Are Central Bankers Coming To A Bitter End?

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Central bankers these days are seriously trapped. They cannot now reverse their policies for that means they have to admit that they have failed. That is far more serious than you might imagine. To even entertain backing down from negative interest rates means they have to admit that Keynesian/Marxist economics has failed and therein socialism, which is based upon the very principle that government CAN and is CAPABLE of managing the economy. This is the real question presented in the American presidential elections, yet nobody will articulate it in this manner. Hillary still preaches the same failed socialist agenda as if government can even do anything other than attack people who earn more money as did Emperor Maximinus of Rome.

Just before Paul Volcker became Federal Reserve Chairman Paul Volcker, who served (August 6, 1979 – August 11, 1987), he delivered his Rediscovery of the Business Cycle in 1978 (published on May 3, 1979). If you Google this book, you will see our site comes up first. You can find used copies around $500. Why is this book so rare? Because before Volcker became Fed Chairman, he told the truth.

“The Rediscovery of the Business Cycle – is a sign of the times. Not much more than a decade ago, in what now seems a more innocent age, the ‘New Economics’ had become orthodoxy. Its basic tenet, repeated in similar words in speech after speech, in article after article, was described by one of its leaders as ‘the conviction that business cycles were not inevitable, that government policy could and should keep the economy close to a path of steady real growth at a constant target rate of unemployment.’”

This “New Economics” was all about empowering government to manipulate and control the economy. Even Larry Summers, who is the father of Negative Interest Rates, has publicly admitted that government cannot forecast economic declines. Implicitly, he too is conceding that the “New Economics” has failed and his negative interest rates is not bankrupting pensions and has underwritten government debt like never before. Summers has pushed society over the edge. The conundrum in which we now find ourselves is where global central bankers can gather at the U.S. Federal Reserve’s annual symposium in Jackson Hole, Wyoming, but all they can do is hope something happens to save them. Governments are beginning to depart from the grip of austerity forced upon Europe by Merkel which has greatly suppressed economic growth and created an economic depression exactly as what took place during the 1930s. The option of deliberately creating deflation was the policy of Germany only because they misunderstood the causes behind the German hyperinflation of the 1920s. The failure of the economy to rebound in Europe and in Japan, while the United States has been only a dead-cat-bounce, led to governments insisting politically that central banks maintain and extend their own stimulus efforts.

It is clear, central bankers are in a state of panic. They are looked upon as the sole economic magician and this political shift for responsibility has overburdened them dramatically. They know all too well that serious structural reforms are now necessary. However, central bankers can’t be seen to be giving up on this Keynesian/Marxist policy Volcker called the “New Economics” and Larry Summer pushed to Negative Rates. They are now trapped, unable to reverse policy without sending a signal that they’ve have failed. The great fear is the collapse in confidence, which is on the horizon. They wake up from a nightmare in cold sweat fearing the curtain will be pulled back and the world will witness there is no wizard as in that film – the Wizard of Oz.
The central bankers tremble at market sensitivity to any change in the perception of what they are up to next. They sought this power of a demigod, and now live in fear that they might be discovered as confused and powerless. This is now all about policy makers being unable to admit complete and utter failure. This is the foundation from which a Phase Transition can emerge. Once the majority begin to realize that the central bankers have been like conmen, that is when the stampede begins with a mad rush to private assets.