[https://gegen-kapital-und-nation.org/en/public-debt-makes-the-state-go-round/]

Public debt makes the state go round

The implications of the budget deficit and the public debt reach far beyond the state's ability to pay for its undertakings such as killing people in Afghanistan and maintaining the miserable existence of workers in the UK. The public debt weakens the national currency. Since many groceries etc. are imported from the eurozone, this drives up prices for many people. Even prices for goods produced in the UK rise; a development well known as inflation. This article attempts to explain the basic principles behind these phenomena.In May 2010 voters in the UK are asked to decide on the appointment of the state's most important employees for the next five years. Although voters are not asked anything but a question about personnel and no issue of substance is actually their call, the surrounding debates focus on the budget deficit as the decisive factor. Both Tories and Labour agree that the financial crisis of 2008, the subsequent bank rescue package and the eventual economic downturn caused both public debt and budget deficit to rise to undesirably high levels. The Conservatives opt for tax cuts and austerity measures in order to decrease the deficit; tax cuts to boost the economy and austerity measures to decrease spending. New Labour argues that this would kill the upswing and that what is needed is more investment[1]. Quite bluntly both sides put on record that what they care about is ‘our’ economy and that provision for the subjects of the state has to be subordinated under this goal[2]. Provision for the people has to be measured by its impact on the economy, rather than measuring the economy by its impact on the provision for the people. Topsy-turvy world. As usual when public debt is discussed, a parallel is drawn with private debt. The state would have to pay off debt just like a working class family has to pay back a loan[3]. Also, references to how poorer countries are suffocated by their debt are made[4]. However, taking a quick look at one of the many tables comparing total national debt across the globe we find that successful nations such as the USA, the UK and Germany accumulated national debt year by year for decades and hold much more debt in total than any of the poorer countries[5]
. Of course, this fact does not escape economists and they reply that one has to look at the ratio of national debt to GDP[6]. While this allows new exciting ways to plot numbers over time and to compare charts, it still does not explain how the ‘strength’ of a national economy relates to national debt and why and when a certain ratio is considered harmful. Why is 68.6% too much? The implications of the budget deficit and the public debt reach far beyond the state's ability to pay for its undertakings such as killing people in Afghanistan and maintaining the miserable existence of workers in the UK. The public debt weakens the national currency[7]. Since many groceries etc. are imported from the eurozone, this drives up prices for many people. Even prices for goods produced in the UK rise; a development well known as inflation. This article attempts to explain the basic principles behind these phenomena.

Budget

In one (and only one) respect it is fitting to equate personal wallets and state budget. The democratic state uses the same economic means which it imposes on its society: money. Just as it obliges everyone to use money in order to have access to the things they need and want, the state itself uses it for anything it requires: to provide for its personnel, to enforce the law, to support

property and to preserve wage labour. It does not simply expropriate the owners of police batons or command some people to produce traffic signs; instead, it pays for these things and services. Thus, it needs money. The way the state attains money sets it apart from any other subject or legal body: it obtains it by direct appropriation. It makes all its citizens pay taxes (on their income, their trade, their smokes, etc.). States decide their own income, unlike any of their subjects. A working class family cannot decide on a supplementary budget if at the end of the year their resources do not suffice, they have to restrict their needs according to the funds available to them. By contrast, the state decides how much money it 'earns' according to the project it deems necessary. For example, in November 2008 Chancellor Alistair Darling announced his plans to increase taxes for 'top-earners' to help offset the declining revenues during the recession. Comparing the projects it had planned with the available funds - obtained through existing taxes - the government noticed a relevant gap. It decided to increase its funds. The bottom line: the state plans projects it deems necessary and then has the power to raise taxes accordingly. However, there is a limit to this measure: when collecting taxes the state is dependent on money earned in its society by its citizens; it is dependent on the ability of some of its citizens to use their money to accumulate it and to pay wages for other citizens, so that the state can collect taxes from their incomes directly and indirectly. In other words, the expropriation it executes contradicts one of the main pillars of its domination: the facilitation of private property. With its guarantee of private property the state establishes the whole market economy in the first place, it provides this economy with money and necessary infrastructure, advances science, fosters development of key industries and maintains a sufficiently skilled working class. All this so that the national economy can prosper. But then the state diminishes the very basis of economic growth by demanding a chunk from the income of the same subjects which it at the same time encourages to accumulate. It undermines the source of its own revenue. This contradiction cannot be avoided and is the basis for perpetual reform efforts. These reforms on the one hand multiply the kinds of taxes and their exceptions, in such a way that taxes are raised in a way which hinders capitalist growth the least. On the other hand, these reforms perpetually deal with the question of whether expenditures are really necessary for what they are for; for example, is free dental care really necessary to maintain the working class[8]? After the upcoming elections the Tories have a few areas of state expenditure in mind which they deem unnecessary relative to their agenda to cut public debt. Any statement about how the budget cannot afford this or that scheme means nothing but that the scheme in question is not deemed pressing enough relative to the estimated burden on the economy and other activities. A state such as the UK is hardly ever actually out of funds[9]. It makes sure of that by detaching the 'money supply' in society from the money available in society.

Credit money [10]

In modern capitalist nations money is 'created' by the state itself. Here, 'creation' is quite fundamental: the state does not content itself with minting gold coins nor does it distribute notes which represent a fixed amount of precious metal[11]. The amount of notes distributed by the Bank of England is not limited by the size of its gold or dollar hoard, or any hoard at all. Fundamentally, pieces of paper are money because the highest power in society, the state, declares it is; for instance, by collecting taxes in form of these pieces of paper. For this operation the Bank of England and central banks everywhere build on the services and 'money creation' provided by the private financial sector, summarised below[12]. In commerce trusted promises of payment act as means of payment. To give an example: debtor Alice would, instead of paying for a certain trade, issue a bill of exchange[13]; her creditor Bob would accept it and use it to pay a

third party, say, Charly. Alice would sign a piece of paper stating that she, for example, will pay £10 in a week's time. Charly would accept this as means of payment from Bob. Thereby, Bob would pay his bills with a promise of payment by Alice. Of course, this trade is subject to the first debtor Alice actually paying up. The bill of exchange is only temporary and only worth as much as the issuer is able to pay eventually[14]. The whole business with promises of payment becomes somewhat more solid and reliable when the banks are involved, which centralise and monopolise all money in society anyway. Based on this hoard, a bank would convert the bill of exchange into ready cash - for a fee - and Alice now would owe the bank. Furthermore, the bank provides its customers with credit, money for their endeavours which they did not earn yet. Of course, this service has a price too: interest. For this operation the bank does not even have to draw on its hoard. Its creditors open bank accounts which allows them to subcontract their payment liabilities to the bank; that is, they ask for a money transfer. The bank then clears incoming and outgoing payments and only has to use cash if the difference between outgoing and incoming amounts is negative. If one customer from bank A owes another customer from bank B £1000, while a third customer from bank B owes £800 to a customer at bank A, only £200 need to be transferred from A to B. All movements among account holders of one bank are nothing more than an update in the books of the bank. So if in the previous examples all customers had accounts with the same bank no cash would have to be moved at all. Back in the day[15] a bank could even satisfy outgoing sums without using hard cash if it issued banknotes: pieces of paper which were exchangeable for a fixed amount of cash at any time. These banknotes allowed a bank to become more independent from its hoard of cash. Even for outgoing payments it did not have to use it; instead it used promises of payment. These promises of payment were not temporary any more and did not earn interest. They circulate instead of real money. Of course, this only worked as long as there was trust in the bank, i.e. trust in the bank that its notes were indeed exchangeable for cash and that it did not have to exhaust its hoard to satisfy demand for payment and its usual commitments. From the moment when the banknotes did not represent 1:1 the actual hoard in the banks but fulfilled their duty as credit and represented money that was yet to be earned by account holders, the course of business had to affirm the money quality of the banknotes. First of all, willing and trusting depositors were required who provided the basis for the credit superstructure, so that the bank could actually exchange its notes for cash. Second, when the bank granted a credit, it treated the promise of payment by the debtor as an asset, almost as good as money and paid the debtor in its banknotes. Say the bank bought Alice's bill of exchange and pays Bob in banknotes. These were backed by Alice's promise to pay the bank. Thus, successful debtors are needed, who turn promises of payment into capitalist wealth and pay interest and whatever initial sum they owe. If Alice defaulted and many other debtors like her, the bank would have become unable to exchange its notes for cash. The replacement of cash by private banknotes remained temporary. The monetary worth which was represented by these notes was relative and subject to the comparison between different issuers. This led to the situation where notes got a market price and were traded with surcharges and deductions. More dramatically, in a credit crisis or recession every bankrupt bank destroyed the money in the hands of all its customers in one strike. In the most severe situation, the means of payment available for the whole of society would have been reduced to hard cash again, which credit money was meant to replace. This is where the central bank steps in - for the UK this is the Bank of England, despite its name. With its establishment private banks are prohibited to issue their own banknotes[16], they are prevented from creating money which they cannot guarantee. On the other hand, they are freed from the limitations of the total social hoard of hard cash, which they centralise and use as basis for their credit business. Their cash reserves are now notes issued by the central bank, which also allows them to draw additional funds - according to certain rules - when needed. These rules are for example that a certain percentage of what is borrowed has to be deposited with the central bank - so called

collaterals
- plus the interest rates the central bank charges. The notes issued and circulated by the central bank are now fundamentally the social money reserve which the banks turn into advances for capitalist businesses and potentiated social solvency. Their cash reserve and thus their power to create credit is crucially unfettered, since the total social hoard has no hard limit any more. The issuing by the Bank of England and other central banks is not limited by a hoard in their vaults, by money earned and put on the side. Nor is it limited by the returns of the businesses which are funded with its banknotes. The central bank may treat parts of its operation as private banks would, demanding securities in return for loans to private banks etc. However, its banknotes, with which it buys & lends, are not related at all to some money which someone earned and deposited with it. As long as reserve requirements, interest payments and other rules are followed the amount of money that can be borrowed or 'bought' from the central bank is in principle endless. The 'social hoard', which is 'represented' by the notes of the Bank of England, is nothing but its state-sanctioned mission: its authorisation by state power to issue banknotes. The money function of these pieces of paper is thus not relative as with private banks and does not depend on the central bank's solvency; the Bank of England is always solvent. Instead the difference between a banknote and money is erased by law in general: now banknotes *are* money. The units which are printed on banknotes are valid measures of social wealth, the standard of all incomes and prices, just like units of weights of precious metals used to be. These banknotes do not represent, they *are* cash. By monopolising the credit business the central bank completes it and turns it upside down: it *creates* the money, which on the contrary in society must be *earned*. Out of thin air the states creates the material it obliges all its subjects to earn. The accomplishment of giving pieces of paper cash quality requires a binding grip on society. The presses of the central banks not only replace whole goldmines but also the toil of mining and processing their products. They create the substance of the wealth of nations in its abstract and adequate form. The value printed on banknotes has its substance in its guarantee by the highest power in society[17]. This substance is founded in a relationship of power which the complete national economy is subordinated to without exception. On the other hand, this way the state subjects its money and its guarantee, backed by all its power, to the market.

Money supply

Yet just printing money is not all that needs to be done by central banks. Their money becomes the cash of the society by being used by private banks to finance their business. Thereby it is put into circulation - the prerequisite for its use in society. Private banks 'buy' this money using financial assets[18] or borrow it from the central bank. Then they distribute it and credit created on top of it by lending it out to their customers (and each other) - for a price: interest. This shows that the 'money supply' which the state monopolised and centralised with its central bank has a prerequisite and a public duty. Its use must be lucrative: lucrative for the banks which have to pay interest or assets for it and for their customers who in turn pay interest to the banks for their credit. All cash in society comes into existence through a credit business which starts from the 'bank of banks', the 'lender of last resort', and demands a utilisation which is compatible with this credit business. By providing loan funds, which are cash themselves and thus independent of an external hoard, the state fuels the credit business. It does so with the stipulation that this foster all other parts of the economy[19]. The fact that the central bank applies strict rules - interest rates[20], reserve requirements[21], etc. - to private banks' access to its money is consistent with this stipulation: these conditions express the fact that cash provided by the state freed the credit business from the limitation of a finite money supply in society. The control which the state

exercises with these rules practically enforces the demand which is put forward by each banknote issued: the business financed using this money must be lucrative, in such a way that the claimed value is produced and thus confirmed. This demand is not different from the normal demand attached to private credit money, but this time the demand is made towards the complete economy by the state. The value of its loan funds does not depend on a realisation in cash any more, contrary to privately created means of payment. This does not diminish the demand however; the value, which is ‘represented’ by legal tender, still has to be produced by successful business endeavours. The political assertion must be redeemed by actual accumulation. In other words, by creating money the state claims that goods and services can be purchased with this money; capitalist accumulation has to produce these goods and services. By issuing notes with a face value and thus positing the equation of advance and cash, the state subjects these notes to doubt as to whether the equation will hold. The state's decree does not cancel out the capitalist fact that only produced and profitably realised exchange value is real social wealth, and that the kind of social wealth that counts is the social power of access to wealth in society: control over land, material, technology and people. The decree is not meant to strike through this fact: the state demands from its society that it approve its provisions by capitalist accumulation. It holds its businesses and working attachments responsible for producing the abstract wealth which the central bank notes claim to have realised already when issued. The claim of the notes is ‘soft’, because credit and money are only claimed to be identical, the national economy is under the stipulation to prove it ‘hard’ by producing the claimed identity. They have to produce the wealth these notes command. If this process is not successful then an increased amount of money confronts an amount of commodities which did not increase accordingly. The availability of ready cash will be used by capitalists to demand higher prices; a process a.k.a. inflation. In a nutshell, the more money was created relative to the actually produced value, the stronger the inflation[22]. Through their credit money states created the inherent necessity for permanent growth, which is used so often to justify any austerity measure, job or wage cut. Because if accumulation does not meet expectations, not only is a particular company endangered in a way that would work to some other company's advantage, but all money and a national economy dependent on it is at stake[23]. While this explains the possibility of inflation, it does not explain its ubiquity.

Inflation

The central bank has no incentive to inject additional funds into society except to maintain the ‘money supply’. The central bank creates money to stimulate the economy, not to buy tanks or mansions[24]. Thus it would seem as if any inflation could be attributed to either its failure to predict growth correctly, to its inability to restrict private credit creation or to a calculated move [25]. However, unwanted inflation is so commonplace and such a source of worry also because of the way modern capitalist nations exploit their sovereignty over the national money to get into debt themselves, without even printing a banknote to offset their deficit. The technical process is usually that states offer *bonds* for auction to private investors and other states, which earn interest for some number of years; and every such credit the state blesses itself with, becomes an act of money creation.

- Every issued bond arrives - through the private banking system - as an interest bearing capital investment in the business cycle; these bonds have the same security as money, after all they are guaranteed by the same party, but in addition they also bear interest. Thus the financial world uses them - at least when they are near their redemption date - like money.

- Every Pound Sterling the state uses to pay in an orderly way for services received also arrives as increased means of payment in the economy. Every copper, welfare recipient and builder contracted by the state who spends his salary on groceries injects new money into society.
- Central banks accept state issued bonds as securities when private banks borrow money and as payment when they ‘buy’ it; thus based on state issued bonds more credit can be created.

The control exercised by the state over the ‘money supply’ for private banks reflects the fact that it freed them from the money already earned in society. At the same time, the state creates new money itself, exploiting the fact that it is free from the money already earned in society. This practice continuously converts state debt into socially valid means of payment; in this way the money supply increases and thus the same immense but not necessarily increased collection of commodities is confronted by an increased purchasing power; all this is of course well known. And these are reasons for general concern: thus the current debates about the deficit and how to cut it. By taking credit the state frees itself from the currently available money in society, but only to subject itself much more strongly to the success of its economy; it must grow in order to fulfil the promise made by credit money that it represents power of access to social wealth.

International reflection

The contradiction between the claimed identity of cash and credit and their actual non-identity, which is immanent in national banknotes, becomes immediately evident when legal tender is confronted with a similar alternative; as soon as banknotes are equated in quality[26] and compared in quantity with banknotes of other countries. Currencies get a market value in some other currency, which measures the relationship between money supply and economic development among competing nations. What the state prevents within its borders by monopolising the right to issue notes is confronted on a higher level between states. Credit moneys compete against each other to be worth as much as they claim. The recognition of a currency based on decree only reaches as far as the grip of the state. Towards foreign public and private investors the state has to make its money palatable through economic means instead of decree. The acceptance of national banknotes is based on the state's establishment of an economic interest with foreign investors. First of all, this requires a national hoard. International commerce needs to be assured that the national currency is exchangeable into something which allows worldwide business. This used to be gold, but these days it usually is either US dollar, euros or British pound sterling. For example, in order for the German mark to rise as a strong currency, dollars were needed which required successful exports. If this succeeds, then trust in the currency is established which detaches itself from direct trade. Foreign states and banks accepted German marks but did not necessarily want to conduct business in Germany nor did they want to exchange these German marks into US dollars. Instead, they kept the currency as a basis for their own creditworthiness; they hoarded German marks as a guarantee for it. This way the German mark did not need to prove any more that it represented real value or that it could initiate accumulation of wealth. As hoard it received acceptance that it was immediately world money, a quality it handed down to the euro[27]. International commodity and money transactions which had nothing to do with Germany at all were increasingly conducted in German marks. Similarly, the pound is the world's third largest reserve currency and today the trade of oil is almost all done using US dollars; this way the oil trade - a truly ubiquitous commodity - confirms dollar as world money. But also the financial sphere with its commercial banks, investment banks, insurance companies and hedge funds creates new fields in which a currency can receive acceptance by being treated as a safe and lucrative investment opportunity. If currency is not returned to the issuing state and state bonds

stay in demand, because states and companies trust them and want to hold on to them, then the financial sovereignty of a state increases also outside of its borders. For example, Germany in the early 1990s contracted 1,000 billion German marks in debt to finance the incorporation of the GDR and this did not harm the international reputation of German marks as world money. The US funds its war on terror using credit and still controls the world money. On the contrary, the fact that they get to contract massive debts without much harm underlines their position as keeper of world money. A currency which only buys assets within the borders of its issuing state is dependent on the economy in these borders to produce these assets. A currency which buys commodities worldwide is more independent of these borders, since foreign companies produce assets which can be bought with this money. In other words, the collection of commodities which a currency confronts is bigger than the national product[28]. This use of a currency is available for only the few most successful states. If the vast majority of states contract debts, they burden their currency. Private and public investors from abroad do not consider the increased availability of these currencies as a welcomed supply of world money, but as an increase of flaps which makes the already circulating flaps less valuable. These kind of states have to offer higher interest rates in order to sell their bonds and have to contract debts in foreign currency. In this case they need to export successfully, yet not in order to increase their national hoard but to service their debt and pay interest in foreign currency. Nation-states which have to service their debt in foreign currency have a severe disadvantage. The creditworthiness of, for example, Mexico in the 1990s was doubted. It had to use its foreign currency reserves to service debt instead using it as national hoard. Its national currency was not considered a secure haven for value, other central banks did not add them to their national hoard. Whoever owned those pieces of paper was quick to exchange them for dollars, German marks and pounds sterling. Mexico's central bank thus had to buy pesos with dollars to maintain some trust in its currency: dollars which were needed by the state to service its debt. Thus, foreign currency is needed by both the state and its central bank. The success of some nation-states in turning their own currencies into world money produced many nation-states on the other hand which are permanently servicing debt. The citizens of these nation-states are subjected to more work and less pay in order to service these debts. After all, these debts are at least partly serviced using the state's revenue source: taxes, which first must be earned. Subjects are negatively dependent on their economy. While the “wealth of nations ” is anything but the wealth of its working class, the poverty of a nation ensures poverty for the majority of its citizens.

Back to budget

The ongoing debate about the size of public debt and the budget deficit has its basis in the programme to maintain the positive international reputation of the pound and the British state. The British state needs third parties *willing* to buy its bonds in order to service its debt and to deal with its budget deficit. Now taxes, the actual income which it collects from society, are used to fund the credibility of old and new debt. Besides financing the state's undertakings, taxes are used to service debt. The main purpose of cutting the deficit is to persuade investors at home and abroad to grant further credit in the future[29]. States very rarely actually cut their principal debt or even eliminate their budget deficit, what they cut - if they cut - is the amount of new debt generated annually. Furthermore, the British economy is dependent on the international *recognition* of the pound and a steady, low inflation. The state, in turn, utilises the strength of its national economy as a *signal* for its own creditworthiness. Thus, there is no rational *a priori* answer to how much public debt is too much.

Footnotes

1

“By committing his party to cuts David Cameron's policies would threaten key local services like transportation, police and schools. By doing nothing, they would deepen the downturn and delay the recovery. ” - http://www.labour.org.uk/vote2009_choice

2

One might object that boosting the economy eventually benefits the people. If that was the case then where are the benefits after decades of boosting? Why do people have to work till they drop and have hardly enough to live? A more concise critique can be found in “Private Property, Exclusion and the State ” in kittens #0.

3

“Cameron said it was like having credit card debt. 'The longer you leave it, the worse it gets'” - The Guardian, 25. January 2010

4

“Britain was borrowing more than Greece, whose debt had already sparked the sort of economic crisis that could see soaring interest rates and unemployment if repeated here, he [Cameron] said. ” - The Guardian, 25. January 2010

5

cf. http://buttonwood.economist.com/content/gdc

6

GDP is a number in bourgeois economics to measure the economic strength of a national economy. It ostensibly expresses how much value was produced per year in a country.

7

“Sterling could continue to weaken until 2014, as foreign investors balk at the unprecedented size of the UK's budget deficit. ” - The Telegraph, 17. October 2009

8

To both questions - in which form to raise taxes and what to spend them on - there is no *a priori* right answer; only afterwards one can see whether the cutting of a certain scheme was harmful or not. Furthermore, whether a certain scheme is beneficial or not may depend on the point of view. Increased utilisation of solar energy increases independence from oil exporting countries but may harm that part of the national economy which deals in oil. Thus, the questions of how, how much and for what purpose to raise taxes provide endless material for competition among parties.

9

This is not necessarily so for most states as discussed in the section “International Reflection ”.

10

The following avails itself of the article *Der Staatshaushalt* (in German) in GEGENS TANDPUNKT 4-1997.

11

“The words 'I promise to pay the bearer on demand the sum of five [ten/twenty/fifty] pounds' date from long ago when our notes represented deposits of gold. At that time, a

member of the public could exchange one of our banknotes for gold to the same value. For example, a £5 note could be exchanged for five gold coins, called sovereigns. But the value of the pound has not been linked to gold for many years, so the meaning of the promise to pay has changed. Exchange into gold is no longer possible and Bank of England notes can only be exchanged for other Bank of England notes of the same face value. ” - http://www.bankofengland.co.uk/banknotes/about/faqs.html

12

More details can be found in the articles “Financial Crisis 2008ff ” and “Surface Tension ” in kittens #0 available at http://www.junge-linke.org/en.

13

Bills of exchange have mostly been replaced by modern credit these days.

14

This process is discussed in detail in Chapter 3 of *Capital* Vol.1 by Karl Marx.

15

In 1844 the Bank of England was granted the sole issuing right for banknotes.

16

There are actually a few private banks in Scotland and Wales which still have the right to issue Sterling notes. These notes have to be backed 1:1 by Bank of England notes though.

17

Besides collecting taxes in Pound Sterling, this guarantee is in England and Wales that a debtor who pays debt obligations in Bank of England notes cannot be sued for non-payment. That is, when settling a debt Bank of England notes must be accepted, they are “legal tender ”. In Scotland and Northern Ireland no legal tender exists. In some countries such as Germany the state demands that transactions are priced and executed in the local currency, making the European Central Bank money without alternative by decree.

18

This process is called ‘quantitative easing’. The central bank buys financial assets, including government and corporate bonds, from financial institutions using money it has ‘created’.

19

“The Bank's monetary policy objective is to deliver price stability - low inflation - and, subject to that, to support the Government's economic objectives including those for growth and employment. ” - http://www.bankofengland.co.uk/monetarypolicy/framework.htm

20

Its interest rate regulates how much money is demanded, simply by adjusting the price of borrowing money. Higher interest rates imply that some businesses are simply not lucrative enough to borrow money for. Also, private banks will usually borrow to each other with an interest rate close to the one set by the central bank; there is no point borrowing from a private bank if it offers worse conditions than the central bank.

21

The central bank demands a certain size of reserve funds that banks need to keep when creating money through credit. In its basic form this works as follows. Say, the required reserve ratio is 20% and the central bank lends a private bank A £1,000. This bank now has to hold on to £200 and can credit some bank B £800. This bank in turn has to hold on to £160 and lends the remaining £540 to some bank D etc. On the other hand, the central bank

allows other assets such as bonds - especially those issued by the state - to be used as reserve funds and thus this simplified calculation does not apply as such.

22

This process might be somewhat more mediated. For instance, if the increased solvency is almost exclusively used to buy financial assets, it might not make itself felt immediately.

23

To avoid a potential source of misunderstanding: when we write that states increase the stakes this way no partisanship for sustainable, less risky capitalist growth is implied. These state actions do not conflict with what they aim to achieve - a powerful state and a strong national economy - and it is this aim we resent.

24

To make sure that any exterior incentives stay out of the central bank's core business is the reason why central banks are often somewhat removed from the direct grip of the government.

25

The Bank of England considers 2% inflation per year adequate: “The inflation target of 2% is expressed in terms of an annual rate of inflation based on the Consumer Prices Index (CPI). The remit is not to achieve the lowest possible inflation rate. Inflation below the target of 2% is judged to be just as bad as inflation above the target. ” (http://is.gd/7rsVq) Short of any concrete things which are badly needed - which would be encouragement enough - the state demands investment for growth, nothing but growth for the sake of growth.

26

This is not as self-evident as it might seem at first. Sure, money performs almost the same functions around the globe. However, the fact that states allow their own currency to be exchanged and compared against other currencies is a political decision. China for example limits the flow of yuan out of the motherland.

27

A lot of the financial superstructure of the eurozone is based on Germany. The European Central Bank is modelled on the German Bundesbank; the Maastricht criteria which demand that the annual government deficit may not exceed 3% of the GDP and that total government debt may not exceed 60% were copied 1:1 from German law. Nothing about these decisions is scientific, Germany's success had to suffice as proof for their correctness.

28

This does not imply however, that the US can simply go into debt and hold the whole world responsible for creating the wealth matching its US dollars. It still has to service its debt without interruption and on time which only works if the financial markets have no doubt in this capability and provide the necessary credit to service old debt. The strength of the national economy and the derived possibility of the USA to service debt using taxes is one of the signals which the financial markets use for their speculation.

29

“Moody's, the international credit rating agency, warned today that it could cut the UK's coveted credit rating if Britain fails to sort out its fiscal deficit within the next three years. While there is no immediate threat to the UK's gold-plated AAA rating, if the country is unable to finance its debts and keep interest rates under control, it could face a downgrade by 2013, Moody's said. ” - http://business.timesonline.co.uk/tol/business/article6952814.ece