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Who Will Stop the Fed's Plans to Trigger a Recession?

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By all accounts, things are looking up for the Democrats. Gasoline prices are falling, the president's approval rating is up, the White House is on a bit of a legislative roll, and the Right's overreach on abortion rights and Donald Trump's possible indictment seemed to have generated a genuine voter backlash against the GOP, just in time for the midterms. With the wind at their sails, it seems like nothing will stop the party's momentum.

Nothing — except a Fed-induced recession.

Over the past few weeks, several of the Federal Reserve's bigwigs have made clear the US central bank will press on with its controversial strategy of raising interest rates to tame inflation, the risks of an economic slump be damned.

"I can assure you that my colleagues and I are strongly committed to this project and we will keep at it until the job is done," Fed chair Jerome Powell told libertarian think tank the Cato Institute on Thursday. "Based on what I know today, I support a significant increase at our next meeting . . . to get the policy rate to a setting that is clearly restricting demand," said Christopher Waller, one of the governors on the Federal Reserve Board, this past Friday. A few days earlier, the Fed's vice chair, Lael Brainard, had told a finance industry gathering that "monetary policy will need to be restrictive for some time" and that "we are in this for as long as it takes to get inflation down."

The takeaway is clear: hold on to your hats, because the Federal Reserve is going to keep tightening monetary policy for the foreseeable future, making borrowing more expensive to pare back job vacancies and give workers less power to bargain or to quit and seek out better working conditions.

Of course, the Fed's governors claim they can do this without inducing a recession, even though this is exactly what's happened nine of the last twelve times they tightened monetary policy since 1950. While calling for a "significant increase" in interest rates, Waller claimed that "the fears of a recession" have "faded away," and that "the robust US labor market is giving us the flexibility to be aggressive." Powell himself claimed early on that, while it would be "quite

challenging," the "strong shape" of the US economy meant a "soft landing" was possible with this strategy.

Yet the Fed doesn't seem to believe its own talking points. Late last month, Powell acknowledged his strategy would "bring some pain to households and businesses." Since then, analysts have read some of his more recent comments — that tackling inflation means "a sustained period of below-trend growth" and "softening of labor market conditions," a.k.a. higher unemployment — that he's no longer aiming for that "soft landing," but rather a "growth recession," where the economy keeps growing, but at a piddling amount, and with rising job losses.

More significantly, as the *Intercept's* Ken Klippenstein discovered yesterday, the Federal Reserve itself published a little-noticed study in July casting doubt on its own leadership's words. The research looked at the effect of the Fed's tightening monetary policy after the end of World War I, when the country was similarly living through a period of inflation, and the Fed embarked on an identical strategy to deal with it: hiking rates to undermine a strong labor market and so tamp down consumer demand (since putting people out of work and taking away their leverage to bargain for better wages tends to lead to people spending less money).

"With the tightening of monetary policy, labor demand quickly fell off and the economy entered a deep recession," the paper warns. "Our results demonstrate that labor demand reacted sharply and quickly to the tightening of monetary policy, at a speed which can outpace policymakers' abilities to track current economic conditions."

In other words, thinking it could safely manage the economy and bring it into equilibrium by raising interest rates, things quickly and unpredictably spiraled out of the Fed's hands instead — and the result was a severe economic downturn. Despite this, a hundred years later and under very similar economic conditions, the Fed is now going to try the same thing again, certain that *this time* it'll be able to safely manage the economy and bring it into equilibrium.

It's worth remembering at this point that Powell already publicly admitted this approach isn't going to do anything about the chief drivers of inflation, namely energy and food prices, which are being affected by pandemic-related supply chain shocks and Russia's war on Ukraine. Nor is it going to do anything about another major driver: corporate profiteering.

While some irresponsible voices have labeled the idea that corporate price gouging plays a role in inflation a "conspiracy theory," it's getting harder and harder to dismiss. In both earnings calls and financial records, corporate executives have outright admitted they have used these global crises to mask undue price hikes that have netted them bigger profits. It's hard to argue price rises are simply a matter of companies passing on higher costs to consumers when the US commerce department has found that corporate America had its best year of profits *since 1950* last year.

Even Brainard herself said that "reductions in markups could also make an important contribution to reduced pricing pressures," and that profit margins were especially high

compared to costs in motor vehicles and retail. “Overall retail margins — the difference between the price retailers charge for a good and the price retailers paid for that good — have risen significantly more than the average hourly wage that retailers pay workers to stock shelves and serve customers over the past year,” she said.

The Fed’s vice chair, in other words, contradicted the Fed chair on one of the central ideas driving the central bank’s risky strategy: that what’s causing inflation is workers being paid too generously, pushing up the price of goods and services they produce. Nevertheless, they’re going to go ahead with their inflation-fighting strategy, undeterred.

The Democrats should be doing everything they can to put a stop to this, if not for the hardship it’s going to visit on ordinary Americans already struggling through this economy, then at least to save their own political skins. Falling into a recession just before a set of pivotal elections doesn’t usually bode well for the party in power, and even if the midterms pass before the economy goes through a serious slump, they still have a presidential election to think about in two years — arguably even sooner, since the notoriously lengthy US presidential election cycle starts roughly more than a year before any actual voting.

The Fed’s plans have already gotten strong pushback from Senator Elizabeth Warren (D-MA), but she’s been a relatively lonely voice in this fight. At minimum, elected socialists and progressives like Senator Bernie Sanders (I-VT) and members of the Squad should join her to form a chorus of public criticism of this approach. But most effective would be public and private pressure from the president himself.

Critics will say Joe Biden would be overstepping his bounds by pushing against the Federal Reserve’s independence. In reality, this independence is exaggerated to the point of unreality. Presidents have long tried to pressure the Fed into doing what they want on monetary policy, maybe most successfully when Richard Nixon cajoled the Fed chair into loosening monetary policy before the 1972 election he ended up winning.

Even should he and the rest of the party rally the public against the Fed’s plans, Biden will no doubt be savaged for violating the establishment’s beloved “norms.” But it’s nothing compared to the mauling he’ll get if millions of Americans have not just continuing inflation to deal with, but spiking job losses.

The Fed engineering a recession yet again is a political choice. But so is standing by and letting them do it unchallenged.