Bank of International Settlements chief says new era of inflation has begun

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The head of the Bank for International Settlements has warned of a "new inflationary era" that will require major changes in the policies of central banks.

In a speech delivered in Geneva on Tuesday, Agustin Carstens, the general manager of the BIS, the umbrella organisation of the world's central banks, made clear these changes will be directed against the working class as he pointed to the increased risk of a "dangerous wage-price spiral."

Carstens acknowledged that for himself and other central bankers the inflation surge had come as a complete surprise, puncturing the long-cultivated myth that the leading capitalist economists and financial officials have some superior knowledge about the workings of the economic system over which they preside.

"The shift in the inflationary environment has been remarkable," he said. "If you had asked me a year ago to lay out the key challenges for the global economy, I could have given you a long list, but high inflation would not have made the cut."

On the same day, the Organisation for Economic Cooperation and Development reported that consumer prices in the world's 30 richest countries had risen by 7.7 percent in February compared with just 1.7 percent a year ago.

Carstens noted that almost 60 percent of advanced countries had price rises of more than 5 percent—the highest proportion since the 1980s—with the inflation rate in more than half of emerging market economies running above 7 percent.

The inflation surge may have been completely unanticipated but when it comes to dealing with it, the representatives of the profit system have an unerring class instinct.

The change in circumstances meant that a change in the paradigm was called for, Carstens said. "That change requires a broader recognition in policymaking that boosting long-term resilient growth cannot rely on repeated macroeconomic stimulus, be it monetary or fiscal. It can only be achieved through structural policies that strengthen the productive capacity of the economy."

Long experience has revealed the meaning of these words. In a capitalist economy, based on the drive for profit, increasing "productive capacity" means deepening the attacks on the working class, whose labour power is the source of all profit, through a combination of wage cuts, the reduction of social spending and the development of more intense work methods.

Carstens indicated that in his view loose monetary policy and expanded government spending programs had helped cause the "flare up" in consumer prices. "Policy settings, at least over the past year, may have served as a springboard for the rapid expansion."

Noting that by some metrics, labour markets look even tighter than they did pre-COVID, he said inflation had started to affect the "cost of living" and there were early signs that wage growth had become more sensitive to inflation over the past year. That was an oblique reference to the rise of wages struggles around the world.

No one wanted a repeat of the 1970s, Carstens said, recalling a period when major struggles by the working class shook the profit system.

But the "good news" was that central banks were aware of the risks and it was clear that "policy [interest] rates need to rise to levels that are more appropriate for the high-inflation environment." Most likely this would require that interest rates rise "in order to moderate demand."

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As always, these prescriptions are cast in language aimed at obscuring their essential class content, as if the economy did not involve the lives of billions of workers but was some kind of machine.

The content of his remarks was that if workers fight for wage increases to compensate them for past losses and seek to combat the rampant inflation of today, then central banks must hike rates to bring about a recession and create unemployment. Carstens described this euphemistically as "moderating demand."

Officials of the world's major central bank, the US Federal Reserve, are singing from the same song sheet. On Tuesday, Lael Brainard, a member of the Fed's board of governors and awaiting Senate confirmation as Fed vice chair, issued a call for "stronger" action if necessary to lift interest rates. She indicated she was also in favour of a "rapid" reduction in the Fed's $9 trillion holdings of financial assets.

Speaking to a conference organised by the Minneapolis branch of the Fed, she said it was of paramount importance to get inflation down. The Fed would continue to tighten monetary policy both by lifting interest rates and by "starting to reduce the balance sheet at a rapid pace as soon as our May meeting."

Minutes of the Fed's March meeting, released yesterday, showed it was developing a plan to cut its asset holdings by $95 billion a month from next month.

Brainard's remarks were significant both because of her position and also because last year she insisted that the Fed should not be premature in pulling back stimulus measures.

Following Fed chair Jerome Powell, she also invoked Paul Volcker who, as Fed chair in the 1980s, drove interest rates to record highs, resulting in deep recession, to crush wage demands.

But the Fed's attempts to restore economic order are far from plain sailing under conditions of worsening global turmoil. Those responsible for directing the policy of the state face a resurgent working class on the one hand and a fragile financial system caused by continuous injections of money on the other.

In his annual letter to shareholders issued earlier this week, Jamie Dimon, the head of JPMorgan, the biggest US bank, said the US economy was facing unprecedented risks.

Dimon warned that the war in Ukraine could collide with inflation. These developments, he wrote, "present completely different circumstances than what we've experienced in the past and their consequences may dramatically increase the risks ahead."

The letter was in marked contrast to that of a year ago in which Dimon held out the prospect for a "Goldilocks" economy in which there would be sustained growth coupled with a small upward drift in inflation and interest rates.

Today, the Fed could move interest rates higher than markets expect—a process that would cause "lots of consternation and very volatile markets."

The war in Ukraine along with sanctions, would "at a minimum" slow the global economy amid turmoil in commodity markets. Additional sanctions, which he supports, could "dramatically and unpredictably" worsen the situation.

"Along with the unpredictability of war itself and the uncertainty surrounding global commodity supply chains, this makes for a potentially explosive situation."

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