

# Central bankers at Jackson Hole conference: What was not said and why

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There was something truly extraordinary about the speeches of both US Federal Reserve Chairwoman Janet Yellen and European Central Bank President Mario Draghi to the meeting of central bankers held at Jackson Hole, Wyoming at the end of last week.

In the decade since the eruption of the financial crisis of 2007–2008, the global financial system has undergone an historic transformation as a result of the massive purchasing program that has left the world's ten major central banks with more than \$21 trillion of financial assets on their books, with the Fed and the ECB playing the leading role.

In the United States, the rise of the stock market from its low of March 2009 to its current near-record highs can be directly correlated with the injection of liquidity from the Fed, which has expanded its assets from around \$800 billion before the financial crisis to more than \$4.5 trillion today. In Europe, the ECB, which holds more than €1.5 trillion in financial assets, plays a determining role in bond market movements.

Yet, at the symposium titled “Fostering a Dynamic Global Economy,” neither Yellen nor Draghi even mentioned this issue. Nor did they give any indication of if, or when, there might be a return to something resembling more normal conditions.

In the US, where new asset purchases have ceased, that question turns on when the Fed may lift interest rates again and, in the longer term, decide to wind down its massive asset holdings by beginning to sell them off. In Europe, the key question is when the ECB will cease, or at least begin to taper, its current purchases of €60 billion a month. But nothing was said.

Instead, Yellen's speech was focused on a defence of the very limited financial regulations introduced during the Obama administration in the form of the Dodd-Frank Act and its so-called “Volcker Rule,” against a

push from the Trump administration and its supporters for an end to even these mild restrictions. Her speech was replete with claims that the financial system had been stabilised and that even if another financial crisis could not be ruled out, its impact would not be as severe as 2008.

Draghi took his cue from Yellen and directed his speech to the need to maintain openness in the international trade and financial system—remarks that, without naming names, were directed against the Trump administration and its economic nationalist supporters within the American corporate elite.

Writing on the Australian website *Business Spectator*, Alan Kohler described Yellen's remarks as a “tame exercise in marketing and self-exoneration.” It completely failed to deal with the key issue, he wrote, “which is that eight years of near-zero interest rates have failed so far to produce the GDP growth or consumer price inflation (as opposed to asset price inflation) that she and those around her had predicted, which naturally raises the question of why central bankers should be listened to any more.”

Likewise, Draghi's speech did not address the “basic failure of central bank policies these past eight years.”

*Financial Times* columnist John Authers wrote that Yellen and Draghi had “both inflicted uninteresting speeches on their listeners.” He pointed to the possible reason at the beginning of his comment, noting that “some things are better left unsaid.”

There are two basic reasons for the startling omissions from the remarks of the world's two major central bankers—one that relates to financial conditions, the other to politics.

The first is: Despite continued assurances that the financial system is well on the road to recovery, that measures have been put in place to prevent another

financial disaster, and all the other claims that the powers-that-be have matters well in hand, the conditions for another crisis are already well advanced.

This can be seen in the rise of stock markets to record highs despite continued low growth in the real economy, prompting warnings that markets are historically over-valued. This is accompanied by an increasing turn to even more speculative forms of profit accumulation.

Consider the counter-factual: If the situation were really that presented in the official script, there should have been no difficulty for Yellen and Draghi to present, at least in broad brush strokes, an outline of how the unprecedented financial measures of the past eight years could and would be wound back.

But nothing of the sort happened. This can only reflect a deep fear that global financial markets have become so dependent on the supply of cheap money that, like a heroin addict, they will experience a paroxysm when the flow is cut off or even reduced. Evidence of that reaction was seen in 2013, when markets experienced a “taper tantrum” on the expectation that the Fed might cut back on its asset purchases.

The second reason for the omission is the dirty secret of the global capitalist economy: that all the nostrums of the past about the coincidence of interests between the ruling elites and the mass of working people have been blown apart and the system operates more and more nakedly to ensure, in the words of Marx, the accumulation of wealth at one pole and poverty, misery and degradation at the other.

So apparent is this process that, as Kohler noted: “Despite, or rather because of, unprecedented monetary stimulus, the rich have got richer as asset prices have risen, but the poor have stayed poor as incomes have stagnated.”

Under conditions of mounting financial tensions, the greatest fear of the ruling classes and their central bank servants is that the contradictions of the system over which they preside are going to erupt and lead to the emergence of overt class struggle, which, in collaboration with all the forces of the political establishment—from the trade union bureaucracy to the pseudo-left tendencies and their manic fixation on identity politics—they have been able to suppress for the past three decades. Under those conditions, some things

are indeed better left unsaid.



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