Jackson Hole conclave: Crushing the real economy since 1978

By Elisa Barwick

Representatives of the central banks of the USA, UK, Switzerland, Japan, Korea and Europe, along with global banking doyens, who gathered at Jackson Hole, Wyoming, on 25-27 August, demanded forceful, concerted action to curb inflation—even if it wrecks the economy.

Paul Volcker was US Federal Reserve chairman when Jackson Hole was chosen as an annual meeting place for the world's central bankers, economists and policy makers, hosted by the Kansas City Fed. At this year's summit, current Fed chair Jerome Powell invoked Volcker, not just in his reference to the challenge of the "Great Inflation" faced in 1979, but with his admission that wrecking the economy—with greater resolve than Volcker did so as to nip it in the bud—is the policy required to tame it.

Powell has vowed another 0.75 per cent rate rise in September and to continue to tighten relentlessly to arrest inflation. Richmond Fed President Thomas Barkin on 18 August, expressed the goal, stating: "The Fed must curb inflation even if it causes a recession; it needs to raise rates into restrictive territory."

Admitted Powell at Jackson Hole: "While higher interest rates, slower growth, and softer labor market conditions will bring down inflation", he said, "they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."

One Jackson Hole conspirator, Bank for International Settlements General Manager Agustín Carstens, without challenging the policy direction did betray at least one moment of nervousness, worrying that Powell's approach could put the economy into a "coffin corner". Using aviation parlance, Carstens described how if an aircraft passes below its "stall speed" it will no longer be able to "generate enough lift to maintain its altitude" and will crash.

The economic sabotage regarding the cut-off of the Chinese and Russian economies is also a big factor, challenging the underpinnings of "economic relationships". London's *Financial Times* admitted in its Jackson Hole coverage that "The sharp shift in economic dynamics left attendees doing some soul-searching. 'There's a lot of humility in the room [about] what we know and what we don't know', said [IMF first deputy managing director Gita] Gopinath."

If these central bankers, or the politicians who defer to them, understood "physical economics" (economy measured in physical rather than monetary or financial terms, see "The science behind economic collapse", *AAS*, 18 March 2020) they would not make price stability their central mission; rather they would address economic shortcomings in order to stabilise prices. But, with their minds in the grip of the theories of defunct economists, their intention by restoring price stability has nothing to do with the actual economy, that is, the means to provide for the population. It is aimed at sustaining the financial order, and if that means crushing the real economy and people's livelihoods to do so, so be it. Just as Volcker's 21.5 per cent interest rates, which did nothing to rectify sky-high oil prices induced by two oil shocks combined with other economic factors, was not aimed at restoring economic growth.

Referencing his monetary interventions in October

Fed chiefs Volcker and Powell—the bookends of a period of immense financial change for the worse. Photo: Screenshot; AFP/Lenin Nolly/NurPhoto

1979, Volcker told the Joint Economic Committee that "The standard of living of the average American has to decline. I don't think you can escape that." Small business, manufacturing, retail, construction were smashed, but Volcker would later tell the *Wall Street Journal*, "I'm not sorry about it. … I don't know any other course of action that would've been politically feasible or economically feasible."

Economic phase change

In 1971 President Richard Nixon had signalled the end of the Bretton Woods financial architecture organised by President Franklin Roosevelt in 1944 when he broke the US dollar's link to gold. That was followed by moves to liberalise and deregulate financial markets, policies which exposed the real, physical economy to annihilation. In a 1978 speech, Volcker had cited academic and former London *Economist* editor Fred Hirsch on the need to dismantle the existing global economic and monetary framework established at Bretton Woods: "A controlled disintegration in the world economy is a legitimate objective for the 1980s ..." Hirsch was the author of the New York Council on Foreign Relations' "Project 1980s" which designed America's post-industrial transformation. The end of the integrated Bretton Woods global financial framework ushered in a dog-eat-dog era of unbridled speculation. Whilst the world eventually emerged from the inflationary quagmire, the policy shift set us up for the current crisis. (Subsequent shifts in pursuit of this same strategy are documented in "Nearing the end-game of financial phase change", *AAS*, 27 May 2020.)

While bankers fear inflation because they are focused on bottom lines and balance sheets, financial austerity is a graver threat to economic growth. Similar deflationary measures pursued in the 1930s, sabotaged the chances of economic recovery, due to the desire of bankers to hold onto economic orthodoxy. According to a 2017 article in *The Guardian* by Larry Elliott, "In the early 30s, central banks waited too long to cut interest rates and allowed deflation to set in. … Faced with higher budget deficits caused by higher unemployment and slower growth, finance ministers made matters worse by raising taxes and cutting spending. The response to the Crash, according to Adam Tooze in his book *The Deluge*, was deflationary policies were pursued everywhere", with disastrous economic and political consequences.

We can't afford to make the same mistakes once again.