Whatever Happened to Liz Truss?*

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The most intriguing question with regard to Liz Truss' resignation as the prime minister of Britain after a mere 44 days in office is this: what is it about her economic programme that the "market" (read "finance capital") found unpalatable? At its core after all was tax-cuts for the rich, which the "market" should have lapped up. True, the tax-cuts were to be financed through a fiscal deficit which the "market" generally does not like; but since the fiscal deficit was meant to finance transfers to the rich, and not any direct stimulation of aggregate demand by the State, there should have been little objection from the "market". Some have suggested that since the tax-cuts were "unfunded", that is, financed by a fiscal deficit entailing a sale of government bonds, the proposal introduced uncertainty about the future course of the bond rate which made "investors" dump government securities, sharply raising the bond rate and creating panic in the "market". But that is precisely the question which needs to be answered: even before any actual sale of government securities for financing a fiscal deficit had occurred, why did the "market" panic? And if it expected higher rates then that should have led to a strengthening of the pound-sterling with financial inflows occurring into Britain, rather than a collapse of the pound-sterling as we actually saw.

In fact Liz Truss had banked precisely on the fact that the pursuit of a palpably right-wing agenda, of doling out tax-concessions to the rich, would endear her to the City of London, the home of British finance capital. She talked no doubt of reviving the post-Brexit British economy, but tax-concessions to the rich scarcely lead to the revival of an economy. If revival was her intention she should just have undertaken public expenditure which would have surely and directly boosted aggregate demand. But her real intention was to strengthen her support within the class whose interest she and the Tory Party in general serve; the irony is that the very measure that she devised to benefit this class boomeranged on her so badly that she had to quit office after 44 days! The question is: why?

There is a further point to consider here. Her programme of giving tax-cuts to the rich was known well in advance; in fact this was her main plank during her campaign for prime ministership against her rival Rishi Sunak; and yet, the very right-wing media and the so-called "experts" that began gunning for her the moment she announced her exact proposals were vociferous in their support for her during the campaign, which after all is how she got elected in the first place. What was the difference, if any, between what she had promised during the campaign and what she proposed after getting elected as prime minister? Surely it cannot be the fact that the tax-cuts were for the rich; her real unforgivable offence was such tax-cuts were not balanced by any curtailment in public expenditure elsewhere, or in any tax-increase on the working people. True, such tax-increase would have aroused fierce resistance from the working class that is already putting up a valiant strike-struggle in Britain at present, but a cut in public expenditure, which in effect would have been an indirect attack on the working class, is what her backers expected; her not doing so was her crime in their eyes.

Put differently, what finance, and indeed the entire capitalist class, expected from her was not just transfers to the rich, but also, simultaneously, some measure for fiscally promoting unemployment, which according to the capitalist perception is the only means of fighting inflation. This is the real meaning of the charge that the tax-cuts are "unfunded", that is, are supposed to be financed by a fiscal deficit that does nothing to curtail aggregate demand, rather than being balanced by measures, such as cutting down government expenditure, that would actually curtail aggregate demand. Liz Truss' failing from the point of view of finance capital was not just that her tax-cuts were supposed to be financed by a fiscal deficit, but that there was nothing in her proposals to fight inflation by the only means known to capital, namely by creating unemployment. True, the rise in interest rate is supposed to "achieve" this; but to have a fiscal policy that goes against this is "unpardonable".

This would also explain the entire sequence of events. Britain currently has an inflation rate that exceeds 10 per cent. A rise in fiscal deficit would if anything make it worse, which would cause a greater depreciation in pound sterling relative to the dollar (since the inflation rate in the US is less). The very expectation of such an increased depreciation would cause an actually enhanced fall in pound sterling (as happened), and, instead of attracting financial flows into Britain, would encourage financial flows out of Britain. Because of this, British government bonds, already expected to fall in value because of the larger fiscal deficit, in the absence of any countervailing action on the part of the Bank of England, took a particularly sharp tumble just as a sequel to the announcement of Liz Truss' proposals.

In other words the "market" reacted sharply to Liz Truss' proposals, even though they involved transfers to the rich, which in the eyes of the "market" would normally even justify a larger fiscal deficit, because of the setting within which these transfers were visualised, a setting of inflation, which capitalism has no other way of countering except by creating larger unemployment; the proposals contained nothing to create unemployment. And any continuation or exacerbation of inflation is anathema for finance capital because it lowers the real value of all financial assets, with serious consequences for the balance sheets of banks, pension funds and other financial institutions.

Liz Truss differed in this respect from Margaret Thatcher, who had deliberately engineered mass unemployment, of millions of workers, to weaken trade unions and beat inflation. Margaret Thatcher was loved by the City of London for doing so (the City turned against her later and engineered her ouster from prime ministership when her isolationism risked allowing Frankfurt to become the leading financial centre of Europe in lieu of London). No wonder that Truss could not carry the City with her despite proposing large tax-cuts for the rich.

Ironically, tax-cuts for the rich financed by a fiscal deficit bring larger gains to the capitalists, other things remaining the same, than the same tax-cuts financed either through larger taxes on workers or through reductions in government expenditure elsewhere. This is because in a capitalist economy, assuming for simplicity no admixtures of other modes of production and that the workers consume their entire wage earnings, total post-tax profits equal the sum of investment, capitalists' consumption, current account surplus on the balance of payments, and the fiscal deficit. Transfers to the capitalists worth, say, \$100, if they raise capitalists' consumption by \$50, will raise post-tax profits by \$50, if financed by an identical reduction in government expenditure elsewhere, i.e. if there is no increase in fiscal deficit, since investment has no reason to change immediately anyway and assuming that there is no change in current external balance; but if financed by a fiscal deficit, post-tax profits will rise by $150. The fact that finance capital still objected to Liz Truss' tax-cut proposals for the rich, shows the extent of its aversion to the current high rate of inflation.

What we have been discussing till now concerns two alternative capitalist strategies, one followed by Liz Truss of providing transfers to capitalists by enlarging the fiscal deficit, and the other, which her critics would have preferred, of providing transfers to capitalists without enlarging the fiscal deficit (namely avoiding the so-called "unfunded" transfers). Both these are right-wing pro-big-business strategies, which in differing degrees are against the working class and hence anti-democratic. A genuinely democratic strategy, of reviving the economy through larger public spending financed by heavier taxation of wealth or of capitalists' profits, and of controlling inflation not by creating unemployment but by imposing direct price controls (while pressing for a peaceful resolution of the Ukraine conflict) is the real need of the hour.

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