US Fed interest rate hikes far from over

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Minutes from the last policy meeting of the US Federal Reserve at the beginning of the month show there was near unanimous support to reduce the increase in interest rates to 0.25 percent, down from the 0.5 percent rise in December and the four previous rises each of 0.75 percent.

The decision helped spark a rise in the stock market on the basis that the Fed may be coming to the end of its present interest rate cycle. But the minutes show that there was also support for a bigger increase noting "that participants favouring a 50 basis-point increased" said it would "more quickly bring the target range close to the levels they believed would achieve a sufficiently restrictive stance."

The minutes also recorded that "a number of participants observed that a policy stance that proved to be insufficiently restrictive could halt recent progress in moderating inflationary pressures."

Those voices could become louder because in the three weeks since the last Fed meeting the economic and financial landscape has changed somewhat and there are indications that the rate rise at the next meeting set for March 21-22 could be lifted.

Two Fed presidents, who were not voting members for the most recent decision, have indicated they would have supported a larger increase.

Cleveland Fed president Loretta Mester said the Fed was not limited to quarter-point increases. "We can move faster, and we can do bigger [increases] at any particular meeting," Mester stated.

St Louis Fed president James Bullard said he supported moving to a base rate of 5.4 percent—up from the present rate of between 4.5 percent and 4.75 percent—as quickly as possible. "I don't see much merit in delaying our approach to that level," he told reporters earlier this month.

The Fed's tightening monetary policy regime, advanced in the name of fighting inflation, is above all directed at the suppression of wage demands and what the Fed continually refers to as the "tight" labour market.

Labour market data for January showed that the unemployment rate had fallen to 3.5 percent, a 53-year low, contrary to expectations, while the inflation rate slowed but not by as much as had been forecast.

The key issue in determining future rate decisions will not be price movements but the labour market, because as the *Wall Street Journal* observed, Fed chairman Jerome Powell has "justified continued rate increases by pointing to still-tight labour markets, elevated wage pressures and high inflation for labour-intensive services."

There was a significant Wall Street reaction on Tuesday to the increased likelihood that interest rate hikes may not be slowing down.

US stock indexes suffered their worst day for the year as the Dow fell by almost 700 points, or 2.1 percent, the S&P 500 by 2 percent and the tech-heavy NASDAQ by 2.5 percent. The S&P 500 is now down 4 percent from its peak this year.

The bond market showed the same tendency with yields on the 10-year Treasury note moving back up towards 4 percent after declining in the opening weeks of this year.

According to one market strategist cited by the *Financial Times,* the reason for the sell-off was a reassessment of the Fed's path "and the stark rise in Treasury rates" with the upward move in yields reinforcing the view that the Fed would remain "tighter for longer."

At around 3.95 percent, Treasury yields are at their highest level since early November with the yield on two-year notes climbing to 4.73 percent, nearing the levels they reached in November which were the highest since 2007.

The expectation of further interest rate increases has

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already been reflected in the broader economy. The average interest rate on a 30-year home mortgage, which was 4 percent a year ago, reached 7 percent in November falling back towards 6 percent at the start of this month. It has started to climb again.

While the US Fed plays the leading role in setting global financial conditions, its policies are part of what is a combined offensive by the major central banks against the working class under conditions of the highest inflation in four decades leading to major cuts in real wages.

The objectives of this regime were spelled out most clearly by European Central Bank (ECB) president Christine Lagarde in remarks on Tuesday. The ECB is preparing for another rate hike at its next meeting.

Financial markets are anticipating that the ECB's base rate will reach 3.75 percent by September, up from its present level of 2.5 percent. This would be the highest level since 2001 when the ECB was seeking to establish the value of the newly created euro currency.

Outlining the key target of the tightening regime, Lagarde said the central bank was "looking at wages and negotiated wages very, very closely."

The ECB has raised interest rates by 3 percentage points since the summer of last year and is planning on another rise of 0.5 percentage points next month.

Underscoring the pressure building up in the working class for wage increases, the *Financial Times* reported that the largest Dutch trade union is calling for a 16.9 percent pay hike for transport workers and the German Verdi union has advocated a 10 percent rise for 2.5 million public sector workers.

As has taken place elsewhere, notably in the UK, the unions will not develop a fight for these demands but will work to sabotage and break up the struggle of workers. But the fact they have been forced to advance these claims indicates the extent of the daily worsening cost of cost-of-living crisis confronting the working class.

Rather than providing the means by which workers can advance their independent interests against the dictates of finance capital, trade unions are the key mechanism for enforcing wage repression.

Nowhere is this fact of political and economic life more clearly illustrated than in Australia, where the trade unions are completely integrated into various organisations of the capitalist state—the federal Fair Work Commission at the national level and the corresponding bodies at the state level—which determine wage levels.

Figures released by the Australian Bureau of Statistics on Wednesday showed that workers suffered a real wage cut of 4.5 percent last year, as nominal wages grew by 3.3 percent while inflation rose 7.8 percent.

Even these figures—a record decline since the bureau began its index in 1998—vastly understate the effects of the growing cost-of-living crisis because they do not take into account the hundreds of dollars a week cut from household budgets due to higher mortgage payments resulting from the nine interest rate rises imposed by the Reserve Bank of Australia in less than a year.

One of the most significant features of wages data was where the biggest cuts occurred. The lowest level of nominal wage rises, around 2.5 percent, was for public sector workers largely employed by state governments, the majority of which are controlled by the Labor Party and where trade union coverage is the highest.

Notwithstanding the fact that the data blows out of the water any assertion that wages are responsible for price hikes, the RBA is set to continue its rate increases on the grounds of "tight" labour markets in line with the class war being carried out by its counterparts around the world.

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