The political economy of quantitative easing

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The decision by the Bank of England earlier this month to expand the money supply by another £75 billion through so-called quantitative easing (QE) has been accompanied by claims that the measure is aimed at stimulating growth.

According to the Bank of England's statement, the move was necessary because the pace of global expansion had slackened and a "stimulatory monetary stand" would support demand, enabling greater growth than would otherwise take place.

This was the theme of Bank of England governor Mervyn King's remarks in a television interview and was taken up by various articles on the measures. A report in the *Independent*, for example, claimed that perhaps some three-quarters of a percent could be added to growth, even while questions remained about how effective the measures might be in supplying credit to small businesses.

An article in the *Guardian* described quantitative easing as a "radical, last resort scheme to boost economic demand and fend off deflation and recession." It noted that when interest rates were at record lows "central banks have to turn to so-called 'unconventional measures' to kick-start growth."

The latest minutes from the monetary policy committee of the US Federal Reserve, which has carried out two rounds of quantitative easing, reveal that the Fed is considering a QE3 if the US economy weakens further.

"A number of participants saw large-scale asset purchases as potentially a more potent tool that should be retained as an option in the event that further policy action to support a stronger economic recovery was warranted," the minutes of the September meeting state.

Taken at face value, these statements indicate that quantitative easing is aimed at promoting economic recovery at a time of weakening demand and rising unemployment.

But if that were the case an obvious question arises: why are central banks carrying out a radically different policy from their governments which are all enforcing "fiscal consolidation" and imposing austerity measures, leading to deepening recession?

In reality, there is no contradiction between quantitative easing and the austerity drive. Both policies serve the interests of the banks and financial institutions.

In 2008-2009, governments around the world mobilised trillions of dollars to bail out the banks and take off their books "toxic assets" that were the product of criminal and semi-criminal speculative activities in the sub-prime and other financial markets. In essence, the debts of the banks were transferred to the state. But the debt did not disappear. The bailout operation meant that, having rescued the banks, the capitalist state took on the task of pumping fresh value into the financial system.

Notwithstanding the fantastic forms it assumes—expressed above all in the seeming ability of money to simply beget more money—all wealth under capitalism ultimately derives from the surplus value extracted from the working class. Therefore restoring value to the financial system means boosting surplus value by driving down wages and driving up productivity. But this is not sufficient. Claims on

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wealth in the form of social services, health, education and all the other facilities on which the working class depends must also be slashed in order to meet the demands of finance capital.

This is the essence of the austerity programs being implemented around the world. Finance capital enforces its dictates through credit rating downgrades and the operations in the financial markets where the rapid movement of funds can undermine the sovereign debt standing of a country almost overnight. If any government is perceived as not moving far enough or fast enough then it is targeted by financial markets until it complies.

However, the implementation of the austerity agenda—declining wages and social spending—leads to a fall in overall demand, the development of recession and rising unemployment. Under such conditions, finance capital cannot accumulate profit by lending to businesses because their ability to repay loans and interest is undermined.

Hence, financial profits can be obtained only through ever greater speculation, in commodity markets, the stock markets, currency markets and in the buying and selling of government debt. This is where quantitative easing plays its role. It is the mechanism by which central banks make available vast sums to the major banks, at near-zero interest rates, not for the financing of growth and revival but for speculation.

The Bank of England has so far made available £275 billion while the Fed has undertaken $1.4 trillion worth of QE. The declared aim of these measures is to create a “wealth effect” by pushing up asset prices. But these assets often include futures contracts on food, oil and other basic commodities, so QE pushes up inflation and cuts the living standards of workers, especially in some of the poorest countries, where expenditure on items such as food and fuel takes up a large portion of income.

Far from boosting “economic recovery,” QE actually provides additional funds for the parasitic and outright criminal speculation that sparked the financial crisis in the first place.

Research by Dhaval Joshi of the Canadian firm BCA Research has found that “QE cash ends up overwhelmingly in profits, thereby exacerbating the already extreme income inequality and the consequent social tensions that arise from it.”

In the case of Britain, the research found that two years into an ostensible recovery, workers were actually earning less than they were in the depths of the recession. Real wages had fallen by £4 billion while prices were up by £11 billion. According to Joshi, this explained why the high-end luxury market continued to prosper while working people were forced to cut back.

The entire process recalls nothing so much as Marx’s description of finance capital as a “Moloch demanding the whole world as a sacrifice belonging to it of right.”

Important political conclusions flow from an analysis of the real workings of quantitative easing. No set of reforms, regulations or increased taxes can control the banks and somehow curb the economic devastation they unleash. The entire banking and financial system must be brought into public ownership and subject to democratic control. Only then can the vast wealth created by the physical and intellectual labour of the working class be used to advance the interests of society as a whole.

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