Fed lifts rates and indicates they will remain higher for longer

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The longer the interest rate tightening by the US Federal Reserve continues, the clearer it becomes that its central objective is to suppress workers’ wage demands amid ongoing inflation, by slowing the economy, even inducing a recession, and lifting unemployment.

As expected, the Fed lifted its base interest rate by 0.5 percentage points (50 basis points) yesterday, after four previous hikes of 75 basis points each. It indicated that more rises are to come next year.

The so-called “dot plot,” in which Fed officials indicate every three months where they think interest rates will be, showed that 17 out of the 19 saw the central bank’s base rate reaching over 5 percent by the end of next year.

This figure, above market expectations, compares to the present rate of 4.25 to 4.5 percent, and is 50 basis point higher than the “dot plot” anticipated in September.

In response to a question at the press conference following the meeting of the policy-making Federal Open Market Committee, chairman Jerome Powell said Fed officials had consistently increased their forecasts for the peak interest rate.

“I can’t tell you confidently that we won’t move up our estimate … again,” he warned.

The central focus of his opening remarks, and in his response to the questions that followed, was wages.

Powell began by noting that the Fed had “covered a lot of ground” since the rate tightening cycle, the steepest since the 1980s, began in March. The full effects had yet to be felt but “even so, we have more work to do.”

That “work” involves above all the suppression of wages. Responding to a question, Powell noted that we “do not yet see much progress in average hourly wages coming down.”

In his review of the state of the US economy, Powell said it had “slowed significantly” from the rapid pace last year.

Growth in consumer spending had slowed “reflecting lower real disposable income and tighter financial conditions.” Activity in the housing sector had “weakened significantly” and higher interest rates and slower output growth “appear to be weighing on business fixed investment.”

The Fed’s projection for real GDP growth next year is just 0.5 percent, well below the “median estimate of the longer-run normal growth rate” and a rate of growth which has been characterised as “stall” speed.

The Fed estimates that the unemployment rate will be 4.6 percent at the end of next year, up from the present level of 3.7 percent, implying job losses of at least 1.6 million. Economists recently polled by the Financial Times, however, expect the jobless rate to reach 5.5 percent.

Powell noted that price rises had come down slightly, but the Fed considered that inflation risks were still “weighted to the upside.” While longer-term inflation expectations appeared to remain “well anchored,” this was not grounds for “complacency.” The longer the current bout of inflation continued, “the greater the chance that expectations of higher inflation will become entrenched.”

In the language of Powell and other central bankers, “entrenched” inflation means the development of a situation in which workers recognise that there will be no end to price hikes. So they must undertake wages struggles to defend their living standards—a process now well underway.

The interest-rate policies of the Fed and other central banks are part of a three-pronged attack.
The trade union bureaucracy in the US, as in every other country, is working to ensure the imposition of sub-inflation wage increases by selling out strikes no matter what the votes of the workers involved.

At the same time the state, as exemplified in the decision of the Biden administration to ban the rail workers’ strike, stands ready to intervene directly if this is not sufficient.

The role of the Fed in this reactionary triple alliance is to suppress economic growth and push up unemployment to increase the labour supply.

Powell set out this agenda in his prepared remarks.

“We are taking forceful steps to moderate demand so that it comes into better alignment, with supply,” he said. Answering a question, he noted that the supply of labour was about 4 million short of where it would otherwise have been.

Some half a million of this shortfall in the workforce was due to the death of workers as a result of the COVID-19 pandemic. The other major component comprised workers who have taken early retirement.

“Reducing inflation,” he said, “is likely to require a sustained period of below-trend growth and some softening of labour market conditions.”

Powell indicated there would be no “premature loosening policy,” a point he underscored in response to questions, making it clear the Fed would not back off in the face of recession. Nor would it consider lifting its inflation target from 2 percent, which most economists consider will not be attained without a significant economic contraction.

In remarks last month, he said it was “very plausible” the Fed could bring down inflation without causing a recession. But in a survey conducted by the Financial Times, some 85 percent of the economists who were asked expected a recession next year.

The clearest expression of the drive against wages came when Powell broke down the core inflation number now at 6 percent, derived by stripping out the effects of food and energy prices.

He said inflation in the goods component was coming down, as was the contribution from housing costs because of the prediction of a fall in rents. But in the main component, non-housing services, accounting for 55 percent of the index, the key issue was wages.

The issue was referred to several times. Wages, he said, were “well above” what would be consistent with 2 percent inflation. The labour market, he maintained was “very, very strong” and nominal wages were “very high.”

Of course, this is contrary to the daily experience of millions of working-class families battling to make ends meet in the face of the highest inflation in four decades.

But the Fed, acting in the interests of the financial oligarchy, is determined that real wages are driven even lower.

Two more shots will be fired in this global class war against the working class today and on Friday when the European Central Bank and the Bank of England meet to determine their interest rate policy. Both are expected to raise rates by another 50 basis points, despite the emergence of recessions both in the UK and the euro zone.