Fed makes clear recession and job losses are its goal

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US Federal Reserve Bank chairman Jerome Powell has made his most explicit statements to date that the key goal of the central bank's interest rate hikes is to bring about an increase in unemployment to suppress wage demands by workers in the face of the highest rate of price increases in four decades.

Powell's commitment was laid out in his opening remarks to a press conference yesterday, following a meeting of the Fed's policy-making committee and in his response to questions. As expected, the Fed lifted its base interest rate by 75 basis points, bringing the total rise since March, when the tightening policy began, to 300 basis points.

This is the fastest rate of increase since the early 1980s when, under the chairmanship of Paul Volcker, whom Powell admires and continues to reference, Fed rate hikes resulted in the deepest recession to that point since the 1930s in order to suppress the working class.

At the conclusion of his prepared remarks, Powell again used Volcker's phrase that the Fed would "keep at it," repeating it in his response to the first question at the press conference in which he said his "main message" had not changed since the Jackson Hole meeting of central bankers at the end of August.

The essence of Powell's remarks at that meeting was that the Fed would not pull back on interest rate hikes as a result of worsening economic conditions as some sections of the financial markets considered would happen.

As James McCann, deputy chief economist at the fund manager Abrdn, told the *Financial Times*: "A key part of the message here is that policy is not necessarily going to pivot as soon as the economy starts to slow. They're prepared to leave policy at restrictive levels even as the labour marker weakens."

The word "restrictive" was contained in many of Powell's responses to questions. And there was a revealing moment as to its objective in response to a question about how long there would have to be economic "pain."

Powell replied that it really depended on "how long it takes for wages to come down" and then quickly added, most likely realising he had said more than intended, "and more importantly for prices to come down."

The significance of this response is that it exposed the real agenda—the drive against the wages and living standards of the working class being conducted under the banner of "fighting inflation."

The extent of the contraction the Fed is seeking to impose on the economy is revealed in its projections for economic growth and unemployment levels. The Fed estimates that potential growth for the US economy is 1.8 percent a year. But the projected levels are well below that, with the estimate for growth this year at 0.2 percent and 1.2 percent for 2023.

The unemployment rate is predicted to rise from 3.7 percent to 4.4 percent. But as one questioner remarked, this issue is spoken of with a series of euphemisms, such as "below trend growth." However, he noted, the rise in the unemployment rate projected by the Fed, from 3.7 percent to 4.4 percent, would mean a loss of 1.3 million jobs.

Powell said the US economy had slowed from the higher growth rates in 2021. Consumer spending was down and activity in the housing sector had "weakened significantly," largely because of higher mortgages rates. High interest rates and slower output growth appeared to be "weighing on business investment" as weaker economic growth abroad was "restraining exports."

Having set out the worsening economic outlook, Powell returned to the main target. "Despite the slowdown in growth, the labour market has remained extremely tight, with the unemployment rate near a 50-year low, job vacancies near historical highs, and wage growth elevated," he said.

In fact, the supposedly "elevated" level of wage increases lags below the rate of inflation.

Powell said the labour market continued to be "out of balance," with the demand for workers "substantially exceeding the supply of available workers." The Fed objective is to increase that supply and bring about what he called a "better balance" by forcing millions of workers out of a job.

In response to the first question at the press conference, Powell said there was "only modest evidence that the labour market is cooling off" and "we think we'll need to bring our funds rate to a restrictive level and to keep it there for some time."

The same point was made in response to a question on the possibility of a so-called "soft landing," that is, a situation where the economy slows but not enough to markedly drive up unemployment rates.

Powell replied that "the possibilities of a soft landing are likely to diminish in that policy needs to be more restrictive or restrictive for longer."

The acceleration of the interest rate hikes planned by the Fed was signaled in the so-called "dot plot," in which members of its governing body indicate where they think the Fed's base rate will go. It registered a marked increase from the projections issued at the June meeting.

It showed the Fed's base rate rising to 4.4 percent by the end of this year before peaking at 4.6 percent next year. This was a significant increase from three months ago when the estimate was for a rate of 3.4 percent at the end of the year and a rise to 3.8 percent in 2023, before coming down in 2024.

A recent forecast by Deutsche Bank, that the rate could climb to 5 percent next year, was considered to be somewhat elevated, but the indications now are that it could soon reach that level.

The expectation of a rapid upward movement in rates was reflected in the two-year Treasury market where the yield on these government bonds rose to more than 4 percent at one stage, the highest level in 15 years. The increase further exacerbated yield curve inversion, regarded as an indicator of recession, in which yields, or interest rates, at the short end of the market rise above those on longer term debt, contrary to the "normal" situation.

The Fed decision will, at least in the short term, increase the value of the dollar, causing problems for other central banks because of its inflationary impact, transmitted via higher import prices, putting additional pressure on them to further lift their rates.

The World Bank has issued a warning that the synchronicity of rate rises could bring about a global recession. Asked about this issue, Powell said he and other Fed officials were in regular discussions with other central bankers but ruled out collaboration saying central banks were in very different situations.

In the 1980s there was some coordination via the Plaza and Louvre accords but that has gone by the board. It is now every man for himself with the Fed adopting the outlook of former treasury secretary John Connally, who declared after Nixon had removed the gold backing for the US dollar in 1971, that it was our currency but your problem.