US Fed lifts interest rates to two-decade high

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The US Federal Reserve, as expected, lifted its base interest rate by 0.25 percentage points at its meeting yesterday, taking it to the highest level in 22 years, and indicated there could be further rises later in the year.

The key factor in making such a decision, though it did not rate a mention in the remarks of Fed chair Jerome Powell or at the press conference which followed the decision, is whether the trade union apparatuses are able to continue to impose sub-inflationary wage agreements on the working class.

At his press conference Powell indicated the Fed was keeping its options open and would not say whether it would lift rates again at its next meeting in September.

Powell said it was “certainly possible” the Fed would raise its rate again. “I would also say it’s possible that we would choose to hold steady at that meeting. We’re going to be making careful assessments … meeting by meeting.”

The Fed is trying to tread a fine line as it lifts rates to try to combat the wages struggles of the working class by slowing the economy without lifting them at such a pace as would cause major problems for financial markets.

One of the factors in its decision to pause rate increases as its June meeting was the financial turbulence in March. Three of the four largest bank failures in US history took place as a result of the interest rate increases over the previous year.

Since the intervention of the Fed, the Federal Deposit Insurance Corporation, and the Treasury to stave off a wider banking crisis, Wall Street has undergone a major rise with the S&P 500 index reaching its highest level in more than a year on Tuesday.

In his prepared remarks Powell made clear that wages and the state of the labour market are the central focus of the Fed in its so-called fight against inflation.

“The labour market remains very tight,” he said. While the number of jobs gained was lower than earlier in the year it was still proceeding a “strong pace.”

“Nominal wage growth has shown some signs of easing, and job vacancies have declined so far this year. While the jobs-to-workers gap has narrowed, labour demand substantially exceeds the supply of available workers.”

The Fed’s fear and that of the entire political and financial establishment is that workers are able to take advantage of the “tight” labour market to push for wage rises to compensate for the erosion of real pay not only over the past three years but going back much longer.

As the *Wall Street Journal* (WSJ) put it in its report on the decision: “Fed officials have been concerned that underlying price pressures may prove more persistent as a tight labour market allows workers to bargain for higher pay, making it harder to get inflation down further.”

Hence the crucial, but not mentioned, role of the trade union leaderships in imposing sub-inflationary deals plus the intervention of the White House and Congress in the suppression of strikes.

Powell insisted that while inflation had come down somewhat, at least according to official data, “nonetheless, the process of getting inflation back down to 2 percent has a long way to go.”

“We remain committed to bringing inflation back to our 2 percent goal and to keeping longer-term inflation expectations well anchored. Reducing inflation is likely to require a period of below-trend growth and some softening of labour market conditions.”

There has been some discussion in the media about whether a slowdown in the demand for labour will require job cuts or whether companies will just slow down new hiring.

In comments to the WSJ, former Fed vice-chair Richard Clarida took issue with this type of scenario.

“A lot of the debate on the labour market is beside the point,” he said.

“If I was still over there, what I would worry about is the following: If we don’t get a deceleration in wages and we don’t get a pickup in productivity, then we’re not going to hit our inflation target.”

These remarks spelled out clearly the essential class content of the “fight” against inflation. Workers must work harder—that is the meaning of increased productivity—for less pay in real terms.

Wall Street has powered ahead on the belief that the Fed's rate hiking cycle is nearing an end and hopes that high-tech, especially in the development of artificial intelligence, will provide a boost.

But a report from the International Monetary Fund (IMF) has pointed to the divorce between the financial markets and the underlying real economy.

In its update on its *World Economic Outlook* report, issued on Tuesday, the IMF said global growth would fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. While the forecast for 2023 was "modestly higher" than its prediction in April "it remains weak by historical standards."

For the advanced economies, it said, "the growth slowdown projected for 2023 remains significant: from 2.7 percent in 2022 to 1.5 percent in 2023."

The projections for the US were that growth would fall from 2.7 percent in 2022 to 1.8 percent in 2023 before declining to just 1 percent in 2024. The projection for 2023 had been revised upwards by 0.2 percentage points because of "resilient" consumption growth in the first quarter but "this consumption growth momentum is not expected to last."

Action by US authorities earlier this year had reduced the immediate risks of financial turmoil, it said.

"However, the balance of risks to global growth remains tilted to the downside. Inflation could remain high and even rise if further shocks occur, including those from an intensification of the war in Ukraine and extreme weather-related events, triggering more restrictive monetary policy."

And there was a risk financial turbulence "could resume as markets adjust to further policy tightening by central banks."