Interest rate hikes threaten recession and job losses but boost profits of major banks

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The interest rate hikes by the US Federal Reserve have led to financial turbulence, hit consumer spending, threatened to induce a recession and thrown millions out of work, increased costs for home buyers and, because of their international flow-on effects, increased the debt burden on poorer and low-income countries around the world.

But the major US banks, which dominate the American financial system, are raking in the money.

JPMorgan Chase, the largest bank in the US, last week announced a 52 percent increase in its first-quarter profits and record revenues.

Other major banks, Citigroup and Wells Fargo, also announced profit increases, benefiting from the Fed's interest rate hikes, which enabled them to lift their rates on loans.

As the *Wall Street Journal* reported:

> Together the three banks reported more than $22 billion in profits, up by more than a third compared with a year ago. Combined revenue was more than $80 billion, up 19 percent from a year ago. All three banks beat Wall Street expectations for per-share earnings and revenue.

JPMorgan's net interest rate income—the difference between what it makes on loans and what it must pay depositors—rose by 49 percent to a record $20.71 billion. At Wells Fargo, it rose by 45 percent and at Citigroup by 23 percent.

In 2023, JPMorgan expects to take in $81 billion in net interest rate income, an increase of $7 billion on its forecast just three months ago.

Bank of America has also joined the profit bonanza. Yesterday, it announced a profit of $8.2 billion for the first quarter, an increase of 15 percent. It benefited from the rise in interest rates as well as an increase in trading because of the turmoil in financial markets set off by the collapse of Silicon Valley Bank.

But even though its profit results beat market expectations, which had been for a decline, BofA wants more, announcing that it will cut as many as 4,000 positions from its payroll, representing around 2 percent of its workforce, which it said would be mainly achieved through attrition.

The major banks have also done well because of the move by depositors away from smaller and medium-sized banks in the wake of the collapse of SVB.

JPMorgan announced it had gained $50 billion in new deposits following the March turmoil, while Citigroup picked up an additional $30 billion.

The increase in profits for the major banks further underscores the class-war agenda at the centre of the interest rate hikes by the Fed.

This has been advanced in the name of fighting inflation. But the focus is on just one price, wages. It is aimed at suppressing the wages upsurge by the working class in response to ongoing inflation.

Over the past two years, since inflation took off, sparked by the supply chain crisis that resulted from the refusal of governments around the world to take action to eliminate COVID, real wages have fallen.

But profit margins have increased, and, according to a report in the *New York Times*, are now at their highest levels in almost 70 years. Research by the Economic Policy Institute has found that profit markups accounted for around one-third of price increases in the fourth quarter of last year. In 2021 it was even higher, one half, compared to the normal level of 13 percent.

However, this rampant profit gouging, led by major corporations, does not even rate so much as a mention in all the pronouncements by Fed Chair Jerome Powell and other officials on the so-called fight against inflation.

Rather, official statements, remarks at press conferences and in congressional hearings are replete with references to a "tight" or "very tight" labour market, the excess of job vacancies over those seeking work, and the need to bring the supply of labour back into "balance" with the demand.

What this means in practice is lifting interest rates to slow the economy, induce a recession and increase unemployment. Of course, the Fed cannot publicly state that this is its goal, because this would expose its claim that it acts in the interests of the "American people" and reveal its essential class role as an instrument of the corporate and financial oligarchy.

Even though he has acknowledged that wages are not "the principal story for why prices are going up"—a statement he made at a press conference last November—Powell has a laser-like focus on the labour market.

"Demand for workers far exceeds the supply of available workers, and nominal wages [well below the inflation rate] have been growing at a pace well above what would be consistent with 2 percent inflation over time," he said in a speech late last year.

The chief means of increasing supply, under conditions where the available workforce has contracted because of COVID illness and deaths and the ongoing effects of Long COVID, is by driving up unemployment.

And this forms the basis of the Fed's economic projections, which predict a rise of one percentage point in the unemployment rate over the course of this year, or a loss of as many as 2 million jobs. But as a number of commentators have pointed out, a percentage point rise in the jobless level does not stop there, but has a flow-on effect leading to further job losses.

According to a *New York Times* report, staff economists at the Cleveland Fed put out a paper in January in which they said approaching inflation of 2 percent by late 2025 would require a "deep recession," with a doubling of the jobless rate.

On numerous occasions, Powell has expressed his admiration for former Fed Chair Paul Volcker, who hiked interest rates in the 1980s. This drove up unemployment to levels not seen since the Great Depression, as part of a class war launched under Reagan, beginning with the mass sacking of air traffic controllers in 1981.

The surge in bank profits and the deepening attacks on the working class, enforced through the trade union bureaucracies, which work day in day out to suppress the growing wages movement, are two sides of the same coin.

But as the real nature of the capitalist economy becomes ever more clearly exposed, so-called "left" and liberal forces move in to throw dust in the eyes of the working class.

A typical example was a *New York Times* article citing comments by Skanda Amarnath, a former staff member at the New York Federal Reserve and now executive director of Employ America, a group that advocates maximising employment.

He said those who see curtailing the growth of employment and wages as a "failure of imagination" in the fight against inflation were "so spot on."

But the Fed policy is not the result of a failed mindset, or some kind of misreading of the situation. It is a consciously directed and ruthless program to impose the cost of the deepening crisis of the capitalist system on the working class.

It cannot be defeated by appeals to the agencies of the capitalist ruling class to better use their imagination, but only through the development of a no less consciously worked-out program expressing the interests of the working class. That is, the development of an international socialist program, the elaboration which will be at the centre of the April 30 celebration of May Day by the International Committee of the Fourth International.