Vowing "pain," Federal Reserve pledges to slash workers' wages

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On Wednesday, the US Federal Reserve increased the federal funds rate by three-quarters of a point, continuing the fastest pace of rate hikes since the 1980s. The action will immediately increase the cost of home mortgages, car loans and credit cards for working class and middle class families already struggling with the highest surge in inflation in four decades.

In his comments Wednesday, Federal Reserve Chairman Jerome Powell declared that "economic pain" was necessary to reduce inflation. He went on to say that the members of the Federal Open Market Committee expected unemployment to rise from the current 3.7 percent to 4.4 percent in 2023, an increase that would mean the destruction of 1.3 million jobs. Powell made it clear that the Fed was willing to throw the economy into a recession, destroying millions more jobs.

Powell complained that the Fed's recent rate hikes had not been sufficient, saying, "Despite the slowdown in growth, the labor market has remained extremely tight, with the unemployment rate near a 50-year low, job vacancies near historical highs, and wage growth elevated."

By driving up unemployment, the Fed expected "supply and demand conditions in the labor market to come into better balance over time, easing the upward pressure on wages and prices."

Critically, when Powell was asked by a reporter just how long Americans would have to endure economic pain, he replied that it depended on "how long it takes for wages... to come down."

In other words, when Powell and the ruling class talk about fighting inflation, they are not talking about stopping corporate price-gouging. No, they are talking about ensuring that real wages continue to fall, driving up corporate profits.

The claim that wages are driving up inflation is entirely a myth. Real average hourly wages of US workers have fallen by 2.8 percent over the last 12 months. Over half of the increase in inflation (53.9 percent) can be attributed to fatter profit margins, according to the Economic Policy Institute, with labor costs accounting for less than eight percent. But the American ruling class considers even a small, nominal pay rise completely unacceptable and is determined to keep its foot on the neck of the working class.

The Fed's moves are aimed at deliberately driving up unemployment and using the threat of economic destitution as a battering ram to suppress a wages movement by the working class and impose even more brutal conditions of exploitation.

This is spelled out in an op-ed piece by *Washington Post* columnist Megan McArdle, who praises former Federal Reserve Chairman Paul Volcker for raising interest rates to 20 percent in the early 1980s and provoking "the country's worst economic recession since the Great Depression," which put "one-tenth of the labor force" out of work. Volcker sent a clear message, McArdle says: "If inflation creeps up, the institution will do whatever it takes to get it back under control."

Volcker took these measures to beat back a wave of militant struggles by workers against the ravages of inflation, including the 111-day coal miners' strike in 1977-78. The "Volcker Shock" led to a wave of plant closures, mass layoffs, savage wage cuts and Reagan's smashing of the air traffic controllers' strike, which Democratic Party-appointed Volcker called the most important single action "the administration took in helping the anti-inflation fight," because it transformed "the climate of labor-management relations" both "profoundly" and "constructively."

Despite the collapse in workers' real wages, the US ruling class is terrified that the inflationary crisis is leading to a resurgence of the class struggle. In recent months, workers in the US and around the world have engaged in ever more militant strikes to demand substantial wage increases and to oppose brutal working conditions, as corporations seek to squeeze more out of fewer and fewer workers. In September alone, Minnesota nurses, Seattle teachers and other workers have struck, and over 110,000 railway workers are pressing for strike action. In the first six months of 2022, according to the strike tracker maintained by Cornell University, there were 180 strikes in the US involving 78,000 workers, up from 102 involving 26,500 workers in the same period a year earlier.

This is part of a global upsurge of the class struggle, including railway, oil rig, dock and transportation workers in the United Kingdom and other European countries. The *Wall Street Journal* sounded the alarm in an article titled, "Freight Labor Unrest Is Going Global and Weighing on Supply Chains," which warned, "From seaport docks in Los Angeles and Liverpool to rail yards in Chicago and warehouses in Europe and the U.S., clashes between cargo workers and management have been rising this year, adding complications and uncertainty to the flow of goods around the world."

Capitalist governments and central banks in Europe are following the US Fed's lead in carrying out a pre-emptive strike against this movement. UK Prime Minister Liz Truss instructed railway employees to "get back to work" and end their strikes over pay, job security and working conditions. She is working closely with the trade unions, which suspended the strikes out of obsequious deference to Queen Elizabeth and the monarchy.

In the US, President Biden signed a last-minute deal with the railway unions to prevent a strike last week. But there is enormous opposition to the agreement, which turned out to be nothing more than a pledge by the unions to block the strike and impose a slight modification of the terms of the Presidential Emergency Board (PEB), which workers were ready to strike against. This includes below-inflation wage raises, a single paid sick day, and the retention of the hated attendance policies that keep workers on call 24/7.

Before the deal, Biden declared that a railroad strike was unacceptable because of the harm a shutdown would inflict on families, farmers and businesses. What utter hypocrisy coming from a spokesman for the ruling class, which is prepared to throw the economy into a recession and ruin millions of families, farmers and businesses in order to block workers from fighting for a living wage!

When it comes to waging wars abroad, the United States is prepared to throw away hundreds of billions of dollars every year. There is simply no limit to the amount of money to be spent on tanks, warships and missiles. But the demands of workers for increases in pay commensurate with surging prices, much less paid time off and an eight-hour day, are treated as impossible. There is a deep connection between the US preparations for war against Russia and China and its war against the working class at home.

The growing opposition of the working class is taking the most conscious form in the development of rank-and-file committees among railroad workers, nurses, teachers and other workers, and in the campaign of Will Lehman, the Mack Trucks worker and socialist candidate for president of the United Auto Workers union. Increasingly workers are organizing independently of the pro-capitalist and nationalist trade unions. The fight to defend both the right to a job and the right to a decent standard of living will entail a direct challenge to the capitalist system and the socialist transformation of the economy to satisfy human needs instead of profit.

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