The Bond Vigilantes Get Busy

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While the levels of schadenfreude will be going through the roof given the unfolding farce in British politics, the resignation of ***Liz Truss*** *as UK Prime Minister was troubling in one vital respect. True, her juvenile salad understanding of economics, which involved spending billions on tax cuts and energy subsidies, was lamentable. To cope with the beast of aggressive inflation, she was advocating a policy that would feed it.*

Then came the not-very-invisible hand of the market, which decided to throttle her government and its policies with petulance. While the vigilantes of the market have, depending on the occasion, burst into song at the announcement of tax cuts, thereby stimulating growth, the reaction was far different this time. Trussonomics had the effect of sending a spike in bond yields so serious it threatened the British pension system. The pound also received a mighty battering.

In one vital respect, this was yet another savaging blow for democratic, or at least representative control vis-à-vis the market. Never mind what those silly politicians do, the buccaneers in London City and Wall Street and other such engine rooms of finance know better. They, not the world's treasuries, can dictate policy for the commonweal by driving up borrowing costs. Central banks the world over are also complying, implementing monetary policy aligned with the bond market.

With the sacking of **Chancellor Kwasi Kwarteng** and his replacement in the resurrected form of **Jeremy Hunt**, the task of appeasing the bond vigilantes, a term minted by economist Ed Yardeni in the 1980s, gathered pace. Hunt even went so far as to announce a few Economic Advisory Council consisting of **Rupert Harrison**, former chief of staff of ex-Chancellor **George Osborne**; former Bank of England members **Sushil Wadhwani and Gertjan Vlieghe**; and JPMorgan strategist **Karen Ward**.

As Yardeni puts it, the bond vigilantes, active in the 1980s and early 1990s, went into something of a hibernation, largely because of subdued rates of inflation, negative interest rate policies and quantitative easing. They terrorised such figures as President Bill Clinton into throwing out a promise of tax cuts and cheered the arrival of Robert Rubin from

Goldman Sachs who insisted that budgetary restraint was needed to keep interest rates on US government bonds low.

It was such threatening conduct that inspired Clinton's political advisor James Carville to revise his assessment on what he would like to return as were reincarnation possible. Initially, he had thought of returning as president, the Pope, or a .400 baseball hitter. "But now I want to come back as the bond market. You can intimidate everybody."

Along with others, Yardeni remarks that the stimulative fiscal and monetary policies implemented in response to the pandemic saw inflation "roaring back in 2021 and 2022 forcing central banks to tighten their monetary policies, while fiscal policies continued to run amok."

In truth, the bond vigilantes were already poking around at the first stirrings of the Global Financial Crisis in 2007, taking issue with the way countries were handling the debt crisis. Those keen on austerity and severe budgets, Ireland being notable among them, were given different treatment to those governments needing to raise funds to prop up much needed stimulus programs.

The tragicomic irony of Truss's demise was how it proved to be the logical outcome of the ideological script she and her colleagues had contemplated in the previous decade. Along with her friend, colleague and ultimately sacked Chancellor Kwarteng, the animal virtues of rampant market freedom were qualities to be praised. In *Britannia Unchained*, a 2012 tract that never ceases in its oddness and inaccuracies, the image is one of freedom from bureaucracy and the swiping freedom of markets. They urge the invigorating "frontier spirit" to fight the "risk-averse society" that had come to shackle Britain. They praise the risk-taking venture capitalists as ingenious libertarians.

At the core of such a misreading is the steadfast refusal to accept that the market is a set of relationships and decisions, many linked through public and private investments and ventures. Far from being an expansive, unaccountable force to be worshipped, the market is the sum set of policies that involves, rather than rejects, the role of government.

Such capitalist phenomena as Silicon Valley and the Big Tech Wonderland arose precisely because of government support through contracts and state-funded research, with much of the impetus coming from the US military. The venture capitalist tends to wait for the seed to take root before swooping in. Jacob Soll of the University of Southern California also remarks that even such a "self-styled libertarian" figure as Tesla CEO Elon Musk received an enormous government hand to the value of US$6 billion worth in contracts, with another US$6 billion in electric-vehicle rebates. This is not to mention billions more in terms of grants, loans and $US60 million in subsidies from the state of Texas.

Unfortunately for Truss, her own neoliberal nonsense, ill-informed and historically inaccurate, ended up hoisting her. Her belief in the correcting market, as opposed to a correcting government policy, was so profound it destroyed her brief premiership. In a very true sense, she got her just desserts. Democracy, however, did not.

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