional investors have been engaging speculatively in hedge funds and private equity). The importance of institutional investment is that it should not put funds in risk. Seeking safe long-term investment is in contradiction to *laissez faire* market capitalism and its roller coaster of risk and reward. The only way that non-risk investors can maintain their income expectations is if the economy itself can achieve steady growth. There are two problems with this. Continual expansion of productive output in the economy must mean more resource use in a limited ecosystem. Steady growth in the financial system alone must in the long run fuel unsustainable financial asset booms. The market cannot resolve the demographic problem nor the deficit in public service needs. Despite the fact that people have been encouraged to financialize their lives in the face of the coming demographic imbalance, money accumulation will not overcome the demographic impact on the overall capacity of the economy. If a declining population base means that taxation cannot support an ageing population, neither can the output of the market economy in the face of a declining labor market.

Government borrowing through bonds and private personal investment is also very expensive financially. A major source of the high levels of pay and bonus in the financial sector are fees paid to financial agents handling government debt and institutional investment. What is in fact happening is that through investing in the issue of government bonds, citizens as taxpayers are borrowing from themselves as investors and paying huge fees in the process. It would be much more logical for citizens to invest directly in their governments—that is, to pay taxes or invest in national savings. But before this can happen, people will need to stop trusting the market and learn to trust themselves and their collective economic power.