You Can Expect "Coordinated Silence" from Jackson Hole

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The central bankers are at it again. This time by doing nothing. Which still does a lot if you're a central banker.

The world's money printers and their academic minions met in Jackson Hole, Wyoming last week. The rest of the world watched closely for any hint of future monetary policy. And they got nothing, reported the Financial Times:

> *Conversations at recent Jackson Hole symposiums have focused on traditional central banking concerns — among them financial system plumbing, inflation targets and interest rates. As numerous speakers at the gatherings on Friday and Saturday noted, this year's meeting was instead dominated by discussion of matters that are largely beyond central banks' power to influence.*

If you think it's odd to have policymakers and academics fly from around the world to discuss matters they don't make policy on, I couldn't agree more.

The interpretation of the media is that the central banks are signalling to governments to get their act together. And trying to provide guidance on how.

Central banks can only buy time with their extraordinary policies according to the results of their machinations so far. It's up to governments to get the economy going again. The question is how.

Some argued governments have to unleash the economy with reform and deregulation. Others said the government should spend more, no matter how much debt they're in.

Then other central bankers argued against those proposals. They warned about the budget and they argued against deregulation. Federal Reserve chair Janet Yellen spoke about keeping the post-crisis bank regulation which President Donald Trump wants to do away with to spur economic growth, for example.

The fact that the Jackson Hole attendees can't agree on government policy makes you wonder how they go about the monetary. And why have they stopped talking about monetary policy at every opportunity?

The absence of any comment about Federal Reserve monetary policy from Yellen is a huge reversal. The Fed had previously been pursuing more communication in an effort at transparency. Yellen's first attempt at this went disastrously wrong when she highlighted the jobless fate of several ordinary citizens… who turned out to have criminal records.

With the end of her term approaching and Trump in the White House, Yellen may be in caretaker mode until the new chair is announced.

But the European Central Bank's Mario Draghi was hardly more interesting than Yellen. He failed to opine about the strength of the euro, which caused it to jump further. Some expected him to try and talk it down at the event.

Lena Komileva at G+ Economics called this lack of commentary from central bankers a "coordinated silence". Perhaps they're sick of having their projections proven wrong and their predicted policy moves discredited at every turn. By shutting up, they look less stupid.

Or they just want to let their printing presses do the talking. Central bank critic Daniel Lacalle summarised that activity nicely using data from the FT and CLSA analysis:

> *The figures are staggering:*
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> - *Without any recession or crisis, major central banks are purchasing more than $200 billion a month in government and private debt, led by the ECB and the Bank of Japan.*
> - *The Federal Reserve owns more than 14% of the US total public debt.*
> - *The ECB and BOJ balance sheets exceed 35% and 70% of their GDP.*
> - *The Bank of Japan is now a top 10 shareholder in 90% of the Nikkei.*
> - *The ECB owns 9.2% of the European corporate bond market and more than 10% of the main European countries' total sovereign debt.*
> - *The Bank of England owns between 25% and 30% of the UK's sovereign debt.*
>
> […] *The Japanese central bank already accounts for 60% of the ETFs market (Exchange traded funds) in Japan.*

At this level of activity, the central bankers have "nationalised the secondary market" said Nicholas Smith from CLSA. They control the buying and selling of financial assets between investors.

The new normal is extraordinary

The emphasis here is on the fact that all this continues to happen in the absence of a recession, crisis, falling stockmarket, sovereign debt crisis or loan debacle. Sure, growth and inflation are low. But so is unemployment.

And yet central bankers are pursuing monetary policy so vast that it would've made them faint just ten years ago. It was supposed to be temporary.

Chris Becker wrote in the Australian blog MacroBusiness that "Draghi drags QE [quantitative easing] into normalcy." His speech before Jackson Hole described how wonderful and successful QE has been: "QE has made economies more resilient."

That's absurd, as we'll get to in a moment. But first, care to imagine what central bankers will do if we do have a crisis?

If trillions in QE are pumped into the markets while everything is rosy, what will the money printers do when things take a turn for the worse?

Most of the market is terrified by this thought. Central bankers are "out of ammo" because they've used it up during the good times.

I'm not worried. Let's have a competition for who can enter the most zeros on a keyboard without causing inflation during a crash.

The consequences of central bank meddling are stagnation… for now

More and more analysts are waking up to the dangers of central bank meddling. Hence all the name dropping and quoting above. I'm trying to show how scepticism is spreading.

While stockmarkets are crashing, it's not terribly fashionable for Wall Street analysts to criticise an organisation with an infinite chequebook and the mission statement of financial stability. They'll be deciding whether to bail out your employer.

But these days an eerie calm has descended on the markets. And it's become fashionable to criticise those who steered us into the eye of this storm. Especially when you can't see a way out of it.

The first hidden consequence which Lacalle focused on in his article is one I haven't mentioned much in *Capital %26 Conflict.* How much is central bank policy reducing accountability at government treasuries? And what are governments getting up to in the absence of this accountability?

Could governments finance their debts and deficits without the active purchases of their bonds by central banks? Where would interest rates be without all that intervention? Where would that land the interest bill on government debt?

Tim Price at *London Investment Alert* reckons we'll find out soon enough right here in the UK.

On the one hand, central bankers are allowing governments to pursue far more spending and borrowing than they could otherwise do, creating an opportunity to improve our future.

Unfortunately, governments don't improve futures by spending more. Otherwise we wouldn't be in the current mess given how much they've already spent…

Until next time,

Nick Hubble
Capital %26 Conflict