Chairman of US Federal Reserve assures Congress wages will be kept low

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In his July 20 testimony before the Senate Banking Committee, US Federal Reserve Board Chairman Alan Greenspan revealed the ruthless class strategy of American big business, which is based on an unrelenting offensive against the wages and living standards of workers.

Signaling the central banking institution's determination to head off any tendency toward significant wage increases for American workers, Greenspan downplayed the importance of soaring gas prices, which are taking an enormous toll on workers' paychecks, while making it clear he was prepared to raise interest rates more sharply if signs emerged that unit labor costs were rising significantly.

The Fed chairman did not spell out the consequences of such a move for the jobs and living standards of American workers. He did not have to. It was well understood by the politicians seated across from him, and the Wall Street firms, corporate bosses and large investors to whom he was indirectly speaking. It would mean a new round of plant closures and layoffs—a development calculated to undermine any movement by workers to reverse an ongoing decline in overall family income.

That this was precisely what Corporate America wanted to hear was reflected in the surge in share values on Wall Street that followed Greenspan's testimony. The stock market, which has been declining in recent weeks and generally reacts negatively to any talk of sharp interest rate hikes, registered a healthy increase for the day. The Dow Jones Industrial Average rose by 55 points, and the technology-heavy Nasdaq index registered a gain of 33 points, an increase of 1.8 percent.

This signal to the US corporate and financial elite comes in the wake of mounting evidence that the so-called economic recovery touted by Greenspan in his testimony has benefited only a small section of the population.

While emphasizing the need for a monetary policy designed to ensure price stability, Greenspan noted that the acceleration of inflation in recent weeks has come largely as a result of elevated profit levels. He told the Senate panel: "Consumer prices excluding food and energy—so-called core prices—have been rising more rapidly this year than in 2003.... Core inflation, of course, has been elevated by the indirect effects of higher energy prices on business costs and by increases in non-oil import prices.... But the acceleration of core prices has been augmented by a marked rise in profit margins, even excluding domestic energy corporations." Greenspan reported that corporate profits were up 42 percent since 2001.

He added that, "at least from an accounting perspective, between the first quarter of 2003 and the first quarter of 2004, all of the 1.1 percent increase in prices of final goods and services produced in the non-financial corporate sector can be attributed to a rise in profit margins rather than rising cost pressures."

Greenspan's central message was that the Fed would not permit the profit boom for big business to be disrupted by the elevation in wages that normally accompanies an economic recovery.

"To be sure," he noted with evident satisfaction, "the increases in average hourly earnings of non-supervisory workers have been subdued in recent months and barely budged in June. But other compensation has accelerated this year, reflecting continued sizable increases in health insurance costs, a sharp increase in business contributions to pension funds, and an apparently more robust rate of growth of hourly earnings of supervisory workers."

A modest or negligible rise in labor costs will not have a major effect on inflation, he said. However, he added, "We cannot be certain that this benign environment will persist and that there are not more deep-seated forces emerging as a consequence of prolonged monetary accommodation."

Focusing on unit labor costs, Greenspan pledged that in the event of greater than anticipated inflationary pressures, the Federal Reserve Board would abandon its policy of raising interest rates at a "measured pace," substituting a "more dynamic adjustment of interest rates."

One might say that Greenspan laid out here the economic policy equivalent of the Bush administration's foreign policy doctrine of preemptive war. In this case, the direct target of a preemptive economic strike is the American working class.

The overtly class character of the Fed's policy was underscored by Greenspan's testimony the following day before the House Financial Services Committee. He made the assertion there that the Bush administration's tax cuts, skewed overwhelmingly to benefit the wealthy, had helped stimulate the economy. He suggested that further tax cuts might be necessary. To pay for these handouts to the rich, Greenspan called for rules that would require lawmakers to make cuts in spending programs to match any decline in government revenue from tax cuts. In particular, he warned of the need to restrain spending on Medicare and Social Security.

Not so long ago, a Fed chairman would have felt obliged by political constraints to at least acknowledge the economic situation facing the vast majority of the population. In Greenspan's testimony last week, however, there was not even a pretense of concern for the increasingly harsh economic conditions facing millions of people, fueled by soaring gasoline prices, ever-increasing health care costs, the destruction of decent-paying jobs, and record levels of personal debt. To the extent that these issues were alluded to, it was merely from the standpoint of how they might affect the economic interests of the elite.

Greenspan's call for limiting wage growth, curtailing social programs and increasing tax cuts comes at a time when even the mass media are taking note of reports documenting the fact that the so-called recovery has almost exclusively benefited the most wealthy and privileged sections of the population.

On the same day as Greenspan's Senate testimony, for example, The *Wall Street Journal* published a front-page article under the headline: "Affluent Advantage: So Far, Economic Recovery Tilts to Highest-Income Americans." The authors wrote: "Upper-income families, who pay the most in taxes and reaped the largest gains from the tax cuts President Bush championed, drove a surge of consumer spending a year ago that helped to rev up the recovery. Wealthier households also have been big beneficiaries of the stronger stock market, higher corporate profits, bigger dividend payments and the boom in housing."

Lower- and middle-income families, on the other hand, had suffered. "For them, paychecks and day-to-day living expenses have a much bigger effect. Many have been squeezed, with wages under pressure and with gasoline and food prices higher." The unevenness in the economic recovery has been clearly expressed in its differential impact on retail sales, the article explained. There has been a sharp rise in sales at luxury stores like Neiman Marcus, while sales at discount stores such as Wal-Mart and Payless have stagnated.

The *Journal* article quoted Dean Maki, an economist at J.P. Morgan Chase, as noting, "The main factors supporting spending over the past year, tax cuts and increases in [stock] wealth, have sharply benefited upper-income households relative to others."

In addition to a rise in the stock market over the past year, there has also been a sharp increase in dividend payments, which have risen 22 percent since the end of 2002. These payments have been propelled by a substantial cut in taxes on dividend earnings put in place by the Bush administration.

In contrast, wages have leveled off or fallen over the same period. On July 16, the Bureau of Labor Statistics released figures showing a decline of 1.1 percent in real wages for production workers in June. The category of production worker includes all non-management workers (in service work and industry), and accounts for about 80 percent of the private-sector workforce.

A *New York Times* article published July 18 ("Hourly Pay in US Not Keeping Pace with Price Rises") noted: "The June drop, the steepest decline since the depths of recession in mid-1991, came after a 0.8 percent fall in real hourly earnings in May. Coming on top of a 12-minute drop in the average workweek, the decline in the hourly rate last month cut deeply into workers' pay. In June, production workers took home $524.84 a week, on average. After accounting for inflation, this is about $8 less than they were pocketing last January, and is the lowest level of weekly pay since October 2001."

There are no signs that this tendency will reverse itself in coming months. According to surveys, companies are budgeting modest pay increases of 3.3 percent to 3.5 percent for this year and next, only slightly higher than projected inflation. Increased costs for housing and health care, as well as increased interest rates for credit cards and mortgages, will eliminate even these limited raises.

While the Bush administration has made much of the addition of 1.5 million jobs since last August, this increase has barely kept up with the entry of new workers into the jobs market. Since 2001, there has been a net decline of some 1 million jobs, but, as *New York Times* columnist Edmund Andrews pointed out ("A Growing Force of Nonworkers," July 18), even this figure underestimates the real jobs crisis in the United States.

Andrews noted that there has been a sharp increase in the number of workers who are no longer looking for jobs and are therefore not included in unemployment figures. "Among adults in their prime earning years, ages 25 to 54, the work force participation rate has dropped to 82.8 percent from 83.9 percent in 2000. That may seem a minuscule decline, but it is the lowest rate since 1987, and it translates into millions of people. In June 2000, the Labor Department estimated that 62.2 million people over the age of 20 were 'not in the labor force.' By this June, the number had jumped to 66.6 million. The extra 4.4 million amounted to more than half of the 8.2 million people officially labeled unemployed."

Those jobs that have been added in recent months have been, on average, lower-paying than the jobs that have been lost. Manufacturing jobs continue to disappear, especially in Midwestern states like Michigan and Ohio. In June, Ohio lost 3,400 factory jobs and Michigan lost almost 10,000. The figure in Michigan was the highest in nearly three years, and in both states the decline is part of a long-term trend. Since 1999, the two states have lost over 20 percent of their factory jobs.

Stephen Roach of Morgan Stanley estimates that over the past year, 81 percent of total job growth has been in lower-paying sectors like service and transportation.