

The significance of the UK financial crisis

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19 October 2022

There are profound lessons for the working class in every country to be drawn from the extraordinary events in Britain over the past month.

After announcing its “growth, growth, growth” economic agenda on September 23, through the bringing down of a mini budget with major tax cuts for corporations and the super-rich, the Truss Tory government is in tatters.

On Monday, Truss sat mute and expressionless in the House of Commons, after failing to turn up for Question Time, as chancellor Jeremy Hunt, appointed last Friday after she had axed Kwasi Kwarteng from the post, ripped up the economic agenda that she and Kwarteng had jointly produced.

The experience has revealed in living events the naked power of finance capital and the way it exercises its dictatorship.

The collapse of the Truss program was set in train as soon as the mini budget was announced. The value of sterling against the US dollar plummeted and government bonds were sold off, creating the danger of a collapse of pension funds, and threatening a major crisis for the UK and global financial system.

The objection of the money markets was not that billions of dollars were to be handed out to the corporations and the super-rich. It was that they were not funded by cutting spending but by an increase in government debt to the tune of more than £70 billion.

Hunt not only announced the reversal of the tax cuts but started to slash government spending, mostly significantly reducing the term of energy relief from two years to just six months. He warned that “eye-wateringly difficult” decisions were to come to restore “economic stability.” Nothing was “off the table,” meaning that pensions, health, education, and other social services are immediately in the firing line.

While the UK events have their own national peculiarities, they are not simply the outcome of “British” conditions. As Leon Trotsky once remarked, national peculiarities are always an “original combination” of the basic features of global processes.

The underlying international processes have been developing with increasing force over the past 35 years and centre on a deepening crisis of the global financial system, which expresses in a concentrated form all the contradictions of the global capitalist profit system.

Yesterday, the *New York Times* reported that the Federal

Reserve and the Biden administration have been conducting investigations into whether a similar meltdown could occur in the US. According to the article, while a crash did not appear “imminent”—for the ruling classes there is never a crisis until it breaks over their heads—the answer was that “it probably could.”

It noted that while the shock was “British specific,” the violent reaction “has caused economists around the world to wonder if the situation was a canary in the coal mine as signs of financial stress surface around the globe.”

While the origins of the financial crisis can be traced back a long way—at least to the removal of the gold backing from the US dollar in August 1971 and the transition to a global fiat currency system—a key turning point was the October 1987 Wall Street crash which reverberated around the world.

In response to the crash—at more than 22 percent, still the largest one-day fall in history—then chair of the US Federal Reserve, Alan Greenspan, committed the Fed to supply the stock market with all the liquidity it needed.

This decision was not a one-off. The “Greenspan put,” as it became known, was a guarantee to the financial market that whenever its speculative activities produced a crisis, the Fed was on hand to bail it out and provide more money with which to finance new levels of speculation.

This was the Fed’s response to every financial storm in the 1990s and into the first years of the new century.

At the same time, regulations introduced in response to the Great Depression of the 1930s were scrapped. The City of London, having become a centre for global speculation, was no passive bystander. In fact, regulatory measures in the US were often scrapped not least because conditions in London were much looser and Wall Street had to be able to compete with its transatlantic rival.

The Fed’s actions, often introduced to head off a potential crisis, only created the conditions for an even bigger disaster which erupted in the global financial crisis of 2008. The response of the Fed was to increase the supply of money still further.

Together with US government, it bailed out the corporations and the banks and then, under the chairmanship of Ben Bernanke, initiated the program of quantitative easing (QE) in which the central banks bought up government debt to keep interest rates at historic lows.

The Fed increased its holdings of government debt from around \$800 billion to about \$4 trillion, leading to the creation of a mountain of debt and fictitious capital, reflected in the rise of Wall Street to record highs after reaching its nadir in March 2009.

The result was that when the COVID-19 pandemic struck in early 2020, the US government and governments around the world refused to institute necessary public health measures to eliminate the virus lest they produce a collapse on Wall Street, extending to the entire global financial system.

This danger was seen when the Treasury market in which government bonds are bought and sold—the bedrock of the global financial system—froze in March 2020. For several days, not even US government debt, supposedly the safest financial asset in the world, could find a buyer.

The Fed and other central banks responded by putting the QE program on steroids. The Fed alone more than doubled its holdings of financial assets, almost overnight, from \$4 trillion to nearly \$9 trillion, and became the guarantor for all forms of debt, government and corporate. The total amount injected into the financial system by central banks is estimated to be around \$13 trillion.

But these measures, enacted to protect Wall Street and “save” the financial system, produced a new crisis. The refusal to eliminate COVID-19 led to a supply chain crisis. Coupled with the speculation in all financial assets, including commodities, resulting from the inflow of trillions of dollars from the central banks, and profit gouging by major corporations, this has sparked the highest inflation rate in four decades.

The QE measures of the past could be enacted because inflation was low—well under 2 percent—and the struggles of the working class were suppressed by the trade union bureaucracy, leading to a fall in strike activity to historic lows around the world and the continuous decline in real wages.

The situation has now changed dramatically. The working class all over the world is coming into battle for wage increases in response to rampant inflation, exacerbated by the US-NATO war against Russia in Ukraine. Workers are demanding an end to the increasing intolerable working conditions—imposed over decades, and intensified during the pandemic—in schools, hospital and health services, and throughout industry.

The reemergence of the class struggle has produced a major shift in the monetary policy of central banks, led by the US Fed, as interest rates are continuously hiked. The new regime is being imposed under the banner of “fighting inflation.” But it will do nothing to bring down prices, as central bank officials have acknowledged.

The objective is to bring about a recession, following in the footsteps of Fed chair Paul Volcker, who lifted interest rates to record highs in the early 1980s. The Volcker measures induced the deepest recession to that point since the 1930s to crush the wages movement of the working class and restructure class relations.

But the suppression of the wage struggles of the working class, always a great danger to the stability of financial capital, is by no means the sole objective. The class war goes well beyond that.

The mountain of fictitious capital, arising from the escalation of stock prices and the growth of debt, does not in and of itself embody value. In the final analysis, it is a claim on the surplus value extracted from the working class in the process of capitalist production.

That pool of surplus value, on which finance capital feeds like a vampire, must be expanded at all costs.

This involves not only the suppression of wages but the destruction of social services, which, from the standpoint of parasitic finance capital, constitute a deduction from the surplus value that would otherwise be available for its appropriation.

The extent and depth of the driving force of the class war now being unleashed is indicated by the fact that global debt, government and corporate, is now calculated to be more than 350 percent of global GDP, or around \$300 trillion. The demand of finance capital is that increased surplus value must be extracted from the working class to pay for it.

That is the significance of the UK bond market crisis, not only for British workers but for workers around the world. This agenda was set out in the IMF’s *Fiscal Monitor Report* produced for its semi-annual meeting in Washington last week.

In the words of the chief author of the report, Vitor Gaspar: “In the context of high inflation, high debt, rising interest rates, and elevated uncertainty, consistency between monetary and fiscal policy is paramount ... this means keeping the budget on its tightening course.”

If governments of whatever political stripe fail to carry out these demands they will be punished by the bond markets until they do.

The ruling classes, led by finance capital, have a clear agenda. They aim to drive workers into poverty to meet their insatiable demands. The working class must respond with its own independent program, which starts with the understanding that it is involved in a struggle, not just against various depredations being imposed on it but against the entire capitalist system, and the necessity for the socialist restructuring of society.



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