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What to expect from Bernanke at Jackson Hole

There is great interest in the annual symposium of central bankers that starts tomorrow, and rightly so. Whether it is in Europe or the US, central bankers continue to carry most of the policymaking burden, and do so deep in experimental territory. There is no better place to discuss central banking than Jackson Hole, in Wyoming.

Many people are eager to hear more about the framework that underpins the thoughts and actions of Ben Bernanke, US Federal Reserve chairman. Some are even hoping for another policy leap. (Similar expectations for Mario Draghi, the president of the European Central Bank, were dashed by Tuesday's announcement that he was cancelling his panel participation – more on this later.)

We have been spoiled in recent years as Mr Bernanke has used Jackson Hole to share insights on the what and the why of unconventional monetary policy. In the process, he has provided us with a better understanding on how it supplements the diminished impact of traditional monetary policy, especially with interest rates long floored at "exceptionally low levels" and forward guidance extended substantially.

During his tenure as Fed chairman, Mr Bernanke has supplemented academic (2006-07) and historical (2008-09) perspectives with forward looking ones. In 2010, he laid the ground for the second stage of quantitative easing, or QE2 – the direct purchase by the Fed of Treasury securities in order to push investors out the risk spectrum and target macroeconomic outcomes (rather than just QE1's normalization of financial markets).

In 2011, he took another step, providing us with the context for "the twist" –

the combination of security purchases and sales aimed at flattening the yield curve. In addition to inducing further risk-taking, this sought to reduce borrowing costs in the economy without impacting the size of the Fed's balance sheet (though it did change the risks facing the balance sheet).

Throughout, Mr Bernanke indicated that exceptional Fed activism is not the metaphorical slam dunk. It involves, to use his elegant characterisation, a delicate balance of "benefits, costs and risks". Indeed, one of the first things that will be looked at on Friday is his assessment of this trio's historical evolution.

There will also be interest in Mr Bernanke's characterisation of policies that fall outside his purview, particularly fiscal. Over the last few months, the Fed chairman has increasingly visited this political territory. And not just to warn about the dangers of the fiscal cliff. This also relates to whether he is sufficiently comfortable to push his Fed colleagues to a nominal gross domestic product target, especially when congressional polarisation limits the scope for proper fiscal policy coordination.

Such a move, from an intermediate policy target (asset prices) to a more-narrowly defined macro-economic one, is part of the policy leap that some are urging Mr Bernanke to make on Friday. It certainly would be viewed by markets as a favorable development as a GDP target would effectively re-price the "Fed put." And to maximize effectiveness, hyper-activists also want him to follow the Bank of England in pursuing credit easing.

A policy leap of this nature is a possibility but far from a high probability, at least not as of yet. Rather than push out the policy envelope again, Mr. Bernanke is likely stick to the content of the FOMC minutes released last week, listing future options and re-iterating the general commitment to do more if needed.

Which brings us to Mr. Draghi. According to an ECB spokesperson, his trip was cancelled due to a "heavy workload." This sounds right given extensive preparations ahead of important European decision points in September. But there is also something else.

With some people pushing him to put meat on the new policy bone announced at the last meeting of the ECB three weeks ago – including specifying a band for yields on Italian and Spanish bonds – Mr Draghi would have faced significant risks. Jackson Hole is neither the place nor the time for him to preview new ECB policy proposals; and this is before factoring in the differences with Germany's central bank. Accordingly, his most probable course of action, that of reiterating Europe's recent policy progress and the ECB's vigilance, would have been met with disappointment from those who wrongly believe that the institution, by itself, can (and should) solve Europe's crisis.

Having used brilliantly-crafted words to buy a few weeks of market tranquility, the last thing central bankers want today is to use Jackson Hole to prematurely signal the difficulties of implementing on their own sufficient follow-up actions.

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