Warnings of financial turbulence amid rising workers' struggles

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The latest US inflation data and the certainty that the Federal Reserve will continue to lift interest rates and tighten its monetary policy, all combined with a rising US dollar, is sending tremors through the global financial system.

Markets around the world fell yesterday on the back of Tuesday's slide on Wall Street—the largest in two years.

This rise in the dollar's value as a result of the Fed's interest rate hikes is causing concern for financial authorities and governments in Asia as their currencies fall. Bloomberg has reported that the Japanese government is said to have asked banks for an indicative price for the value of the yen at which it could intervene to try to stabilise the currency.

The yen has hit a 24-year low against the dollar and the Japanese finance minister Shunichi Suzuki has said the government would not rule out an intervention in foreign exchange markets. The South Korean won has fallen along with the Thai baht, the Indonesian rupiah, the Philippine peso and the Malaysian ringgit.

One of the major concerns of the governments of the region is that the decline in the value of their currencies against the US dollar adds further fuel to the inflation fire which has already seen the eruption of mass protests in Indonesia earlier this month.

The other worry is that the fall in currency values sets off a financial crisis as took place in the Asian financial crisis of 1997, sparked by a collapse in the value of the Thai baht.

In the US, the latest data make clear price hikes are not abating. The key issue in ruling circles is how far and how fast interest rates must be raised to suppress the growing movement of the working class for wage increases to compensate for the highest inflation in four decades.

An article in the *Financial Times* (FT) quot Duy at SGH Macro Advisors, which provides research for hedge funds, who made clear the central bank had much further to go.

"We're not seeing enough of the results of monetary tightening showing up in the economy to think that the Fed's job is anywhere near done," he said.

The article noted that "economists' primary concern is that expectation of future inflation could spiral out of control, setting off a feedback loop whereby workers demand higher wages."

Former treasury secretary Lawrence Summers, who has called for an unemployment rate of 5-6 percent for several years or a 10 percent unemployment rate for at least a year, is pressing ahead with this demand.

In his latest intervention, in a comment on Twitter, he said that "it has seemed self evident to me for some time now that a 75 basis points move in September is appropriate. And, if I had to choose between 100 basis points in September and 50 basis points I would choose a 100 basis points move to reinforce credibility."

What is meant by "credibility" is that the Fed displays its unrelenting determination to raise interest rates to a level sufficient to bring about a recession so that wage demands are pushed back under conditions of sweeping job losses.

But the Fed's drive against the working class via its monetary tightening policy is raising concerns about its effects on the stability of financial markets.

Besides the impact of interest rate hikes, there is another issue which is rapidly coming into view. This is the consequences of the Fed's decision to start reducing it $9 trillion holdings of financial assets at the rate of $95 billion a month, a process known as quantitative tightening (QT).

This means that instead of being a buyer in the $25

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trillion US Treasury bond market, the Fed becomes a seller.

The concern is this will lead to a liquidity contraction where there is a shrinking pool of buyers for government debt.

This is what took place in the meltdown of financial markets in March 2020 when, at one point, no buyers could be found for Treasury bonds, threatening a collapse of the entire financial system. That was only narrowly averted through a massive intervention by the Fed which doubled its holdings of financial assets to more than $8 trillion.

Despite several inquiries and reports on the meltdown, nothing has been resolved and there is a growing fear that in conditions where liquidity is at its tightest since the early months of 2020 that another crisis could erupt.

Commenting on the effect of QT to the FT, New York University economist Viral Acharya warned that "we could have a problem of liquidity stress in the banking system. And whenever banks are stressed, it usually spreads over to non-banks and Treasury markets and other [funding] markets."

Acharya was the co-author of a paper with Raghuran Rajan, former governor of the Bank of India, to the Jackson Hole meeting of bankers and financial official at the end of August, that warned of the effect of QT on liquidity.

Rajan has proved to be an insightful observer in the past. When he was an economist at the International Monetary Fund, he presented a paper at the Jackson Hole conclave of 2005 in which he warned that the Fed's ultra-easy monetary policies were creating the conditions for a financial crisis.

The conclave was conceived as a celebration for the retiring Fed chair and the architect of those policies, Alan Greenspan, and so Rajan was rounded on by all and sundry, particular Summers. But three years later, in September 2008, the global financial crisis erupted.

The Bank of America has warned that Treasury market strains are "arguably… one of the greatest threats to global financial stability today, potentially worse than the housing bubble of 2004–2007," which was the trigger for the crisis of 2008.

The giant bond trader Pimco has warned that the current structure of the US Treasury market "leaves it vulnerable in times of stress to further bouts of the extreme market price volatility seen in March 2020."

Articles in the mainstream media as well as comments by economists always involve a mystification of the operations of finance capital. But there is a profound relationship between the gyrations of the financial markets and the struggles of the working class.

Notwithstanding the vast profits accumulated on Wall Street by banks, hedge funds, speculators and investors, the financial system does not create an atom of real wealth. It is a mechanism through which the wealth created by the labour of the working class is siphoned to the upper echelons of society, the top one percent, and their props in the upper reaches of the middle class.

That process is being threatened by the rising movement of the working class in support of wage demands and an end to the increasingly intolerable, exploitative, working conditions imposed over decades. The fear is that this movement threatens to bring down the entire house of financial cards.

This is why in the US, particularly with regard to the struggle of rail workers, in the UK, where the economy has become a cesspit of financial parasitism, and around the world, all the forces of the state, including its financial arm, the central banks, are being mobilised with the support of its bought-and-paid-for servants in the trade union apparatuses to attempt to suppress it.

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