Rethinking the financial matrix: two pathways

By Elisa Barwick

In his final address as Governor of the Reserve Bank of Australia, "Some closing remarks", Philip Lowe made some bold proposals. Most interesting is one that—at least within the matrix of today's financial system—represents a threat to the public good.

But there is another matrix within which his proposal—to coordinate central bank monetary policy (setting interest rates) and government fiscal policy (budgetary decisions)—would be quite different.

There are two ways to do what Dr Lowe is proposing: China's way or the City of London's way. China's way is America's "old" way—the way pioneered by US leaders such as George Washington's Treasury Secretary Alexander Hamilton, and President Abraham Lincoln. The City of London's way has been taken up as the pet project of Jackson Hole, the annual central bankers' forum hosted by the Kansas City Federal Reserve which in 2019 welcomed proposals for independent central bankers to take control of fiscal policy, in order to coordinate it more closely with monetary policy, to more effectively achieve "financial stability".

This year's Jackson Hole summit, held 24-26 August, foreshadowed a whole new "playbook" to deal with oncoming crises, in the words of European Central Bank head Christine Lagarde (*AAS* 6 Sept.). This translates to inventing new ways to loot the population to save the collapsing financial system.

Lowe's proposal meshes with the 2019 Jackson Hole push for financial "regime change"; he suggests "giving an independent body limited control over some fiscal instruments".

"Optimal policy arrangements", said Lowe, require the alignment of monetary policy and fiscal policy. "My view has long been that if we were designing optimal policy arrangements from scratch, monetary and fiscal policy would both have a role in managing the economic cycle and inflation, and that there would be close coordination." Fair enough. But who is in control?

He argues that it would be "easier for an independent central bank to [make the required decisions] than it is for politicians", because monetary policy "is not influenced by political considerations". That is by design: specifically that of Bank of England chief (1920-44) Montagu Norman, as documented in our series "The genesis of austerity". Only by taking decisions away from politicians *who depended upon being re-elected by the people* could the vicious austerity of the 1920s and '30s, to save the financial order of that day, be achieved. Which, by the way, precipitated the rise of Fascism and Nazism.

"In principle", Lowe continued, "fiscal policy could provide a stronger helping hand, although this would require some rethinking of the existing policy architecture. In particular, it would require making some fiscal instruments more nimble, strengthening the (semi) automatic stabilisers and giving an independent body limited control over some fiscal instruments."

Lowe's proposed monetary-fiscal coordination echoes the remarks of Philipp Hildebrand, Swiss banker and Vice-chair of BlackRock, in a 15 August 2019 Bloomberg interview that coincided with Jackson Hole. He declared that "we're going to see a regime change in monetary policy that's as big a deal as the one we saw between pre-crisis and post crisis [the introduction of QE]. And one element of this, an important one, will be a blurring of fiscal and monetary activities and responsibilities."

The US "repo" crisis (a crunch in the "repurchase" agreements which grease bank liquidity), which erupted just a month later in September 2019, provided the pretext for central bank interventions that went beyond 2008, consolidated the role of speculative hedge funds in the US Treasury bond market and repo markets, and led to the creation of a standing liquidity facility—a permanent too-big-to-fail bailout fund. COVID provided the pretext to take it even further. Both events allowed direct delivery of stimulus—not (for the most part) funnelled to the people or the economy, however, but into the big banks, the big corporates and their bigwig beneficiaries. As economics columnist Steve Pearlstein wrote in the *Washington Post* on 30 April 2020: The Fed has "assumed the role as a financial backstop and lender of last resort to every major corporation ... it's no longer just banks that are too big to fail—it's now the entire corporate sector."


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Policymakers debate regime shift in global economic conditions in which little is certain

A London *Financial Times* headline rejoices at the 2019 Jackson Hole push for "financial regime change". Photo: Screenshot

Further delivery of stimulus, directly into the veins of the dying banking organism, was also envisioned at Jackson Hole in 2019 by Bank of England Governor Mark Carney, with help from the giant US hedge fund BlackRock. The project, largely shrouded in a "green" cloak, involved creation of a new digital world currency. Such a currency could be used to deliver stimulus more efficiently during a crisis via citizens' personal Fed accounts, the Philadelphia Fed later suggested. There was speculation this could also be used for fiscal policy—with the Fed deciding where government funds would be spent, with a bent towards green projects, something BlackRock elaborated in a detailed proposal. This partially played out during the COVID stimulus, as the Fed commissioned a BlackRock fund to buy corporate bonds. (See the "Reinventing bailouts" section at citizensparty.org.au/australian-alert-service-feature-articles/economic)

All of this advanced what journalist Matt Taibbi, in *Rolling Stone* magazine in September 2018, described as the post-2008 bailout "bank-state merger" which "converted Wall Street into a vehicle for annually privatising a big chunk of America's GDP into the hands of a few executives".

That is where Philip Lowe's proposal will inevitably lead under today's financial matrix.

On the other hand, more coordination between monetary and fiscal policy is not intrinsically a bad thing. China does it all the time; we did it when our central bank was government-controlled. The question is, who is in control and for whom are they acting? If they are directing policy in the interests of the Common Good of the population, the intended domain of government action, the outcome will be positive. If, however, the Jackson Hole approach prevails and policy decisions are made in the interests of powerful private players, God help us.