Fed chair shifts toward interest rate cut

Nick Beams
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Federal Reserve Chair Jerome Powell has opened the way for the central bank to cut its interest rate at its meeting in September with his remarks during a keynote address to the banking and finance conclave held at Jackson Hole, Wyoming, on Friday.

But Powell's move to lower rates since they have been kept on hold since last December will not ease the pressure from the Trump administration for major rate reductions, nor that which has started to emerge from within the Fed's governing body.

And having opened a breach, the Trump regime will continue its campaign, if not for the removal of Powell, for which the president has been agitating for months, then at least for the refashioning of the Fed leadership to bring it more into line with his agenda as he considers the replacement for Powell when his term ends next May.

The key passages in Powell's remarks were carefully picked out in the financial press, and their meaning interpreted. These were phrases such as "the balance of risks appears to be shifting," and with monetary policy in "restrictive territory," the "shifting balance of risks may warrant adjusting our policy stance."

The market took this as a clear indication that a rate cut was a near certainty at the Fed's September 16-17 meeting. But it is most likely to be a cut of only 0.25 percentage points or at most 0.5 percentage points, well below the cut of 3 percentage points that Trump has been demanding.

And if his confirmation by the Senate is confirmed in time, Powell will be confronted at the meeting for the first time by Stephen Miran, an open advocate and in some ways the architect of Trump's agenda. Appointed to chair the National Council of Economic Advisors, he has now been nominated by Trump to temporarily fill the vacancy on the board of governors left by the sudden and unexplained resignation of Adriana Kugler earlier this month.

Trump is also pushing for Fed governor Lisa Cook to be removed over allegations she gave false information in a mortgage application before she was appointed in 2022.

Apart from the pressure from Trump, Powell was confronting objective economic problems as he framed his address. The official so-called dual mandate within which the Fed operates is to contain inflation at around 2 percent while ensuring "maximum" employment.

But unlike the inflation rate, defined by a number, 2 percent, maximum employment, as Powell made clear in his address, is defined as "the highest level of employment that can be achieved on a sustainable basis in a context of price stability."

In other words, the drive against inflation via higher interest rates takes priority, whatever its effects on the labor market. This was brutally isolated in the early 1980s. Interest rates were lifted to as much as 20 percent, leading to unemployment of more than 10 percent in the so-called anti-inflation fight of then Fed Chair Paul Volcker aimed at crushing the wages militancy of the working class.

But the essential class role of the Fed must always be concealed in public statements as it weaves the fiction that it is acting in the interests of "all Americans" as it attempts to manage the economy.

However, that is presenting some difficulties.

As Powell noted in his speech, the "risks to inflation are tilted to the upside, and risks to employment to the downside—a challenging situation."

He pointed to the sharp shift in the labor market, where the job growth over the past three months has been just 35,000 per month, compared to 168,000 per month during 2024.

The growth of GDP has also slowed markedly and was only 1.2 percent for the first half of the year, compared to 2.5 percent last year.

Despite both these trends, which would normally result in a rise in the unemployment rate, it has remained stable at around 4.2 percent over the past year. This was largely due to what Powell called "the sharp falloff in immigration"—the result of the Trump regime's attacks and police-state measures against immigrants since coming to office—and a lower participation rate in the labor force.

But on the basis of the data, which are always a delayed expression of trends, Powell indicated there could be a sharp change.

"Overall," he said, "while the labor market appears to be in balance, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for

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workers. This unusual situation suggests that the downside risks to employment are rising. And if those risks materialize, they can do so quickly in the form of higher layoffs and rising unemployment."

At the same time, however, despite the marked slowdown in the economy, prices are rising because of the effects of the Trump tariff hikes.

In a remark which is certain to attract the ire of Trump and his acolytes, who maintain the policies of the administration are not inflationary, Powell was forced to acknowledge reality.

"The effects of tariffs on consumer prices are now clearly visible. We expect those effects to accumulate over the coming months, with high uncertainty about timing and amounts," he said.

That would suggest that interest rates should not be reduced and so, under pressure—not least from his own board of governors at the Fed, where two members dissented from the hold decision at its July meeting and with more set to join them—Powell had to find a way out to justify a rate cut.

He did so by claiming that there was a "reasonable base case" that the effects "will be relatively short-lived—a one-time shift in the price level." This did not mean "all at once" as it would take time for the tariff rises to work through supply chains and distribution networks, and the upward pressure could spur a "more lasting inflation dynamic."

And as always, he had an eye on the class struggle.

"One possibility is that workers, who see their real incomes decline because of higher prices, demand and get higher wages from employers, setting off adverse wage-price dynamics."

However, given that the labor market is "not particularly tight and faces increasing downside risks, that outcome does not seem likely"—at least not yet.

But if increasing wage struggles did emerge, then "come what may, we will not allow a one-time increase in the price level to become an ongoing problem." In a later portion of his speech, he said that "pre-emptive action would likely be warranted if tightness in the labor market or other factors pose risks to price stability."

In other words, if workers seek wage demands to compensate them for the price rises with which they have already been hit—well above the official figures—and the hikes to come, they will face measures aimed at stoking up unemployment.

In his speech, Powell attempted to perform a balancing act—and not just between conflicts arising from the so-called dual mandate.

Bigger forces are also at work. Above all, Powell sees himself as the defender of the economic orthodoxy of the past, above all the independence of the Fed from direct political control.

The forces gathered around Trump are out to overturn that orthodoxy and subordinate various independent institutions of the state to his agenda. This has been reflected in his appointments to a wide range of positions within the state apparatus.

In the economic sphere, it is seen in the sacking of the head of the Bureau of Labor Statistics, Erika McEntarfer, after a downbeat jobs report at the beginning of the month, and her replacement by Trump acolyte E.J. Antoni, a man with no professional qualifications for the position and his ongoing denunciations of Powell and the search for means to sack him. Last March, in a co-authored paper on reform of Fed governance, Miran advocated that the president should be able to sack the Fed chair "at will."

These moves have sparked concern in sections of the ruling class that Trump's economic wars against friend and foe alike and his drive to transform long-established economic institutions of the American state are weakening the global position of American capitalism.

These views were summed up in comments on the global importance of these institutions by Norbert Michel of the free-market, so-called libertarian think tank, the Cato Institute, to the New York Times.

"These are all real components of why people would trust the United States, and if you start taking them apart, you start eroding that trust. At some point, you're no longer the thing that gives people confidence. You're just another third-world country," he said.

The eruption of the conflicts within the ruling class itself over long-standing norms, which formed the context of Powell's speech, is indicative of the development of major economic and political struggles.

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