IMF report reveals dictatorship of finance capital

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Governments around the world must obey the dictates of finance capital, as transmitted via the bond markets that trade in their debts, and organise an attack on the working class through deep cuts in spending on vital social services.

That is the message delivered in the International Monetary Fund's *Fiscal Monitor Report* issued this week at its semi-annual meeting in Washington.

Of course, the directive was not put in such blunt language. It was written in the style characteristic of such reports and aimed at trying to obscure their essential class content. But it is clear nonetheless, as was recognised by the financial press.

The *Financial Times* summarised the report as follows: "Governments must place greater weight on keeping their finances in shape, or risk undermining the confidence of the bond market investors that buy their debt, the IMF has cautioned."

It noted the decision was a reversal of the IMF's previous position when it called on governments to spend more in response to the economic devastation wrought by the COVID-19 pandemic. The switch is the result of the high interest rate regime being imposed by the US Fed and other central banks.

It was not so much a "caution" as a directive as the foreword to the report, written by Vitor Gaspar, IMF head of fiscal policy, spelled out.

"In the context of high inflation, high debt, rising interest rates, and elevated uncertainty, consistency between monetary and fiscal policy is paramount. In most countries, this means keeping the budget on its tightening course," he said.

In other words, the government cannot be providing a stimulus when central banks are raising interest rates aimed at inducing an economic contraction, and even a recession, to crush the growing wages movement of the working class in response to inflation. In this class war, the two arms of the capitalist state must pursue a unified strategy.

If they deviate, there will be major consequences as Gaspar made clear.

"With inflation elevated and financing conditions tightening, policymakers should prioritize macroeconomic and financial stability above all else," he wrote.

"This is especially relevant as recent developments in bond markets show increased market sensitivity to deteriorating (or bad) fundamentals. That raised the prospect of more disruptive fiscal crises across the world."

While Gaspar was not specific, he was referring to the financial crisis in Britain in response to the Truss Tory government's mini-budget of September 23 which pledged £45 billion in tax cuts for the corporations and the super-rich.

Sterling was sent down to record lows against the US dollar, falling to near parity at one point, and the price of long-term Treasury bonds, so-called gilts, plunged, rapidly pushing up their yields. (The two move in opposite directions.) The crisis, which is by no means resolved, threatened to push pension funds into insolvency.

The violent reaction of the financial markets was not because they objected to still more money being showered on the corporations and the wealthy but that the tax cuts were unfunded. That is, they were not financed by sweeping cuts in government spending, aimed at further impoverishing working class.

The crisis was a directive by finance capital to the UK government and to governments around the world, as alluded to in Gaspar's remarks about bond market "sensitivity"—proceed with attacks on the working class or financial mayhem will result.

The message has been received and understood. In Britain, the Truss government has drawn up a hit list of spending cuts to vital services that have already been slashed to the bone.

Those attacks will now proceed under whatever government comes to power, whether it is a rejigged Tory government, following yesterday's sacking of the chancellor, Kwasi Kwarteng, with Truss set to fall on her sword or be axed in another inner-party coup, or by a Labour government under Keir Starmer.

In Australia, where the Labor government is preparing a budget to be brought down on October 25, Treasurer Jim Chalmers has continually spoken of the worsening global economic and financial situation and the lessons of the British experience. He has cited three key areas where government spending has supposedly blown out, health care, aged care, and the disability insurance scheme.

In both the UK and Australian cases, as with other governments, military spending will be increased in line with the drive to World War III.

The IMF's report made clear that job support measures, introduced to a limited degree because of the pandemic, cannot be continued in response to economic contraction and recession.

"Public guarantees and job support schemes lead to market distortions that, if left unchecked, could hamper economic growth," it said.

Gaspar was more explicit in his foreword.

"Facing a shifting landscape," he wrote, "policymakers must stay agile to be able to respond to the unexpected. Long commitments are not more than a pretence of certainty and can quickly become unaffordable.”

Staying “agile” means governments must be prepared to respond immediately to the dictates of the financial markets and take the axe to basic services that have come to be regarded as part of be necessary social infrastructure. In the new economic and financial environment such “long commitments” are a thing of the past.

While the task of governments is to meet the demands of their financial masters, this also involves ensuring that the class struggle is suppressed because there is no greater danger than that posed by an independent movement of the working class.

The first paragraph of the report’s executive summary pointed to this issue noting that “households are struggling with elevated food and energy prices, raising the risk of social unrest.”

It then set out how this should be dealt with. While governments seek to blame inflation on Russia, analysis, for example in the recent report by the United Nations Conference on Trade and Development, makes clear that a major factor is speculation in commodities by hedge funds and the profit gouging by major corporations. However, not a hair on their head should be touched.

“Faced with long-lasting supply shocks and broad-based inflation,” the IMF report said, “attempts to limit price increases through price control, subsidies, or tax cuts will be costly to the budget and ultimately ineffective.”

Governments, it said, should “allow prices to adjust and provide temporary targeted cash transfers to the most vulnerable.”

In other words, just as the policy on COVID-19 was “let it rip,” this same doctrine must be applied to inflation. The food and energy giants, among others, must be allowed to continue to make super-profits, while totally inadequate and temporary amounts of cash are doled out to try to prevent a social explosion.

As the working class engages in the battles now unfolding, it necessary to delve into the political economy of what is involved.

In the world of finance, it appears that money is simply able to beget more money. But ultimately the vast profits accumulated in this sphere are extracted from the working class. Finance capital is not an independent source of wealth. It is fictitious capital, that is a claim on the total mass of the surplus value extracted from the working class under capitalist production, which it appropriates.

Finance capital has two fundamental interests: increasing the flow of surplus value by forcing down wages and increasing exploitation; and reducing social spending which, in the final analysis, is a deduction from the pool of surplus available for appropriation. Both these processes are now at work.

The first was made visible with the onset of the pandemic. The fear in ruling financial circles was that meaningful public health measures to eliminate the virus would adversely impact on the flow of surplus value on which they rest.

This was the basis for the “opening up” and “let it rip” agenda. Nothing—certainly not measures to prevent death and disease—must be allowed to halt the flow of surplus value into the coffers of finance capital.

This drive to increase exploitation has been intensified as central banks seek to crush the wages struggles of the working class. These were set off by the inflation resulting from the refusal of capitalist governments to act to eliminate the virus even though that was eminently possible.

Now, to sustain the increased mass of fictitious capital created by the injection of trillions of dollars into the financial system by the central banks over the course of the pandemic, not only must wages be further suppressed but an all-out assault undertaken against social spending.

In the field of finance, the ruling class and its mouthpieces spin a web of illusions. And so it is in politics. The great illusion is that through the vote and parliamentary democracy the working class, the mass of the people, exercise control over the running of society.

But the value of every crisis, as has been remarked on many occasions, is that it lays bare the real social and political relations. The bond market and financial crisis have revealed, as the IMF’s report laid out, where real power resides. Parliamentary democracy is a screen for the dictatorship of finance capital.

These lessons must become the basis for the political struggle of the working class. It is confronted with the task of taking power its own hands.

This necessitates workers building rank-and-file committees, independent of the trade unions that have acted to suppress the working class, as an immediate response to the class war being unleashed by finance capital. Their establishment is a vital step towards the establishment of a workers’ government to end the dictatorship of capitalist profit and finance and reorganise the economy on socialist foundations. That requires the building of the revolutionary party in the working class to lead this struggle.