

Central bankers meet at Jackson Hole as economic problems mount

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The official subject for discussion at the conclave of central bankers, academics and financial journalists which starts on Friday at Jackson Hole, Wyoming, is “Reassessing the Effectiveness and Transmission of Monetary Policy.”

The central attention, at least as far as Wall Street is concerned, will be directed to what Federal Reserve chairman Jerome Powell says about interest rates in his keynote address on Friday morning.

Parasitic deals made by the financial oligarchs when money was virtually free are now coming under increasing pressure because of the elevated interest rates of the past two years.

They want more than an indication that a 25-basis point cut (0.25 percentage points) is on the table for September, which Powell looks set to give. They want a clear sign this will be just a start and that rates will come down 75 or even 100 basis points by the end of the year.

Echoing widely held sentiments, Eric Beiley, in charge of wealth management at Steward Partners, told Bloomberg: “If traders hear cuts are coming, stocks will react favourably. If we don’t hear what we want, that would trigger a big selloff.”

The most recent round of turbulence was at the beginning of the month when Wall Street took a dive following the lifting of interest rates by the Bank of Japan. It undermined the so-called carry trade in which investors made big bets using billions of borrowed yen. It was compounded by data showing a lower-than-expected increase in new jobs created in the US in July.

The market has risen since then with the S&P 500 only 2 percent shy of its all-time high, but the markets and the underlying financial system are so dependent on debt that it only takes a small, unexpected movement to set off turbulence.

One of the areas most affected by the increase in interest rates is high-tech start-ups using venture capital (VC) in the hope of becoming the next “big thing” or selling their firm to one of the major existing tech giants.

As the *Financial Times* reported this week: “Start-up failures in the US have jumped 60 percent over the past years, as founders run out of cash raised during the technology boom of 2021-22, threatening millions of jobs in venture-backed companies and risking a spillover to the wider economy.”

The article reported that Carta, which provides information to private companies, found that some 254 of its venture-backed clients had gone broke in the first quarter of this year. The rate of bankruptcies was seven times higher than when it began reporting in 2019.

Some of the numbers are not small. Earlier this month, a financial technology company, Tally, which was valued at \$855 million in 2022 and had raised more than \$170 million from VC firms, announced that it was “unable to secure the necessary funding to continue our operations.”

In a recent note, reported by the FT, Morgan Stanley analysts said the jump in bankruptcies was because “an abnormally high number of companies raised an abnormally large amount of money during 2021-22.”

It said VC-backed companies employed 4 million people and should the rise in bankruptcies fail to slow this would impact on the rest of the economy.

Another area of concern is the so-called non-banking financial institutions which have undergone an explosive growth since the financial crisis of 2008 and the establishment of an ultra-low-interest rate regime. They hold nearly half of all global financial assets.

While these institutions claim to be separate from the traditional banking system, they actually have intimate

ties with it because the banks, searching for profits, provide them with money.

A case in point is that of the First and People's Bank in Kentucky. According to a report in the FT it is on the edge of bankruptcy because of its partnership with a financial technology company, part of the shadow banking system, has resulted in soured loans running into the tens of millions of dollars.

The failure of First & People's would be significant because, as FT noted, "it would be the first community bank collapse in the US to stem from an ill-fated excursion into the world of shadow lending, putting some \$200 million of customers' deposits at risk."

What has happened in Kentucky has been replicated in other parts of the country. Businesses and households put their money into what they regard as conservative and sound community banks without knowing they are engaged in potentially risky operations in the largely opaque shadow banking system.

A report prepared by economists from New York University and the Fed earlier this year found that some shadow lenders received a significant amount of money from traditional banks.

"Traditional approaches to financial sector regulation view banks and non-bank financial institutions as substitutes. We argue instead that banks and [shadow banks] are intimately interconnected," it said.

The lending of banks to non-banks has been rising rapidly and is now over \$1 trillion. In the case of First and People's the proportion of its loans to shadow banks went from nothing two and a half years ago to 53 percent.

While the official mantra is that with inflation starting to come down, preparing the way for interest rate cuts, and with the unemployment rate not showing a major leap, the US is headed for a "soft landing."

This scenario, however, ignores developments in the real economy. There is a jobs bloodbath underway in the auto industry as companies gear up for an intensified global war for markets. High-tech companies are also engaged in layoffs.

The global steel industry, the backbone of the industrial economy, is at the start of a major downturn. It is centred in China, which produces half the world's output, and is sending out shock waves to the rest of the world, threatening to set off a price-cutting war leading

to closures and job cuts.

At the end of July, the *Wall Street Journal* published a report in which it noted the factory boom, which developed after the lifting of anti-COVID measures, was "running out of steam."

"Higher interest rates, rising operating costs, a strengthening US dollar and lower selling prices for commodities are dampening activity at factories across the country," it said.

"Executives for makers of long-lasting items such as cars, crop-harvesting combines and washing machines are projecting challenging business conditions for the remainder of the year."

It gave as an example the situation at John Deere, the world's largest manufacturer of farm equipment. It has laid off 2,100 production workers, or 15 percent of the hourly workforce, since last November.

The downturn in the industrial economy is reflected in the spot price for steel. It has fallen 22 percent from a year ago and is off by 40 percent since the start of the year, according to S&P Global Commodity Insights.

On Thursday evening Kamala Harris will deliver her acceptance speech as presidential nominee to the Democratic party's national convention. It will be no doubt full of Hollywood-scripted blather about how well the economy has done under the Biden administration and how it will do even better under one she leads.

A more significant address will be given by Powell the next morning with Wall Street threatening turmoil if it does not meet its demands for more money, but whatever Powell says, one thing is certain. He will provide no solution, any more than Harris, to the growing financial and economic problems besetting the US that are driving it to world war and social counter-revolution.



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