After Jackson Hole, Fed chair Powell and Wall Street “on the same page”

Nick Beams
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As expected, Federal Reserve chairman Jerome Powell gave the go ahead for an interest rate cut at its September meeting in his address to the conclave of central banks at Jackson Hole, Wyoming, on Friday.

He could hardly have done anything else given there was a risk of significant turmoil on Wall Street and the financial system more broadly had he not.

At the start of the month, markets had their worst few days in more than four years on the back of signs of recession in the US—the rise in the unemployment rate—and the unwinding of so-called carry trades in Japanese yen after the Bank of Japan lifted its interest rate.

In the lead up to the speech, comments in the media presented the economic situation as being at a turning point. The *New York Times* said Powell faced an “economic crossroads,” while the *Wall Street Journal* said it would be a “make or break moment” that would determine the fate of the economy.

Those kind of headlines indicate that beneath claims that the US economy is headed for a “soft landing”—that is, inflation will come down to near the Fed’s target of 2 percent without a recession—there are real fears that this is by no means guaranteed and the US economy is on a knife edge.

Powell generally tried to be upbeat and began his speech with the big lie of the political establishment—that the COVID pandemic is in the rear vision window.

“Four a half years after COVID-19’s arrival, the worst of the pandemic-related distortions are fading,” he said. Such assertions ignore the fact that COVID infections are continuing to surge through the population and the economic effects of Long COVID, the frequency of which increases with multiple infections, are only starting to emerge.

Powell claimed that inflation had declined significantly, the labour market was no longer “overheated” and supply constraints had “normalised.” While inflation may have fallen to official data, it continued to surge in basic items which make up the bulk of the expenditure of working-class households.

He said that while the task was not yet completed the Fed had made a “good deal of progress” towards restoring price stability. “My confidence has grown that inflation is on a sustainable path back to 2 percent.”

As has been the case since the inflation surge began, the Fed’s central concern has not been to deal with its underlying causes—profit gouging and speculation, especially in food and energy, after the onset of the pandemic. It has been to ensure that the struggles of the working class to secure wage rises to compensate for the price hikes are suppressed.

Two years ago in his Jackson Hole address, Powell invoked the name of Paul Volcker, the Fed chair in the 1980s, to make clear how far he was prepared go. Volcker stoked interest rates to as high as 20 percent to impose a devastating recession to crush a wages movement of the working class.

If Powell has not had to go as far as Volcker it is largely because he has received the invaluable assistance of the trade union bureaucracy, which Biden has characterised as his “domestic NATO,” in the imposition of sub-inflationary wage agreements in every section of industry.

The interest rate hikes which have lifted the Fed rate to its highest level in 20 years have had an effect, as Powell noted in his remarks.

He said the labour market had “cooled considerably from its formerly overheated state”. The unemployment level had begun to rise over a year ago and was now at 4.3 percent. It is low by historical standards, but a full percentage point higher than at the beginning of 2003, with most of that increase occurring in the past six months.

Another indicator of a worsening economic outlook was the revising down by 818,000 of the number of jobs created in the year to the end of March.

The rise in the jobless rate has led some observers to refer to the so-called Sahm rule. This states that when the three-month unemployment rate rises by 0.5 percent or more from its 12-month low, a recession is under way.

Powell said wage gains had “moderated” and labour market conditions were now “less tight” than before the pandemic in 2019. It was unlikely, he said, the labour market would be a source of elevated inflationary pressures anytime soon.

“We do not seek or welcome further cooling in labour market conditions,” he commented.

Such an assurance is only being offered because Powell considers the trade union bureaucracy has the situation under control. Two years ago, he made it very clear that a marked worsening of unemployment was exactly what he would do if that was necessary.

He now believes the Fed can accede to the demands of Wall Street and financial markets for a cut in interest rates. This has been demanded since the start of the year for fear that speculative deals based on debt contracted at near zero interest rates will start to unravel if rates remain as their present high level.

While Powell indicated that “the time has come for policy to adjust”, the timing and the pace of rate cuts would be determined by incoming data.

If the cuts do not proceed fast enough, some areas of the financial system may still be adversely affected because of the lagged impact of the Fed’s previous hikes.

Media coverage of Powell’s speech mainly extolled his success in managing the economy. However, a report published on Bloomberg provided a more accurate assessment.

The speech, it commented, was Powell’s “most decisive signal yet that his inflation-fight mission has been accomplished [and] has helped restore order to markets that only three weeks ago were engulfed in the worst upheaval since the pandemic.”

Now a return to calm is “creating new riches on Wall Street” and following the early August “cross-asset swoon, Wall Street and Jerome Powell now find themselves on the same page.”