Two major central banks step up the interest rate war against the working class

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The Bank of England and the European Central Bank (ECB) have made clear that the central target of their "fight inflation" campaign is the wages of the working class as they announced an increase in their base interest rate of 0.5 percentage points yesterday.

And both central banks indicated the interest rate hikes are going to continue for some time.

In her opening statement to the press conference on the ECB decision, President Christine Lagarde said it was based on "the substantial upward revision to the inflation outlook." The bank expected to raise rates further.

"In particular, we judge that interest rates will have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to our 2 percent medium target," she said.

While the inflation figure recorded a small decline from 10.6 to 10 percent in November, Lagarde said it was still "far too high" and was expected to remain "above our target for too long."

Outlining the key factor in the central bank's deliberations, she stated: "Wage growth is strengthening, supported by robust labour markets and some catch-up in wages to compensate workers for high inflation."

These factors, Lagarde continued, were set to remain in place and staff projections "see wages growing at rates well above historical averages and pushing up inflation throughout the projection period."

The claim that wages are lifting prices is a blatant falsification. As is the case throughout the world, the wage increases that have taken place are well below the inflation rate.

The cause of the price hikes—the largest in four decades—is not wages but the refusal of capitalist governments to deal with COVID, resulting in supply chain bottlenecks, the pumping of trillions of dollars and euros into the financial system, the inflationary consequences of the US-led NATO war against Russia in Ukraine and the profit gouging by giant corporations, particularly in the food and energy sectors.

But as always, the lie serves a definite purpose. In this case, it is aimed at providing the rationale for battering down the wage demands of workers by contracting the economy and increasing unemployment, both outcomes which were predicted by Lagarde.

In a not too thinly disguised outline of the ECB's strategy, she said that while rising wages would restore "some lost purchasing power" as "the economy weakens… job creation is likely to slow, and unemployment could rise over the coming quarters."

In response to a question, Lagarde was at pains to emphasise that the ECB would have to raise interest rates "significantly." The bank was in "for the long game."

Lagarde continued: "It will not be enough to hit and withdraw. We will sustain the course, because we want those levels of [interest rates] to remain at those restrictive levels for long enough so that we can be confident that inflation returns to target."

Frederik Ducrozet, head of macroeconomic research at Pictet Wealth Management, told the *Financial Times* the ECB's message was "very, very hawkish."

Vítor Constâncio, a former ECB vice-president, was even more explicit, tweeting it was "an excessively hawkish policy that will aggravate the coming recession unnecessarily."

The Bank of England (BoE) also decided to lift its interest rate by 50 basis points yesterday. While this was down from the 75-basis point rise in November, it did not signify any easing off by the BoE which has increased rates at each of the last nine meetings of its Monetary Policy Committee (MPC).

The MPC vote was 6-3, with two members against lifting rates and one member favouring a rise of 75 basis points.

The MPC forecast a contraction in the economy, noting that household consumption remained "weak," housing market conditions had "softened" and surveys of investment intentions had "also weakened further."

But its main focus was on wages and the labour market.

"Although labour demand has begun to ease, the labour market remains tight. Vacancies have fallen back, but the vacancies-to-unemployment ratio remains at a very elevated level," it said.

The MPC reported that wages in the private sector rose by 6.9 percent in the three months to October but indicated even this increase, well below the current inflation rate of more than 10 percent, was too much, noting it was 0.5 percentage points above the level forecast in its November report.

The issues of wages and the labour market were at the centre of BoE governor Andrew Bailey's remarks on the latest decision.

He said there were signs inflation was starting to come down after a peak of 11 percent in November but there was "a long way to go."

Bailey stated: "We expect inflation to start falling more rapidly probably from the late spring onwards. But there is a risk that it won't happen in that way, particularly because the labour market and labour supply in this country is so tight."

In a letter to UK Chancellor Jeremy Hunt on the BoE decision, he said the labour market remained tight and there was "evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence."

These factors, Bailey wrote, justified "a further forceful response." That response has nothing to do with bringing down prices per se. Rising interest rates will not reduce the cost of food and energy or any other essential items.

The price which is of central concern to the BoE and other central banks is that of labour power—the wages of the working class—which, despite falling ever further behind the inflation rate, must be driven down even further in real terms.

Central banks, the guardians of the interests of capital and corporate profit, are all signing from the same song sheet—the deepening economic crisis of the global economy must be paid for by the working class.

A report issued yesterday showing that employment in Australia had increased in November by 64,000, twice the number expected by economists, was greeted with predictions that the Reserve Bank of Australia (RBA) would again lift rates when its board next meets in February.

The chief economist for the financial firm KMPG, Brendan Rynne, said the implication of the employment numbers was that aggregate demand would remain high.

"This will ensure that the RBA enters 2023 with a keen eye to maintaining the contractionary path for the cash rate," he said.