US Fed says no letup in financial tightening

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Minutes from the meeting of the Federal Reserve's December meeting, released on Wednesday, make clear the US central bank will continue its interest rate tightening regime regardless of expectations it will be forced to pull back in the event that inflation comes down and unemployment rises.

Once again, the Federal Open Market Committee (FOMC), the key policy-making body, underscored that for all the talk in public about the need to bring down prices, the discussion behind closed doors was about suppressing a wages upsurge by the working class.

The staff review of the overall economic situation in the US declared in the very first paragraph that while labour market conditions had eased somewhat in October and November, they "remained quite tight."

The second paragraph noted that the private sector jobs opening rate (the ratio of jobs available to the numbers seeking work) "moved back down in October but remained high."

And the third paragraph stated: "Nominal wage growth continued to be elevated and remained above the level above the pace judged to be consistent with the FOMC's 2 percent inflation objective."

This was despite the fact that the review noted average hourly earnings rose by 5.1 percent in the 12 months ending in November, well below the rate of inflation, running at the highest rate in four decades. It underscored that the Fed's key objective is to further cut the living standards of the working class in the interest of the corporate and financial elites it serves.

The Fed is seeking to enforce this program by inducing a slowdown in the economy and a recession if necessary.

According to the minutes: "With inflation remaining unacceptably high, participants expected that a sustained period of below-trend real GDP growth would be needed to bring aggregate supply into better balance and thereby reduce inflationary pressures."

The key aggregates here are the supply of and the demand for labour.

Under conditions where the size of the labour force has been constricted due to COVID deaths, continued infection and the effects of Long COVID, as well as the reduction in the percentage of the population looking for work due to early retirement and reduced immigration, the only way to increase labour supply is by pushing up unemployment.

This is despite the fact, mentioned by "several participants" in their remarks, that "budgets were stretched for low-to-moderate income households and that many consumers were shifting their spending to less expensive alternatives." Pain must be inflicted as Fed chair Jerome Powell said back in August.

Throughout the FOMC's deliberations the real causes of inflation, including the failure of governments to deal with COVID, the ultra-easy monetary policies of the Fed, profit gouging by energy companies and other giant corporations and the effects of the US-led war against Russia, were passed over in almost total silence.

The almost exclusive focus on wages became clear in the discussion on the prices for core services, excluding shelter, which form the largest component of the Personal Consumption Expenditures (PCE) index which the Fed takes as its key measure of underlying inflationary pressures.

The minutes said this component of the PCE inflation rate was high and had "tended to be closely linked to nominal wage growth and therefore would likely remain persistently elevated if the labour market remained very tight."

The bringing down of this component of inflation would "require some softening in the growth of labour demand [code for increased unemployment] to bring the labour market back into better balance."

That is, everything must be done to prevent workers from taking advantage of present labour shortages to even claw back the losses they have suffered over the past year, let alone the real wage cuts inflicted on them for decades.

The minutes also indicated that the Fed is anxious to stamp out the expectation in some areas of finance capital that it will ease back on its interest rate hikes in view of some limited fall in the inflation rate and the growing prospect of recession.

"No participants," the minutes record, "anticipated that it would be appropriate to begin reducing the federal funds rate in 2023."

It was "generally observed that a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2 percent, which was likely to take some time."

In fact, the restrictive policy may well remain indefinitely, imposing slower growth and recession, because, in the view of some economic analysts, inflation will continue to remain well above the supposed 2 percent target.

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The FOMC was also anxious to quash any perception that the reduction in the rate hikes from 75 basis points (0.75 percentage points) to 50 basis points and their possible further reduction to 25 basis points was an indication the Fed was pulling back.

"A number of participants emphasised that it would be important to communicate that a slowing in the pace of rate increases was not an indication of the Committee's resolve to achieve its price stability goal or a judgement that inflation was already on a persistent downward path," the minutes said.

One of the effects of the rate tightening so far has been the increased turbulence in financial markets, of which the collapse of the crypto market has been a significant expression.

According to the review of financial conditions contained in the minutes, the spillover effects from the debacles such as the FTX bankruptcy have been significant for other crypto lenders and exchanges but "the collapse was not seen as posing broader market risks to the financial system."

But that assessment may well be changing because the day before the minutes were published the Fed, together with the Federal Deposit Institute and the Office of the Comptroller of the Currency, issued a joint statement on the risks posed by crypto assets to banking organisations.

It said contagion risk in the crypto asset sector arising from opaque lending, investing, funding, service, and operational arrangements "may also present concentration risks for banking organisations with exposure to the crypto-asset sector."

It was important that "risks related to the crypto-asset sector that cannot be mitigated or controlled do not migrate to the banking system."

The three agencies had to build knowledge about "the risks crypto assets may pose to banking organisations, their customers and the broader US financial system" and they had to take a "careful and cautious approach to current or proposed crypto-related activities and exposures at each banking organisation."

However, for all this talk of supervision, a glaring omission from the statement was any explanation of how the Ponzi scheme operation of Sam Bankman-Fried, carried out in the plain sight of all the so-called regulatory agencies, brought no response until it collapsed.

Nor did they so much as mention that much of their description of the "opaque" and dangerous nature of the crypto market applies to the financial system more broadly.