Central bank-led capitalism?

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As the financial crisis continues, with fiscal policy jammed, the core capitalist countries have become increasingly dependent on unorthodox monetary policies, like quantitative easing or LTRO, to ease stress in illiquid financial systems and (hopefully) to support the non financial sector. The paradox is that financial crisis comes partly out of the failure of scientized independent central banking which nevertheless has provided the politico institutional platform for large scale post crisis interventions by econocrats like Bernanke, King and Draghi. Central bank practices vary but, in general, balance sheets have ballooned as central banks buy government bonds (including new issues) as well as securitized debt. The central banks are acting not as old style lenders of last resort but as new style investors who have effectively gone long on a non growth regime because their positions cannot easily be unwound. The unintended consequences are many including the encouragement of all kinds of carry trade. But the predictable social effect is bank welfarism because, as central banks keep banks and markets going, they also sustain the position and incomes of the elite workforce in the finance sector. This kind of central bank led capitalism is riven with economic contradictions and lacks political legitimacy because it has no socially negotiated contract with stakeholders (who mainly do not understand arcane and technical central bank intervention) It involves a break with the old pre crisis social science imaginary where institutional coherence underpinned a stable economic trajectory in Rhenish or liberal market capitalism as private bank lending or stock market funding played the leading role. It also creates new social democratic possibilities of debt cancellation because the writing off of debt in central bank balance sheets is not straightforward but could be managed with more political control and less disruption than if debt is written down on private balance sheets. A full paper is being drafted by Bowman, Erturk, Froud, Johal, Leaver, Moran and Williams.