

Central Banks as Promoters of Financialisation: The British Experience

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Abstract: This paper argues, referring to Marxist political economy and using the example of the Bank of England (BOE), that central banks are among the most important promoters of financialisation in capitalist economies. Central banks' crucial role in supporting this financialisation process is due to their inherent nature as bank of banks whose primary objective is to safeguard the stability of the money (interbank) market and maintain banks' importance in the economic system. This inherent function of central banks might co-exist or indeed be exaggerated by the existing macroeconomic regime. For example, the paper shows that the interest rate setting by the BOE, shaped by the needs of the inflation targeting regime, and the consequent appreciation of the Pound Sterling allowed UK banks to expand their holding of foreign assets globally, which in turn reinforced domestic financialisation as British banks could stretch their balance sheets. As a result of the strong pound, British banks were able to acquire cheap funding abroad, which they recycled into domestic consumer loans, the rise of which has been identified as a crucial element of financialisation.

However, the inherent role of the central bank becomes evident, and might indeed create tensions with the existing macroeconomic regime, during the moment of crisis when the stability of the money market and with it that of the entire banking system becomes threatened. When the global crisis burst in 2008, the BOE employed measures and instruments of liquidity management in order to address the banks' liquidity and solvency problems, performing essentially the role of bank of banks. These measures were undertaken despite the BOE's institutional context of an inflation target regime, whose primary objective is to maintain price stability and which thus stands in total opposition to an excess expansion of liquidity. In line with the inherent nature of central banks in a Marxist political economy approach, these measures primarily addressed banking problems located in money markets in order to prompt recovery the credit system by keeping the banks' prominence in the economic system which is one of the main pillars of financialisation.

On a more general level, the interpretation of central banks put forward in this paper has important implications for our view of central banks, but also the prominence to monetary policy more generally. Indeed, in financialised capitalism, the inherent nature of the central bank as bank of banks means that shifting the onus of economic policy making to monetary policy inherently supports the financialisation process. Thus, the prominence of monetary policy and the attempt to solve the ongoing economic problems in the developed world are not only ineffective, but also contribute substantially to further strengthen and promote the financialisation process in these countries. More than that, any attempt to add additional roles to the central bank (such as growth, employment), whilst at the same time maintaining central banks' power and independence, will fail to revert this financialisation process and recurrent crisis phenomena. Thus, in this view, one crucial element of policies which aim to reduce the

degree of financialisation will be to re-strengthen the role of fiscal relative to monetary policy and re-instate the influence of national governments on central bank decisions.