US Federal Reserve raises interest rates in preemptive move against wage increases

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US Federal Reserve Board officials raised key interest rates by half a percentage point Tuesday, May 16—the largest increase in five years—in a move aimed at driving up unemployment and suppressing demands from workers for improved wages and benefits. The aggressive move sets into motion recessionary forces that will inevitably lead to a sharp downturn in the economy in the coming months.

The central bank increased its benchmark federal funds rate, the rate banks charge each other for overnight loans, to 6.5 percent, the highest level since the recession year of 1991. The Fed also raised the discount rate it uses when lending to private banks to a nine-year peak of 6 percent.

The half-point increase Tuesday follows five quarter-point increases over the last 11 months. By increasing the cost of credit, the Fed hopes to curb corporate investments in new machinery and factories, and spur companies to downsize and carry out other cost-cutting measures. Major banks reacted immediately by boosting the prime lending rate for businesses by a half-point.

The Fed's action will also make credit cards, car loans and mortgages more expensive, increasing the burden on families that are already carrying record levels of debt.

In a statement justifying the rate hike Tuesday, the Federal Reserve's Open Market Committee said that if the “disparity in the growth of demand and potential supply” continues, it “could foster inflationary imbalances that would undermine the economy's outstanding performance.” The phrase “inflationary imbalances” is little more than a code word for wage increases. The concern that dominates business and government circles is the fear that the tight labor market will encourage a broad-based movement by workers seeking to make up for years of stagnating or declining living standards.

Fed Chairman Alan Greenspan and other officials have repeatedly pointed to the disparity between the high demand for labor and the shrinking pool of available workers as the chief “inflationary pressure,” noting indications that the labor shortage is encouraging workers to press for improved wages and benefits.

On Tuesday, Fed officials hinted they would raise interest rates again at their next meeting in June.

Just last week, Fed officials released a survey of nationwide economic conditions that cited the shortage of workers in “practically every industry and occupation” and lamented the fact that “reports of employers providing retention and referral bonuses, assistance in finding child care, and health benefits were more widespread.”

Just hours before the Fed officials voted to raise interest rates, the Labor Department reported that consumer prices in April were stable, with the core index, excluding volatile food and energy prices, rising just 0.2 percent. This underscores the fact that the “inflationary pressure” the Federal Reserve is primarily concerned with is wages.

The unprecedented boom in corporate profits and share values—which has chiefly benefited the richest 10 percent of the population—has been dependent on the suppression of workers' living standards and a relentless assault on jobs. By 1998 the average American worker's inflation-adjusted weekly wages had fallen 12 percent below the 1973 level.

The half-point rate hike was widely expected on Wall Street, particularly after the recent release of a series of reports showing continued economic expansion, declining unemployment and a slight improvement in

wages and benefits for workers.

On May 6 the Labor Department reported that the official unemployment rate fell to 3.9 percent in April, the lowest rate in more than 30 years. Employers added 340,000 jobs, while the length of the average workweek rose and manufacturing workers spent more overtime hours on the job.

This followed an earlier report by the Labor Department noting that the Employment Cost Index—a measure of wages and benefits—rose by 1.4 percent in the first quarter, the largest quarterly rise in nearly 11 years. Compensation per worker rose at a 4.2 percent annual rate in the quarter, up from 3.8 percent the previous quarter. Average weekly earnings adjusted for inflation rose by 0.7 percent in April, after falling 0.5 percent in March, and unit labor costs rose by 1.8 percent after falling during the previous six months.

Although the increases amounted to only a few pennies per hour, this all but assured that the Federal Reserve would sharply increase interest rates.

In the early 1980s Greenspan's predecessor as Fed chairman, Paul Volcker, pushed interest rates up to a record 20 percent and more, producing one of the deepest recessions since the Great Depression. The growth of mass unemployment in the early 1980s, combined with government-backed union-busting and wage-cutting under Ronald Reagan, inaugurated an onslaught against the working class that continues to this day. Huge tax cuts for big business and the wealthy and sweeping reductions in social benefits for working and poor people have contributed to a vast redistribution of the national wealth in favor of the rich.