US Federal Reserve raises rates, outlines class war policy against workers

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The US Federal Reserve announced Wednesday it was raising the benchmark short-term interest rate by half a percentage point, the largest rate hike since 2000. Fed Chief Jerome Powell said the US central bank expected to carry out 0.5 percent rate hikes at each of its next two meetings and further increases afterwards to slow the economy without driving it into recession. The aim of these measures, he said, was to bring inflation, now at a four-decade high of 8.5 percent, back towards the Fed's target of 2 percent a year.

At a press conference following a meeting of the central bank's policy-setting Federal Open Market Committee, Powell began his remarks by feigning concern for the devastating impact of surging fuel, food and other costs on workers and their families. "Inflation is much too high," he said. "We understand the hardship that it is causing, and we are working expeditiously to bring it back down. We have the tools we need and the resolve it will take to restore price stability on behalf of American families and businesses."

The rate hike, however, will only increase hardship for working class families. In the first instance, it will raise the cost of mortgages, credit cards, student loans, car payments and other forms of consumer debt.

The average American household is already burdened with $155,000 in debt. With everything going up except workers' real wages, families are increasingly using credit cards to pay for groceries and other necessities. In the fourth quarter of 2021, credit card debt rose $52 billion, the largest quarterly increase on record. After the Fed's quarter-point increase in March, interest rates increased across 75 percent of the 200 credit cards LendingTree credit expert Matt Schulz monitors every month, he told CBS News.

The interest on a 30-year fixed-rate home mortgage rose to 5.41 percent after the Fed's move and is up almost two points since last year. Home buyers are already spending more than $5,000 a year more for an average home in the US, which costs $392,000. This will only increase as the Fed continues to hike rates.

Powell brushed aside the impact of rate hikes on workers' debt payments, saying the increases might cause "some pain" and lead "consumers to spend a little less." This was all necessary, however, to "restore price stability."

In his further remarks, the Fed chief made clear what he and the American ruling class really mean by "fighting inflation." Powell cited "tight labor markets" and "labor shortages," which had led to "wages rising at the fastest pace in years."

There was a nearly two-to-one ratio of job openings to unemployed workers, forcing employers to pay more to attract workers, Powell complained. "This was a good time to be a worker," he said, adding bitterly that workers "could change jobs or look to get a raise at the current job."

Central bankers, Powell asserted, "love wages to go up, but at a sustainable level." The current pace, however, "was not consistent with 2 percent inflation."

Powell said the Fed's aim was to return to the "long period of expansion" and low inflation rates that characterized the US economy before the pandemic. But this nirvana for the American ruling class coincided with a four-decade decline in the real wages of workers.

What are the "unsustainable" wage hikes of the past year that Powell finds so disturbing? Wages and salaries for civilian workers increased by only 4.7 percent during the 12-month period ending in March 2022, according to the US Bureau of Labor Statistics. For private-sector workers, wages and salaries were up 5.0 percent over the same 12-month period.

But in real terms (adjusted for inflation), wages of private industry workers declined 3.3 percent from March 2021 to March 2022.

Significantly, non-union workers got larger pay increases than unionized workers. Non-union workers saw increases of 5.1 percent between March 2021 and March 2022, up from 3.0 percent the year before. Unionized workers saw only a 3.7 percent increase, up from 3.1 percent the year before. This was the direct result of the four-year, five-year and six-year contracts signed by the United Auto Workers, the United Steelworkers and other unions at Volvo Trucks, Deere, Dana, Kellogg's and in the oil industry, which provide annual wage increases of 3 percent or less.

At the same time, corporate profits are at the highest levels since the 1950s. This week, the oil industry announced massive first-quarter profits, including Chevron ($6.3 billion), ExxonMobil ($5.5 billion) and Marathon ($1.3 billion), and the extension of multi-billion-dollar stock buyback programs to boost the fortunes of their investors.

A recent report by the Economic Policy Institute (EPI) noted that price-gouging markups by corporate America, along with the supply chain crisis, had contributed far more to inflation than minuscule wage increases.

The EPI wrote: "Since the trough of the COVID-19 recession in the second quarter of 2020, overall prices in the NFC [non-financial corporate] sector have risen at an annualized rate of 6.1%—a pronounced acceleration over the 1.8% price growth that characterized the pre-pandemic business cycle of 2007–2019. Strikingly, over half of this increase (53.9%) can be attributed to fatter profit margins, with labor costs contributing less than 8% of this increase."

An even greater factor has been the massive inflation of financial assets, fueled by the policy of "quantitative easing." Ever since the 2008 crash, the Fed has poured trillions of dollars of virtually free money into the financial markets and bought up the bad debts of the banks and corporations, fueling a massive and unsustainable financial bubble. The 2020 Wall Street bailout led to a 70 percent rise in the personal fortunes of Elon Musk, Jeff Bezos and the rest of America's billionaires.

The New York Stock Exchange celebrated the Fed's rate hike and Powell's assurances that it was not considering more substantial 0.75 percent increases over the next few months. The Dow closed with a nearly 3 percent gain for the day.

Wall Street got and applauded Powell's central message. The Fed was prepared to risk a full-scale recession to fight the danger of further "wage inflation" and a "wage-price spiral." The Fed "would not hesitate" to move from "neutral" to "restrictive" interest rates to restore "labor market balance," the Fed chief insisted.

This is the language of class war. The ruling class fears that the growing movement of the working class for substantial wage increases threatens to end its "magic recipe" of stagnant wages and relentless cuts to social spending, which has enriched America's financial and corporate oligarchy as never before.

The ruling elite is preparing to use mass unemployment as a hammer to beat back workers' wage demands.

This savage policy is supported by the Biden administration, both capitalist parties and the corporate media. On April 29, the *New York Times* editorial board published a statement ("The Courage Required to Fight Inflation") which recalled in horror, "In the 1970s, workers successfully demanded wage increases to compensate for expected increases in prices."

The *Times* noted favorably that Powell "has often expressed admiration for the resolve exhibited by one of his predecessors, Paul Volcker, who was willing to crash the economy in the early 1980s to drive down inflation."

The former Chase Manhattan Bank executive was appointed by Democratic President Jimmy Carter as Fed chairman in 1979, after a decade of rising working class militancy that culminated in the 111-day nationwide strike by coal miners in 1977–78 and their defiance of Carter's Taft-Hartley back-to-work order.

Declaring that the "standard of living of the average worker has to decline," Volcker raised interest rates to a record 20 percent and precipitated the worst recession up to then since the Great Depression. Between 1978 and 1982, over 6.8 million jobs were wiped out through plant closures and mass layoffs. Volcker remained Fed chairman under Ronald Reagan and would later hail the Republican president's mass firing of 13,000 striking air traffic controllers as "the most important single action of the administration in helping the anti-inflation fight."

Asked Wednesday by a *Bloomberg* reporter about his admiration for Volcker, Powell said, "He had the courage to do what he thought was the right thing."

Social anger over surging prices and unbearable workloads has already produced a rising tide of working class resistance in recent weeks, with strikes by Chevron oil workers, Stanford University nurses, Oakland teachers, CNH manufacturing workers in Wisconsin and Iowa and other labor actions. The class war policy of the Federal Reserve and the demands of the Biden administration for endless sacrifice to pay for its reckless military confrontation with Russia are setting the stage for an explosive escalation of class conflict in the US, as workers join their counterparts around the world in the fight against social inequality, capitalist exploitation and war.