After a decade of falling pay, US Federal Reserve acts to stop “wage inflation”

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The US Federal Reserve lifted its base interest rate on Wednesday, raising it above two percent for the first time since the US central bank began its low-interest-rate regime after the global financial crash of 2008. Explaining the rate hike, the Fed’s Open Market Committee said it was closely monitoring and would quickly react to “indicators of inflation pressures and expectations.”

The talk about inflationary pressures is a code word in ruling circles for the fear of rising wages. As *Financial Times* commentator John Authers noted in a recent article, “[W]age inflation is central to the Fed’s reaction function.”

The stupendous run-up on the global stock exchanges and vast increase in the personal fortunes of the financial oligarchy have depended on the relentless downward pressure on workers’ wages and conditions.

Mass unemployment, home foreclosures and the spread of poverty during the Great Recession were used as a hammer to restructure class relations in the United States and around the world and destroy social rights and protections won by workers over generations of class struggle. While governments of every stripe handed out trillions in “economic stimulus” packages to the financial speculators and corporations responsible for the crash, the watchwords for the working class were austerity, “labor flexibility” and the poverty-level wages and precarious employment associated with the so-called Gig Economy.

The Obama administration’s restructuring of the auto industry, carried out with the full support of the United Auto Workers union, slashed the wages of new hires in half, abolished the eight-hour day and vastly expanded the use of temporary part-time workers. This became the template for an assault on every section of the working class. Similarly, the IMF-backed structural adjustment programs imposed on Greece, Spain, Portugal and other countries by various governments, including the so-called Coalition of the Radical Left (SYRIZA), robbed pensions, raised retirement ages and sold public assets to pay off the banks.

Since 2008, the real income for 90 percent of wage earners has been frozen in the US. Average annual raises have ranged from 2 to 3 percent a year since the beginning of 2013, which was at or below the rate of inflation. The rise of the last decade is even lower than the 4 percent increases in average hourly earnings before the 2007–2008 collapse.

Due to the shifting of health care costs from the employers to workers under Obama, whatever meager wage increases workers achieved were more than eaten up by rising medical costs. Over the past nine years, employee out-of-pocket spending for a family of four in the US increased 69 percent in the form of higher co-pays and higher deductibles, along with a 105 percent employee premium contribution growth, according to a CNBC comment by health care executive Keith Lemer. The percentage of family income spent on health care rose from 8 percent in 2008 to 12 percent in 2015, adding to a de facto cut in real wages.

With official unemployment levels hitting record lows, however, employers have been forced to slightly increase wages over the last several months to attract labor. The Labor Department reported earlier this month that average hourly earnings were up 0.4 percent in August from the previous month and 2.9 percent from a year earlier, up from an average annual increase of 2.7 percent recorded in July.

In real terms, last month’s average hourly earnings rose by only 0.2 percent points above the inflation rate. Nevertheless, this princely sum—the highest average wage hike in nine years—was enough to set the alarms off and provoke the US Federal Reserve to come out with both guns blazing to stop wage “inflation.”

This is a class conscious decision by the central bank executives, who understand that investors tend to make far more money when the sword of mass unemployment and poverty is kept swinging over the heads of workers. This was made clear in recent note to investors by a financial analyst for Charles Schwab. “Statistics dating back to 1950 show that when the unemployment rate was below 4 percent, as it is now, stock market returns were quite low,” analyst Liz Ann Sonders complained. “Conversely, when unemployment was at its highest, the stock market did very well—delivering returns that were nearly four times as high as when unemployment was plumbing the depths.”

Whatever the internecine battles being waged within differing sections of the corporate and political establishment—from the degrading spectacle in Washington to the internal conflicts in the UK and Germany—every faction of the ruling class and its political representatives are united in their fear and hatred of the working class. In country after country, they are sharpening the weapons of state repression, encouraging right-wing and fascistic forces and beating the drums for war.

Over the last decade, the world’s corporate and financial elites have relied on the trade unions to suppress the resistance of the working class to wage-cutting and austerity and facilitate an historic transfer of wealth to the top. But this artificial suppression of class struggle has only guaranteed that its reemergence will be all the more explosive. Throughout the world, social and class conflict is erupting to the surface through an increase in strikes and the growth of anti-capitalist sentiment among workers and young people.

Today, thousands of pilots and cabin crew members will conduct a 24-hour strike against Ryanair in Germany, Spain, Italy, Portugal, Belgium and the Netherlands to oppose the low wages and exhausting conditions that have set a new low bar for the airline industry.

This follows a one-day general strike in Argentina on Tuesday, which shut down airports, public transport and public schools and the country’s largest agricultural port in Rosario. The strikers are demanding compensation for inflation, which is expected to top 40 percent this year—the highest in the world—and are fighting IMF dictates being imposed by President Mauricio Macri.

The Netherlands has been hit by a wave of teacher and public sector strikes, and British underground workers on the Piccadilly line to Heathrow airport are striking today.

In the US, the wave of teachers' strikes earlier this year were followed this month by educators' strikes in the states of Washington and Pennsylvania, a near unanimous vote by Los Angeles teachers to join the strike wave, and a walkout by hotel workers in Chicago. More than 8,000 hotel workers in other states have voted to walk out, as have 30,000 steelworkers who voted unanimously to authorize a strike at US Steel and ArcelorMittal.

Fiat Chrysler workers have voted to walk out in Kokomo, Indiana, and so have University of Michigan nurses. There is also deep opposition to the sellout deal signed by the Teamsters covering 230,000 UPS workers, who are currently voting on the contract. Amazon workers are speaking out against brutal conditions.

The major obstacle to the unification of the working class is the unions, which are blocking strikes and, if they break out, doing everything they can to isolate and defeat them. This is compelling workers to find new means to wage their struggles. The Socialist Equality Party in the US and its sister parties around the world are encouraging and assisting workers in forming rank-and-file factory and workplace committees to take up the responsibilities long ago abandoned by the corporatist unions, including waging a fight against speedup, unsafe conditions, victimizations and the constant erosion of wages and benefits.

The struggle to unify and defend the interests of the working class means rejecting the reactionary program of economic nationalism of the unions and their subordination of workers’ needs to the profits and prerogatives of the giant corporations and banks. Instead, it means building a powerful political movement of the working class to fight for international socialism, the expropriation of the capitalist class, and the reorganization of economic life to meet human needs, not private profit.

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