New strategy for work
Helping the financial markets

While the American stock exchange, the world's beacon, reaches new highs, recording the best August performance in decades, the Federal Reserve updates its policy. The American central bank has a dual mandate: to keep inflation stable (around 2%) and to promote employment. In the past, the emphasis has always been on price control. However, the experience of the last decade shows that the successes in this area have been pale: average inflation, in spite of the extensive ordinary (rate reduction) and extraordinary (Quantitative Easing) monetary facilities, has never managed to exceed an average rate of 1.5% in the recent past. The reasons have been widely discussed. At the center of the main arguments are the aging of the population, the transition to a new digitized economy that reduces marginal costs, globalization, the lack of negotiation capacity of employees, especially those less trained. The Federal Reserve has been working on a change of strategy for over a year and a half (last time in 2012). But the COVID19 has forced it to anticipate the timescale. In fact, Jerome Powell's bank recognizes and fears the deflationary consequences of the pandemic, which inevitably has a major impact on the recovery of employment.

The Jackson Hole meeting, which once a year brings together the world's leading central bankers, this year by videoconference from 22 to 24 August, was an opportunity to illustrate the guiding principles. In reality, this is not a real change of strategy, but an important new adaptation. In fact, the inflation target of 2% remains. But the Federal Reserve can make it easier to deviate from this threshold: The latest experience, contrary to the dictates of the mainstream economics textbooks, shows that even in situations of satisfactory employment, inflation does not rise easily. In 2018, positive macroeconomic data had prompted the central bank to raise rates and the stock markets have undergone a heavy correction; according to the central bank economic growth is in decline in the medium term (from 2.5% to 1.8%). But also "ideal" interest rates in the hypothetical situation of a strong economy with stable inflation have fallen from 4.5% to 2.5% in the USA, as well as in other countries. As if that were not enough, across the Atlantic, the longest phase of expansion in employment in the last fifty years, which ended at the beginning of 2020 with the COVID19 , has not been able to produce a substantial increase in wages such as to drag on a more generalized and sustained rise in prices. What economist Robert Solow wrote, interpreting the Phillips curve, that s*ociety can afford a lower or even zero inflation rate as long as it is willing to pay the price in terms of unemployment*", is not reflected in the recent American experience. Therefore, in the current context, to blame inflation means above all to further reduce expectations of price increases which, in difficult situations such as the pandemic, can easily screw themselves into the dreaded deflation and then recession.

So here is the new approach: the emphasis should be placed on supporting a strong and inclusive labor market, especially for communities with lower and moderate incomes, even at the cost of going beyond the 2% inflation target for some time. This new path should facilitate inflation expectations that have so far not even been able to reflect the consequences of partial de-globalization. On a theoretical level this approach takes up a postulate from the *Modern Monetary Theory* that has been gaining ground in the democratic field lately, but whose operational effects also Trump likes: a monetarily independent state can print money until inflation appears.

The Federal Reserve, thus adapting its operational size, goes even further. To give direct priority to work means to risk occupying fields that normally depend on fiscal policy by touching the strongly political button of the redistribution of wealth. Low rates and repeated extraordinary interventions (Quantitative Easing) inflate the stock markets. According to a 2016 research by Edward Wolff, professor at New York University, 84% of the shares are held by 10% of Americans (although 50% of the population holds listed securities). The FED has been reproached for its belief that increasing portfolio wealth stimulates growth. But, in reality only a limited part of the population becomes richer and is numerically insufficient to spread consumption capacity globally, hence aggregate demand. With the change in strategy, Powell seems to be responding to these criticisms.

But at this stage, once the employment objective and the new inflation strategy have been clarified, there is still no feedback on the instruments that will be used, nor on the institute's budget. Above all, the stability of the strategically oriented markets has not been high. How much and how far can the stock exchanges go up, ready to collect the liquidity generated? Waiting to understand it, the dollar is weakening, and the markets are celebrating.

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