

A new era of central banking



BIRU PAKSHA PAUL

OPEN SKY

WHILE many are interested to see what Bangladesh's central bank has been doing in recent years, some skeptics are asking: is what Bangladesh Bank doing part of a central bank's job? The history of central banking has changed sufficiently over time to outshine Darwin's theory of evolution. Once upon a time central banking played a compliant role to cater to the government's fiscal spending via monetary expansion. Gradually, it turned out to be a controller of the government's destiny, particularly in the developed world. The fact that the Fed chair is the second most powerful person in the US after the country's president is simply a wonder in most developing economies where finance ministers try to push the central bank governors to an irreducible corner. Usually a central bank works through its monetary policy which has the dual mandate of employment maximisation and price stability. Central banking in developing economies, however, can have multiple objectives. The new era of central banking is an effective blend of both monetary and development economics in the countries that have been achieving over 5 percent growth in the last decade. Now there is no fixed definition of central banking. It is the most innovative financial art – crafted from a need based approach.

Most regimes are interested in making central banks provide demand side injections through printing money. A developmental central bank, however, has changed that limited image. Central banks should also be interested in the supply side investments that give the long run growth potential to a nation. Thus it is more important to give credit to a solar plant than a fashionable clothing store. Supporting technology and quality education gives a nation the long-term strength needed to make the growth momentum long lasting. The new style of central banking focuses on supply side capacity building as well as boosting demand side components, particularly private investment and consumption.

Initially, a central bank was thought to serve as the piggy bank for the government. It is still true. Its main role as a regulator of all commercial banks has always been there. What is amazing is its developmental role which evolved dramatically with a colourful spectrum in least developed countries (LDCs). Central banking also added socially responsible duties in its portfolio. Central banks in many LDCs undertook a wide variety of projects on green initiatives, microfinance, women's empowerment, investment, entrepreneurship, infrastructure building, technology expansion, and sustainable energy. Is this multitasking? Are not these extra ventures diluting the typical definition of central banking? The answer is no. They are strengthening the supply side capacity of the economy to push its trend growth line higher than it is now.

As long as the central bank is aptly exercising

its stabilisation role as its core responsibility, there is nothing wrong in undertaking developmental activities. Rather, the developmental role acts like a multiplier when a central bank has a proven track record of stabilising inflation, interest rate, exchange rate, and GDP growth. For example, price stability and moderate inflation are preconditions for helping small and medium enterprises succeed. Financial stability is the precondition for successful financial inclusion. The accusation that central banks are taking up many responsibilities originally to be discharged by the government is simply an illusion of fear and a failure to understand the growing necessities of emerging economies. Now a central bank is a regulator with many attributes, just like a smartphone. A central bank is the powerhouse of capital that dominates almost everything in a bourgeois society. Many ministries despite having noble goals are thirstily waiting for funds. And a central bank can readily avail that amount in the most efficient way. Time has come for better cooperation between central banks and government ministries in developing economies. The sooner the realisation, the better the outcome.

The Fed played the most crucial role as the saviour of the US economy by rescuing it from the Great Recession of 2008 and 2009. Time magazine named Ben Bernanke, the Fed chair, the Man of the Year in 2010. Friedman argued that the Fed could have played the most crucial role in the late 1920s in avoiding the Great Depression of the early 1930s. From Marx to Keynes, from Friedman to Piketty, all great economists underscored the

ever growing power of capital. This has been more so in a rapidly integrating world where capital can move from one continent to another in a second. And a central bank is the main custodian of capital in an economy. A tactful engineering of capital by the central bank can change the fortune of a nation. Let us reassess the power of central banking from that angle.

Time has come to change our mindset. Developmental central banking on top of inflation control is no longer a choice, it's a must. Financial penetration, which can be measured by the ratio between domestic credit and GDP, empowers the central bank with the most widespread network to operate in the economy. No single institution has that advantage. No ministries can reach that far to control finance and investment activities essential for growth.

The success of the American economy in the 20th century heavily depended on the gradual autonomy of the central bank. In contrast, the governments that tried to impede central bank independence actually shot at their own feet. Latin America and Africa, where governments pushed their central banks aside, seriously suffered from hyperinflation and poor growth. Now the realisation is coming forth. For example, Argentina has given autonomy to its central bank of late. A new era of central banking has begun – justifying an independent and innovative developmental role of central banks to make growth socially inclusive and fundamentally sustainable.

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The writer is Chief Economist of Bangladesh Bank.

GREECE REJECTS THE TROIKA

Where do we go from here?

MICHAEL HUDSON

JUST after 7 PM Greek time on Sunday, I was told that the "No" vote (Gk. Oxi) was winning approximately 60/40. The "opinion polls" showing a dead heat evidently were wrong. Bookies across Europe are reported to be losing their shirts for betting that the financial right wing could fool most Greeks into voting against their self-interest. The margin of victory shows that Greek voters were immune to the mainstream media's misrepresentation during the week-long run-up as to whether to accept the troika's demand for austerity to be conducted on anti-labour lines.

It should not have been so great a surprise. Voting age for the referendum was lowered to 18 years, and included army members. Faced with an unemployment rate of over 50 percent, Greek youth understandably wanted no more of euro-austerity.

The Troika's demand was for austerity to be deepened solely by taxing labour and reducing pensions. Its policy makers had vetoed Syriza's proposal of taxing the wealthy, vetoed steps to stop their tax avoidance, and that the IMF had vetoed cutbacks in Greek military spending (far above the 2 percent of GDP demanded by NATO), despite even the European Central Bank (ECB) and German Chancellor Merkel agreeing to this. Instead, Jean-Claude Juncker, President of the European Commission, threatened that the EU would expel Greece from Europe – despite there being no law permitting this to occur. And instead of doing what a central bank is supposed to do – provide liquidity (and paper currency) to banks, ECB head Mario "Whatever it takes" Draghi forced them to shut down even their ATM machines for lack of cash. Evidently this was intended to

frighten Greek voters to think that this would be their country's future if they voted No.

It is an old strategy. Andrew Jackson expressed his vindictiveness toward the Second Bank of the United States by shutting it down when it refused to appoint his selected corrupt cronies. He deposited the US Treasury's money in his "pet banks." Draghi thus has shown the ECB not to be "technocratic," but a cabal of right-wing political operatives working to bring down the left-wing Syriza government, even at the possible cost of empowering the far-right Golden Dawn party. The eurozone's class war in support of finance against labour is now open and in earnest.

The media have not explained that the ECB has set out to wreck Greece's banking system by refusing to do what central banks are supposed to do: provide liquidity as lenders of last resort. The banks are running out of cash, because Greece's central bank is not run by the Greek government, but by the ECB following a right-wing agenda. What Greece needs is a domestic central bank – or failing that, a national Treasury – empowered to create the money to monetise government spending on economic recovery.

The vote throws into question just what it means to be what pro-austerity advocates call "committed to the European project." It evidently means a commitment to yet further economic shrinkage, privatisation and hence higher prices for hitherto public utilities, higher value-added taxes on consumers, and lower pensions for labour. Accepting troika demands thus would have been a commitment to financial class war.

U.S. popular media echoed the European right by trying to frighten Greeks and their sympathisers into believing that the vote is whether or not to remain part of Europe – as if Britain does not have its own currency while remaining part of the



'No' supporters celebrate referendum results on a street in central Athens, Greece.

European Union. So successful has pro-creditor disinformation been that the Euro-Left movement has expressed bewilderment that the Syriza party did not begin immediately, upon its election victory in January, to educate voters on what actually is at issue.

What does it mean to be "committed to the European project"? Committed to financial war against labour – to austerity, privatisation, high prices for basic hitherto public utilities. Committed to higher taxes for labour, lower taxes for the One Percent.

This topic was at the centre of a meeting at the European Parliament in Brussels on July 2.** There was of course unanimous support for a "No" vote to the anti-labour, pro-creditor demands by the IME, European Central Bank and European Council. But there also was concern that the Syriza leaders had not spelled out their logic to lead an informed and more detailed discussion of why remaining in the eurozone, subject to public policy being dictated by the

IMF and ECB, will make the economy subject to chronic debt deflation, economic shrinkage, pension cutbacks, higher taxes on consumer (but a veto on higher taxes on business), faster privatisation selloffs (but not to Russians if they offered higher prices), and no rejection of past insider deals.

There might even be a silver lining in letting the Greek banks go under, if the government nationalises and indeed, socialises them. A public banking option could provide low real-cost charges rather than the current monopoly pricing. And of course a government-run bank would not lend for money laundering or financial speculation.

But instead of spending the past six months educating the public over just what is at issue with the Troika, Syriza focused on sparring with Europe, evidently to demonstrate how firmly the bank was committed to austerity, and how self-serving IMF head Christine Lagarde has been in overruling IMF staff and board to defend French interests. The problem

today, as it was in 2010-11 under Dominique Strauss-Kahn, is that French banks are the major holders of Greek bonds (including via their ownership of Greek banks).

One factor that may have incensed Greeks to vote "No" was the revelation that an internal IMF Debt Sustainability Analysis – which Lagarde had sought to suppress – had endorsed what Syriza's leader Alexis Tsipras has been saying all along: Greece needed a debt writedown, and had needed it ever since Strauss-Kahn overrode his staff in 2010-11 when they urged the IMF not to capitulate to ECB demands to pay French, German and other private bondholders with Troika bailout loans and making Greek taxpayers liable.

Two weeks ago the Greek Parliament released a report by its own Debt Truth Commission explaining why Greece's debt to the IMF, ECB and European Council was "odious" and had been imposed on the nation by the demand by Ms. Merkel and other pro-bank leaders that Greece not hold the referendum on the bailout (of French and German banks) that Pasok Prime Minister Papandreou had offered. Finance and democracy have become antithetical in Europe – which prompted the late Frankfurt Allgemeine Zeitung editor Frank Schirmacher to write his famous editorial, "Democracy is Junk."***

The left-wing Syriza members with whom I met in Athens, Delphi and Brussels felt that more should have been done to educate the Greek public and expose how impossible it was for Greece to pay the debts with which the Troika (and its pro-bank Pasok/New Democracy coalition that had ruled Greece for a generation). The creditor institutions have refused to climb down on the question of including debt relief in the current talks, pretending that this is an issue for later.

Last Tuesday, Tsipras made his most desperate attempt yet to bring

the issue forward. He and finance minister Varoufakis have been widely criticised in the U.S. media for seeming to capitulate to Troika demand. The reality is that they have taken a polite conciliatory stance all along, if only to show how totalitarian and unyielding the Troika has been. The Syriza position has been "We'd like to pay. But there simply is no money – as the IMF's own calculations have clearly and explicitly shown."

The Troika have refused to write down a single euro of unpayably high debt. That is what enabled Tsipras to depict his nation as being victimised by the eurozone's vicious class war. He made the point that the Troika had put nothing in writing about debt writedowns. His seemingly conciliatory position dared them to back up their promises in writing. He was not going to make the tragic mistake that Russian leader Gorbachev made when he was gullible enough to yield to merely verbal NATO promises that it would not move into the post-Soviet countries of Central Europe and the Baltics. The Troika's position was, "Impose austerity now. We'll talk about debt writedowns later. But first, you must sell off what remains of your public domain, lower wages by another 20 percent, and force another 20 percent of your population to emigrate. Only then, when we're sure that we can't get another euro out of you anyway, then we will at least be willing to talk about writing down some of your debt – when we see that you really have nothing left to pay!"

The press represented Tsipras's position as a back-down. It was actually calling the bluff of the eurozone leaders.

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The writer is the author of *The Bubble and Beyond*. His latest book is *Finance Capitalism and Its Discontents*. He can be reached at mh@michael-hudson.com. © CounterPunch. All rights reserved.

YESTERDAY'S ANSWER

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CROSSWORD BY THOMAS JOSEPH

- ACROSS**
- 1 College houses
 - 6 Pharmacy stock
 - 11 Man of Steel
 - 12 Accumulated
 - 13 Be penitent
 - 14 Small movie
 - 15 Cleveland cager
 - 16 Blue-gray cat
 - 18 Pigged out
 - 19 Part of RSVP
 - 20 Spectrum end
 - 21 Match parts
 - 23 Signs a lease
 - 25 That girl
 - 27 Fan sound
 - 28 Paparazzi target
 - 30 Sleep sites
 - 33 Favorite
 - 34 Truck part
 - 36 Tear
 - 37 Tokyo thanks
 - 39 In the past
 - 40 Church doings
 - 41 More broad
 - 43 Land in the sea
- DOWN**
- 1 Brawl
 - 2 Turn
 - 3 Place for a star's credit
 - 4 Great weight
 - 5 Holds back
 - 6 Boring person?
 - 7 Crazy talk
 - 8 Unnoticed
 - 9 Pretenses
 - 10 Alacrity
 - 17 Ventilate
 - 22 Poivre's partner
 - 24 Collar
 - 26 Chooses new actors
 - 28 Red shade
 - 29 Slugger's need
 - 31 Take in
 - 32 Future ferns
 - 33 Seine straddler
 - 35 Accepted applause
 - 38 Social misfit
 - 42 S&L offering

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