Central Banking, Technocratic Governance and the Financial Crisis

Placing Quantitative Easing Into Question

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Abstract

This paper advances a sociological analysis of one of the key monetary responses to the recent financial crisis: quantitative easing. First, it provides a brief history and overview of the operation of quantitative easing. Second, it examines the neoliberal basis of this monetary policy by analysing its institutional design and looking, in brief, at the post-crisis relationship between the Bank of England and the UK Treasury. Third, it places into question the relationship between quantitative easing and social inequality. Fourth, it uses the work of Hyman Minsky to address the broader role of central banks in the face of financial crisis. In conclusion, it is argued that it is necessary to engage critically with initiatives such as quantitative easing rather than to describe and document the social inequalities they both generate and help reproduce.

KEYWORDS: Banking, capitalism, crisis, finance, inequality, Minsky, neoliberalism.

Introduction

This paper will seek to cast light on a political-economic initiative that has, to date, received little sociological attention, namely the unconventional form of monetary policy known as quantitative easing. This concern for a technical act of money creation by some of the most powerful central banks across the globe, may, at first, seem like a distraction from sociological analysis of more pressing political issues, such as those relating to the governance of sovereign debt or the imposition of far-reaching austerity programmes. The argument of the present paper, against this view, is that quantitative easing is something equally political, and that sociological analysis of the response to the recent crisis must address both programmes of austerity (which cut the scope and extent of the social state) *and* financial stimulus (in particular the expansion of the money supply through quantitative easing on an unprecedented scale). However, while austerity programmes have been subjected to critical scrutiny from across the social sciences (see, for example, Blyth 2013; Stanley 2014), stimulus in the form of quantitative easing has, for the most part, escaped the sociological

gaze (two exceptions are Dorling 2014 and Sayer 2015 which address quantitative easing briefly).

On the surface, there is good reason for this neglect: austerity programmes impact directly upon the operation of the (welfare) state and thus also upon the life-chances of the poorest and most vulnerable in society, whereas quantitative easing is generally seen to be an economic or technocratic initiative that is not a strategy of government *per se* and which has little, if any, connection to things "social". This paper, however, will challenge this understanding by arguing that initiatives that are presented as being economic and/or technocratic in basis are never removed from politics, and that quantitative easing should be understood as a market-oriented initiative that has been, and continues to be, a key structural driver of class inequality. More specifically, austerity programmes and quantitative easing will be treated as belonging to a shared neoliberal "solution" to the financial crisis: the former, to use the words of Jamie Peck (2010), "rolling back" the extent and reach of the social state and the latter "rolling out" a monetary project that overwhelmingly benefits a select few, and which does so, in many cases, by detaching itself from the formal processes of democratic government. This paper is an attempt to develop a critical sociology of quantitative easing by analysing the role of central banks in the wake of the recent crisis, and by treating the devolution of monetary policy from governments to banks as a key instance of what Will Davies (2014, 3) calls the neoliberal displacement of political judgement by "economic evaluation" – a development, I will argue, that should be subjected to close sociological scrutiny.

This argument will proceed, first, by providing a brief history and overview of the operation of quantitative easing; second, by exploring the institutional design of quantitative easing and by examining, in brief, the post-crisis relationship between the Bank of England and the UK Treasury; third, by placing into question the relationship between quantitative easing and social inequality; and finally, by using the work of Hyman Minsky to address the broader role of central banks in the face of financial crisis. In conclusion, it will be argued that it is necessary to engage critically with initiatives such as quantitative easing rather than simply to describe and document the social inequalities they both generate and help reproduce.

Quantitative Easing: A Brief History and Explanation

Quantitative easing is a technical process of money creation that has received little attention from within the social sciences. This is perhaps because the monetary practices of central banks are perceived to be either too complex or too far removed from our day-to-day concerns to be of any practical or sociological relevance. The complexity of central banking is an instance of what Jodi Dean (2013) calls "capture"; a process through which things that are seemingly too hard to grasp are left to "experts", and, with this, are allowed to operate within a technical sphere that is largely immune to critical scrutiny. Dean argues academics are partly to blame for this situation, for in emphasizing the deep complexity of the things they study, they assert not only the necessity of their own understandings but also the fact that there are some things (including the intricacies of financial crisis) that, for most people, cannot be known. Dean (2013) views this as a political problem, but this paper will argue that it is also a sociological one. For, in the spirit of C. Wright Mills (1959), it is the vocation of the sociologist to tackle the public issues of our time, in spite or perhaps because of their complexity, and explain the relevance of these issues to private and personal lives beyond the academy. This is the essence of a genuinely "public" sociology, and it is with this as-

piration that the present paper attempts to show that complexity need not bring ideological and explanatory closure but can be the basis of valuable sociological engagement with matters that currently sit outside of public or political view.

The core argument of this paper is that monetary policy is one such "complex" matter that is routinely devolved to technocrats, but which has concrete, on-the-ground social and political effects that demand sociological attention. The focus of this paper, more precisely, is the "unorthodox" monetary policy of quantitative easing; a policy that has had a real impact on household wealth but which, to date, has largely escaped the sociological gaze. Quantitative easing, defined in the simplest terms, involves the creation of money by central banks in order to stimulate economic growth in times of acute financial crisis. The origins of such policy are contested, with some tracing it as far back as the Restriction Period of the late 18th Century, in which the Bank of England was required to create money in order to finance the government's war debt (see Trefgarne 2010). It is important to note, however, that quantitative easing is not simply about the financing of government debt. It is also not another a version of what Keynes called deficit spending; the principle that governments should run deficits in times of recession in order to stimulate economic recovery. Rather, quantitative easing is a monetarist response to economic crisis that (particularly in its recent form in the UK and US) involves the creation of money in order to intervene in secondary debt (bond or gilt) markets rather to buy government debt directly, with the understanding that at some time in the future the bonds or gilts that have been acquired will be sold back into the market. Quantitative easing is generally but not always (see Sinclair & Ellis 2012) termed "unconventional" in basis because it is deployed in instances where more conventional procedures, for example the lowering of interest rates, are either not possible or on their own are not enough to produce economic stimulus (this is particularly the case when interest rates are already near 0 % – a situation known as the "zero lower bound"). Such a situation occurred following the financial crisis that started in late 2007, and, for the most part, is still with us today.

The term "quantitative easing" can be traced in its modern form to the decision taken by the Bank of Japan in March 2001, in the face of a long period of economic stagnation, to double its monthly purchases of government bonds and to provide extra liquidity to the banking sector by flooding the current account balance sheets of commercial Japanese banks with excess reserves (a move designed to keep interest rates as low as possible while encouraging lending and the longer-term prospect of inflation). The quantitative easing programmes that have been implemented outside Japan since the recent financial crisis have followed a similar model but have proceeded mainly through large-scale open-market bond or gilt purchases rather than by intervening on a shorter-term basis support to money markets (see Martin & Milas 2012). The scale and technical operation of quantitative easing, however, have varied considerably in different national and regional settings, and to show this, a contrast will be drawn briefly between the post-crisis response in the United Kingdom and United States.

The UK government and the Bank of England initially responded to the financial crisis by taking a number of emergency measures, including: the direct "bailing out" of a number of high-street banks (Northern Rock, for example, was temporarily nationalized and long-term stakes were taken in Lloyds and RBS); the launch of a Bank Recapitalisation Fund to give emergency support and liquidity to the banking sector; and the establishment of a Special Liquidity Scheme, which enabled banks and building societies to swap mortgage-backed securities for UK Treasury Bills for three years (a

scheme that has since been disbanded). It was only in January 2009 that a longer-term response to the crisis was set into monetary policy as the Bank of England committed itself to a programme of quantitative easing, initially by creating money to finance the open-market purchase of £75bn of government bonds. This programme expanded rapidly in the following years, and by July 2012 (the endpoint of quantitative easing in the UK to date) the Bank's quantitative easing balance sheet had grown to £375bn – roughly equivalent to 20 % of the national GDP. This programme lowered the yields of gilts, thereby making government debt cheaper to finance, and boosted the price of equities, which, for traders, looked cheap by comparison. The Bank declared this initiative a success, arguing that at its peak point of impact (the £200bn injected between March 2009 and January 2010) it "is likely to have raised the level of real GDP by 1½ to 2 % relative to what might otherwise have happened" (BoE 2012, 5). Many economists, however, have been skeptical about the lasting impact of this quantitative easing programme (see for example Martin & Milas 2012), and as we will see below, important sociological questions have also been raised about whether the benefits of this programme have been felt disproportionately by particular social groups or classes.

In the United States, quantitative easing has taken place across a longer time-span and on a much larger scale. On 25 November 2008, the Federal Reserve announced that it would purchase the direct obligations of $100bn "housing-related government sponsored enterprises" (Fannie Mae, Freddie Mac and the Federal Home Loan Banks) and, through asset managers selected by a "competitive process", $500bn of mortgage-backed securities. These actions were intended to "reduce the cost and increase the availability of credit for the purchase of houses, which in turn should support housing markets and foster improved conditions in financial markets more generally". In November 2010 the Federal Reserve extended this programme by launching a second round of quantitative easing (QE2) that saw the purchase of $600bn treasury securities, and then through QE3, which at its peak involved the buying of $85bn of mortgage-backed securities every month. Quantitative easing was wound-down in the US in October 2014, leaving the Federal Reserve with $4.5tn of asset purchases on its balance sheet.

The Fed, unsurprisingly, judged quantitative easing to have been a success, declaring that it had helped to improve labour market conditions, lower unemployment, and increase both household spending and business investment. But not everyone shared this view; indeed some have questioned how strong the American recovery has been and whether quantitative easing has, in fact, played a decisive role. And again, there have been questions about who has profited from this programme of quantitative easing. In November 2013, Andrew Huszar, the Federal Reserve official responsible for executing the first rounds of quantitative easing, wrote in the *Wall Street Journal:* "I can only say: I'm sorry, America [...] The central bank continues to spin QE as a tool for helping Main Street. But I've come to recognize the program for what it really is: the greatest backdoor Wall Street bailout of all time". There also lingering doubts about exactly how the assets acquired by the Federal Reserve through quantitative easing are to be unwound, and with what economic and social consequences.

While they cannot be addressed in any detail within the limits of the present paper, it should be noted that quantitative easing programmes are also being pursued on a similarly massive scale in the Eurozone and in Japan. In January 2015, the European Central Bank announced that it would pump €1.1tn into the Eurozone economy through the monthly purchase of €60m of bonds issued by "euro area central governments, agencies

and European institutions", in addition to buying private sector debt through its existing Asset Purchase Programme. In Japan, meanwhile, the country's money supply is currently being doubled through a quantitative easing programme that involves the purchase of ¥7tn of government bonds each month. The scale of this programme is eye-watering, for it is predicted that it will expand Japan's central bank balance sheet to 90 % of the national GDP (see Stevens 2015). Again, the longer-term consequences of these actions are far from clear.

The Institutional Design of Quantitative Easing

One of the most important but neglected aspects of quantitative easing is its underlying institutional design; something that, in turn, raises deeper questions about the governance of central banks, and the merits of their independence. Such questions have a long history (see, for example, Debelle & Fischer 1994; Friedman & Schwartz 1971), but have taken on a new significance following the recent financial crisis, which, some have argued, has enabled central banks such as the Bank of England to make a "power grab" from the government (see Chu 2015). In the UK, a key development has been the devolvement of the management of monetary policy from the government to the Bank of England; something that was accelerated by Gordon Brown soon after the election of Tony Blair as Prime Minister in 1997. Today, the relationship between the Bank of England and the Treasury rests on a separation of powers that is explained in clear terms by a memorandum on financial crisis management published in 2012 (in which, interestingly, there is no mention of quantitative easing). In this document, it is stated that the Bank "is responsible for protecting and enhancing the stability of the UK financial system", but that the Chancellor and the Treasury have "sole responsibility for any decision on whether and how to use public funds" and so, in principle, retain a power of direction over the Bank especially where a threat to public finances is involved.

On the face of it this arrangement can be seen to benefit both parties, for the Bank can claim independence from the government (thereby defining itself as an a-political body), while the government in return can claim to look after public interests by leaving monetary policy in the hands of the so-called experts (which effectively means that it is never fully culpable for a crisis or for any response that might ensue). This development is central to the emergence of a neoliberal order within which sovereignty, to use the words of Davies (2014, 24–25), is grounded upon "economically rational foundations" and where "economic techniques themselves become imbued with a quasi-sovereign form of authority". It should be noted, however, that this attempt to separate out economics from politics has not gone unnoticed, and questions regarding the underlying interests of central banks were raised in the early days of the financial crisis. On 6 September 2008, for example, the former Labour MP Bryan Gould wrote in *The Guardian* that

> the "independent" central bank is in no sense objective or neutral. It is a bank. Its main clients are banks. It is staffed by bankers. It can be relied upon always to put the interests of the financial establishment ahead of those operating in the rest of the economy. Our economic policy is, in a very real sense, made in the interests of the holders of existing assets rather than of those who live and work in the real economy where new wealth is created.

This critical reading of the role of the central bank points to a subtle development in the structural basis of neoliberal governance, namely that the state empowers a pro-market body (the central

bank) from which it then effectively declares its own independence, leaving the bank to make political decisions (for example, about monetary policy) that are framed as being purely economic in form and thus outside of, and free from, any underlying political values or interests. This development involves not just the marketization of the state or the active intervention of states to promote competition through markets (as documented by Foucault), but also the passing over of power from the state to central banks that in many ways, if not entirely, are accountable to themselves and whose technical operations and governance structures are increasingly difficult to fathom.

The institutional design of quantitative easing in the UK is here worthy of note. For the money created by the Bank of England for the purposes of quantitative easing is held by a company called the Bank of England Asset Purchase Fund (BEAPFF); a body which initially was directed by Spencer Dale (the Bank's "Chief Economist" who is now a senior figure at BP) and Paul Fisher (the Bank's "Market Director" and a member of its interest rate setting Money Policy Committee), both of whom have now been replaced by Andy Haldane and Chris Salmon. Little is known about the operation of BEAPFF as a company, but its financial power is staggering: its "assets are so big that if it listed on the stock market, it would probably be the biggest member of the FTSE100, bigger even than BP or Shell" (Trefgarne 2009, 2). The key point, for the purposes of the present paper however, concerns the relationship of this company to the Bank of England, on one hand, and to the UK government, on the other, for while the Bank owns BEAPFF its accounts exist as one of the government's largest "off balance-sheet" liabilities. What, in simple terms, does this mean? A 2012 Bank of England report (Allen 2012) explains that BEAPFF borrows the money created by the Bank at its base-rate of interest, but that the risk associated with purchases made with these funds ultimately sit with the Treasury rather than the Bank. The report states explicitly that with the eventually winding up of quantitative easing, "The Bank will not make a loss on the APF [Asset Purchase Facility]. Should the APF make a loss then the Government will cover this". This arrangement is, then, on the face of it neoliberal to the core: the state is positioned as the guarantor of the market (in this case the market operations of a company owned by the Bank of England), and is to support it through whatever means are deemed necessary regardless of the eventual cost.

The work of Foucault is here useful, to a point, for casting light on this institutional arrangement. In his lectures on biopolitics, Foucault (2008) documents a shift from a classically liberal model of governance in which the state positions itself to watch over the market and intervene only in the last instance, to a neoliberal one whereby the state works to inject market dynamics into all aspects of social life while at the same time itself taking an increasingly marketized form. The above relationship between the Bank of England, BEAPFF and the Treasury combines elements of both these forms of governmentality, which, it should be noted, are not mutually exclusive. For the government grants the Bank increased sovereignty and states that it will intervene in its practices only where absolutely necessary (a broadly liberal model), while at same time guaranteeing that the risks of policies such as quantitative easing employed by the Bank will accrue to the state (more of a neoliberal model in the Foucauldian sense). But, beyond this, Foucault's broad models of liberal and neoliberal governance do not exactly capture the structural complexities of quantitative easing in the UK because they miss the role institutions play that sit between the state and market, including, in this case, central banks that, increasingly, are the agents of neoliberal economic policy but to large extent are exempt

from democratic control. Indeed, while in principle the Chancellor retains control of the Bank of England in the last instance, the Bank for the most part exists in a state of political exception: it is not under the direct control of parliament; it earns interest from the money that it creates in the form of quantitative easing; and any losses incurred by the actions of its self-created company BEAPFF are, ultimately, underwritten by the government.

While the primary example of this section has been the Bank of England, it should be noted that such questions of central bank governance are by no means limited to the United Kingdom. In the United States, similar concerns have been expressed by figures from both the political Left and Right. The Chicago School economist Milton Friedman argued in the 1960s that no institution as powerful as the Federal Reserve should operate outside of democratic constraints and for this reason it should be placed under the control of the US Treasury (see Schwartz 2010). More recently, against the backdrop of the increasing powers of the Federal Reserve, members of libertarian think-tanks such as the Cato and Mises Institutes have questioned the power of central banks to intervene in free market processes and, in so doing, introduce elements of what they see to be central planning into the economy: a step that is seen to be a back-door form of socialism (even if this turns out to be a socialism for the rich, see the section on inequality below).

At the same time, heterodox economists of a different political persuasion have questioned the accountability of central banks in order to raise concerns about the causes of the recent crisis as well as the monetarist response that followed it. Scott Fullwiler and L. Randall Wray, for example, have been quick to point out that only a small portion of the funds made available for the bailout following the events of 2007 onwards were ever approved by Congress (on the relation between the Fed and Congress on the question of QE, see Wray 2011), and that much of the detail of commitments made by the Federal Bank remains unclear (see Fullwiler & Wray 2010). Moreover, they have asked searching questions about the position of the Federal Reserve in relation to the crisis in the first place: "it has become clear that inadequate regulation and supervision of financial institutions by the Fed played an important role in the transformation of the financial sector that made this crisis possible" (Fullwiler & Wray 2011, 4). On this basis, they ask whether the responsibility for responding to the crisis through programmes such as quantitative easing should lie with central banks such as the Federal Reserve, and, in the light of such programmes, how accountable such banks are, in practice, to government. Again, such questions are not restricted to a UK and US context: in Europe, similar concerns have been expressed, for while in theory the European Central Bank is accountable to the European Parliament, the practical workings of this arrangement are far from clear (see Claeys, Hallerberg & Tschekassin 2014; for a critical reading of the democratic basis of "Euroland", see Streeck 2014, 165–189).

Quantitative Easing and Inequality

Some might ask: why are the above points about central banks, monetary policy and neoliberal governance of sociological concern? What does it matter if monetary powers are devolved from governments to central banks that then make policy decisions under the veil of national "economic" interests? One answer is that such decisions have concrete impacts and effects on the distribution and extent of material inequalities within different national settings. For whereas austerity measures directly target (in quite an open way) the social state, monetary policies such as quantitative easing impact just as significantly (but in ways that are harder to discern)

on the private wealth of different social groups. The quote in the above section from Bryan Gould is telling for it claims that central banks operate in the interests of the "financial establishment" rather than those "who live and work in the real economy". If this is the case, does this mean that programmes such as quantitative easing work to the benefit of a select few rather than to the good of all? Precisely this argument has been made recently by Danny Dorling, who, in his book *Inequality and the 1%*, declares that "Quantitative easing, in the short term, allowed the rich to get much richer simply as by owning assets that rise in value as the not-quite-so-rich stop buying bonds" (Dorling 2014, 128). Andrew Sayer makes a similar point in *Why We Can't Afford the Rich*:

> Governments took toxic assets off banks and insured them, and created money to buy other financial assets off them ('quantitative easing'). The banks used the opportunity to "deleverage", that is, pay off debts and build up reserves, while of course keeping themselves in the manner to which they were accustomed as regards pay and bonuses [...] *The bailout is* [...] *a huge transfer of wealth from the majority of society to those at the top.*
> (Sayer 2015, 230–231, emphasis mine.)

Dorling and Sayer here raise a number of important sociological questions about who, exactly, benefits from quantitative easing. Is there, for example, a class politics to such unconventional monetary policies? Have such policies played an active role in accentuating social inequality in spite of their claim to act in the interests of the economy more broadly? And is quantitative easing underpinned by a neoliberal belief that everyone prospers from the existence of "healthy" markets, and that even if the richer get richer there will be a "trickle-down" of wealth that will benefit us all?

In the wake of the 2012 Budget, the UK Treasury Committee asked the Bank of England to address precisely this question of the "redistributive impact" of its monetary policies. The Bank responded by publishing a report on "The Distributional Effects of Asset Purchases" in July that year. This report opens by making the following headline statement: "Without the Bank's asset purchases, most people in the United Kingdom would have been worse off. Economic growth would have been lower. Unemployment would have been higher. Many more companies would have gone out of business" (BoE 2012, 1). What follows in the detail of this report, however, is a quite different story. For whereas quantitative easing is initially framed as benefitting the whole of the UK population, it soon becomes clear that some have profited more from this initiative than others. The report estimates that the £325bn of asset purchases made up until May 2012 had, by raising the price of equities and lowering the rate of interest repaid on household loans, added £600bn to the economy, or around £10,000 per person *"if assets were evenly distributed* across the population" (BoE 2012, 10, emphasis mine). The problem, however, is that the benefits were not distributed in this way, for quantitative easing pushed up asset prices (most notably equity prices) and in so doing, in the words of the report, "boosted the value of households' financial wealth held outside pension funds" to the benefit of "top 5% of households holding 40 % of these assets" (BoE 2012, 1). Unsurprisingly, the report says little about these top 5 % of households and exactly how they have benefitted from the Bank's monetary policy, as instead its attention shifts subsequently to the consequences of quantitative easing for pensioners and savers. It does, however, restate the one key point: that the benefits created by the "wealth effects" associated with quantitative easing "will accrue to those households holding most financial assets" (BoE 2012, 10). If quantitative easing, then, has helped save the UK economy (and this in itself is debat-

able – see, for example, Martin & Milas 2012; Keen 2014) then it has done so by boosting the assets of the wealthy and by pursuing a recovery based on a principle of what Jeremy Green (2013) has called "regressive redistribution".

This Bank of England report largely escaped the attention of the social sciences, but was picked up by Larry Elliott at *The Guardian*, who in August 2012 wrote that "The richest 10 % of households in Britain have seen the value of their assets increase by up to £322,000 as a result of the Bank of England's attempts to use electronic money creation to lift the economy out of its deepest post-war slump" (Elliott 2012). In April 2015, Juliette Garside, again writing in *The Guardian*, returned to this question of increased class polarization since the crisis, and reported that while median household income has just about returned to pre-crisis levels, the richest 1,000 families in the UK now have a combined wealth of £547bn; a figure that has risen by more than 112 % since 2009, and is equivalent to the wealth of poorest 40 % of British households (Garside 2015). Importantly, the accentuation of class inequalities since the crisis is not something unique to the UK. In the US, Emmanual Saez has shown that from 2009–2012, 9 5% of income gains went to the wealthiest 1 % of the population (for further details of income inequality in US following the crisis, see Streeck 2014, 52–53). And in Europe there is evidence to show that the countries hit hardest by the crisis were those on the "poor periphery" of the Eurozone (see Dauderstädt & Keltek 2012; on the question of inequality more generally across the Eurozone, see Dauderstädt & Keltek 2011). The point here is that the effects of the crisis have had disproportionate effects on the members of different social classes, *and* some have benefitted more from the crisis response (including initiatives such as quantitative easing) than others. In the meantime, while inequalities (both within and between different nation-states) have widened, global stock prices have marched relentlessly upwards, underpinned by money created by central banks in order bring confidence back to "the market". As one industry insider commented following the launch of quantitative easing by the European Central Bank in March 2015: "We all know QE is no panacea. It won't fix the problems of Europe, only reforms can do that, but one thing we have learnt is that money printing is good for equity values" (see Kar-Gupta 2015).

Instability and the Role of Central Banks

The inequalities that have resulted both from the actions of governments (in the form of austerity) *and* central banks (through the application of monetary policies such as quantitative easing) are striking. For this reason, a core argument of the present paper is that sociologists should not simply measure and document inequalities in the wake of the recent crisis, but should also look critically at the governmental policies and institutions that have played an active role in their production. The role of the central bank, in particular, is increasingly important and deserves further detailed sociological attention. To analyse the role of institutions such as central banks in responding to and also potentially creating conditions of crisis, it is necessary to forge a sociological understanding of these matters in relation to existing economic theories of crisis, money and banking. While such an undertaking lies beyond the scope of this paper, the work of the economist Hyman Minsky is particularly instructive on these questions, and will be considered here in brief.

Minsky's book *Stabilizing an Unstable Economy*, first published in 1986, analyses the role that central banks such as the Federal Reserve played in stabilizing the financial crises of the late 1960s and 1970s. This work is remarkably prescient as it

considers the failure of a range of different US financial and commercial institutions that then had to be recapitalized or "bailed out" by the Federal Reserve through this period. For Minsky, there is a key lesson to be learned from these episodes: that crisis is something internal to the workings of contemporary capitalism; it does not come from the outside from unforeseen externalities or from blocks to stability in the form of labour unions or unemployment, as those on the political Right might argue. The first step in promoting such an understanding, Minsky argues, is to treat the economy not as a formal model based upon principles of equilibrium (as found in neoclassical approaches from Léon Walras onwards), but as a real life arena made up of institutions and financial instruments of various kinds. This means taking seriously contemporary practices of finance and investment that encourage short-term debt and credit arrangements and the leverage of positions on an unprecedented scale; arrangements that run along a continuum from what he calls hedge and speculative trading through to Ponzi finance (see 1986, 230–238). Minsky's argument is that "Endogenous forces make a situation dominated by hedge finance unstable, and endogenous disequalibrating forces will become greater as the weight of speculative and Ponzi finance increases" (1986, 238). In other words, the introduction of ever more complex financial instruments that revolutionize the basis of credit arrangements, and which sit upon each other in multiple layers, produces new instabilities that become woven into the fabric of the system. This is something that has became all-too-apparent in the recent crisis, which, some have argued, was triggered by the collapse of a complex pyramid of credit and debt "swaps" that even industry insiders struggled to understand (see Soros 2009; for an overview, see Mehrling 2011, 113–135).

Minsky is largely resigned to this process as he argues that capitalism "abhors unexploited profit opportunities" (1986, 244), and because of this "successful financial innovators are rewarded by fortunes and flattered by imitators" (1986, 220). But if risk is endogenous to the life of capitalism and is only likely to be tempered by deep-seated institutional change (something, Minsky observes, that did not follow from the crises of the 1960s or 70s and which, arguably, has not happened to any great extent since 2007), then what should be the role of central banks when a crisis situation inevitably develops? Minsky argues that such institutions *should* play a stabilizing role by acting as a lender of last resort to prevent, at all costs, the collapse of the banking and finance system. But there is a danger here, for by intervening to support the economy in times of crisis central banks do little to address the underlying systemic drivers of crisis itself, and if anything, over the longer term, may even make capitalism more prone to instability. Minsky argues that central banks *should* play a regulatory role by "favouring stability enhancing and discouraging instability-augmenting institutions and practices" (1986, 349), and for this reason, among others, they should not simply or primarily focus on making adjustments to the money supply. In practice, however, central banks play a different kind of normative role, for in stepping in to stabilize the system in the short term, mainly through the exercise of monetary rather than regulative policies, they effectively legitimize the use of the very instruments that produced the crisis in the first place (see Minsky 1986, 106). This, in turn, he argues, socializes risk within the system, including those involved in the operation of speculative finance; something that "encourages risk-taking in financing positions in capital assets, which, in turn increases the potential for instability when carried out for an extended period" (1986, 49). Today, this socialization of risk has been recast in the idea of institutions being "too big to fail"; an assumption that, arguably, promotes excessive risk-taking as it is assumed that government of

some sorts will be there to underpin any losses if things go wrong.

The relevance of this position to the present day analysis of quantitative easing is clear to see, for viewed in this way the creation of huge sums of money to buy bonds and mortgage-backed securities glosses over the causes of the crisis and encourages risk-taking that can result in the creation of new asset bubbles and the threat of ever more serious crises sometime in the future. Importantly, for Minsky, it is here that the main threat to stability of the capitalist system lies rather than in social inequality that it generates. In a key passage he writes:

> the flaws of poverty, corruption, uneven distribution of amenities and private power, and monopoly-induced inefficiency (which can be summarized in the assertion that capitalism is unfair) are not inconsistent with the survival of a capitalist economic system. Distasteful as inequality and inefficiency may be, there is no scientific law or historical evidence that says that to survive, an economic order must meet some standard of equity and efficiency (fairness). A capitalist economy cannot be maintained, however, if it oscillates between threats of an imminent collapse of asset values and employment and threats of accelerating inflation and rampant speculation, especially if the threats are sometime realized
> (Minsky 1986, 6.)

In other words, while the operation of financial capitalism can "lead to distasteful distributions of wealth and power" (1986, 112), it is the internal economics of the system which are intrinsically destabilizing (for example, deflation coupled with a lack of economic growth is now the cause for worry), and which lead to an unavoidable reliance on the actions of governments and/or central banks. For this reason, inequality *per se* is not, for Minsky, the central point of concern.

A key task for a critical sociology of the post-crisis situation is, by way of response, to reassert the centrality of questions of inequality, and with this the need to address the structural drivers of inequality, over approaches that start from a set of economic values and concerns. Minsky's work is here a complex mix, for while it calls for a more humane economic system – one that prioritizes employment over questions of economic growth – it nonetheless asserts the value of free markets as first principle (albeit within some limits, see 1984, 127) and with this a pro-market form of "Big Government". In this latter respect, his work is neoliberal to the core, but this is not to say that Minsky's work is without to sociological value. One of Minsky's key points is that institutions are central to the (re)production of the instabilities and inequalities of the capitalist system, and hence any project that seeks to address the causes and effects of crisis must start with institutional redesign or at the very least reform. While there is nothing particularly groundbreaking about this view, Minsky is right to observe that the core institutions of capitalism are banks, and that central banks exercise an unrivalled normative and disciplinary power in times of crisis. He is not the only economist to make this point. Perry Mehrling, in his recent book *The New Lombard Street*, argues similarly that "the only dependable source of leverage over the system as a whole is the role of the central bank as a banker's bank" (2011, 13). Mehrling adds that in times of crisis this power of central banks is at its height: "It is the central bank's control over the price and availability of funds at this moment of necessity that is the source of its control over the system more generally" (2011, 14). Given that central banks exert such leverage of the operation of market capitalism, and arguably more so where, as in the case of the Bank of England, government has granted increased powers over the setting of monetary policy, it is crucial that these institutions (which barely feature in the literature on neoliberalism to date) are subjected

to detailed sociological scrutiny. Again: how are central banks governed, how are their actions accountable to the state, what normative functions do or might they perform, and whose interests, ultimately, do they serve? The first step here is to treat the seemingly technocratic space of banking as political to the core (as has been argued by Abolafia 2012, 95), and to ask questions of "how, what, and for whom" which, for Minsky (1986, 190), underpin all (monetary) policy agendas.

Conclusion: Where Now?

This paper has sought to place quantitative easing, which is *the* key monetary response to the post-crisis situation, into question. It has not sought to refute the economic basis of this initiative, but has rather presented quantitative easing as something that should be of sociological and public concern, for while it might appear to be nothing more than a technical procedure that is carried out by central banks it has real-life social consequences and effects. By extension, this paper has also questioned the value of central bank independence and has identified the emergence of new forms of neoliberal governance that continue to be market-oriented but which now sit in a technocratic sphere that, increasingly, operates beyond the traditional checks-and-balances of democratic government (for an excellent analysis of the broader tensions between contemporary capitalism and democracy, see Streeck 2014, 47–96). In light of the above, four points will be made by way of conclusion about the development of an economic sociology that takes seriously questions relating to quantitative easing and central banking as part of a broader commitment to the critical analysis of capitalism and its systemic crises.

First, while government policies that have operated under the sign of austerity have received sustained critical attention within the social sciences, monetary policies carried out by central banks, which are equally divisive, have pretty much passed unnoticed. The passing of monetary powers from governments to central banks should be seen as a political act that has important consequences, not least because such powers can be drivers of, or potential remedies to (if used differently), lived social inequalities on the ground. For this reason, banks should not be treated as a-political, technocratic spaces, for as Minsky reminds us, they are core institutions of capitalism that have their own interests and values. A number of far-reaching sociological questions here need to be posed about structure of neoliberal governance at play in the space between state and market that is occupied by central banks. Basic questions include: Do central banks overridingly represent the interests of the financial sector and "big capital"? Who exactly benefits from monetary policies such as quantitative easing? And to whom are the architects and administrators of such policies ultimately accountable? Such issues have been raised in the past by figures such as Pierre Bourdieu (see, for example, 1998, 45–51) and more recently by groups outside the academy such as Positive Money, but hardly feature within recent debates in economic sociology. In order to identify and analyse the political-economic drivers of inequality since the crisis it necessary to pay such questions close attention.

Second, as stated above, this paper has not sought to intervene in debates about the economic value of quantitative easing, as it has focused instead on the social consequences of this monetary policy and on central bank independence as a new, technocratic form of neoliberal governance. It is worth noting, however, that quantitative easing has sharply divided economists (with figures such as Paul de Grauwe and Steve Keen taking fiercely for and against positions) as well as political commentators more generally from range of different political backgrounds (including conservative,

libertarian and leftist critics that on some points, surprisingly, share common ground). Economists have generally assessed the worth of quantitative easing in terms of variables such as government bond rates (see, for example, Martin & Milas 2012) or its predicted contribution to GDP (the Bank of England approach). But there is an opportunity for sociologists to contribute to this debate by considering different measures of worth that are not purely economic in basis, and which place centre-stage the class inequalities that are accentuated by monetary policies of different kinds. There is an emergent body of radical economic ideas to engage with here, including the work of Steve Keen (2012), who argues that quantitative easing is flawed because it boosts the balance-sheets of banks rather than tackling problems in the "real-economy" by helping to reduce private rather than public debt. A similar view has been advanced by *The Guardian* journalist Larry Elliott (2014), who argues that, in retrospect, "far too much faith was put in the banks to channel QE to where it was needed. Handing a cheque directly to members of the public would have got money into the economy much more effectively". In a similar vein, in a letter to the *Financial Times* on 26 March 2015, nineteen leading economists called on the European Central Bank to use the money created by quantitative easing in order to finance public debt and, more radically, to boost the real economy by paying "each Eurozone citizen €175 per month, for 19 months, which they could use to pay down existing debts or spend as they place" (Chick et al. 2015; this idea of quantitative easing "for the people" has also been advocated by Jeremy Corbyn, the new opposition leader in the UK, see Mason 2014). The key point here is that quantitative easing, while often presented as necessary, is in fact one option among many. There are alternatives to quantitative easing in its current form, and one task of an economic sociology with a public ambition is to open up debate about solutions to the ongoing crisis that are not based upon a principle of "regressive redistribution" (see Green 2013).

Third, and following on from the above, there is a broader question of the relation of quantitative easing to financial crisis. Minsky argues that financial crises result from and are amplified by the actions of "big government", for when central banks act as a lender of last resort they legitimize many of the instruments and actions that generated financial instability in the first place and, with this, fail to enact the deep-seated institutional change that is needed to address its root causes. This means, for Minsky, that crisis is endogenous to the existing operation of the capitalist system. The question this raises in the current situation is whether the recent actions of institutions such as central banks have addressed the causes of the financial crisis or have potentially, over a longer timeframe, made things worse. This, of course, is a matter of conjecture, which brings us, as Weber once said (1992, 182), to a "world of judgments of value and of faith" that lies at the very limits of sociological reason. But, nonetheless, it is worth noting that monetary policies such as quantitative easing have created new bubbles across the global equity markets (most major indices have more than doubled since the height of the crisis and have hit all-time highs as a direct result of QE programmes), and have underpinned government debt with newly created money on a massive scale. There is already a sense that such initiatives may not end well (even Janet Yellen, the Chair of the Federal Reserve, has recently observed that current equity-market valuations are "quite high"). Indeed, it is quite possible that quantitative easing has, to use Wolfgang Streeck's (2014) phrase, bought the neoliberal order time but little else. The question this raises is what response will follow crises in the future when quantitative easing programmes have all but been exhausted and when central banks already charge positive interest rates, as is currently the case with

the European Bank. What then? Perhaps, as Andrew Gamble (2014, 21) has argued, the "real test" of pro-market, neoliberal governance has yet to come?

Fourth, and finally, it is worth raising the position of sociology in relation to such developments and debates. One key challenge, in light of the above, is to develop more nuanced understandings of the workings of neoliberal governance that transcend the rather crude models both of state and market, and of liberalism and neoliberalism, that have been popularized by the lectures of Michel Foucault. This means taking seriously the work of thinkers such as Minsky on the role of banking and money within contemporary capitalist societies (as argued above), and in so doing looking closely at the structural mechanisms through which material inequalities between different social groups are produced and reproduced over time. To do this, sociology must be a descriptive enterprise that documents and publicizes the extraordinary accentuation of inequalities post-crisis, as well as a critical and political undertaking that asks urgent questions about the policies and processes that have made such a development possible. Too often the former task has been detached from the latter and the discipline has been content to study the effects of social inequality rather than its root causes. It is the argument of the present paper that monetary policy of quantitative easing is one such cause, and for this reason is worthy of close sociological scrutiny. For this to happen it is necessary to look closely at the politics of the seeming a-political and technocratic world of central banking, and ask, in the vein of C. Wright Mills, who are the new men and women of power? Coupled with this, it is also necessary to question the legitimacy of the monetary "solutions" through which the financial crisis to this point has been governed (in particular those that have proceeded outside the formal channels of democratic government), and to ask, in the spirit of Pierre Bourdieu (see 1998, 50), whether institutions such as central banks can be reconfigured to work for the public interest rather than for the interests of markets and their "confidence" (and to recognize as a first step that these two things are by no means the same)? Such an endeavor lies at the heart of a sociology not only concerned with the structural drivers of inequality, including policies as quantitative easing, but also one which is concerned with emergent forms of neoliberal governance through which these inequalities are manufactured and legitimated.

Acknowledgements

I would like to thank Thore Behrens, Sam Burgum, Roger Burrows, Will Davies and Mike Gane for providing comments on an earlier version of this paper.

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