Fed officials mobilize to reassure Wall Street

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Top officials of the US Federal Reserve, starting with Chairman Jerome Powell, have pulled out all stops to reassure financial markets there will be no immediate tightening of monetary policy, and the flow of money that has sent Wall Street to record highs will continue.

Last week there was a significant reaction to the "dot plot" from the meeting of the Fed's policy-making body, which showed expectations that interest rates could start to rise in 2023, rather than in 2024, and to subsequent comments last Friday by St Louis Fed president James Bullard, that rates may increase as early as 2022.

Markets fell sharply following his comments, with the Dow dropping by more than 500 points, and the S&P 500 recording its worst week in four months. By this Wednesday, Wall Street had returned to previous levels. But this was not due to the operation of so-called "market forces."

The World Socialist Web Site has no information as to what discussions were held between Fed officials. But from what followed, it appears a decision was taken over the weekend that concerted action needed to be taken, lest the tremor that went through Wall Street turned into something more significant, and some "heavy hitters" were called in.

On Monday, John Williams, the president of the New York Fed, the second most important figure after Powell in the Fed's governing body, commented that the US economy was not ready for the central bank to start easing its monetary support.

Williams said the economy was "getting better all the time" but insisted the Fed would maintain the new policy framework, adopted last August, in which it said it would allow inflation to rise above its target rate of 2 percent, before considering rate increases or pulling back on asset purchases.

"It's clear that the economy is improving at a rapid rate, and the medium-term outlook is very good. But the data and conditions have not progressed enough for the Federal Open Market Committee to shift its monetary policy stance of strong support for the economic recovery," he said.

On Tuesday, in the lead-up to Powell's testimony to Congress, the president of the San Francisco Fed, Mary Daly, weighed in.

"Talking about rate changes now isn't even on the table," she told reporters. "The mantra right now is: 'steady in the boat'."

In his opening statement to Congress, Powell insisted the Fed would "do everything we can to support the economy for as long as it takes to complete the recovery" in order to make clear the Fed was not going to react to warnings of inflation by clamping down on the money supply to Wall Street.

Responding to a question from South Carolina House Democrat Representative James Clyburn, Powell said: "We will not raise interest rates pre-emptively because we think employment is too high [or] because we fear the possible onset of inflation. Instead, we will wait for actual evidence of actual inflation or other imbalances."

Echoing issues raised by Democrat Lawrence Summers, who was Treasury Secretary in the Clinton administration and an economic adviser to Biden, Republican Representative Mark Green, prefacing a question to Powell, said: "When Congress spends trillions of dollars and the Fed prints money, something's got to give."

He asked whether price increases in recent months—inflation rose 5 percent year-on-year in May after a 4.2 percent rise in April—were "the start of something that could be as bad as the "70s," when inflation was more than 10 percent.

Powell replied that such a scenario was "very, very unlikely," sticking to the mantra of the Fed that recent price rises were "transitory," a product of the reopening of the economy.

The price rises were “something that we’ll go though over a period. It will then be over. And it should not leave much of a mark on the on-going inflation process,” he said, during his testimony.

Congressional testimony from Fed officials always has a very large fictional component, because they can never state openly that the overriding role of the central bank is to ensure support for finance capital. Consequently, written remarks and responses to questions are couched in terms of support for the economy and serving the interests of the American people.

Powell took these fictions to new levels in his remarks to Congress. Defending the ultra-low interest rate regime, and the determination of the Fed not to make pre-emptive moves, he said the Fed was committed to an “inclusive recovery.”

“There is a growing realisation across the political spectrum that we need to achieve more inclusive prosperity. Real incomes at the lower end of the spectrum have stagnated relative to those at the top. Mobility across income spectrums has declined in the United States and now lags that of most other advanced economies. These things hold us back as an economy and a country,” he said.

But the chief factor in the ever-rising level of social inequality in the US, going back decades, and accelerating in the period of the pandemic, has been the trillions of dollars funnelled into Wall Street, boosting the wealth of the holders of financial assets.

As this week’s Credit Suisse wealth report, pointing to the further enrichment of the ultra-wealthy in the course of the pandemic, noted: “The rise in wealth inequality was likely not caused by the pandemic itself, nor its direct economic impacts, but was instead a consequence of actions undertaken to mitigate its impact, primarily lower interest rates.”

While the public “debate” over Fed policy has focused on inflation, the underlying issue for the ruling classes is not price rises per se, but the question of wages and the suppression of the growing resurgence of the working class, after decades of wage cuts.

In previous times, the Fed would have responded to such a development with a rise in interest rates, to prevent so-called “overheating” in the economy.

But this path is now fraught with danger because, such has been the build-up of debt in the US and global economy to record levels, and the development of rampant speculation financed by borrowed money, that even a small rise in interest rates from their present ultra-low levels could trigger a financial crisis.

Consequently, finance capital and its political representatives in the US and around the world are relying on the trade unions to suppress and betray the emerging struggles of the working class.

In the US, where the Biden administration has launched a historically unprecedented campaign for increased unionisation, the *Wall Street Journal* has been publishing almost daily comments and articles on the push for higher wages, featuring comments from employers about the need to remove supplementary COVID unemployment benefits, in order to increase the labour supply—that is, force workers to take whatever low-paying job they are offered.

The connection between the policies of the Fed, the state of financial markets and the development of the class struggle, through the push for higher wages, was highlighted in comments to the business channel CNBC by Chris Watling, CEO of the investment consulting firm, Longview Economics, earlier this week.

He said at present the Fed was resolute on sticking the course—“looser for longer, looser than they’ve ever been before—and maintaining that liquidity as much as they can, and being very, very slow to withdraw it.

“Anything that upsets that apple cart, and the labour market is a possible candidate, is a real issue ... for financial markets in the medium term, given the sort of valuation metrics that we have there.”

In other words, the resurgence of the working class could have major consequences for the financial house of cards created by the Fed and other central banks.

This connection makes clear that the role of the trade union bureaucracy, in the US and internationally, in striving to suppress and betray all independent action, is not the product of a few corrupt individuals, but the response to the deepest needs of finance capital.