PART 3

IN THE HANDS OF CENTRAL BANKS

> I sincerely believe that banking establishments are more dangerous than standing armies; and that the principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.
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> Thomas Jefferson (1816)

INTRODUCTION

Examining the role of central banks in the development, management, and at present, expected unwinding of the crisis is definitely the part of the book least accessible to lay readers. That is because it involves complex notions about monetary economy, starting by the nature of money itself.

However, this deep dive is truly necessary in order to understand what central banks do in contemporary societies and how they got to that point. It uncovers many different philosophies and methods, far from the monolithic vision constantly repeated by mainstream literature and the media, and by the institutions themselves. It highlights the gaps, errors, and biases that depart sharply from the image of impartial wisdom that they attempt to convey. It also opens up a potentially disturbing window into global governance that is singularly lacking in transparency, to put it mildly.

To put these words in context, recall that our first two sections revealed two essential facts:

- Hyper-financialized capitalism, which became ascendant in the 1980s–1990s (first four chapters) in the context of a globalized economy, led to an extended, multifaceted crisis in the twenty-first century (next three chapters), which should have resulted in its critical reexamination.
- Insensitive to these failures, political authorities, supported by most experts, refused to question the capitalistic model of the profit-seekers. Instead, they gave central banks the mission to keep it alive at whatever cost, prioritizing short-term measures regardless of their harmful medium-to-long-term consequences. At the same time, budget policies diverged in "developed" Western economies, between austerity targeted at the middle class in Europe and greater budgetary flexibility in English-speaking countries that allowed their economies to recover somewhat. In any event, the inequalities – of both income and wealth – that caused the crisis have continued to grow.

In light of these events, the title of our part three, "In the hands of central banks," may be interpreted in two radically opposite ways. In the first, the central

bank may be seen as the trusted third party in whose hands lay the construction and preservation of the monetary and financial environment most conducive to prosperity. This view depicts the central bank as a sort of objective ally of political leadership, except when those leaders "slip," in which case it serves to guarantee a return to an orthodox economic order. Finally, in the event of a crisis, the central bank acts as a lender of last resort and saves the economy from depression.

Thus emerges the image of the central bank as both a pillar of the economic system, guardian of the Temple of Reason, and ultimate savior in the face of crises. Faced with the financial and economic crisis, Ben Bernanke in 2008 and Mario Draghi in 2012 literally saved the world.

> Central banks were the heroes of the global financial crisis. Compared to conventional monetary policy, the unconventional monetary policies of the past few years were bolder in ambition and larger in scale. These exceptional actions helped the world pull back from the precipice of another Great Depression. They helped prevent a collapse of the financial system and a collapse of activity.[1]

An entirely different reading sees the central banks as a part of the transitional process to rentier capitalism as described in part one, as facilitators if not active promoters of that process, and as essential players in the empowerment of the financial sector. In this view, "in the hands" is more likely to evoke political disenfranchisement and a stifling of democratic sovereignty, in the name of the golden rules of financial orthodoxy and the imperatives to protect and secure the markets. The control gained over the world's economy by central banks over the past 30 years, particularly since the 2000s, appears to have both succeeded and failed in this view.

It succeeded because, thanks to this takeover, the financial oligarchies decisively won the battle against the forces of production (including employees, but also and especially small and medium businesses).

It failed because that victory, which became clear in the midst of the crisis that we have studied up to this point, ultimately led to the obligation to carry interest rates into negative territory, or in other words, to cut into financial revenues. Did central banks simply "betray" lenders by monetizing debt to save government borrowers? This is the view supported by Patrick Artus,[2] which assumes that the crisis "began" in 2007–2008 and ignores that its roots lie in private-sector over-indebtedness and the permissiveness of lenders in the preceding years (decades). This is why we take the opposite stance. By amassing diagnostic errors and pursuing asymmetrical strategies (in favor of financial markets and against inflation), central banks put themselves in the position of being prisoners or hostages to a financial system threatened with collapse, right when they had finally come to believe in their own omnipotence.

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[1]Christine Lagarde. Managing Director of the IMF Speech at the Kansas City Fed symposium in Jackson Hole, August 23, 2014.

[2]"Normally, an independent central bank defends lenders; today, independent central banks are defending borrowers, particularly governments: Those who established the independent central banks feel betrayed." *Natexis Flash Economics*, June 28, 2016.