The Triumph of the City?*

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The triumph of the City of London, the one square kilometre next to Liverpool Street station that houses the citadel of British finance, is complete. Not only did it get rid of one British prime minister, whom it distrusted, in the space of just 44 days, but even got a new one of its choice installed forthwith. Rishi Sunak is being called many things: the first British Asian prime minister, the first Hindu prime minister, and so on. These facts about him however are inconsequential; notwithstanding the hullabaloo in India over his appointment, these facts are mere trivia. What is central is that he is the City's choice. A former employee of Goldman Sachs, a former Hedge Fund manager, he is from the world of finance; for the City he is indubitably "one of us".

The Conservative Party, through its mysterious ways of working, provides the perfect instrument for the City to dictate British politics. When Margaret Thatcher was made to resign against her wishes as prime minister, at the behest of the City, she had famously lamented: "I never lost a general election; I never lost a confidence vote in the House of Commons; I never lost majority support within the Conservative Party; and yet I am out of office." Liz Truss could express a similar sentiment. In fact one day she firmly declared "I am a fighter, not a quitter", and the very next day she was out of office through some mysterious process. Within the Conservative Party, a dim, subterranean, body called the 1922 Committee, has a decisive voice in the election and continuation in office of a leader; the City operates not only through the ministers and their staff who have City connections or post-retirement ambitions for City jobs, but also through backbenchers who make their presence felt through the 1922 Committee. Since the media are controlled by the financial oligarchy belonging to the City and can be relied upon to shape public opinion, there is in effect an invisible City-dictated political process, parallel to and dominant over the visible formal popular political process, which it actually moulds.

The reason why this City-dictated process chose Rishi Sunak over Liz Truss has to do not just with his background, of being an investment banker, Hedge Fund manager, and multi-millionaire, but above all with his agenda. While Liz Truss offered the capitalists tax-cuts, to be financed through a fiscal deficit, Rishi Sunak will offer tax-cuts (or other similar concessions) but match them with government expenditure cuts elsewhere (or taxes on workers though that is not a feasible option at the moment), keeping the fiscal deficit under control. But, one may ask, why should the City prefer tax cuts with a fiscal deficit to tax-cuts without a fiscal deficit?

The immediate, and by no means invalid, answer to this question would be that finance capital has always been opposed to fiscal deficits, which after all is why in the era of financial globalisation most countries of the world, with the exception of the US which enjoys a unique status, have legislations limiting the share of fiscal deficit to the gross domestic product; and this opposition becomes particularly strong in a situation of inflation as Britain is experiencing at present. Put differently, increasing the fiscal deficit in a period of inflation increases aggregate demand and hence employment, which in capitalist conditions exacerbates inflation by strengthening workers' resistance; this is why finance capital, worried about the decline in the real value of financial assets, is particularly strongly opposed to a fiscal deficit in inflationary times. But what of the fact that increasing the fiscal deficit is a pre-eminent means of enlarging post-tax profits? Shouldn't that counteract this opposition?

We have already seen (People's Democracy October 24-30) that, ignoring for simplicity foreign transactions and workers' savings, post-tax profits in a capitalist economy must equal the sum of capitalists' consumption, their investment, and the fiscal deficit. Since investment and capitalists' consumption do not immediately respond to current profits (and can therefore be taken as given magnitudes in any particular period), post-tax profits will not increase in the period in question, no matter how large the tax concessions that are given to capitalists, unless these concessions are financed through a larger fiscal deficit. In other words, even if massive tax concessions are given to capitalists, if these tax concessions are matched by public expenditure cuts, there will be no increase in post-tax profits.

This proposition however holds for total profits; the distribution of post-tax profits among capitalists can change depending on who are being given these tax concessions and whose pre-tax profits are shrinking because of the public expenditure cuts. Since typically the tax concessions are given to the big capitalists (it is the top tax-brackets where the rates are lowered), while public expenditure cuts lower the level of activity and hence profits more or less across the spectrum, the net effect of both these measures, if they together leave the fiscal deficit unchanged, is to shift the distribution of a given amount of total profits from the small to big capitalists. Tax concessions in short entail invariably a rise in the magnitude of profits of big capitalists irrespective of whether they are financed by public expenditure cuts or by a fiscal deficit (the rise of course is larger in the latter case).

There are therefore at least three distinct reasons why finance capital prefers a programme of tax concessions for capitalists financed by public expenditure cuts elsewhere, to one financed by a fiscal deficit. First, unemployment necessarily increases in the former case, while it would fall in the latter case. This is because a public expenditure cut of Rs100 reduces aggregate demand immediately by Rs100, while tax-cuts for capitalists may raise aggregate demand by a much smaller amount, if at all, as the benefits of such cuts will add to savings. (In fact if both capitalists' consumption and investment are given for the period in question then there is a zero increase in aggregate demand because of such tax-cuts). There is therefore a net reduction in aggregate demand and hence output and employment. And since a capitalist economy invariably tackles inflation only by creating greater unemployment, finance capital prefers tax concessions to capitalists financed by public expenditure cuts especially in inflationary times.

Second, tax concessions to capitalists, even when financed by public expenditure cuts, and hence even when leaving total post-tax profits unchanged, raise, as we have seen, the post-tax profits of the big capitalists or the financial oligarchy. Third, both these considerations, viz. larger unemployment and larger post-tax profits of the financial oligarchy, have the effect of attracting finance from other parts of the world, so that the total financial business occurring within the country increases.

Rishi Sunak of course has not yet unveiled his total policy package. He is certainly committed to fiscal rectitude, but how much tax concessions he is going to make is not yet clear; but he is bound to make some concessions to capitalists, for the mythology of the system holds that its growth depends upon such concessions. The Sunak programme therefore is likely to involve gains for the financial oligarchy together with greater unemployment, both of which are to the liking of the City. Sunak will be even worse for the British working class than Liz Truss; what makes him attractive for the City is precisely what makes him even worse for the working class.

It may be thought that since Sunak's would be an anti-inflationary agenda, and since inflation hurts the working class, one could not call his agenda an anti-working class one. But this misses the point that his agenda is for controlling inflation at the expense of the working class. A price inflation can be controlled through a wage deflation; the workers suffer in either case, but controlling inflation in this manner has the advantage from the point of view of finance of preventing any erosion of the real value of financial assets.

A cut in public expenditure will not only cause unemployment as we have been emphasising; it will cause havoc with the state of public services in Britain, and substantially roll back the gains of the welfare state measures introduced in the post-war years. Public education and public healthcare systems in Britain are already reeling under the impact of inadequate funding. Any further cuts will push them into a state of terminal decline. But will the British working class allow the Sunak government to pursue such an agenda?

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