US: Amid surging prices, Fed raises specter of renewed class struggle

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17 July 2008

The US Consumer Price Index jumped by an unexpected 1.1 percent last month amid spiraling energy prices, according to Labor Department figures released yesterday. June's inflation spike—the sharpest since 1982—brought the annual inflation rate to 5 percent. Economists had been predicting a monthly increase of .7 percent, and June's rise was significantly higher than the .6 percent increase seen in May.

Producer prices showed an even sharper increase of 1.8 percent, according to the Labor Department. The producer price index has increased by 9.2 percent in the past year in the sharpest increase since 1981. Energy prices led the increase, jumping by 6.6 percent, while transportation costs also shot up as airlines increased ticket prices by 4.5 percent.

Wage levels, meanwhile, decreased by .9 percent after adjusting for inflation. Real wages have fallen by a full 2.4 percent in the past year.

Such drastic cuts in real wages—representing a massive transfer of wealth from the working class to the very rich—are sending shockwaves through the whole of American society.

With this in mind, Federal Reserve Chairman Ben Bernanke warned Tuesday of the potential for renewed demands for higher wages by American workers if prices continue to increase. In his biannual monetary policy report, delivered to both houses of Congress, the Fed Chairman stressed the Fed's continuing commitment to quelling any wages movement.

"[T]he currently high level of inflation, if sustained, might lead the public to revise up its expectations for longer-term inflation," he said. "If that were to occur, and those revised expectations were to become embedded in the domestic wage- and price-setting process, we could see an unwelcome rise in actual inflation over the longer term. A critical responsibility of monetary policy makers is to prevent that process from taking hold."

In other words, the Fed intends—if it can—to tighten the money supply and deepen the US economic downturn to prevent any wages offensive by the working class. In case anyone missed the point, Bernanke reiterated the claim in the next paragraph, saying, "In light of the increase in upside inflation risk, we must be particularly alert to any indications, ... that the inflationary impulses from commodity prices are becoming embedded in the domestic wage and price-setting process."

Despite the Bernanke's overt warnings about inflation, analysts saw the Fed Chairman's speech as shying away from rate increases in the short term. Bernanke emphasized that the US central bank would focus on preserving "financial stability." Under conditions in which large sections of the US financial system appear set to implode, this can only imply a delay in raising rates and a retreat from the Fed's emphasis on rate rises in June.

Bernanke delivered his speech in the context of what is rapidly emerging as the worst financial crisis since the Great Depression. This week brought the third-largest US bank failure ever, as well as the US Treasury's announcement that it stands ready to absorb losses at mortgage lenders Fannie Mae and Freddie Mac, possibly doubling the US government's debt overnight.

The US ruling elite is determined to do everything in its power to transfer its own enormous losses onto the backs of the American working class. The unlimited bailout power being called for by the Treasury and the Fed constitutes one part of this attempt. The systematic drive to slash real wages in order to finance the return to profitability constitutes another.

Bernanke's testimony came amid a near-meltdown of nearly all measures of US economic stability. He warned of "numerous difficulties" facing the US economy. In his testimony before the House Financial Service Committee, he cited "significant downside risks to the outlook for growth," while also acknowledging that "upside risks to the inflation outlook have intensified."

Under these conditions, the Fed is effectively powerless to shift interest rates one way or the other, fearing either further financial destabilization or an inflationary spiral triggering a new wave of wage struggles by American workers.

The concerns expressed by Bernanke were also reflected in the minutes released Wednesday from the Federal Open Market Committee meeting held on June 24-25.

Given fears of the social consequences of spiraling inflation and the expectations it could generate, the Fed's policymakers predicted that the central bank's next move "could well be an increase in the funds rate," the minutes said.

They continued: "Reports on the ability of firms to pass cost increases on to customers were mixed, but some participants commented that the global nature of inflationary pressures could make imports more expensive and give firms greater scope to raise prices. Some participants noted that wage growth had been quite moderate, reinforcing a view that longer-term inflation expectations and labor cost pressures had remained fairly well contained. However, others commented that wages might accelerate with a lag only after inflation expectations had moved higher, and that it would be very costly to subsequently bring those expectations back down."

In essence, Bernanke and his fellow Fed members are warning that the sharp decreases in real incomes will inexorably lead millions of working people to an open struggle for livable wages. But under conditions where businesses—aided by the Fed—are seeking to pass on the full cost of the crisis to the masses of working people, such struggles will naturally turn into an open fight against the capitalist system itself. This is the nightmare of not only Bernanke, but of the entire financial oligarchy and its political establishment. Indeed, they see the suppression of such a movement as "very costly."

House Financial Services Committee Chairman Barney Frank, in his comments on Bernanke's testimony Wednesday, warned his corporate backers to this effect. After affirming that the existence of rising social inequality is "no longer a matter debate," he noted that, "If the numbers of unemployment in the second half of this year are not better than that for the first half, we are on track to lose one million jobs this year."

The congressman continued, "No one expects equality, equality is not a good thing, you can't have an economy that works if everything's equal. But too much inequality also has negative consequences."

Frank highlighted one section of the Fed's monetary policy report, which stated, "Broad measures of hourly labor compensation have not kept pace with the rapid increases in both overall consumer prices and labor productivity, despite a labor market that, until recently, had been generally tight." He suggested that this situation was not sustainable.

"Those who wonder why we have resistance to globalization ... should note that working Americans are creating more wealth for this country than they are being allowed to share; and that is exacerbated by rising prices," said the Massachusetts congressman. He summed up by warning, "The point to the business community is very clear: how can you understand this ... and then wonder why you can't get trade bills through; wonder why there is resistance to outsourcing."

Although Frank confounds the growing opposition to the capitalist system with anti-trade sentiment, his point is made clearly enough. What sort of legitimacy can a system that robs working people of 2.4 percent of their income in a single year have in the eyes of millions? Whereas Bernanke noted only the risk of a wages struggle, Frank makes clear that the deepening of the present crisis will put into question the political viability of the capitalist system itself.

However, Frank proposed no policies to ameliorate the conditions he described. Neither section of the ruling elite nor any faction within either of the big business parties can pose such measures. The US ruling class's ability to shuffle off its mass of fictitiously-valued debt is based on its ability to regain profitability, which under the current circumstances can only be boosted via the destruction of jobs and a reduction of domestic wage levels. The US ruling class is forced into a vicious attack on the working class, even while recoiling in horror at the prospect that its policies will spark a social explosion.