Push for European Central Bank to tighten monetary policy

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Pressure is building on the European Central Bank to end its easy money policy and align itself with other major central banks by starting to lift interest rates as its governing council meets in Frankfurt today.

James Bullard, president of the St Louis branch of the US Federal Reserve and a voting member of its policy-making body, told *Financial Times* (FT) this week it was “fantasy” to think the US central bank could bring down inflation without raising interest rates to a point where they constrain the economy.

In another indication of central bank policies, the Reserve Bank of New Zealand yesterday lifted its base rate by 0.4 percentage points, the biggest single hike in 22 years.

The aim of this global agenda is not to bring down prices—no hike in interest rates will do that. Rather it is to impose recessionary conditions aimed at preventing workers from pushing for wage increases to compensate for falling living standards as prices race out of control.

The ECB has justified its easy money policy, which has made billions of euros available to finance capital, on the grounds that it has been necessary to try to lift the inflation rate to 2 percent. But this level has been well and truly surpassed, with no end to the price rises in sight.

In the euro zone, the annual rate of inflation rose to 7.5 percent in March, up from an annual rate of 5.9 percent the previous month. The ECB acknowledged at its previous meeting that “inflation was becoming more broad-based and more persistent.” Initially, in line with pronouncements by the US Federal Reserve, the ECB insisted inflation was “transitory.”

Speaking to the FT on the eve of today’s ECB meeting, Otmar Issing, its first chief economist when it was created in 1998, denounced the “misguided” response of the central bank to inflation.

Speaking for the more “hawkish” sections of financial policymakers in the northern European countries, in particular Germany and The Netherlands, Issing said the ECB had made a “misdiagnosis” of inflation and indicated that easy money policies were a significant factor.

“The ECB has contributed massively to this trap in which it is now caught because we are heading towards the risk of a stagflationary environment,” he said.

The ECB was too slow in raising interest rates. “Inflation was the sleeping dragon; this dragon has now awoken.”

He told the FT that ECB policy makers were relying on a forecasting model that no longer applied. This was because the pandemic and the disruption resulting from the war in Ukraine would keep inflation higher by reversing globalisation amid rising trade tensions.

Issing said the ECB had “lived in a fantasy” of continuing its easy money policy “without any negative consequences.” Now it was faced with a “stagflationary” situation of rising prices and slowing growth.

The FT also cited Christian Swing, the chief executive of Deutsche Bank, who said soaring inflation was “poison for the stability of our economy and society” and it was “urgent” the ECB act.

The push for higher wages is being fuelled by real pay cuts. In the last three months of 2021 hourly wages in the euro zone were 1.5 percent higher than a year before, but the average rate of inflation was 4.7 percent. Since then, the gap has widened significantly, with inflation being driven by the sharp rise in energy costs.

Euro zone energy prices rose by 12.5 percent in March alone, and in February were 44 percent higher than a year before. The fear of all central bankers is that

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this becomes the driving force for a wages movement across the continent. Earlier this month, Greek workers held a national strike against rising prices and called for an increase in the minimum wage.

Inflation will continue to surge in the coming days and weeks. In the US, the headline rate of inflation for March was 8.5 percent, up from 7.9 percent in February. Seeking to turn inflation into US war propaganda, White House press secretary Jen Psaki said on Monday evening the inflation number would be "extraordinarily elevated due to Putin's price hike."

However, the inflation surge began well before the Russian invasion of the Ukraine, provoked by the refusal of the US and NATO to even consider, let alone negotiate on, Moscow's calls for security guarantees and that Ukraine not become a member of NATO.

In a report on what it called "chaotic trading" in basic commodities such as oil, gas, metals and food, a *Wall Street Journal* article on Tuesday noted that the rise in commodity prices was "more intense that anything seen in the modern trading era."

It made clear that while the price hikes have been accelerated by the Ukraine war, the inflationary surge began much earlier.

One of the first signs of the surge was in the timber market as futures contracts moved up so sharply that traders were unable to complete their deals.

"Other, larger commodity markets heated up in 2021 and began their own bouts of chaotic trading," the article noted.

It cited comments by Tracey Allen, commodities strategist at JPMorgan Chase, who noted: "Inventories across energy, agricultural and metals are critically low everywhere" and it "doesn't appear there's silver bullet."

One of the chief reasons for the crisis was the refusal of capitalist governments, particularly the US, to take any meaningful public health safety measures to deal with the pandemic. They increasingly pursued the murderous "let it rip" program, lest necessary public health measures adversely impacted on the stock market in the wake of the market crash in March 2020 at the start the pandemic.

This inaction, as the Fed supported finance capital by pouring an additional $5 trillion into the financial system, hit the real economy, leading to supply chain constrictions due to the rapid spread of COVID-19 infections around the world.

Having created an inflation crisis by their refusal to deal with COVID, the ruling classes and their central bankers are now determined to make the working class around the world pay by lifting interest rates to create recessionary tendencies aimed at suppressing wage demands.

With inflation reaching new highs in the US, the Fed is almost certain to hike its base rate by 0.5 percentage points at its next meeting in May with further rises to follow. This will lay the basis for similar action by other central banks, including the ECB.

More severe measures could follow. Fed chair Jerome Powell and the nominee for the position of vice chair, the previously "dovish" Lael Brainard, have both expressed their admiration for former Fed chair Paul Volcker. They have indicated that they are prepared to follow the road Volcker took in the 1980s when major interest hikes were used to create a deep recession to crush a movement of workers for higher wages.

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