# Fed keeps rates on hold as disarray over central bank policies increases

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The US Federal Reserve, as expected, kept its base interest rate on hold at its meeting on Wednesday, with the growing expectation that it will lift the rate by 0.25 percentage points at its meeting next month.

The Fed's rate-setting open market committee indicated that the case for a rate rise had "continued to strengthen" but it would wait for "some" further evidence before moving. The Fed clearly decided not to take action this month, with only a week to go before the presidential election, and to leave its options open in case of market turbulence following the outcome.

While pointing to a rise, it offered assurances to financial markets that economic conditions would warrant "only gradual increases" in the rate, which would remain, "for some time," below levels expected in the longer run.

In other words, even if there is a rise in December, the flow of cheap money into financial markets will continue.

The financial speculators are continuing to make hay while the sun shines. On Monday, General Electric announced a merger of its gas and equipment business with Baker Hughes, taking the total volume of such transactions attempted in October to more than $500 billion, one of the highest monthly levels on record.

As the *Financial Times* noted, with companies still struggling to increase sales, "historically low borrowing rates have made acquisitions an attractive way to boost revenue growth." In other words, financial manipulation and increasing monopolisation is the way to boost the bottom line.

As the Fed sought to project an image of measured calm in its statement, taking care not to frighten financial markets, this week has seen signs of growing disarray in central bank policy internationally.

On Tuesday, the Bank of Japan (BoJ) effectively threw in the towel on its stated aim of lifting inflation to 2 percent before the end of BoJ governor Haruhiko Kuroda's five-year term in April 2018. Kuroda took office in 2013, pledging action to lift Japan out of the deflation that has gripped the economy for more than two decades.

His commitments to bold monetary policy, based on zero interest rates and asset purchases of around $760 billion a year, has formed the core of the "Abenomics" program of Prime Minister Shinzo Abe.

Since Kuroda took office, the BoJ has pushed back the deadline for attaining its inflation target four times and now says it hopes to meet the target by April 2018. But that deadline has no more likelihood of being met than all the previous ones. The latest data shows that deflationary pressures continue.

Japan's core consumer price index, excluding food prices, fell for the seventh straight month on September and is down 0.5 percent from a year earlier. In its economic outlook, the BoJ said "risks to both economic outlook and prices are skewed to the downside" and momentum toward achieving the 2 percent inflation target was "somewhat weaker than the previous outlook."

At a press conference after the BoJ meeting, Kuroda said failure to meet the inflation target was "unfortunate of course" but other central banks had experienced the same problem.

"The quantitative and qualitative easing we introduced in April 2013 has had the expected effects," he said. But after that came weakness because of a rise in sales tax and the even bigger effects of the 70 percent fall in the oil price from its peak.

"Then last summer came the slowdown in emerging markets, which caused a lot of disturbance in international markets. That's why the inflation rate is

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where it is now," he said.

In addition to a focus on the Fed, the attention of international markets over the next weeks will be directed to the next meeting of the European Central Bank (ECB), scheduled for December. Earlier this month, ECB president Mario Draghi said the governing council would indicate at that meeting its position on the future of the central bank's asset purchasing program, which is due to end its present form next March.

Draghi indicated the ECB had no plans to suddenly end bond purchases of €80 billion a month that form the core of its quantitative easing program. It is widely believed the ECB will extend the program for at least six months.

This could lead to significant divisions on the ECB governing council, however, as opposition to the policy from Germany increases.

On Wednesday, the influential Berlin-based, five-strong Council of Economic Experts said in its annual report that the ECB's monetary stimulus policies were no longer "appropriate" for the euro zone and threatened to put the entire project at risk.

Calling for an end to the "exceptionally loose monetary policy," it said negative interest rates and asset purchases could not bring about an economic recovery, and an expansive central bank policy led to a "misallocation of tasks."

The report made clear that the key component of those "tasks" is a deepening assault on the social position of the working class through major cuts in government spending.

"Willingness to reform has faded," it stated, "and some member states lack necessary budgetary discipline. Monetary policy masks these problems and increasingly threatens financial stability. An exit from the expansionary monetary policy is becoming more and more difficult."

These views, which are widely held in the German political and financial establishment, were echoed in a note to clients issued by Deutsche Bank economists this week, saying the negative effects of the ECB policies were becoming "overwhelming."

"By some measures, indeed, the situation is worse than during the Great Depression," the analysts said, pointing to the situation in France and other countries where the unemployment rate is 13 percent, compared to the 10 percent French average between 1930 and 1938.

"Given the aggressiveness and unconventionality of monetary policy since 2012, it seems fair to ask whether the ECB's approach bears some of the blame for Europe's woes."

Up until July 2012, high interest rates and refinancing threats forced governments to be "serious about reforms" but these were now not being implemented. Increased lending had gone mostly to low-quality existing borrowers, "obviating troubled banks from the need to write down their loans." And "without creative destruction in ailing industries, investors in high-saving countries have simply bid up the price of healthy assets."

What this analysis indicates is that, with the failure of quantitative easing to provide any boost to the real economy and the fear it is creating of increased financial risks, there is mounting pressure in sections of the ruling financial elites for the extension, across the euro zone, of the impoverishment already imposed on Greece.

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