Central bankers insist rate hikes to continue as wages are targeted

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A panel discussion involving the four major global central bankers, heads of the Bank of Japan, the Bank of England (BoE), the European Central Bank (ECB) and the US Federal Reserve was held at the ECB's annual forum in Sintra, Portugal this week. It revealed how focused these guardians of finance capital are on suppressing the wages struggles of the working class.

The central theme to emerge from the discussion, moderated by Sara Eisen, one of the anchors at the US business channel CNBC, was that central banks are determined to increase rates futher in the so-called "fight against inflation" because, while real wages are being cut, they have not gone down far enough.

The lead role was played by Fed chair Jerome Powell who has set the pace for central bank rate rises with the lifting of rates by 500 basis points (5 percentage points) in little more than a year.

The determination to continue rate rises comes in the face of warnings they could bring about a recession, a financial crisis, or both.

Powell said that "although policy is restrictive, it may not be restrictive enough and it has not been restrictive for long enough."

He pointed to the median projection of members of the Fed's governing body, set out at its meeting earlier this month which forecast at least two more rate increases by the end of this year. The first one could possibly come as early as next month.

Asked by Eisen whether the latest decision was a "pause" or a "skip," Powell said it was merely the latest decision of the Fed. This is an indication that the prospect of a rate easing could not be read into it.

Time and again throughout the course of the discussion when inflation was raised, including whether the present easing in price rises might continue, Powell turned back to the issue of the labour market.

He said the labour market was "very strong" and it was "really pulling the economy." This points to the key objective of the Fed, which cannot be directly stated, that the aim of its policy is to bring about a slowdown in growth, a recession and rising unemployment, if necessary, to suppress wage demands.

Powell split his analysis of inflation into three components. Goods inflation was starting to come down, housing service costs were also falling, but non-housing service costs, which make up around half the inflation index, were not diminishing.

Labour costs, Powell said, were the biggest factor in this latter area and there would have to be "more softening" of the labour market.

He returned to this issue at the conclusion of the discussion when asked by Eisen whether there was anything he was optimistic about. Powell said he would not use the word optimism before going into an explanation of the inflation dynamic.

It had not been set off by wages but by increased demand amid constrictions in supply. But now it was about the labour market and getting supply and demand back into alignment. Under conditions where the labour force has been reduced because of COVID and the proportion of the population in the workforce remains below historical norms, that means supply must be increased by pushing up unemployment.

The issue of the labour market was taken up by both BoE governor Andrew Bailey and ECB president Christine Lagarde.

In something of a surprise move, the BoE increased its base rate by 50 basis points earlier this month. Bailey said the UK economy had shown more resilience than expected and was characterised by a "very tight" labour market with unemployment running at a historically low level.

The demands of the UK corporate and financial elites were set out in a recent article by *Financial Times* economic columnist Martin Wolf.

Calling on the BoE to show “moral fibre,” he noted that real wages were 4 percent below where they were two years ago while the unemployment rate for the first quarter was only 3.9 percent.

Wolf wrote: “This indicates a pretty tight labour market. Why, in these circumstances would anyone expect workers to accept large reduction in real earnings?

“Something has to change, radically and soon. We are seeing a price-price spiral and wage-price spiral radiating throughout the economy. The only way to halt this is to remove the accommodating demand. In other words, the question is not whether there will be a recession: it is rather whether there *needs* to be one, if the spiral is to be halted.”

Lagarde was singing from the same song sheet as Bailey and Powell. She said that the ECB had covered a lot of ground in lifting rates by 400 basis points but there was more to cover. The ECB was “not seeing enough tangible evidence of underlying inflation—particularly domestic prices—stabilising and moving down.”

In an earlier address to the forum, she said the initial phase of inflation, the result of supply shocks, was fading but a second phase was now emerging as a result of increased wages, meaning that the high interest rate regime will continue.

“We will face several years of rising nominal wages, with unit labour cost pressures exacerbated by subdued productivity growth,” Lagarde said.

The governor of the Bank of Japan (BoJ), Kazou Ueda, was not so directly involved on the wage-inflation discussion because Japan is something of an outlier, maintaining its bond-buying policies to keep interest rates low.

But he did say the BoJ could shift its zero-interest-rate policy if it became convinced inflation would increase in 2024. This could have significant consequences because of the huge build-up of debt in Japan and the situation would need to be carefully monitored.

The issue of financial turbulence was generally avoided with the usual references to the banking system being “sound” and “resilient,” as Powell sought to quickly pass over three of the four largest bank failures in US history in March by saying they involved “idiosyncratic” institutions.

Bailey, however, did touch on the issues surrounding the liquidation of Credit Suisse and its takeover by UBS, which involved throwing out overnight the resolution plans for failed banks developed in protracted negotiations over the past 15 years.

Questions had been raised about whether those plans were fit for purpose, Bailey said. But in an attempt to put the best face on the situation, Bailey stated he was yet to be convinced they were not.

A small crack did appear in the air of confidence which bankers always try to project right up to the point where another crisis erupts. Bailey said the “speed of the run question”—a reference to the collapse of Silicon Valley Bank in which $40 billion was pulled out in a day and $100 billion was set to be withdrawn the next—had to be looked at.