# Fed chair tells Congress interest rate hikes will continue

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Federal Reserve chairman Jerome Powell has made it clear that the US central bank will continue to lift interest rates for "some time," despite some slowing in the rate of inflation, because the labour market remains "extremely tight."

Delivering his semi-annual report to Congress yesterday, Powell told the Senate Banking Committee the "ultimate level of interest rates is likely to be higher than previously anticipated" and the Fed is "prepared to increase the pace of rate hikes."

After four rises of 75 basis points last year (0.75 percentage points), the Fed slowed the rate rise to 50 basis points in December and then to 25 basis points at its last meeting. But his remarks yesterday indicate the Fed is set for a 50-basis point rise after its next policy-making meeting on March 21-22.

He said the data from January on employment, consumer spending, manufacturing production and inflation had "partly reversed the softening trends that we had seen in the data" and "inflationary pressures" were running higher than expected at the time of the last meeting.

Powell indicated there was little sign of disinflation in the services sector and there would need to "very likely be some softening in labour market conditions" in order to push down real wages even further.

He noted that even though nominal wage gains, which are well below the rate of inflation, had "slowed somewhat in recent months, they remain above what is consistent with 2 percent inflation and current trends in productivity."

In other words, real wages must be further reduced, and "productivity" increased—that is an intensification of exploitation.

The only challenge, limited as it was, during his questioning came from Democrat Senator Elizabeth Warren who seeks to present herself as champion of working families. She said that among other things inflation was caused by supply-chain kinks and price gouging but the Fed's only answer was to slow the economy and tip people out of work.

She noted that, according to the Fed's data and projections, the unemployment rate would increase by one percentage point in the next 12 months and this would mean 2 million workers would lose their jobs.

On 12 out 12 previous occasions in which unemployment had increased by a percentage point over the course of a year, a recession had followed, and the job losses could be well over 2 million.

But in the end this self-described "capitalist to the bone" had no alternative perspective to advance. She concluded her remarks by saying that "we need a Fed that will fight for families" and if Powell was not going to lead that charge "then we need somebody at the Fed who will."

Powell had little difficulty in brushing off this equivalent of being hit with a piece of wet spaghetti.

There was a sharp downward movement on Wall Street in response to Powell's remarks as the prospect of an easing in the Fed's rate-tightening cycle faded further.

The Dow dropped by 574 points, or 1.7 percent, the S&P 500 lost 1.5 percent and the NASDAQ was down 1.2 percent.

But the most significant event in financial markets was the spike in bond yields, interest rates on government debt. The yield on the two-year Treasury note rose to above 5 percent, extending so-called yield curve inversion, a situation where, contrary to normal conditions, the yield on short-term debt rises above that on 10-year bonds.

Yield curve inversion is regarded as a reliable

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indicator of recession and the gap is now a full percentage point. This is the widest since September 1981 as the recession induced by the interest hikes under former Fed chair Paul Volcker was taking effect.

There is now a growing sentiment in financial markets that Powell, who has expressed his admiration for the former Fed chair, is on the Volcker road. According to one financial analyst cited by the *Financial Times*, the divergence in the Treasury market is a signal that markets expect the Fed "is going to have to cause a recession to bring inflation under control."

In the lead up to Powell's testimony, there were statements by members of the Fed's governing body pointing to further significant rises.

In a speech last week, Fed governor Christopher Wallace said the latest data had challenged his view in January that the Fed was making significant progress in "moderating economic activity and reducing inflation."

He lost no time in his speech in getting to what the Fed regards as the key issue—tightness in the labour market. Part of the Fed's plan, he said, is to reduce this "excess tightness, which has been driving elevated wage growth and contributing to high inflation" with the latest data indicating that "instead of loosening, the labour market was tightening."

Other Fed officials, including those who have been regarded as so-called doves in the past, such as Mary Daly, president of the San Francisco Fed and Neel Kashkari, president of the Minneapolis Fed, are going in the same direction.

In a speech last weekend, Daly said "further policy tightening, maintained for a longer time, will probably be necessary." Kashkari recently commented that "the risk of undertightening is greater than the risk of overtightening."

The Fed's interest rate hikes are part of a global offensive by the world's major central banks to use monetary policy to suppress the movement of the working class in support of wage demands to meet the soaring cost of living. Yesterday, the Reserve Bank of Australia increased its rate by 25 basis points—the tenth consecutive rise—and made clear more rises are to come.

At its meeting next week, the European Central Bank (ECB) is expected to raise its base interest rate by a further 50 basis points, taking it to the highest level since the establishment of the euro.

In the lead-up to the meeting, ECB president Christine Lagarde, who has said she is watching wages "very, very closely," said the central banks had to do more to tackle the inflation "monster." While headline inflation may come down, underlying inflation would remain "too high" and it was "very, very likely" the central bank would go ahead with a half percentage point rise on March 16.

While they couch their actions and remarks in terms of the fight against inflation, the real target of the central banks around the world is the international working class as they seek to make it pay for the crisis of the profit system whose dictates they enforce.

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