Structural shifts in global economy driving central bankers' class war program

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Three crucial questions emerged from the discussions among central bankers and leading financial officials at last week's annual conclave convened by the US Federal Reserve at Jackson Hole.

First, the fact that with all their advanced information systems, compiling a vast array of economic and financial data, and the use of complex computerised economic models, these would-be "pillars of wisdom" were completely blindsided by the onset of the most rapid inflation in four decades.

Yet they preside over the global economy and claim to be in possession of superior knowledge, not available to those designated by one participant as the "financially less literate."

Second, a growing sense, emerging out of the confusion, that the COVID-19 pandemic and then the US-led war in Ukraine against Russia have acted as a catalyst or trigger event in both revealing and accelerating fundamental shifts in global economic relations.

And third, the coming together of the key sections of the financial establishment on the necessity for the prosecution of a war against the international working class via interest rate hikes to induce a major economic contraction to batter down wage demands and intensify exploitation to increase the flow of surplus value, the lifeblood of the capitalist system, extracted from labour.

The lack of any understanding was personified by Fed chair Jerome Powell. At the Jackson Hole virtual meeting a year ago he insisted that inflation, the clear signs of which had already begun to appear, was "transitory" and once the pandemic was over there would be a return to a low-inflation environment.

This was not merely a product of ignorance. This "misreading" of the situation served definite material interests rooted in the capitalist economy. It was the rationale and justification for the policies of the Fed and other central banks, who also claimed inflation was "transitory," for injecting trillions of dollars into the financial system to prop up the corporations and Wall Street and ensure that the orgy of speculation and vast accumulation of wealth on the heights of society could continue.

At this year's Jackson Hole meeting, held in conditions of rampant inflation, Powell set the stage for the response, taken up by all participants, insisting that central banks must not waver from interest rate hikes and, if necessary, go beyond the measures carried out by Fed chair Paul Volcker in the 1980s, which produced economic devastation in the US and internationally for the working class, under the banner of "fighting inflation."

In a paper produced for the meeting, Gita Gopinath, the first deputy managing director of the International Monetary Fund, noted that existing economic models used by the IMF and other economic institutions, which appeared to work well in the preceding period of low inflation—the so-called Great Moderation—"performed poorly in forecasting the recent inflation surge."

These "modelling shortcomings" helped to account for why IMF forecasts, like many others, "significantly underpredicted the recent rise in global inflation"—the reasons for which the IMF did not yet fully comprehend as "our understanding of the causes of the global inflation surge is still evolving."

A presentation by Agustin Carstens, the general manager of the Bank for International Settlements, the umbrella organisation of the world's central banks, pointed to some of the longer-term structural factors at work in the inflation surge.

This was not a problem created on the demand side of the economy but was the result of supply side factors, the importance of which was "likely to remain high." In other words, inflation is not going to disappear.

"This is because the global economy seems to be on the cusp of a historic change as many of the aggregate supply tailwinds that have kept a lid on inflation look set to turn into headwinds. If so, the recent pickup inflationary pressures may prove to be more persistent," Carstens said.

The tailwinds that kept inflation low included a stable geopolitical environment, enabling the development of international trade agreements and networks of global production, the strengthening of market forces in domestic economies leading to privatisation and deregulation of labour markets, technological developments enabling lower-cost production, and access to cheaper production locations.

Carstens did not mention it, but all these developments worked together to ensure that real wages were kept down, a program enforced by the trade unions, leading to a fall in strike activity to historic lows and cheaper consumer goods.

Within this situation there was a "build-up of fragilities" and "fault lines emerged" even though macroeconomic conditions remained "benign," enabling central banks to provide "forceful stimulus" without the fear of inflation.

Carstens wrote: "Low productivity growth was a key warning sign. In advanced economies, it plunged during the Great Financial Crisis (GFC) and never fully recovered, part of a longer decline going back at least to the late 1990s. In emerging market economies, the productivity boost from integration into global networks and structural reforms proved to be fleeting. The post-GFC slowdown has been the steepest and most prolonged of the past three decades."

Carstens did not care to touch on it, but one of the reasons for the slowdown has been the rise and rise of financialisation over the past decades, in which profit accumulation became increasingly dependent not on productive investment in the real economy but non-productive speculation in financial markets.

According to Carstens, "there is no hiding that the growth-enhancing structural reform drive prevalent in the 1990s and early 2000s slowed down significantly in many countries."

To grasp the meaning of this analysis, some translation is needed. "Growth-enhancing structural reform" refers to the intensification of the exploitation of the workforce, via cuts in employment and reduced real wages, which accelerated in the decade following the liquidation of the USSR as capitalist governments around the world imposed a "let it rip" free market agenda.

In highlighting what he saw as a problem of at least the last decade and a half, when "reform" did not proceed fast enough, Carstens pointed to what must be the capitalist agenda under new economic conditions.

The response of capitalist governments and financial authorities to the COVID-19 pandemic accelerated underlying tendencies. As Gopinath noted, while the pandemic was a "unique shock," in effect it "provided a stress-test of the existing policy framework."

That policy framework was designed to protect the interests of the financial oligarchy at all costs, hence the handouts to corporations and the provision of monetary stimulus at the same time, both of which promoted the surge in inflation. Gopinath blamed the supply chain constrictions resulting from lockdowns.

The fact remains, however, that COVID could have been eliminated at the outset had meaningful public health safety measures been put in place. That was not done because of the fear of the effect this would have on the financial markets.

As a result, COVID rapidly spread and there is now a labour shortage in key areas of the economy because millions of workers have left the labour force and growing numbers are unable to work as they did before, or even work at all, because of the deepening impact of Long COVID.

Carstens also pointed to the structural impact of the criminal "let it rip" policy while, of course, not naming it as such. He said the pandemic could leave a "persistent imprint on both the quantity and quality of workers," with labour force participation rates remaining below pre-pandemic levels in many countries.

Having created the conditions for the inflationary crisis through the policies leading up to the pandemic and then in response to it, the representatives of the financial elites at Jackson Hole made clear that the working class must now be made to pay for it.

Whatever their approach to the analysis of the crisis, they came together to back the class war agenda set out by Powell in his keynote remarks last Friday, in which he declared that households and businesses had to suffer "pain" as a result of higher interest rates.

The following day, Isabel Schnabel, a member of the executive board of the European Central Bank made it clear that the economic devastation resulting from interest rate hikes might have to go further than produced by Volcker in the 1980s.

Carstens sent a similar message. The "new and more hostile supply environment" had "sobering implications for economic policy" and in this world of "unforgiving supply," whatever fiscal stimulus may add to demand "may need to be taken away by monetary policy tightening."

And at the end of her more than 7000-word paper, Gopinath laid out the agenda in the clearest terms.

"Central banks," she said, "should indicate that they will 'stay the course' and maintain tight policy as long as inflation remains high. And if inflation proves unexpectedly persistent, they should underscore their resolve to tighten more aggressively, even if it means a sharp cooling of the economy and rise in unemployment."