Contradictions of capitalism underlie monetary policy dispute

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At the end of last month, the Bank for International Settlements (BIS) issued a warning in its annual report that continuation of the ultra-cheap money policies of the world's major central banks was creating the conditions for another global financial crisis.

Since then, an undeclared war of words has been underway involving the BIS on one side and central banks, together with sections of the financial media, on the other.

In the immediate aftermath of the report, US Federal Reserve Chairwoman Janet Yellen, as well as European Central Bank (ECB) President Mario Draghi, made clear that the present "accommodative" regime of historically-unprecedented low interest rates would continue. Yellen insisted the alternative was large increases in unemployment.

Last week, the International Monetary Fund (IMF) entered the fray. With "full conviction," it called on the European Central Bank to pump more money into the financial system and warned that continued deflation would "undermine central bank credibility."

The IMF's call on the European Central Bank to open the financial spigots was seized on by the *Financial Times*, the global mouthpiece for the City of London, to take a swipe at the BIS in an editorial published on Monday. The newspaper wrote that the BIS' suggestion to the European Central Bank that deflation was of little concern, implying that the ECB should not inject more money into the financial system, ignored the risk of rising real debt posed by deflation, lower spending and debt overhangs. "In brief," the editorial stated, "the BIS is guilty of shocking complacency. Fortunately, the ECB has not taken this defeatist strategy."

Two well-known economic commentators on either side of the Atlantic have also weighed in. *New York Times* columnist Paul Krugman said the BIS had basically the same position as the "liquidationists" of the 1930s who opposed "artificial stimulus" that might leave the "work of depressions undone."

Martin Wolf of the *Financial Times* took a similar line, describing the BIS as "Basel's Jeremiah"—an Old Testament prophet demanding "austerity now."

No doubt, the measures demanded by the BIS would bring about an economic downturn, if not outright depression. But that does not mean the policies of the central banks and their supporters, such as Krugman and Wolf, represent an antidote to deepening recession.

The conflict over monetary policy is an expression of the deepening crisis of the capitalist system, to which neither of the two sides has any answer. A longer-term, historical perspective makes this clear.

Almost 60 years ago, the chairman of the US Federal Reserve, William McChesney Martin, who held the post from 1951 to 1970, gave a speech to investment bankers in which he outlined the principles he saw underlying the Fed's monetary policy.

In the field of monetary and credit policy, he said, precautionary action was necessary to take account of "inflationary excesses." While he was referring to increases in the general price level—rather than the asset bubbles of today—the general principle was clear. Unless the Fed applied the brakes sufficiently and in time, "we shall go over the cliff." Such action, he said, was bound to have "some onerous effects," and "those who have the task of making such policy don't expect you to applaud," he told his audience of financiers.

To sum up his point, Martin cited a writer who had remarked after a recent increase in the discount rate that the Fed was "in the position of a chaperone who has ordered the punch bowl removed just when the party was really warming up."

Today, in view of the 10,000 point rise in the Dow since 2009 to new record highs—a result of the Fed's pumping more than $3 trillion into the financial system through its "quantitative easing" program, as well as its maintenance of near-zero interest rates—the policy of the US central bank and its cohorts might well be described as spiking the punch bowl when the party starts to flag.

There is another significant difference between today's policies and past practice. The Fed and other central banks now advocate what they call "forward guidance," that is, giving financial markets a clear indication of the direction in which they are heading on monetary policy. In the past, central banks tried to generate a degree of uncertainty to ensure that banks and financial corporations proceeded with a measure of caution.

The policies of easy money and "forward guidance" reflect the total subordination of the central banks to the most powerful international financial institutions, and the disappearance of any independence of financial regulators from the private corporations they are supposed to oversee and discipline.

These policy transformations are not at root the result of a change in the mindset of those who run the Fed and other financial authorities. Or, to put it another way, the changes in the subjective outlook of policy-makers have a more fundamental cause. They are anchored in vast shifts in the capitalist system since Martin's time—changes that have brought to the fore fundamental tendencies

lodged within capital itself.

In the second volume of *Capital*, Marx explained that the relentless circuit of capital took the form of the transformation of money into commodities—the purchase of the means of production and labour power—followed by the production process and the extraction of surplus value from the working class. Production resulted in new commodities, embodying that surplus or additional value, which were then sold and turned back into money to resume the endless circuit.

The circulation of capital could be summed up as M … M', where M' represents the initial amount of money plus an increment.

The form of circulation, in which the "initial and terminal points … are real money," Marx wrote, "expresses most graphically the compelling motive of capitalist production—money-making. The process of production appears merely as an unavoidable intermediate link, as a necessary evil for the sake of money-making. All nations with a capitalist mode of production are therefore seized periodically by a feverish attempt to make money without the intervention of the process of production."

Marx's analysis pointed to an inherent tendency, lodged within the nature of capital itself as ever-expanding value in the form of money, to break free of the constraints of the "necessary evil" of production.

This tendency arises from a fundamental contradiction: capital is on the one hand dependent on the extraction of surplus value from the working class, but, on the other, it tries to escape that dependence and its restraints in order to expand the horizons of profit-making.

In Marx's day, however, and throughout the post-World War II boom during which Martin held the chairmanship of the Fed, this tendency expressed itself only episodically.

Today it has become the dominant form of profit accumulation in the US and a series of other advanced capitalist countries.

During the post-war boom, the mode of profit accumulation was based on large-scale industrialisation in the US and other advanced capitalist countries. However, this regime of production entered a crisis from the end of the 1960s, when the average rate of profit started to fall.

A fundamental restructuring of the capitalist system resulted. Vast sections of industry were either wiped out or transferred to cheap-labour regions, and profit accumulation in the advanced economies came to be increasingly based on operations within financial markets.

The extent of this restructuring is indicated by the fact that whereas in 1980 the profits of the finance sector in the US amounted to between 5 and 10 percent of all corporate profits, that figure had risen today to 40 percent.

In other words, large sections of capital have cut themselves adrift from the production process and continue to accumulate profit only to the extent that money continues to be pumped out by the central banks to boost the price of financial assets.

These sections of capital have now grown so large that any move to "take away the punchbowl," as advocated by the BIS, would result in a crash of the entire economy.

But however much capital may strive to separate itself from the "necessary evil" of extracting surplus value from the working class, and to whatever extent large sections of capital may actually manage to do that, entering a kind of financial heaven where money simply begets money, capital is still rooted in class exploitation on earth. In the final analysis, it can sustain itself only by extracting fresh supplies of surplus value from the living labour of the working class.

This fundamental reality of the capitalist economy is reflected in the fact that, whatever their differences, both sides in the dispute over monetary policy are united in their insistence that the working class be made to pay for the crisis of the profit system.

The program of "quantitative easing" has not led to job-creation and economic growth, but to a staggering rise in stock prices and profits, accompanied by an onslaught against the working class, including the driving down of wages and conditions and the slashing of social services and other types of social spending. Its proponents further insist that it be accompanied by what they call "structural reforms" directed at the labour market.

The BIS policy seeks the same end via another route, the crashing of large sections of the economy and mass impoverishment.

Neither side can offer any viable or rational solution to the economic crisis, because the crisis arises from contradictions rooted in the very nature of capital itself. These contradictions find their expression in the dominance of speculation, parasitism and outright criminality in the financial system and the inability of the would-be regulators to control it.

The only way to halt the ongoing economic disaster is the abolition of capital itself, that is, the ending of private ownership of the means of production to bring them under social ownership and control, thereby opening the way for rational economic planning.