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US Fed chief worried about "wages push" in coming year

The small uptick in wages of US workers, driven by the competition between businesses to find new employees, has set off shockwaves throughout corporate America. In recent days, top economic policy makers, Wall Street analysts and the media have warned that the biggest danger to the capitalist economy is not the Omicron variant, but a potential "wages push" by workers next year, which could upend the entire financial system.

At a press conference last week, Jerome Powell, the chairman of the US Federal Reserve, said nothing about the horrific loss of life during the pandemic, noting only that the Delta variant "had an effect of slowing down hiring" and "hurt the process of the global supply chains getting worked out." Dismissing the dangers of the more infectious Omicron variant, he added, "I do think wave upon wave, people are learning to live with this."

Federal Reserve Building on Constitution Avenue in Washington [Credit: AP Photo/J. Scott Applewhite, file]

Powell's remarks followed the meeting of the 12-member Federal Open Market Committee, which voted to carry out three quarter-point interest rate hikes in 2022 and begin tapering its asset purchases to address inflationary pressures in the US economy. The announcement was a reversal from their position nine months ago, when Fed officials indicated that there would be no rate increases until 2024.

Powell made clear that the Fed's concern over inflation was not the impact that the 6.8 percent consumer price hike—the highest in four decades—is having on workers' living standards. Instead, he said, wages had "risen briskly" in recent months, and it has become clear to the central bankers that increasing wages are "both larger in [their] effect on inflation and more persistent."

Powell said the decisive factor behind the decision to raise interest rates was the October 29 Employment Cost Index (ECI) published by the Bureau of Labor Statistics, which, he said, showed a "very high" 5.7 percent rise in hourly labor costs over the last three months.

The Fed and various economic forecasters had originally thought rising wages would be temporary and transitory. They expected that the Biden administration's cutoff of pandemic stimulus checks and extended unemployment benefits would be enough to force workers back into the labor market and relieve "inflationary pressures."

But the effort to use economic pressure to force workers back into infected factories and workplaces had largely failed, Powell lamented. "The important metric that has been disappointing really has been labor force participation, of course, where we had widely thought, I had certainly thought that last fall as unemployment insurance ran out, as vaccinations increased, that schools reopened, that we would see a significant surge, if you will, or at least a surge in labor force participation." While there had been "some improvement," he said, "it feels likely now that the return to higher participation is going to take longer."

He continued, “The ratio of job openings, for example, to vacancies is at all-time highs, quits—the wages, all those things are even hotter.” For “certain people,” he said, “they don’t want to go back in the labor force because either they’re medically vulnerable or they’re not comfortable going back while COVID is still everywhere. That’s one thing. The lack of availability of childcare made for caretakers is certainly part of it, not just for children, but for older people.”

While acknowledging “wages are not a big part of the high inflation story that we’re seeing,” Powell warned, “if you had something where real wages were persistently above productivity growth, that puts upward pressure on firms, and they raise prices… We don’t see that yet. But with the kind of hot labor market readings—wages we’re seeing, it’s something that we’re watching.”

“The labor market is by so many measures hotter than it ever ran in the last expansion,” Powell said. “You know, usually, in every other expansion, it’s that there aren’t enough jobs and people can’t find jobs,” he said, adding, “What we need is another long expansion, like the ones we have been having over the last 40 years.”

Despite a fall in the official jobless rate, another 4.2 million workers quit their jobs in October. As of November 2021, the labor-force participation rate of US adults aged 65 and over was 7.2 percent lower than in February 2020, while that of “prime age” adults aged 25 to 54 declined by 1.3 percent, according to *Marketplace*. As part of the so-called “Great Resignation,” around three million more workers have retired since the start of the pandemic than expected based on prior-year trends, according to estimates by the Federal Reserve Bank of St. Louis.

The “tight labor market” has provided workers—particularly the lowest-paid—with greater leverage to demand higher wages. According to the Atlanta Federal Reserve, the average wage increase for job switchers was 5.1 percent in October, measured as a three-month moving average of median wage growth, compared to 3.7 percent for those who remained at the same job.

Despite the dire warnings by the Fed, pay hikes have been extremely limited, and 70 percent of all workers have actually suffered a cut in real pay. The Bureau of Labor Statistics reported earlier this month that average hourly earnings for private-sector production and nonsupervisory employees rose by only 12 cents, to $26.40. All told over the past 12 months, average hourly earnings have only increased by 4.8 percent.

When inflation is factored in, real wages have gone *down* 1.9 percent over the past year, according to the BLS. From October to November, real average hourly earnings for all employees decreased 0.4 percent. Since the start of the pandemic in February 2020, real wages have declined roughly 1 percent, as Jason Furman, an economist and professor at Harvard University's John F. Kennedy School of Government, told *Fortune.*

As far as wages outstripping workers' productivity, the exact opposite has been the case for the last four decades. Since 1979, real wages for non-supervisory workers have increased by only 17 percent, while productivity has risen by 61.8 percent, or 3.5 times faster.

The repeated references by the mouthpieces of the financial oligarchy to the dangers of a "wage-price spiral" is a frightened reference to the explosive wave of strikes by workers in the 1970s to protect their living standards from ravages of inflation, driven by the global decline in the position of American capitalism. Between 1969 and 1979, there were 3,300 strikes involving more than 1,000 workers, or an average of 300 a year. This reached a high point of 424 strikes, involving a total of 1.8 million workers, in 1974, when the inflation rate hit 11 percent.

The American ruling class responded with the "Volcker shock" in 1979, when Fed chair Paul Volcker raised the prime rate to 21.5 percent, provoking the worst recession since the Great Depression and "wringing inflation" out of the economy through mass unemployment, union busting and deep wage cuts.

The economic "expansions" over the last four decades that Powell praises were based on a massive transfer of wealth from the working class to the super-rich. The run up on the stock market, which has far more to do with rising inflation than wages, has been fueled by the Fed's policy of "quantitative easing," i.e., the provision of virtually free money to financial speculators.

Between 2009 and 2020, with the full backing of the AFL-CIO trade unions, raises averaged 2.8 percent a year, barely staying ahead of a 1-2 percent annual inflation rate.

This has continued since the pandemic. Non-union workers have seen their wages climb at a much faster rate than unionized workers, according to the BLS. In contract after contract, the unions have accepted wage increases well below the rate of inflation, further eroding workers' living standards.

At the same time, the unions have kept workers on the job as the deadly SARS-CoV-2 virus has spread through factories, schools and other workplaces, costing the lives of thousands of educators, transit and health care workers and private sector workers in food processing, logistics, manufacturing and other industries. Employers, with the full backing of the unions, have responded to the labor shortage by imposing inhumane levels of overtime, undermining workers' health and further exposing them to COVID-19.

This has been a major factor in the rank-and-file revolt against the corporatist unions and the wave of strikes this year, from Volvo Trucks and Frito-Lay to John Deere and Kellogg's. Although these and other companies are making record profits, the ruling class is terrified that the growth of working-class resistance will bring down the entire financial house of cards built up through massive corporate debt—which has swelled by $1.3 trillion since the pandemic—and the inflation of stock market values.

The payoff of the $32 trillion in debt taken on by Fed and the world's central banks requires the continued extraction of surplus value from the labor of the working class. This is what lies behind the criminal policies of keeping schools and non-essential businesses open as the pandemic rampages out of control.

The Fed's proposed rate hikes are meant to be a preemptive attack against the supposed "inflationary" demands of workers even as the central banks policies have contributed to a $5.5 trillion surge in the wealth of the world's billionaires during the pandemic. Working-class opposition in the US and throughout the world, however, is only in its initial phase. In the coming year, the mass struggles against the sacrifice of millions of lives to corporate profit will take an ever more explosive and consciously anti-capitalist form.

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