Bankers bare their teeth on wages

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Amid surging inflation around the world, powerful sections of finance capital are voicing the demand that central banks lift interest rates to suppress the growing movement of the working class for wage rises.

In a media conference on Monday, Ethan Harris, head of global research at the Bank of America (BofA), underscored the call by the bank's economists for the US Federal Reserve to carry out seven interest rate hikes, each of 0.25 percentage points this year, and four more in 2023.

The call was in response to data from the Labor Department which showed that average hourly earnings increased by 0.7 percent in January and wages have risen by 5.7 percent over the past year.

With wage increases well below the inflation rate, now at around 7 percent and set to go higher, and prices of basic items such as food and gas rising much faster, the BofA call reflects growing demands for what amounts to a pre-emptive strike.

Harris said if he were the Fed he would be "getting nervous" that it was not just a "few outliers" that were driving the wage increases.

"If I were the Fed chair… I would have raised rates early in the fall. When we get this broad-based increase [in inflation] and it starts making its way to wages you get behind the curve and you need to start moving," Harris said, as he claimed wages were rising across virtually all income classes.

The same views have been advanced by Goldman Sachs. A note issued by Goldman economists this week pointed to what has been termed the "great resignation" as workers leave the labour force altogether or switch to jobs paying a higher rate.

"These trends have pushed wage growth to a rate that increasingly raises concern about the inflation outlook," the note said.

Faster growth of labour costs than is compatible with the Fed's 2 percent inflation target was likely to keep it on a consecutive hiking path and could bring a more aggressive response.

Financial analyst Mohamed El-Erian, the chief economic advisor at the global financial firm Allianz, who began calling for interest rate increases last year, told the business channel CNBC that talk of seven interest rate rises this year showed how out of date Fed policy was.

"So hopefully they can regain the inflation narrative, hopefully they can control the wage narrative," El-Erian said.

He expressed his concern that the lack of action by the Fed in the past meant that rapid rate hikes may be more than the economy could absorb. That is, a too rapid rise would push the economy into recession.

At the same time, there is concern in some financial circles that interest rate hikes aimed at suppressing wages will hit the inflated stock market which has been dependent on the flow of ultra-cheap money that has pushed Wall Street to record highs.

Writing in the *Financial Times* last month, Philipp Hildebrand, the vice-chair of Blackrock, the world's largest asset management fund, took issue with the calls for central banks to aggressively tighten monetary policy, noting that the inflation surge was not being driven by excessive demand but by limits on supply capacity.

Avoiding any mention of Blackrock's material interest in maintaining the low-interest rate regime that has proved so profitable for Wall Street, he couched his article in terms of the impact tighter monetary policy would have on the broader economy.

"Central banks," Hildebrand wrote, "have either to accept higher inflation or be prepared literally to destroy demand across the whole economy to ease supply constraints in one part of it."

He said if central banks were seeking to maintain inflation at the target rate of 2 percent amid the present supply constraints it would mean "driving the unemployment rate up to double-digit levels."

Robert Reich, former labor secretary in the first Clinton administration, added his voice to those opposed to the lifting of interest rates. In a comment published in the *Guardian* this week he warned: "Higher interest rates will harm millions of workers who will be involuntarily drafted into the inflation fight by losing jobs or long-overdue pay raises."

Contrary to Fed chief Jerome Powell's expressed concern about wages pushing up prices, Reich said there was no wage-price spiral and workers' real wages had dropped because of inflation.

"Even though overall wages have climbed, they've failed to keep up with price increases—making most workers worse off in terms of the purchasing power of their dollars," Reich stated.

As with all would-be reformists, Reich maintained that the present push for interest hikes was a "mistake" and the product of a "line of reasoning [that] is totally wrong," ignoring the essential class dynamic which is at work.

Having driven workers back into unsafe working conditions, amid the spread of the pandemic, to maintain the flow of profits for the corporate and financial elites, there is a determination that this flow be further enhanced by clamping down on wages.

The nakedness of this drive was most clearly expressed across the Atlantic in the decision by the Bank of England (BoE) last week to increase its base rate by 0.25 percentage points, with clear indications of more rises to come as UK inflation surges to 7 percent by April.

At his press conference, following the decision by the BoE's Monetary Policy Committee, the central bank's governor, Andrew Bailey, made clear it was all about wages.

Responding to a questioner who noted that the fall in real post-tax labour income was the largest since 1990, even bigger than after the 2008 financial crisis, and possibly the "biggest squeeze" since Napoleonic times, Bailey said the decision was taken because of the "further pressure [on inflation] coming from the labour market." Bailey openly acknowledged that the decision would impact most heavily on those "least able to afford it."

Asked whether the BoE was "just making a bad situation worse for real people," he claimed that he knew it was a "hard message" but "if we don't take this action, it'll be worse."

In response to a question as to whether, when households were already down, the central bank was trying to squeeze them further or change expectations, so workers did not make wage demands, Bailey went to the heart of the issue.

He said that "when I go round the country talking to businesses, when we all go around the country talking to businesses, it's the first, second and third thing that businesses want to talk about, which is pressure in the labour market and the cost of labour."

Bailey's comments were underscored by the BoE's chief economist, Huw Pill, in an online conference yesterday at which he said that wage growth this year of 5 percent would be "stronger than that consistent with the inflation target over the medium term." That is, real wages must be cut.

The same issue was raised, albeit in a different form, by the governor of the Reserve Bank of Australia, Philip Lowe, on its latest monetary policy decision last week. Lowe announced that the RBA would cease purchasing government bonds but did not lift interest rates.

In his press conference following the decision, Lowe pointed to the crucial importance of the Fair Work Australia Commission and the role played by the trade unions in enforcing its wage decisions saying there was "a lot of inertia because of our institutional arrangements."

Responding to a question about the risk of inflation, he said that inertia meant it was "quite unlikely" that wage growth would be pushed up to "problematic rates."

Lowe stated that inflation was caused mainly by supply side problems that the market would resolve and the "inertia in Australia's wages system means that the pick-up in inflation, in broad terms, is going to be fairly modest—and if it's faster than that we can respond."

In other words, if workers do respond to price hikes, which, in terms of basic necessities are far above the official rate of 3.5 percent, and begin to break free of the union-enforced straitjacket, the central bank will respond with the same measures being employed by its international counterparts.