

[More money, more problems](#) [1]

Written by [Preston Byrne](#) [2] | Thursday 27 January 2011



This week we've been told inflation is rising, to which the BBC has responded by [running stories](#) [3] containing lots of three-letter acronyms (MPC, CPI, OBR...) and hinting that mortgage interest rates are going to rise. We're also told by the Chancellor that the recent VAT increase to 20% is "[is not temporary](#)" [4]. It can't be... the VAT rise is a structural change to the tax system to deal with a structural deficit". I get the sense that most of the population is highly confused, thinks that this is a [raw deal](#) [5], and is asking one question: is there a way out?

Perhaps there is, but in order to find it we need to go beyond the numbers to understand the nature of our welfare state. For this I direct you to everyone's favourite Marxist, Jürgen Habermas. He argues that in a capitalist system the state performs three functions: first, it secures the legal prerequisites (property, contract, competition law, etc) for business; second, it "improves the chances for the realization of capital" through big-ticket public expenditure; and third, it "compensates for the dysfunctional consequences of the accumulation process that have elicited politically effective reactions on the part of... organized groups," powerful competing demands on the state which are both expensive and irreconcilable.

Practically, this means the state enacts social welfare provision and, relative to the fiscal needs of such provision, inadequate levels of taxation to pay for it. As a consequence of the inability to reach a consensus position on how to mediate these conflicting demands, economic crises are displaced into the political sphere, with attendant "inflation and a permanent crisis in public finances... the government budget is burdened with the common costs of a more and more socialized production." Eventually, the strain becomes too much for the state to bear: "if governmental crisis management fails, it lags behind programmatic demands that it has placed on itself", the consequence of which is a mass withdrawal of loyalty from the state, a crisis of legitimation, the consequences of which might be very serious indeed.

While Habermas' analysis is highly macroscopic, bordering on the metaphorical, it can shed some light on our current predicament. First, most Western governments currently possess a long-term "structural" deficit which represents, at its core, an inability to reconcile expensive social welfare demands with the need not to strangle the private sector. Second, the continued displacement of conflicting demands has, as Habermas hypothesized, resulted in (1) frighteningly high levels of public sector debt created by fiscal imprudence and (2) as we can see now, levels of inflation that are a direct consequence of artificial suppression of interest rates. Third, the beginnings of a legitimation crisis can be seen already as the loss of confidence in governments by international bond markets; whether this worsens in relation to any particular state will depend on that state's ability to contain, and recover from, the current crisis.

Whither capitalism, then? Due to word count and other considerations this question doesn't bear further exploration here, but after considering Habermas' view I am reminded of von Hayek: "when (democracy)

becomes dominated by a collectivist creed, democracy will inevitably destroy itself." I don't think we're that far gone. But it's certainly a concern we should keep in mind.

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