

Central bankers back Fed's war on the working class

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Central bankers and leading economic officials from around the world have forcefully aligned themselves behind the declaration of war against the working class delivered by US Fed chair Jerome Powell to the Jackson Hole conclave at the end of last week.

In a blunt address of just nine minutes, Powell made clear there would be no letup in the Fed's interest rate hikes, inducing a recession if that proves necessary, to batter down the push by workers for higher wages to compensate for the daily cuts in their living standards resulting from the highest inflation in four decades.

Powell said that as a result of the Fed's policies there would be slower growth and softer labour market conditions which would "bring some pain to households and businesses."

It was significant that in his very short address Powell made two references to former Fed chair Paul Volcker, appointed to the position by Democrat president Jimmy Carter in 1979, who imposed record interest rates in the 1980s as part of the war conducted against the working class under the Reagan administration.

Volcker's measures produced economic devastation in the US as whole sections of industry were shut down and unemployment rose to its highest levels since the Great Depression of the 1930s, leaving effects still being felt today. It also produced similar conditions internationally, particularly in Latin America, as other governments joined the offensive.

Four decades on, the rot and decay of the capitalist economy has developed in leaps and bounds and the representatives of finance capital are prepared to go even further if they consider it necessary.

This was made clear in keenly awaited remarks by Isabel Schnabel, an executive board member of the European Central Bank (ECB) to the conclave on Saturday. She said there was a risk inflation was racing

out of control and even greater "sacrifice" would be needed.

"Central banks are likely to face a higher sacrifice ratio compared with the 1980s, even if prices were to respond more strongly to changes in domestic economic conditions, as the globalisation of inflation makes it more difficult for central banks to control prices pressures," she said.

Schnabel pointed to the key issue exercising the minds of the central bankers and other officials – the need to suppress wage demands, no matter what the cost.

"Both the likelihood and the cost of current high inflation becoming entrenched in expectations are uncomfortably high," she said. "In this environment, central banks need to act forcefully."

Expectations of inflation becoming "entrenched" is code in central bank language for workers pushing for wage increases in the belief—confirmed in their daily experience—that cost-of-living pressures will increase even further.

Schnabel also pointed to the longer-term risks to the stability of the international monetary market which, for the past 50 years since President Nixon withdrew the gold backing from the US dollar, has not been backed by a store of value.

Central banks, she said, "need to lean with determination against the risk of people starting to doubt the long-term stability of our fiat currencies."

The head of the French central bank, François Villeroy de Galhau, was not as strident but his remarks carried the same message. He said there should be "no doubt" about the ECB's willingness to raise interest rates above the neutral rate, a level that neither promotes or constrains growth, and that "our will and our capacity to deliver on our mandate are

unconditional.”

This is a forecast of significant rate rises because the inflation rate for August in the eurozone is expected to reach 9 percent—well above the bank’s target of around 2 percent—when the latest figures are issued later this week.

The president of the Swiss National Bank Thomas Jordan warned inflation was not a passing phenomenon and could persist for years to come because of structural factors in the economy, amid signs it was becoming broad based.

“There are signs that inflation is increasingly spreading to goods and services that are not directly affected by the pandemic or the war in Ukraine,” he said.

The Bank of Korea governor Rhee Chang-yong drew attention to the inflationary problems caused by the rise in the US dollar produced by the Fed’s monetary tightening. In Korea, as in many other countries, the dollar’s rise and the fall in the value of the domestic currency mean that the prices of imports—in particular energy and other essential commodities—increase. Inflation is thus imported.

“We are now independent from government, but we are not independent from the Fed,” he said in an interview with Reuters.

“So if the Fed continues to increase the interest rate it will have a depreciation pressure for our currency.”

Another significant contribution to the discussion was by Gita Gopinath, the first managing director of the International Monetary Fund, after previously serving as its chief economist. Perhaps inadvertently, she let the cat out of the bag as to the responsibility of governments and central banks for the inflation now ripping through the global economy.

Gopinath said “existing models” could not explain the inflation surge, in particular the so-called Phillips curve, developed in the 1950s, which purports to show that inflation is linked to wage rises, as present inflation was not being led by wages.

She said high inflation was due to the stimulus provided by governments as a result of COVID – the massive amounts of money handed out by governments to corporations. She did not mention it, but could well have cited, the trillions of dollars pumped into the financial system by the world’s major central banks as another key factor.

At the same time there was also “a contraction in potential output and employment.”

While Gopinath did not fully elaborate, her remarks pointed to the essential causes of the inflation crisis which reside in the response of governments and financial authorities to the COVID pandemic.

When the pandemic struck, governments around the world did not take decisive public health measures lest this cause a crisis on the stock markets. Instead, they pursued limited mitigation measures at best while funnelling money into the financial system – the Fed alone poured in more than \$4 trillion – after markets froze in March 2020.

And their refusal to take action to eliminate COVID, as they scrapped even limited measures and adopted the “let it rip agenda,” led to major problems in supply chains and a contraction in the labour force which has now sparked an inflationary spiral, exacerbated by the US-led proxy war against Russia in Ukraine.

Having created the conditions for what amounts to a breakdown of the global economy, exemplified most sharply in the escalation of inflation, the policy of the central banks is to make the working class pay for it through the slashing of real wages, the intensification of exploitation enforced through a recession-inducing high interest rate regime. This is the program agreed on at the Jackson Hole meeting.



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