

Fear and uncertainty dominate Jackson Hole central bankers' meeting

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The annual Jackson Hole conclave of central bankers, which concluded over the weekend, underscored the incapacity of global financial authorities to devise any policies either to bring about economic growth or counter the mounting contradictions in the financial system.

Reporting on the meeting, held in virtual format this year because of the COVID-19 pandemic, the *Financial Times* noted: “It was the head of Singapore’s monetary authority who best summed up the biggest fear gripping the virtual Jackson Hole conference this year.

“‘We’re not going back to the same world,’ Tharman Shanmugaratnam warned.”

The central initiative at the gathering was the decision by the Fed’s key policy-making body to maintain interest rates at their ultra-low levels for an indefinite period and keep pumping money into the financial system.

The decision, announced by the Federal Open Market Committee as the conclave opened and elaborated on in a keynote speech by Fed Chair Jerome Powell, was in effect a guarantee to Wall Street that its demand for “forward guidance”—lower interest rates for longer—would be met.

The Fed said it would no longer be guided by a 2 percent inflation rate limit in determining its interest policy, but would instead focus on an “average” rate of 2 percent, meaning that the cheap money regime could continue even if prices rose above that level.

As for dealing with the slump in the global economy—the most serious since the Great Depression—and combating the potential for further storms in the financial system following the market meltdown in mid-March, there were no answers, as underscored by the remarks of the Singapore finance minister.

“We’ve got to avoid a prolonged period of high levels of unemployment, and it’s a very real prospect,” he said. “It is not at all assured that we will get a return of tight labour markets even with traditional macroeconomic policy being properly applied.”

It was a significant comment because one of main themes in remarks by central bank chiefs was that monetary policy alone would not be sufficient to restore growth, and government intervention was needed to boost the economy. But, as Shanmugaratnam noted, even if “properly applied,” there were no guarantees of success.

According to the *Financial Times*, the notion that central bankers “need to face the reality of permanent upheaval and long-term economic damage” was the “main theme” of the event.

One of the most frequently cited academic papers produced for the meeting was prepared earlier this month by Columbia University academic Laura Veldkamp on the long-term effects of the COVID-19 pandemic.

The paper said that the biggest economic effects of the pandemic “could arise from changes in behaviour long after the immediate health crisis is resolved.” A potential source of such a long-lived change was a shift in the “perceived probability of an extreme, negative shock in the future,” and that “long-run cost for the US economy from this channel is many times higher than the estimates of the short-run losses in output.”

The paper continued: “This suggests that, even if a vaccine cures everyone in a year, the COVID-19 crisis will leave its mark on the US economy for many years to come.”

In other words, the pandemic was not only a trigger event, acting on the contradictions that had built up in the economy and financial system, but a transformative

one as well.

With the Fed now having formally committed itself to the endless supply of cheap money to Wall Street, attention will turn to the European Central Bank (ECB), which is also conducting a strategic policy review, to see whether it goes down the same road.

While the governing council, under the presidency of Christine Lagarde, may be inclined to move in the same direction as the Fed, it would face certain opposition from Germany's Bundesbank, which has expressed opposition to the easing of monetary policy.

A member of the governing council told the *Financial Times*, "we will look at it," but the Bundesbank would be "very nervous" about it.

On May 5 this year the Constitutional Court in Germany ruled that the Bundesbank had to examine whether the bond-buying program of the ECB breached rules that it should not bail out individual governments. That potential crisis was averted, but the issue could be raised again if the ECB decides to replicate the actions of the Fed.

However, the ECB is likely to come under pressure to take further action because of indications that what limited recovery has taken place in the European economy is starting to slow, as COVID infections begin to rise again in parts of the euro zone.

Estimates for a growth in Spain are being revised down as infections increase, and there are warnings that the French economy could plateau below the level reached before the pandemic struck, at least until the end of 2022.

Bank of England Governor Andrew Bailey, reflecting the interests of UK finance capital in the City of London, indicated support for the Fed's move, saying it should have been more expansive previously. Bailey again raised the possibility of negative interest rates.

"We are not out of firepower by any means, and to be honest, it looks from today's vantage point that we were too cautious about our remaining firepower pre-COVID," he said, adding that there are times when we "need to go big and go fast."

The actions of the Fed have done nothing to boost the real economy, as an increasing number of companies announce that temporary layoffs will be made permanent.

The *Wall Street Journal* reported Saturday that a survey conducted by Randstad RiseSmart found that

"nearly half of US employers that had furloughed or laid off staff because of COVID-19 are considering additional workplace cuts in the next 12 months."

This indicates that the pandemic has been a trigger for a major restructuring of employment conditions.

The effects of the Fed's policies and the further monetary easing to come are focused on the stock market, with Wall Street indexes rising to the record levels they achieved in February. The main beneficiaries have been the high tech companies—Apple, Microsoft, Alphabet (the owner of Google) and Facebook—which together comprise more than a fifth of the Nasdaq index.

The extent of their rise and growing financial and monopoly power is indicated by the results of an analysis carried out by Bank of America Global Research, reported by the business channel CNBC. It found that the market capitalization of the major US tech firms, now standing at \$9.1 trillion, was greater than the market capitalization of the entire European market, including the UK and Switzerland, at \$8.9 trillion. In an indication of the massive shift that has taken place, the research note pointed out that in 2007, total European market capitalization was four times that of US technology stocks.



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