The Truss farce: capital's contradictions in funding the state

Jamie Gough

28/10/22

The bourgeois media and the Conservative and Labour parties tell us that the collapse of the Truss/Kwarteng government was due to their false economic theory and/or their ignorance or stupidity. The appointment of 'grown-ups' - Hunt as chancellor and Sunak as prime minister - has now brought things back to normal, and will, they hope, restore the confidence of international finance capital in the British government. Sunak and Hunt will now set out how much public spending will be cut, and possibly some tax rises on the working class. Dire prospects for the working class, but capital has been appeased.

The main task for socialists at this crazy moment is to participate in the fight to defend (and improve) working class incomes and housing and defend (and improve) public services and state regulation. But in this article I want to show how superficial the bourgeois story about Truss/Kwarteng and Sunak/Hunt is, before it becomes accepted by all. My argument is that the Truss/Kwarteng 'mini-budget', and the Sunak/Hunt budget to come, are just the latest manifestation of a profound contradiction for capital on fiscal policy - how the state is funded, and how much it spends. This contradiction applies to all capitalist governments at all times. But it has deepened with neoliberalism. And it is particularly acute in Britain because of the hyper-internationalised nature of capital operating in, through and from Britain. The intensity of these contradictions explains the farce of the past few weeks.

Since the late 19th century, state spending has increased massively in the imperialist countries, from 1-2% of GDP to 25-50% of GDP. A part of contemporary government spending, subsidies to businesses, directly benefits capital ('the capitalist welfare state'). Another part funds the military and the police, mainly benefiting capital. Another part benefits only the working class: state benefits for people who are not, and will not be in the future, involved in waged labour. But by far the largest part of state spending is on public services, housing, utilities, transport and regulatory activity which have benefits both for workers and for capital; I shall call these 'core services'. Capital benefits from these directly in the case of utilities, transport and regulation, and indirectly in the production of a healthy and skilled labour power in the locations within the country's territory where capital needs it. This majority part of state spending has been developed under pressure from both capital and the working class.

In the long term, the state needs to raise what it spends through taxation. Taxes can fall directly on capital (corporation tax, capital gains tax, licenses for land or airwaves), or directly on the working class (income tax, purchase taxes). Capital naturally tries to minimise the former and maximise the latter. But even taxation of workers is a potential problem for capital: if unemployment is too low, taxes on the working class tend to push up wages and thus eat into profits. There is therefore a permanent contradiction for capital which employs workers within the country: it benefits from increases in state spending, but resists increases in taxation.

The contradiction deepens under neoliberalism, whose aim is to increase profits flowing to capital. Neoliberal governments have consistently and universally reduced taxes on capital, as well as allowing transnational corporations to reduce their taxes by shifting profits to low-tax jurisdictions. These governments have, logically, maintained direct payments to capital, and reduced benefits flowing only to the working class. But on spending on core services, governments have been ambivalent: these services as essential for efficient production within the country, benefiting both capital and workers, and workers resist cuts to these services through elections and other means.

So while spending on core services has tended to decline, it has done so only slowly, and in some areas (unemployment benefits, housing benefits, pensions) has tended to increase. Spending has also been hard to cut because of the inefficiency and rip-offs of contracted-out services, and because of 'pork barrelling' populist give aways (e.g. 'Eat out to help out'; Bolsonaro's hand-outs to the poor). Over the five decades of neoliberalism, this has produced an increasing tension between continuing spending on core services and the tax cuts for capital and the rich, as a left academic Wolfgang Streeck has highlighted. In countries such as Germany, France and the Scandanavian countries where the benefits of core spending to capital are strongly appreciated by capital, and the working class has still has some weight, this tension has led to governments seeking to once again increase taxation of capital. Since around 2000, France and Germany have attempted to raise the effective rates of corporation tax in the EU countries where they are low: Ireland, Cyprus, Luxemburg, and particularly Britain with its archipelago of Overseas Dependency tax havens and secrecy jurisdictions. More recently, the US and the OECD have moved to increase effective taxation of transnational corporations.

Which brings us back to the peculiarity of Britain. Since the 1980s, Britain has been the most aggressive of the major countries both in cutting corporate taxation and in cutting spending on core services. Capital involved in Britain has been especially keen to cut its direct taxation, and has been especially indifferent to the destruction of core services. This reflects the highly internationalised nature of capital operating within, through and from Britain, a structure produced by British imperial dominance from the 17th to the early 20th century. The great majority of this capital does not produce or employ labour in Britain, and therefore has no interest in the core services. The financial capital and business services of City of London are involved in global financial operations with weak links to the rest of the economy within Britain. They have no difficulty getting suitable labour power. The City is also the leading centre in the world for channelling capital from the Saudi and the Gulf states, from the former Soviet Union, and increasingly from China, into the Overseas Dependencies where they pay no tax. This capital, enormously influential with the British state and the Tory party, has no interest in core services in Britain. The same is true of the large group of British-headquartered corporations which operate entirely overseas: oil, gas and mining; imperial agricultural producers in the Third World; construction and civil engineering operating mainly in the Middle East; and many manufacturing corporations producing entirely in the Third World or the US. Corporations in retail, hospitality and leisure operating within Britain use a deskilled, casualised labour force and so are largely indifferent to core services. The same is true of the car industry, much of engineering, and the building industry following its de-unionisation in the 1980s. (What these deskilled sectors operating within Britain *are* interested in is deregulation of labour and the environment: hence Truss's proposed bonfire of EU regulations.) This leaves us only with capital with a strong interest in the core services: high tech manufacturing (armaments, aerospace, electronic capital goods, pharmaceuticals), design and cultural industries, and providers of physical and electronic infrastructures. These rely on skilled labour power, with extensive experience in the job, living in the right place, and good transport and electronic communications. This sector of capital has a strong interest in proper funding of the core services, and hence in reasonable taxation of capital. But we can see that this is only a small part of the capital operating within, through and from Britain; the rest just wants to lower its tax bill.

It is striking that this difference in sectors of capital concerning fiscal policy maps almost completely onto difference in sectors of capital over Brexit, as I discussed in a previous article (http://www.jamiegough.info/publications/journal-article-book-chapters/capitalist-interests-behind-brexit). The takeover of the Tory party by its Brexit wing has therefore also reinforced the Tory strategy of low tax on corporations and low public spending.

All this throws light on the fiscal policy of the Tories under Johnson, Truss and now Sunak. All have been keen to further reduce taxation of capital. They have refused to join in international efforts to tax the transnationals, and refused to restrict the Overseas Dependency tax havens. When Sunak was Johnson's chancellor, he proposed to increase the corporation tax rate from 19% to 25% in 2023, but simultaneously introduced a 'super-deduction' scheme for accounting of investment which greatly reduced corporation tax for most companies. His windfall tax on the oil companies had a similar get-out. He initiated the Free Ports which will remove most of the taxes on capital in much of the country. He refused to make an 'obvious' increase Capital Gains Tax to level the income-tax playing field between City slickers and the rest of us. So when Truss proposed to cancel the corporation tax increase to 25%, abolish the 45% income tax band, and extend the Free Ports to 'investment zones' covering the whole country, she was just continuing the same strategy.

Truss's 'mistake' was that she hadn't figured out how to cut public spending by the same amount. But this was not just a problem for her: it is a massive and chronic problem for the Tory party and the capitalist class since 2010 and into the forseeable future. This is most obvious regarding the unavoidable bills caused by global capitalist crises: for the pandemic (around £400bn) and now to lower energy prices (around £150bn). But the problem for the Tories and capital extends also to spending on core services. Further cuts to these services face two opponents. One is those sections of capital, centred on skilled production within Britain, which appreciate the importance of core services. Thus on 25 October the head of the Confederation of British Industry begged prime minister Sunak not to cut core services. The second opponent is, of course, the working class. From 2010 until early 2022 the Tories got away with endless cuts to core services and benefits because many of these were invisible to most people, and because the labour movement (except the Labour Party under Corbyn) offered no collective resistance. Now that has changed. Everyone knows about the collapse of the NHS and social care. A lot of people are aware of the collapse of benefits, the non-existent protection of the environment, and the government's inability even to provide passports and drivers' licenses. The Labour Party turns a blind eye. But now Enough is Enough and the People's Assembly are opposing any further cuts in core services, demanding massive rises in spending on them, to be funded by increases in taxation on capital and the rich. Thus the contradiction between the two sides of neoliberal fiscal policy – cutting taxes on capital and cutting core public services, a contradiction which is more acute in Britain even than in other imperialist countries, is now explosive.

The important lesson of the Trusterfuck, then, is not that Truss and Kwarteng were ignorant or overly ideological. It is that the Tories, and the capital behind them, have a profound dilemma over the taxation of capital and the rich. Our task is to prise open that contradiction by uniting the working class movement around a demand for a massive increase in taxation of capital and the rich, and a massive increase in spending on core services. There are some sections of capital which will, at least partially, support this demand. But the majority of capital operating in, through and from Britain will not. So we will have to rely on our own struggle.