Greenspan: US central bank will resist a movement for higher wages

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23 July 1998

In his semiannual report to Congress July 21-22 Federal Reserve Chairman Alan Greenspan emphasized that the US central bank now feels that a movement for higher wages by the American working class poses the greatest threat to economic stability.

Over the past six months, under the impact of the Asian financial turmoil, Greenspan and other significant figures in financial and political circles, such as billionaire speculator George Soros and former US labor secretary Robert Reich, have spoken out sharply against the threat posed by 1930s-style *deflation*.

The Federal Reserve chairman, in his recent testimony, acknowledged, 'the contraction of output and incomes in a number of Asian economies has turned out to be more substantial than most had anticipated.' He further noted that the US economy might actually have contracted in the second quarter of 1998, the first such shrinkage since 1991 and a remarkable turnaround from a 5.4 percent growth rate in the first three months of the year. Nonetheless, asserted Greenspan, 'the potential for accelerating inflation is probably greater than the risk of protracted, excessive weakness in the economy.'

What has caused Greenspan to alter his message in this fashion, at least temporarily?

From the heavy emphasis he placed in his two days of appearances before Senate and House committees on the threat represented by wage demands, it seems evident that the General Motors strike, which he made reference to, the growing number of contract rejection votes by rank-and-file workers and the general signs of increased militancy in the working class have prompted the Federal Reserve chairman to issue his new warning.

He returned to the issue of 'inflationary pressures'--code words for rising wages--and the relatively low unemployment rate again and again.

Greenspan noted that the current economic expansion was unusual in that it had not yet been accompanied by significant wage increases. He attributed this to 'concerns among workers about job security,' i.e., the tide of corporate downsizing and plant closures. But, he warned, 'We now seem to have moved beyond that phase of especially acute concern, though the flux of technology may still be leaving many workers with fears of job skill obsolescence and a willingness to trade wage gains for job security.'

It is worth taking note of this. For those not accustomed to listening closely to the comments of the US central banker, it may come as something of a shock. To Greenspan and those he speaks for, that workers live in fear is *beneficial*, insofar it dampens their enthusiasm to enter into a struggle to improve or defend living standards.

Greenspan took note of the danger that lower unemployment might lead to an increased willingness to press for higher wages, remarking that recent economic growth rates might 'eventually run into constraints as the reservoir of unemployed people available to work is drawn down.' He dwelled at some length on the problems posed by the present jobless rate and ended that section of his remarks with the threat that if 'compensation gains' were not in line with 'productivity advances,' the Federal Reserve would have to intervene and raise interest rates, thereby slowing the economy and throwing people out of work.

The Fed chairman specifically warned, 'increasingly confident workers might place gradually escalating pressures on wages and costs.' He observed, however, that a number of factors would likely work against that, including the current economic situation in Asia. 'We have yet to see the full effects of the crisis in East Asia on US employment and income,' he said, hopefully.

In the course of his remarks Greenspan also called for the maintenance of a 'disciplined budget stance,' in other words, no let-up in the cutting of social spending.

Towards the end of his July 21 remarks he reiterated his theme one final time. 'As I noted previously, wage and benefit costs have been remarkably subdued in the current expansion. Nonetheless, an accelerating trend in wages has been apparent for some time.' Such 'inflationary pressures,' he suggested, the Fed would have to 'resist vigorously.'

Greenspan speaks for the largest banks and corporations in the US. His threat to institute recessionary policies to dampen labor militancy is not an empty one. His predecessor, Paul Volcker, introduced such policies in 1979 and ushered in the recession, accompanied by union-busting and wage-cutting, of the early 1980s. Greenspan's remarks point to the fact that the current boom in corporate profit and share values is largely based on the deliberate policy of suppressing wages and living standards for wide layers of the population.

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