

US Fed announces large rate cut, but Wall Street wants more

Nick Beams

18 September 2024

The Federal Reserve has cut its base interest rate by 0.5 percentage points (50 basis points) and signalled that further rate cuts are to come before the end of the year. In the lead up to the meeting yesterday, it was a toss-up as to whether the cut would be 50 basis points or 25, following Fed chair Jerome Powell's signal at the end of August that rate cuts would start at the next meeting.

In the event, with market expectations sharply shifting towards 50 in the past few days, Powell pushed for the larger cut. The decision was not unanimous with Fed governor Michelle Bowman voting for a smaller cut of 25 basis points in the first such dissent from a rate cut since 2005.

The move was significant given that in July Powell said the Fed was not even considering a 50 basis point reduction.

According to the Summary of Economic Projections, however, the so-called "dot plot" in which members of the Fed's governing body indicate where they think the interest rate will go, there will be further cuts before the end of the year. In response to a question at his press conference, Powell said all 19 members of the governing body wrote down "multiple cuts" this year.

In his opening remarks, Powell referenced the state of the labour market as the justification for starting the rate-cutting cycle.

He noted that the "labour market has cooled from its formerly overheated condition." Payroll gains averaged 116,000 over the past three months, nominal wage growth had eased over the past year and the jobs-to-workers gap had narrowed.

"Overall, a broad set of indicators suggests that conditions in the labour market are now less tight than just before the pandemic in 2019. The labour market is not a source of elevated inflationary pressures," he said.

Powell couched the decision as a "recalibration"—he used the word by one count nine times.

"As inflation has declined and the labour market has cooled, the upside risks to inflation have diminished and the downside risks to employment have increased. We now see the risk to achieving our employment and inflation goals as roughly in balance, and we are attentive to the risks to both sides of our dual mandate."

The dual mandate is to achieve price stability and maximum employment.

Most media commentary, taking their lead from Powell's remarks, interpreted the decision as the result of Fed concern that a continuation of the higher interest rates could push up unemployment and bring on a recession.

In the words of a *Wall Street Journal* report, the Fed is "now trying to prevent past rate increases, which last year took borrowing costs to a two-decade high, from further weakening the US labour market."

The *New York Times* said Fed officials "have aimed to slow growth enough to ensure that price increases return to normal without cooling it so much that the unemployment rate soars and the economy tips into recession."

No doubt there is an element of truth in such assessments. But this is by no means the main reason for the decision.

It has much more to do with the issue of the wages struggles of the working class than the prospect of a major downturn.

If the Fed believed recession was needed to suppress wage demands and strikes through higher interest rates, then they would be continued.

Powell has made this clear with his highly favourable references in the past to Fed chair Paul Volcker who pushed interest rates to 20 percent in the 1980s,

inducing the deepest recession and the highest unemployment levels since the 1930s, to suppress wage demands.

At this point, however, the Fed believes it can start to accede to Wall Street's demands for cheaper money because it considers that wages struggles, while still slightly above what it considers necessary, are nonetheless under control.

While this is never mentioned in official remarks, the Fed is well aware that the trade union bureaucracy is carrying out its task of suppressing the class struggle and imposing sub-inflationary contracts. This is under conditions in which working-class households are being hit with price rises on basic items far above the official inflation figures.

Predictably, the Biden administration welcomed the decision. In a post on Twitter/X, Biden said: "We just reached an important moment: Inflation and interest rates are falling while the economy remains strong. The critics said it couldn't happen—but our policies are lowering costs and creating jobs."

In fact, price rises are continuing to gouge the living standards of the working class, the unemployment rate is rising—increasing from 3.7 percent at the start of the year to 4.2 per cent with the expectation of a further rise—and layoffs are on the rise.

Just as predictably Trump denounced the decision. "To cut it by that much, assuming they're not just playing politics, the economy would be very bad, or they're playing politics," he told reporters.

Similar remarks from both sides will no doubt be made in the coming days. The Fed, however, is not directly beholden to either of the two parties. It obeys a higher master, the Wall Street financial oligarchy.

As an article on Bloomberg noted: "Jerome Powell delivered exactly what traders up and down Wall Street had long hoped for: A big interest rate cut that would justify this year's steep rally in stocks and bonds as the era of tight monetary policy finally began to reverse."

But there was a degree of nervousness in market reaction because, while the rate cut was welcomed, it had already been priced in and the outlook was still unclear.

Traders were reported to be concerned by comments from Powell that it should not be expected that the Fed would continue to make similar 50 basis point cuts in the future and that the "neutral rate"—neither stimulates

the economy nor constricts it—was likely to be higher than it was before the pandemic. In other words, there would not be a return to the essentially free money of the past to which Wall Street became addicted.

The initial reaction on Wall Street was a rise but by the end of the day every major asset, from stocks, Treasury bonds, corporate bonds to commodities, was down slightly.

Jeffrey Rosenberg, a portfolio manager at the hedge fund BlackRock, while welcoming the rate cut, told Bloomberg the outcome was a "little bit disappointing relative to what's been built up in bond expectations."

There were also concerns expressed about what the interest cut indicated about the direction of the economy.

Jack Manley, global market strategist at JP Morgan Asset Management, told the *Financial Times* it was a "very muddy picture out there" and the macro data "are not nearly as clear-cut as we'd have liked."

The labour market, he said, had "started to slip" and "that to me is not a good sign."



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact