Central bank decisions deepen global capitalist disorder

Nick Beams
8 November 2014

The global financial system increasingly resembles a madhouse in which the actions of each of the major authorities in charge of monetary policy assume ever more deranged forms. The central banks of the US, Europe and Japan proceed with reckless disregard for the consequences of policies pursued in behalf of their own national interests at the expense of their capitalist rivals and the world economy as a whole.

On October 31, the governor of the Bank of Japan, Haruhiko Kuroda, made the shock announcement that the country's central bank was increasing its purchases of government bonds to $750 billion a year.

The scope of the action is indicated by a series of statistics. The Bank of Japan will now be buying bonds at a rate equivalent to 15 percent of the country's annual gross domestic product (GDP), with its total holdings rising to 80 percent of GDP, a far higher ratio than that of the US Federal Reserve, the European Central Bank or the Bank of England.

The new round of quantitative easing means that the Japanese central bank will be buying more bonds each year than the government issues to cover its debts. Nothing like this has been seen in previous economic history.

The Bank of Japan's decision revealed deep rifts within its governing board, which agreed to the action by the narrowest of margins in a 5-4 vote. This itself is an indication of mounting perplexity in financial circles.

The same phenomenon was in evidence on Thursday when the president of the European Central Bank (ECB), Mario Draghi, announced that the bank's governing council was now committed to expanding the bank's asset base by at least €1 trillion. The decision was "unanimous," but before the meeting there were reports of deep divisions within the council—a North-South divide with Germany and others opposing further action and even talk of a "palace coup" against Draghi.

In the US, while the Fed has ceased its quantitative easing program, it is continuing to ensure the flow of ultra-cheap money to the financial system, pledging to keep its benchmark interest rate at near-zero for a "considerable time."

The Bank of Japan move was undertaken on the basis that only drastic action could bring an end to the deflationary pressures that have borne down on the Japanese economy for the past 20 years. But deflation is increasingly a world-wide phenomenon, as the economic breakdown that began with the financial crisis of 2008 intensifies. This makes the global impact of the Japanese actions all the greater.

One effect is to push down the value of the yen, thereby increasing the relative value of the currencies of other major countries, adding to the deflationary pressures they are already experiencing. In effect, Japan is seeking to get out of its deflationary trap by exporting it.

Its actions are not a national peculiarity, but symptomatic of a more general development.

The ECB decision to undertake an asset purchasing program was made on the grounds that it was necessary to lift inflation in the euro zone under conditions of stagnation produced by a severe decline in investment and other spending. But these measures will do little to revive the real economy. Rather, they are aimed at bolstering the position of the European banks, whose real debts are increasing as price levels continue to fall.

The global monetary stimulus programs are being carried out without any consideration of how they might end.

Even though it has ended its bond purchases, the

Fed’s balance sheet stands at more than $4 trillion, compared to $800 billion in 2007. Any attempt to reduce this debt and return the Fed to its traditional position of standing outside the markets, rather than being a participant in them, would spark a crisis.

This is because in key areas the Fed is now far and away the major player. Any sign of major asset sales on its part would spark a rush for the exits, as no investment bank or hedge fund would want to remain heavily invested while the largest holder of bonds and other financial assets was getting out.

But as long as the money keeps flowing in, and big profits are to be made from speculation, the financial markets act like heroin addicts, enjoying the euphoria of the moment while ignoring the longer-term consequences as underlying economic conditions deteriorate.

The situation in Japan, where government debt is equivalent to 240 percent of GDP, is even more bizarre. Despite concerns being raised about longer-term financial stability, reflected in the opposition on the Bank of Japan’s governing body to further asset purchases, equity markets rose sharply following Kuroda’s “shock and awe” announcement.

But there is growing sense that a day of reckoning is coming.

Commenting on the Bank of Japan decision, *Bloomberg* economic columnist William Pesek noted that the central bank had just added further fuel to the most obvious bond bubble in history and had helped create one in the stock market. “Once the laws of finance, and gravity, reassert themselves,” he wrote, “Japan’s debt market could crash in ways that make the 2008 collapse of Lehman Brothers look like a warm-up.”

The same could be said of financial markets in other major centres.

Nor do the bourgeois critics of unbridled monetary stimulus have a solution to the deepening capitalist crisis. Their demand for ever greater austerity, combined with a reduction in cash infusions from the central banks, can only deepen the deflationary pressures, with the real possibility of a full-scale Depression. This path, like the money-printing one, leads to a collapse of financial markets and banks.

The growing financial madness underscores that the crisis that erupted in 2008 was a breakdown of the global capitalist economy, not a conjunctural downturn from which there would be a “recovery.” The consequences of that breakdown are emerging ever more clearly.

In the immediate aftermath of the 2008 crisis, the major economic powers spoke of learning the lessons of the 1930s, especially the importance of international collaboration and cooperation and the need to eschew the kind of beggar-thy-neighbour policies that intensified the global impact of the Great Depression. Central bankers and governments were well aware that such policies had fuelled international tensions, leading to the outbreak of World War II in 1939.

All that has well and truly gone by the board. The prevailing agenda is each man for himself and the devil take the hindmost.

At the same time, the escalation of financial speculation is being matched by a deepening assault on the social position of the working class internationally, as finance capital demands that every social gain be stripped away in its relentless drive for profit.

The dead-end of all capitalist policies for dealing with the economic crisis reflects the fact that the current impasse is a systemic crisis of the capitalist system itself, from which there is no way out except by the methods of class struggle and socialist revolution.