Fed chief Powell spells it out: workers are its chief target

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The chairman of the US Federal Reserve Jerome Powell has made his most explicit statement to date on the aim of interest rate tightening. It is to increase the supply of labour by creating unemployment to push down the wage demands that have erupted in the face of the highest inflation in 40 years.

In a speech delivered at the Brookings Institution yesterday, entitled Inflation and the Labor Market, he made it clear that the Fed regards even the nominal wage rises of workers over the recent period—all of which fall below the inflation rate—as too high. This is because they have "been growing at a pace well above what would be consistent with 2 percent inflation over time."

Emphasising the need for a return to a "balance" between the supply of labour and demand, Powell said that a "significant and persistent labour supply shortfall opened up during the pandemic—a shortfall that appears unlikely to fully close anytime soon."

The main takeaway from the speech, so far as the financial markets were concerned, was the indication by Powell, tacked on to the end of his remarks, that the Fed could ease back on the size of its interest rate hikes as early as the next meeting of its policy-making body in two weeks' time.

He said because interest rate increases affected the economy with lags, the full effects of the rapid tightening had so far yet to be felt.

"Thus, it makes sense to moderate the pace of our rate increases as we approach the level of restraint that will be sufficient to bring inflation down. The time for moderating the pace of rate increases may come as soon as the December meeting."

Wall Street celebrated at the prospect of cheaper money. The Dow rose by 700 points, the S&P 500 jumped 3.1 percent and the interest-rate sensitive NASDAQ finished up by 4.4 percent.

Powell's remarks appear to be a concession to elements within the Federal Open Market Committee who want to see a slowing in the pace of rate rises.

According to the minutes of the November meeting, which increased rates by 75 basis points for the fourth time in a row, there was considerable support for an easing while the effects of one of the most aggressive tightening cycles in decades were assessed.

"A slower pace in these circumstances would better allow the committee to assess progress toward its goals of maximum employment and price stability," the minutes said.

But having made a concession on one side, Powell came down firmly on the other saying the timing of any moderation was less significant that the questions of how much further the Fed would need to go.

Powell is very much an adherent of former Fed chair Paul Volcker who imposed record interest rates in the early 1980s—devastating the US economy in what was an onslaught against the working class.

"It is likely that restoring price stability will require holding policy at a restrictive level for some time. History cautions strongly against premature loosening of policy. We will stay the course until the job is done," he concluded.

The "job" has got nothing to do with bringing down prices per se. It is directed at slowing economic growth and increasing the supply of labour by creating unemployment, as Powell's comments on labour supply during his speech made clear.

He said projections from the Congressional Budget Office revealed a shortfall in labour supply of around 3.5 million—the result of slower population growth and a lower labour force participation rate.

Some of the drop in the participation rate was due to the effect of COVID infections and the impact of Long COVID and an increase in retirement. "Excess retirements" now account for around 2 million of the labour market shortfalls.

"The data," he said, "so far do not suggest that excess retirements are likely to unwind because of retirees returning to the labour force," he said, noting that older workers were still retiring at higher rates.

The second factor was the slower growth in the working age population due to a combination of a "plunge in net immigration and a surge in deaths during the pandemic" probably accounting for 1.5 million "missing workers."

In this situation, the only way the labour market can be brought back into so-called "balance" is by slowing the economy and pushing up unemployment.

Powell made this clear several times in the course of his speech.

The policy stance of the Fed was to "slow growth in aggregate demand" allowing supply to catch up with demand and restore the "balance," bringing stable prices over time. "Restoring that balance is likely to require a sustained period of below-trend growth."

Emphasising this issue, he said: "For the near term, a moderation of labour demand growth will be required to restore balance to the labour market."

On the specific issue of inflation, Powell noted that "core services," other than housing, and covering a wide range of services from health care and education to hospitality, constituted more than half of the personal consumption expenditures (PCE) index. This index excluded price rises due to food and energy.

This category, he said, could be the most important for understanding the future evolution of core inflation. "Because wages make up the largest cost in delivering these services, the labour market holds the key to understanding inflation in this category."

On the interconnected issues of the "tight" labour market and wages, Powell was explicit. There were still about 1.7 job openings available for every person looking for work and there had only been "tentative signs moderation of labour demand."

Some measures of wage growth had turned down recently, but the declines were "very modest" and "still leave wage growth well above levels consistent with 2 percent inflation over time."

Summing up, he continued: "Growth in economic activity has slowed to well below its longer-run trend, and this needs to be continued."

Powell's speech underscores the central issue emphasised in the analysis of the *World Socialist Web Site*.

This is that in every struggle, over wages and working conditions, workers are facing a front comprising the corporations, the Biden administration, the courts, and the capitalist state, including its financial arm, the Fed, for which the trade union bureaucracy functions as the policemen enforcing their dictates.