Jackson Hole discussion points to deepening economic crisis

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While the speech by US Federal Reserve Board chairman Ben Bernanke was the centrepiece of the annual Jackson Hole symposium of bankers and economists, held on Friday and Saturday, there were several other significant contributions.

Like the Bernanke speech, which gave an implicit commitment that the Fed would continue to pump hundreds of billions of dollars of ultra-cheap money into the financial system, they all pointed, in one way or another, to the ongoing breakdown of the global economy.

Four years after the collapse of Lehman Brothers, the latest Jackson Hole gathering has demonstrated that not only have the central bankers no solution to the crisis, they do not even understand the workings of the system over which they are supposed to preside.

Tailoring his remarks for public consumption, Bernanke couched his case for further handouts to the banks in terms of the need to bring about economic recovery and end the destructive effects of long-term unemployment. But while the Fed's quantitative easing has boosted financial corporations and lifted Wall Street, it has had no real impact on the economy as a whole.

The obvious failure of the policy to provide any significant boost, and the lack of any explanation, was the subject of remarks by a former vice-chairman of the US Federal Reserve, Donald Kohn.

"What is holding the economy back? Why is it that we've had such incredibly accommodative monetary policy for so long (but) we've had so little growth? I think it remains a puzzle," he said.

Kohn had no answer. "We keep trying to bring spending from the future into the present with lower and lower interest rates... There is a lot we don't understand about what is going on," he continued.

Adam Posen, who has just completed a term at the Bank of England, posed the same question: "Why have all these short-term interest rates failed to make the economy go go go?"

St Louis Federal Reserve President James Bullard asked whether the US economy "went through some sort of structural shift associated with this very large financial crisis." It appeared that the economy was on one trend before the crisis and a different trend after it, he said.

That assessment was underscored by figures in a paper by Columbia University economist Michael Woodford which showed that US nominal GDP (without adjustment for inflation) in 2012 was 15.6 percent below its pre-2008 long-term trend.

Global statistics tell the same story. Major economies that account for around 60 percent of global gross domestic product (GDP)—the US, UK, Canada, the eurozone and Japan—have all had interest rates set by their central banks at 1 percent or less for almost four years. Yet these economies are either stagnant or experiencing low rates of growth, with unemployment totalling almost 30 million. Moreover, this stagnation is now impacting on China, India and Brazil, which, it was hoped, would provide a boost to global growth.

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While it received little attention in the set contributions, the crisis of the eurozone overshadowed the conference. European Central Bank (ECB) President Mario Draghi had been scheduled to deliver a speech on the second day but withdrew, citing pressure of work. The ECB executive board is due to meet on Thursday to decide on the conditions under which the central bank will buy Spanish and Italian bonds in order to try to keep interest rates down and prevent a financial crisis. At the end of July, Draghi gave a commitment to do "whatever it takes" to safeguard the euro but since then European central bankers have disagreed over how this should be implemented.

The eurozone crisis was the subject of remarks by International Monetary Fund deputy managing director, David Lipton, on the sidelines of the symposium.

"Europe has made decisions and now it is time for the Europeans to ... move forward and actually implement it (sic)," he told Reuters. Lipton said the markets had been comforted over the northern summer by statements from government leaders and from the more recent declarations by Draghi, and interest rate spreads had come down. But now it was time for action.

Reflecting the concerns in the US over the impact of a continued failure to deal with the eurozone crisis, he said: "I think a reversal of sentiment ... could turn this into a more acute situation and so it is important that Europe put one foot in front of the other and start carrying out the things that they have decided."

In the wake of every great economic and financial crisis, the myth-makers and defenders of the capitalist economy get to work to promote the lie that "lessons have been learned" and action will be taken to prevent a recurrence. Today is no exception. But, while it was not his intention, the claim that greater regulation can prevent another financial meltdown was effectively blown apart in remarks delivered by Andrew Haldane, the executive director of financial stability at the Bank of England.

Calling for a simpler set of regulations, he said not even computers could track all the variables in the interlinked and complex financial markets. He noted that international rules on capital requirements for international banking went from 30 pages in 1996, to 304 pages in 2004, to 616 pages in 2010. Banks now had to calculate several million ratios, and make decisions based on guesstimates and models with questionable assumptions, rather than on hard numbers, as in the past.

Haldane warned that today "banks are the blackest of boxes," with no transparency. He likened asking regulators to prevent another crisis to asking a dog to catch a frisbee by applying Newton's Law of Gravity.

Haldane held out the hope that simpler regulations would start to bring the financial system under control. But the real position was summed up by Marx more than 160 years ago.

"Modern bourgeois society," he wrote, "with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells."

Neither more complex nor simpler regulations, but only the overthrow of the profit system, and the nationalisation of the banks and financial system, can end the crisis devastating the lives of billions of people the world over.

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