

No abatement in high interest rates, say key central bankers

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25 August 2023

Interest rates will remain high and could be further elevated despite a reduction in inflation and the suppression of wage increases because the labour market is still considered too “tight” by the guardians of finance capital.

That was the message delivered by two of the world’s key central bankers, Jerome Powell, chairman of the US Federal Reserve, and Christine Lagarde, president of the European Central Bank, on the opening day of the banking symposium at Jackson Hole, Wyoming, yesterday.

In his keynote address, Powell said while inflation had come down from its peak “it remains too high” and the Fed would continue to maintain a “restrictive” policy.

“Getting inflation sustainably back down to 2 percent is expected to require a period of below-trend economic growth as well as some softening in labour market conditions,” he said.

Lagarde was even more explicit on the issue of wages. She said central bankers had to be “extremely attentive that greater volatility in relative prices does not creep into medium-term inflation through wages repeatedly ‘chasing’ prices.”

That is, the number one concern is that the struggle of workers just to alleviate the cuts in their living standards due to the highest inflation in four decades is suppressed by means of a tighter monetary policy aimed at slowing the economy and even inducing a recession if that is deemed necessary.

Powell also drew attention to the level of economic growth saying, “we are attentive to signs that the economy may not be cooling as expected” pointing to recent “robust” readings on consumer spending—a clear indication that the Fed considers it must be suppressed.

“Additional evidence of persistently above-trend

growth could put further progress on inflation at risk and could warrant further tightening of monetary policy,” he said.

He said so-called “rebalancing” of the labour market, that is, a reduction of the number of job vacancies in relation to those looking for work, had continued “but remains incomplete.”

The “rebalancing” had “eased wage pressures” and wage growth had continued to slow, albeit gradually, and had to continue to slow ultimately to a rate that is consistent with 2 percent inflation.

“We expect this labour market rebalancing to continue. Evidence that the tightness in the labour market is no longer easing could also call for a monetary policy response,” he said.

Powell indicated that there were uncertainties, old and new, which complicated the task of “balancing the risk of tightening monetary policy too much against the risk of tightening too little.”

Doing too much, he warned, could “do unnecessary harm to the economy.”

The chief issue here is not the level of economic output—the Fed wants the economy to slow. Nor is it worried by an increase in unemployment, that is one of its objectives to ease the “tightness” in the labour market.

Its overriding concern is the impact of rising interest rates, and the effect of past interest rate rises as they flow through the banking and financial system and impact on interest-rate-sensitive sectors such as commercial real estate.

In the year since the last symposium, the US financial system has experienced a major shock when last March three of the four largest bank failures in US history occurred as a direct result of the Fed’s interest rate increases. But Powell did not make any reference to

this, perhaps in the belief that some things are better left unsaid.

The Fed and other financial authorities came to the rescue of uninsured wealthy and corporate depositors raising the question of whether there was an implicit guarantee by the agencies of the state across the board.

Since the March crisis, credit rating agencies have downgraded the ratings of a number of banks. This week Standard and Poor's lowered its ratings on five US regional banks, citing "tough operating conditions," following the decision earlier this month by Moody's to cut the rating of 10 mid-sized banks and placing a further six under review.

At the same time yields on 10-year Treasury bonds, a benchmark for interest rates across the economy, are at their highest level since before the financial crisis of 2008.

Mortgage rates for new home buyers have jumped to more than 7 percent, compared to 3 percent just two years ago, and there is a crisis brewing in the commercial real estate sector due to higher interest rates and reduced demand for office space because of the increase in working from home.

Lagarde was somewhat more expansive in her remarks on the "structural shifts" in the economy, the theme of this year's symposium. Like Powell, she directed attention to changes in the labour market where workers were in a stronger position to recoup real wage losses.

Lagarde also pointed to another major shift in the economic environment. There was a "deepening geopolitical divide and a global economy that is fragmenting into competing blocs. This is being accompanied by rising levels of protectionism as countries reconfigure their supply chains to align with new strategic goals."

While much of this "realignment" is bound up with the US economic war and military drive against China, it is not confined there,

As Lagarde noted: "Over the past decade, the number of trade restrictions has increased tenfold, while industrial policies aimed at reshoring and friend-shoring strategic industries are now multiplying."

This had not yet led to de-globalisation, she said, but these changes, especially in the field of energy, "have contributed to the steep rise in inflation over the last two years."

There was an underlying unity in both presentations. On the issue of the working class, Powell and Lagarde were guided by a sure class instinct: the rising demands for wage increases and the maintenance of living standards must be suppressed by all means necessary.

But on the question of how to "manage" the global capitalist economy and its innumerable and deepening contradictions – the effects of the pandemic, the devastation produced by climate change, financial instability and rising debt levels, effect of increased military spending, to name but a few – there was an air of bewilderment.

As Lagarde put it, "in this age of shifts and breaks, where we do not yet know whether we are returning to the old world, or entering a new one, how can we be sure policymaking remains robust?"

Or, as Powell noted at the conclusion of his remarks "we are navigating by the stars under cloudy skies."



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