

Inflation Rises Again!

Causes, Consequences, Cures

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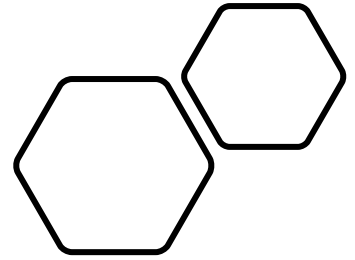
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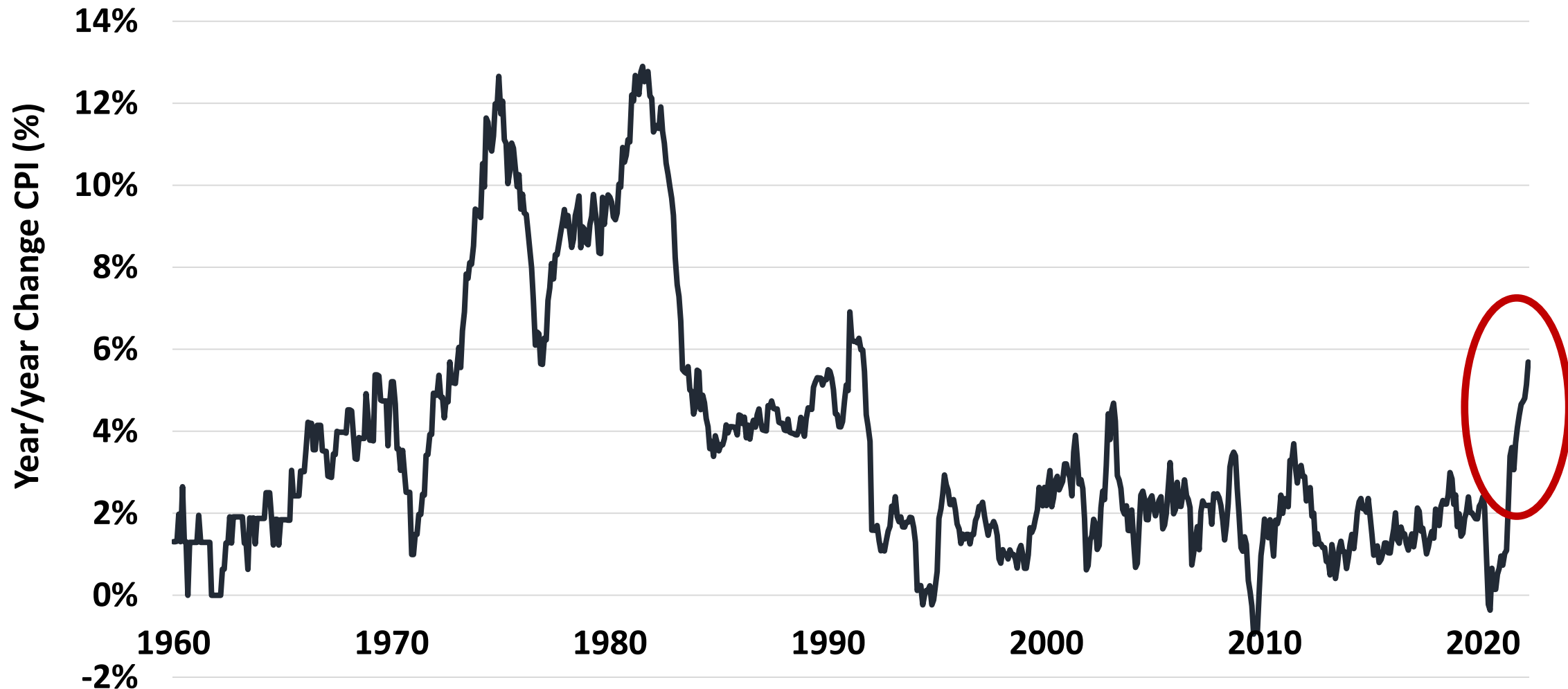


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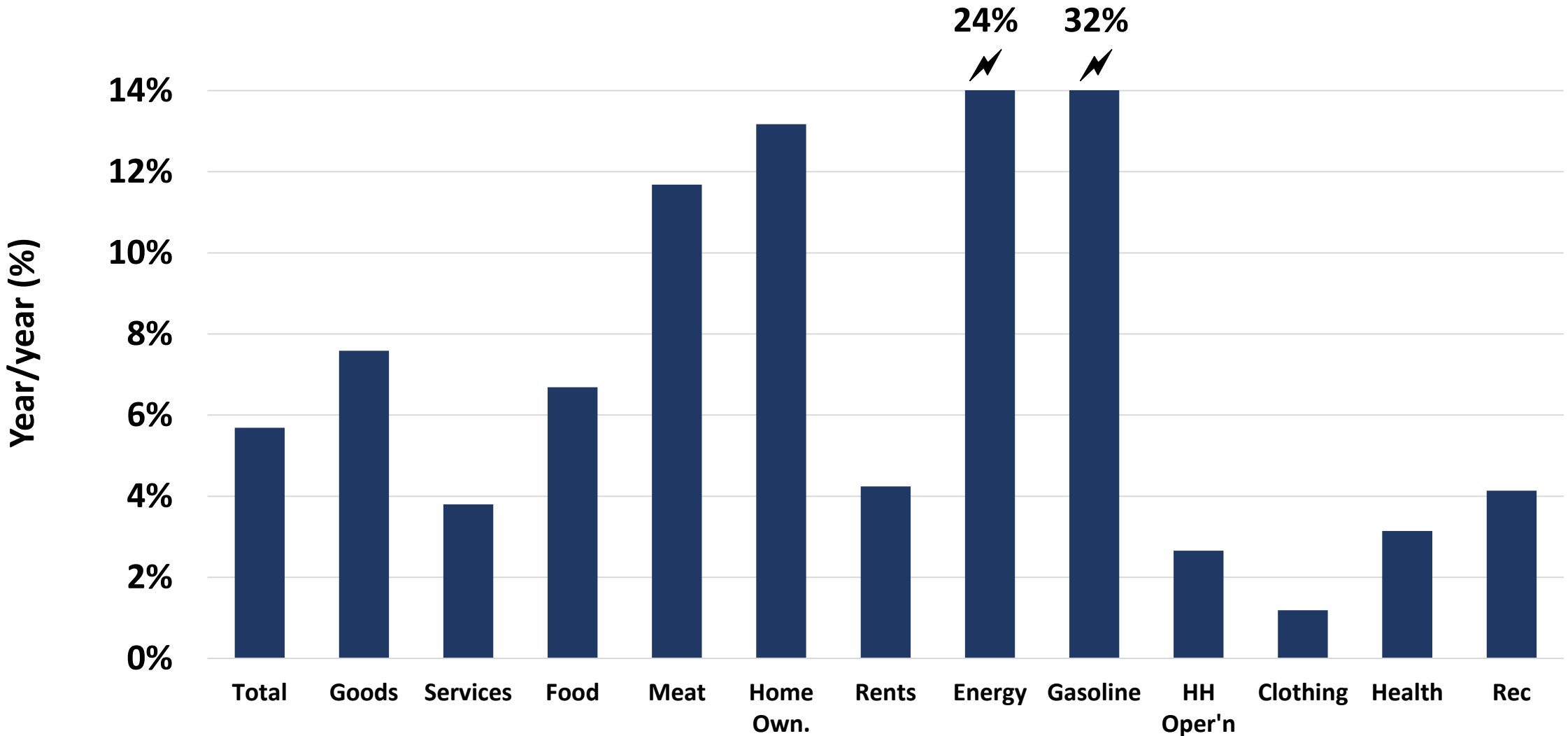
Inflation: The Long-Run View



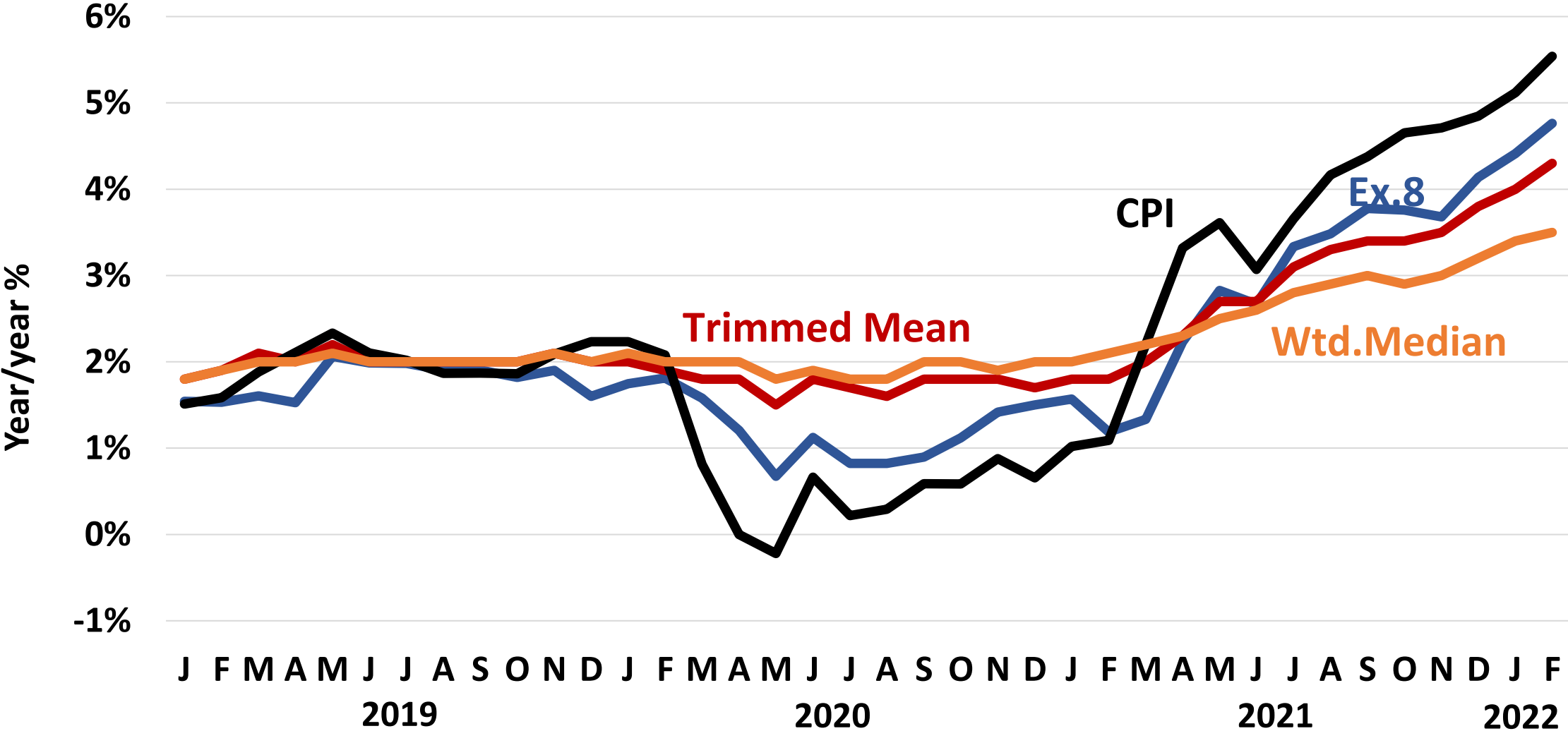
What is Inflation?

- Broad increase in the general price level.
- How to measure it?
 - Consumer Price Index (CPI)
 - By product category
 - Adjusted measures to filter out 'noise'
 - Producer Price Indices (Industrial, Raw Material)
 - GDP Deflator

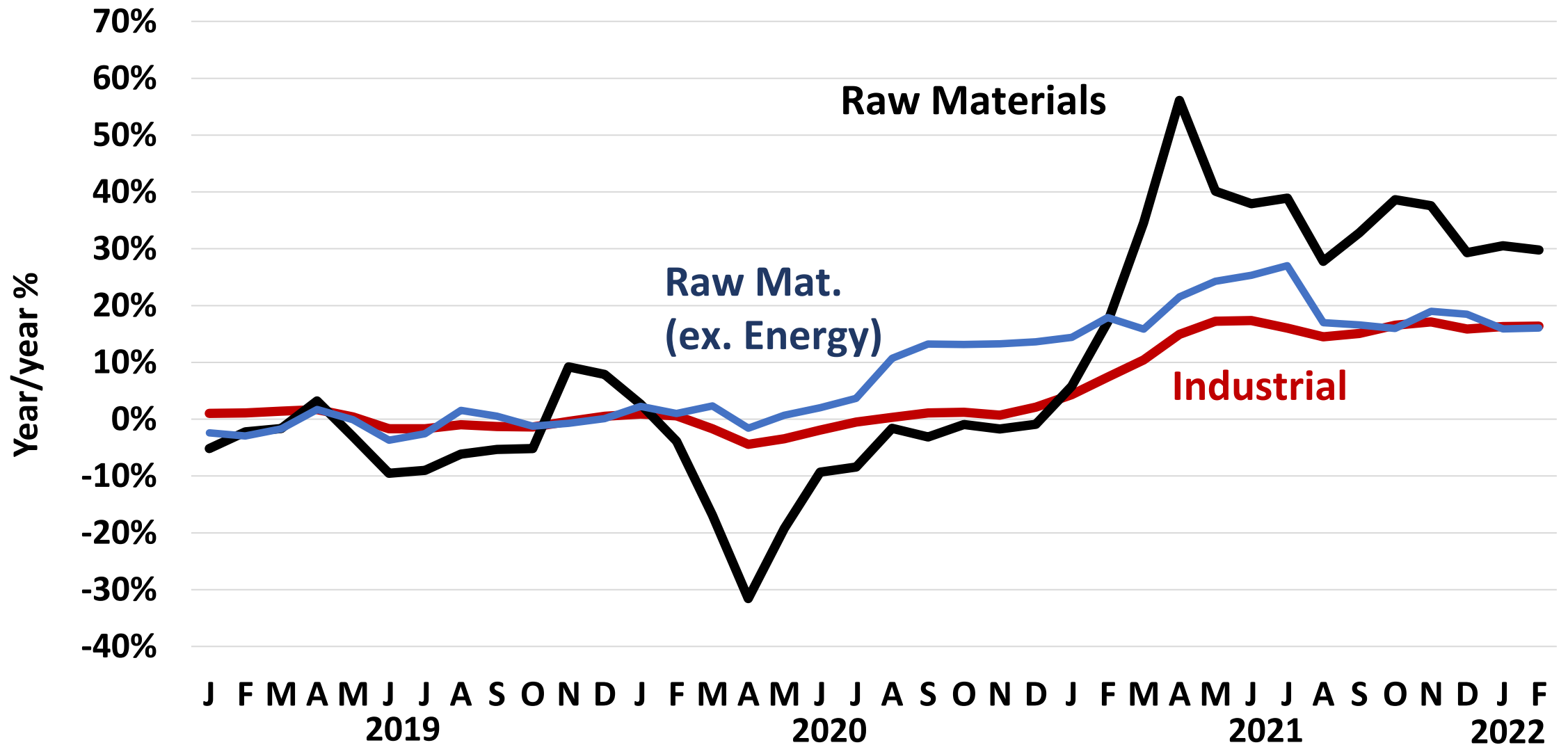
Consumer Prices: By Category



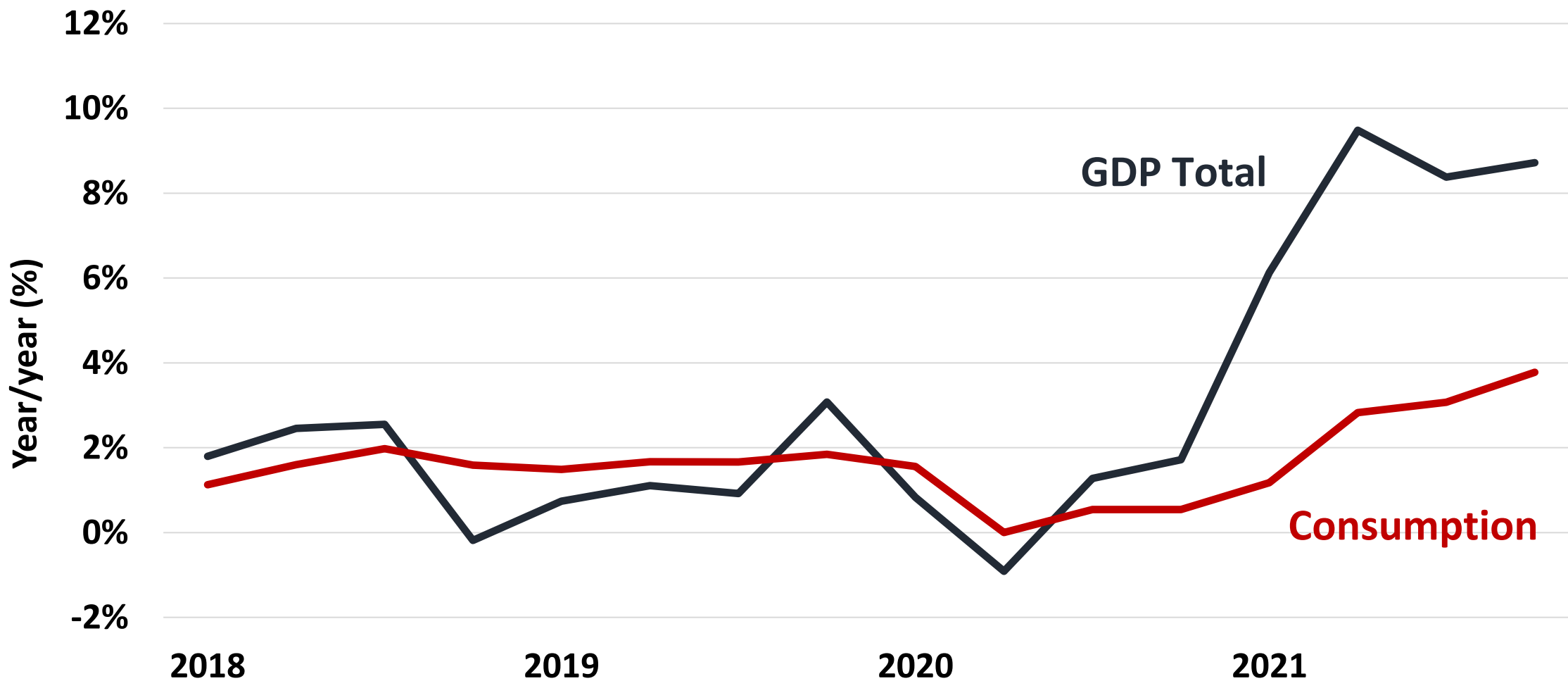
Consumer Prices: Sub-Indicators



Producer Prices: Even Worse!



GDP Deflators



Inflation: The Good, The Bad, and the Ugly



Inflation: The Good, the Bad, the Ugly

- Good:

- Lubricates relative price adjustments.
- Reduces real burden of debt.
- Shifts wealth from lenders to borrowers.
- Raises government revenues.
- Reduces government deficits.

- Bad:

- Reduces real wages (if wages don't keep up).
- Reduces real social benefits (if unindexed).
- Creates stress and uncertainty.

- Ugly:

- Very fast inflation → economic & political breakdown.



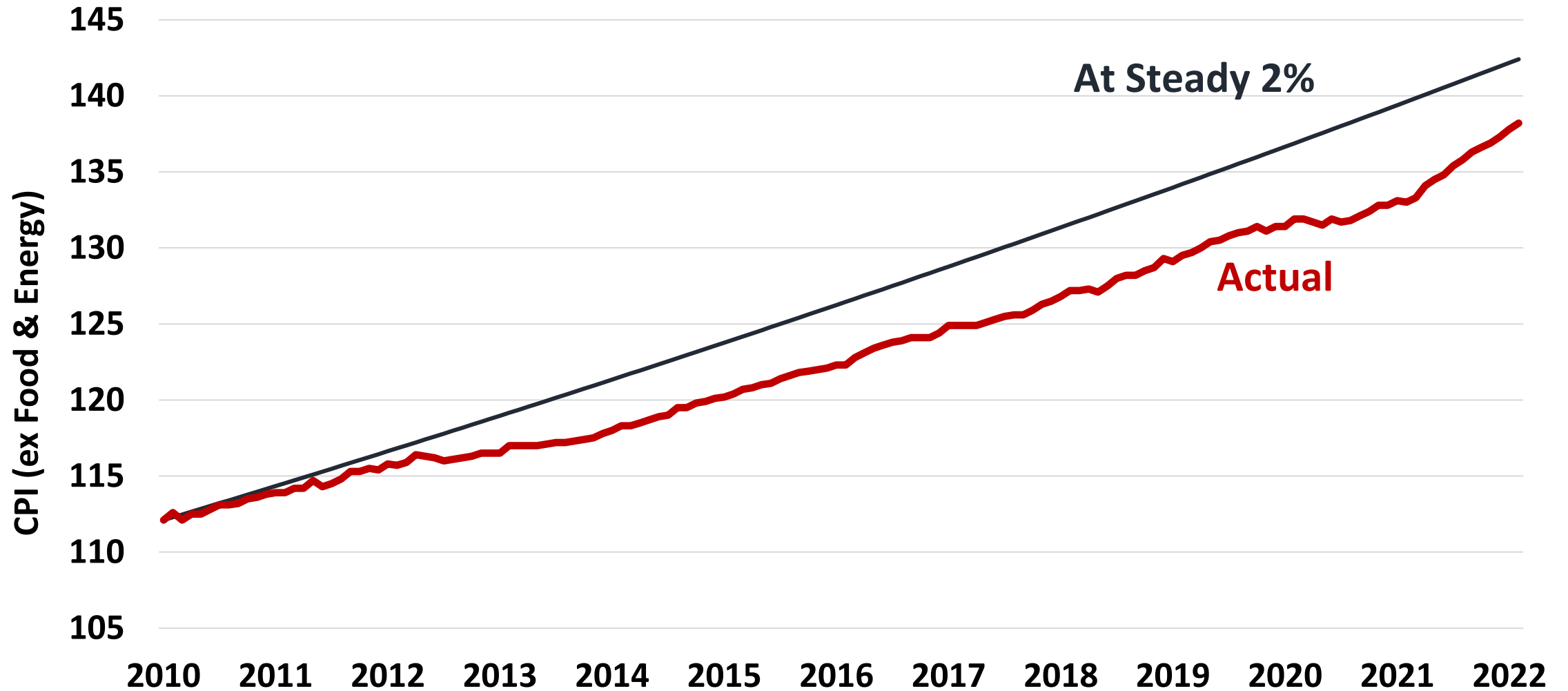
Canada's Inflation-Targeting System

- Since 1991, Bank of Canada instructed to keep inflation near 2% (plus or minus 1%).
- Certainly reduced inflation, but at what cost?
 - 1990s were brutal for living standards.
- Assumes:
 - Inflation is caused by excess domestic demand.
 - Changes in interest rates can reliably control domestic demand.
- Bank has operated more 'flexibly' since the GFC.

Bank of Canada: Over-Under Since 1992

	Above	Below	Equal	Share Misses Below
2% Target	70	279	1	80%
1-3% Band	16	41	na	72%

Still Below



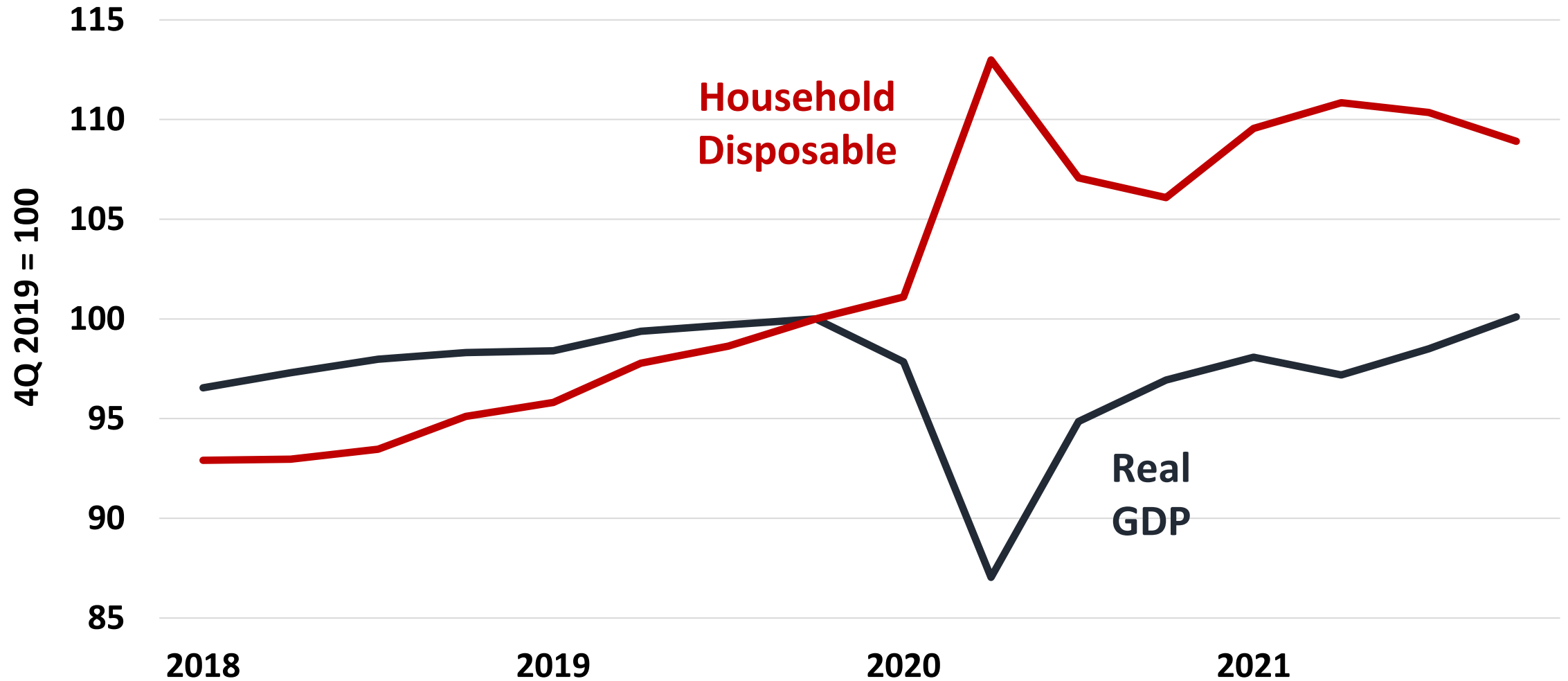
Inflation and COVID

- Prices declined in initial lockdowns.
 - Restricted activity.
 - Big uncertainty.
 - Energy price collapse.
- Prices began accelerating after re-opening.

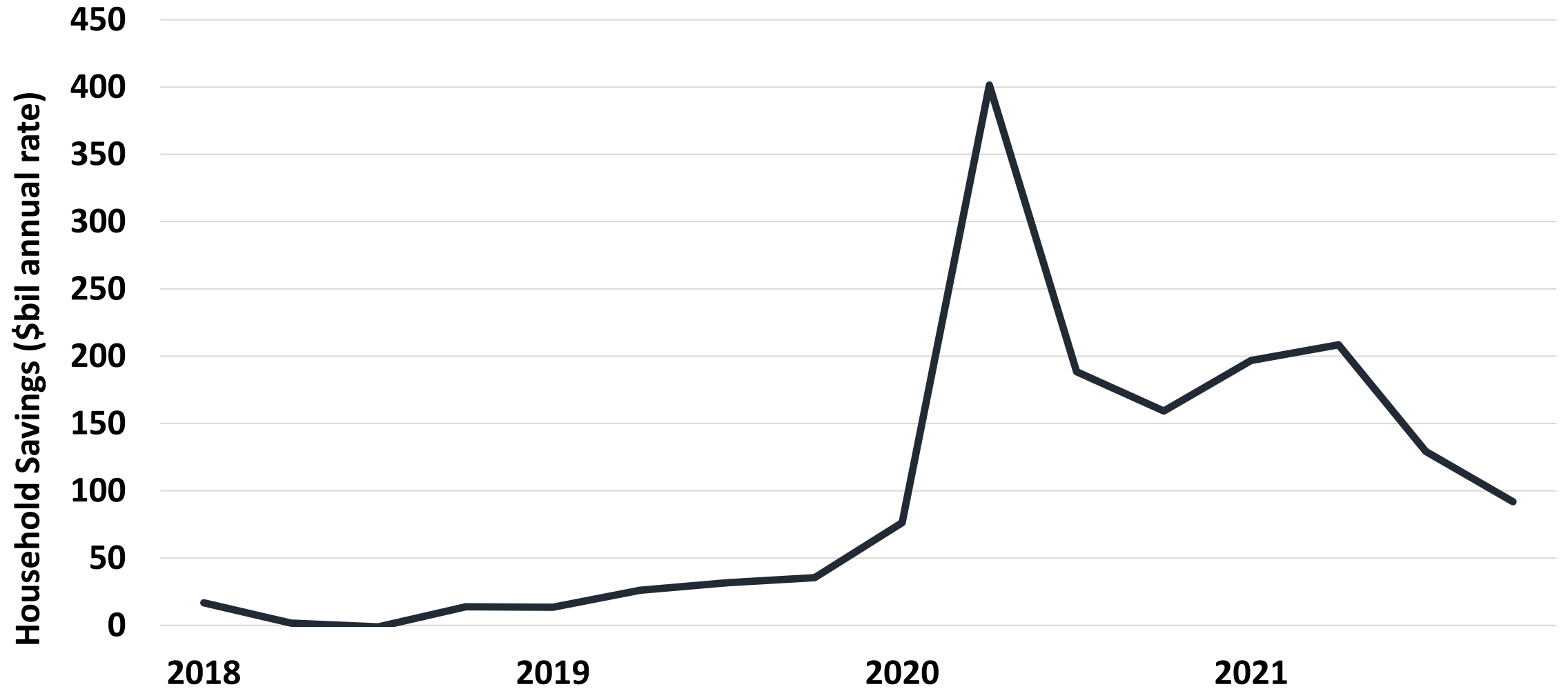
Causes of Current Inflation

- Output fell more than income during the recession.
- Demand shifted to goods from services.
- Consumers saved / pent-up demand.
- Supply chains disrupted (at home and global).
- Housing price bubble (low interest rates).
- Energy price shock (Ukraine war).

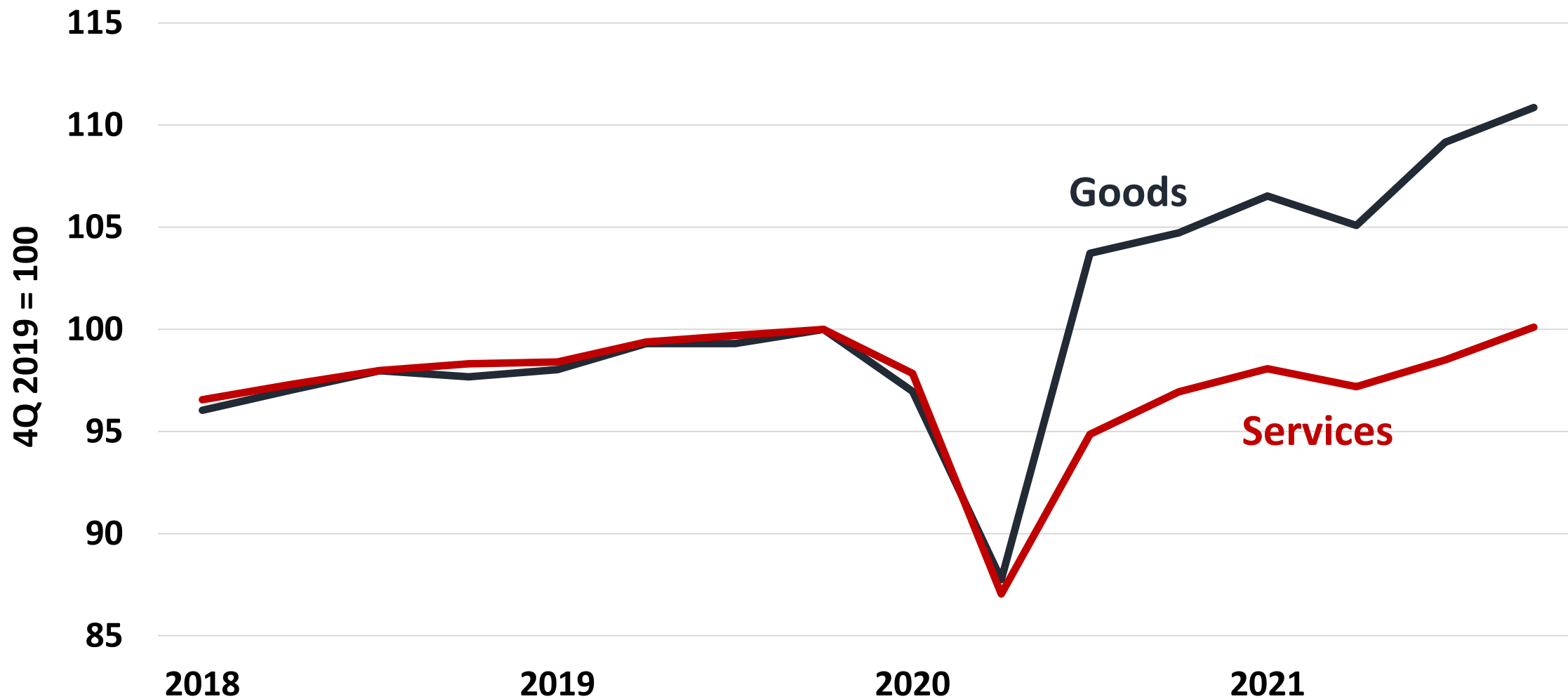
Income and Output



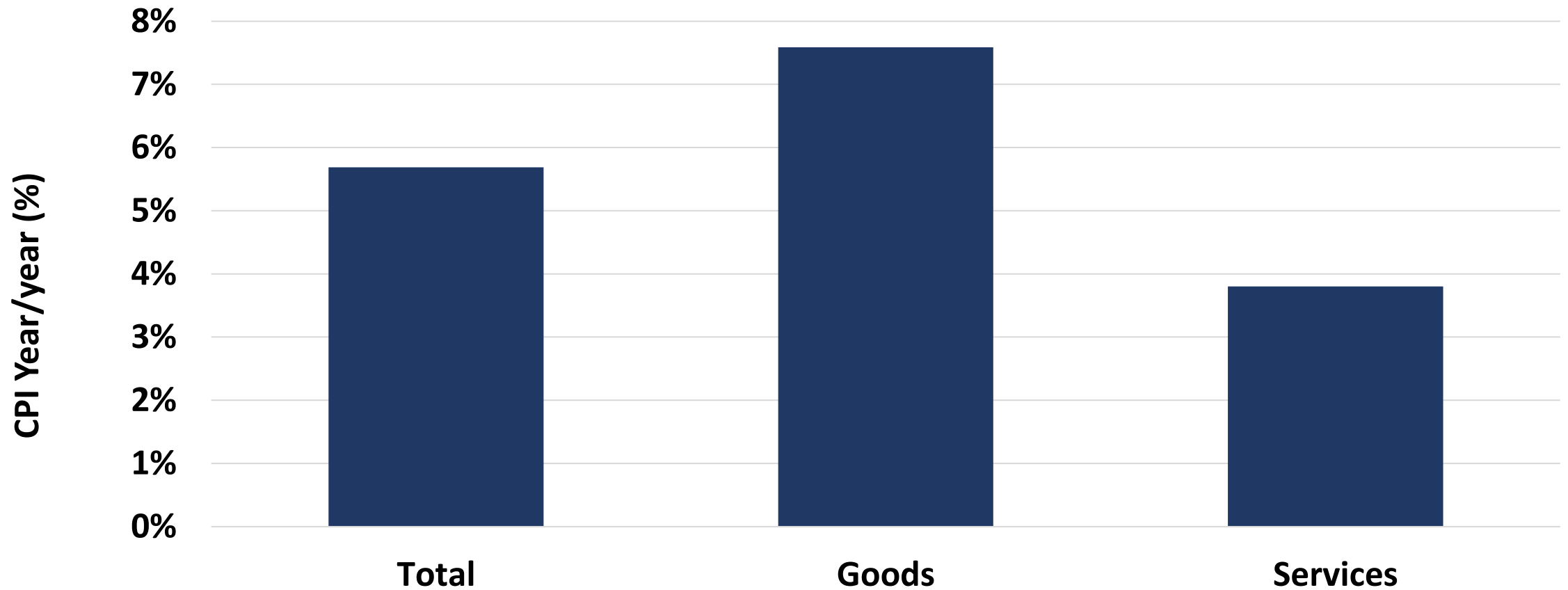
Household Saving



Goods vs. Services



Consumer Prices: Goods and Services



Outlook for Inflation

- Some factors are transitory:
 - Energy prices already falling.
 - Supply chain & demand composition effects will abate.
- Some disruptions are continuing.
 - Including new lockdowns in China.
- Some inflation is now being 'baked in.'

What Will High Interest Rates Do?

- Pop the housing bubble.
 - Though it's a double-edged sword (mortgage costs).
- No impact on energy costs.
- Undermines capital spending → supply chains worse.
- Higher dollar → lower import prices (weak).
- Destroy jobs and spending.



Energy Costs: Digging Deeper

Energy Costs: Digging Deeper

- Ukraine war has not reduced world supply.
 - Price surge is speculative, as with previous shocks.
- The gasoline in our local station was made with oil pumped months ago.
- Deregulated globalized energy system is the source of the problem.
 - Petroleum companies are making enormous profits.

Wages and Prices

- Pre-pandemic: Canadians were getting small real wage gains.
- Early pandemic: Canadians got a real wage 'increase' as prices fell.
- Late pandemic: Wage growth now falling far behind prices.

Wages and Prices Over the Pandemic

	Last 12 Months	Last 24 Months
CPI	5.5%	6.7%
Hourly Wage (LFS)	3.1%	8.0%
Weekly Wage (LFS)	3.5%	8.6%
Fixed Weight Wage (SEPH)	2.5%	7.5%

Real Hourly Wage (LFS)



Real Fixed Weighted Wage (SEPH)



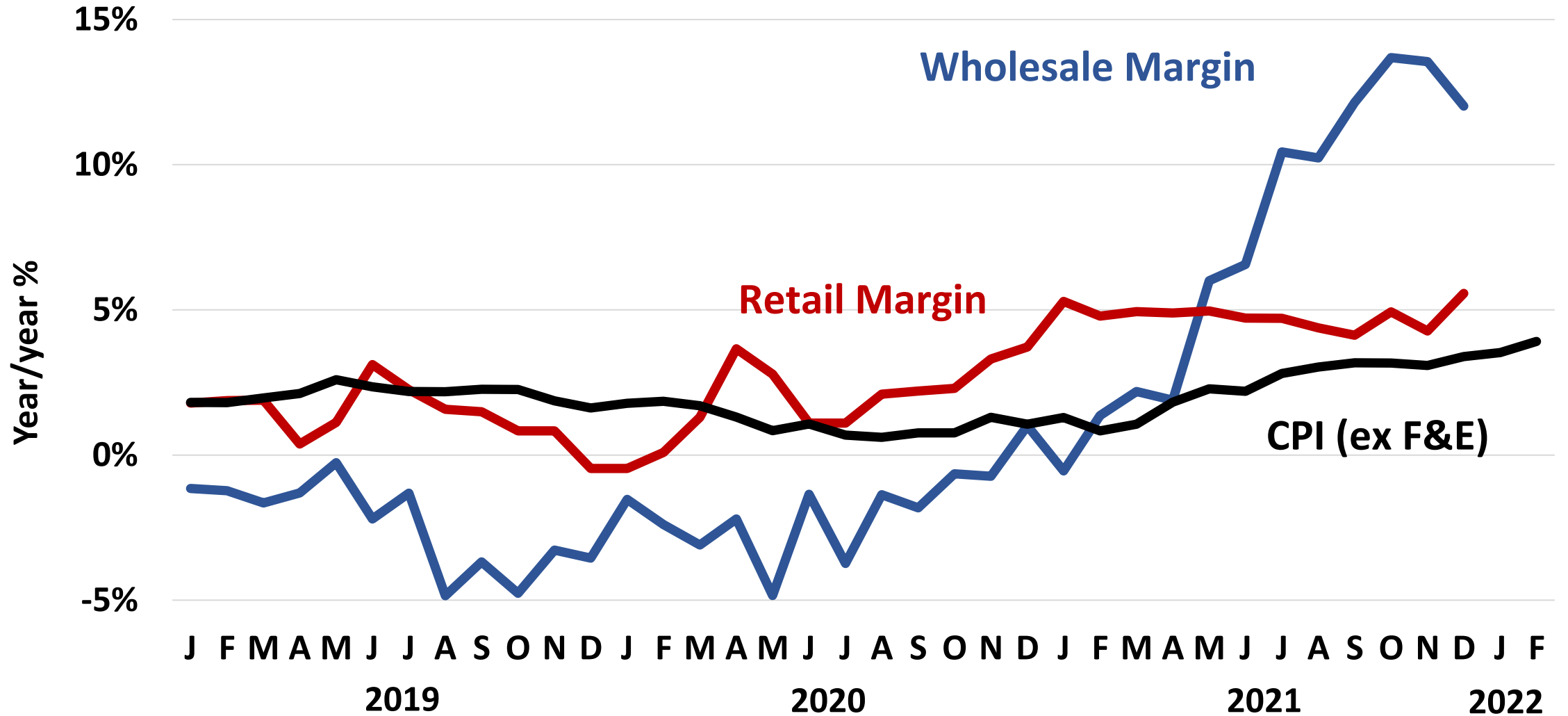
Who
Started It?



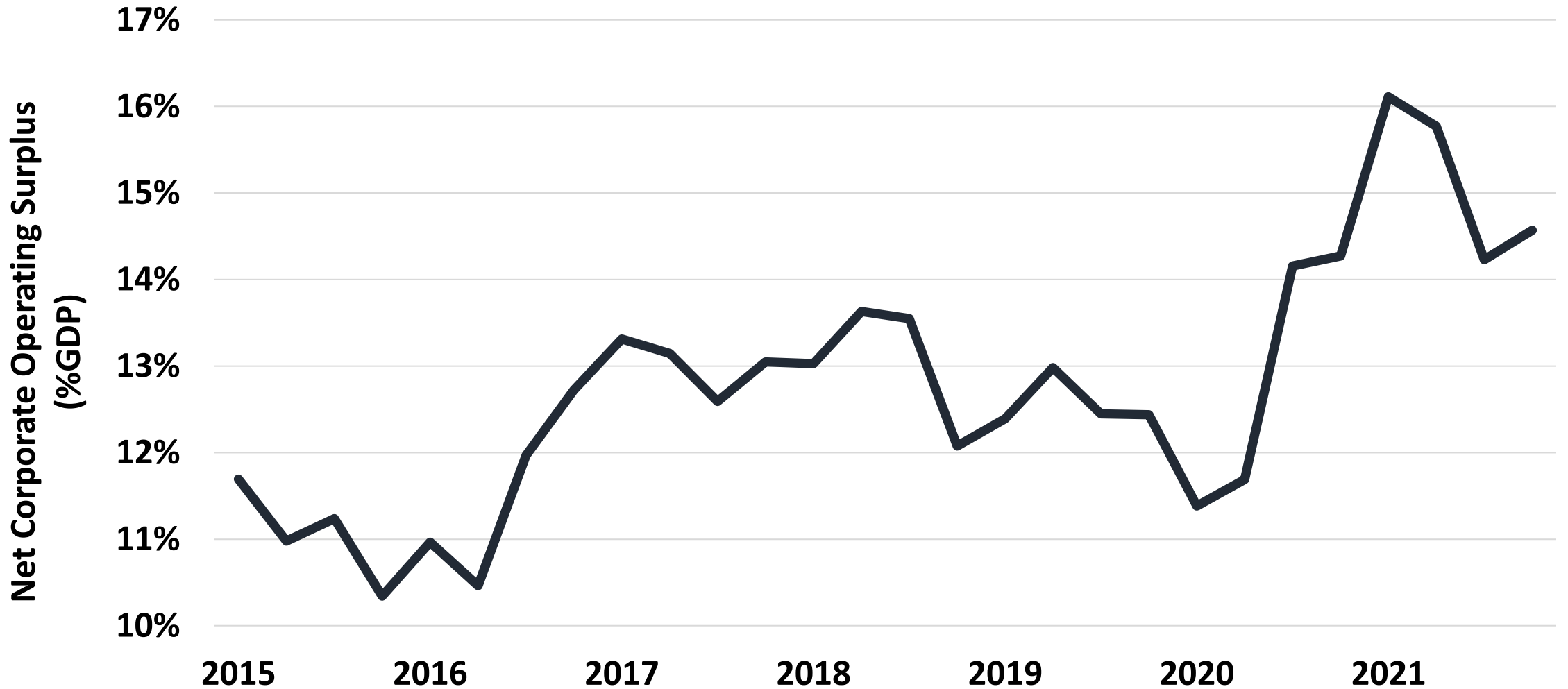
Who Started It?

- No evidence labour market pressures are causing the increase in inflation.
- Lots of evidence that it is associated with higher margins for corporations and retailers.

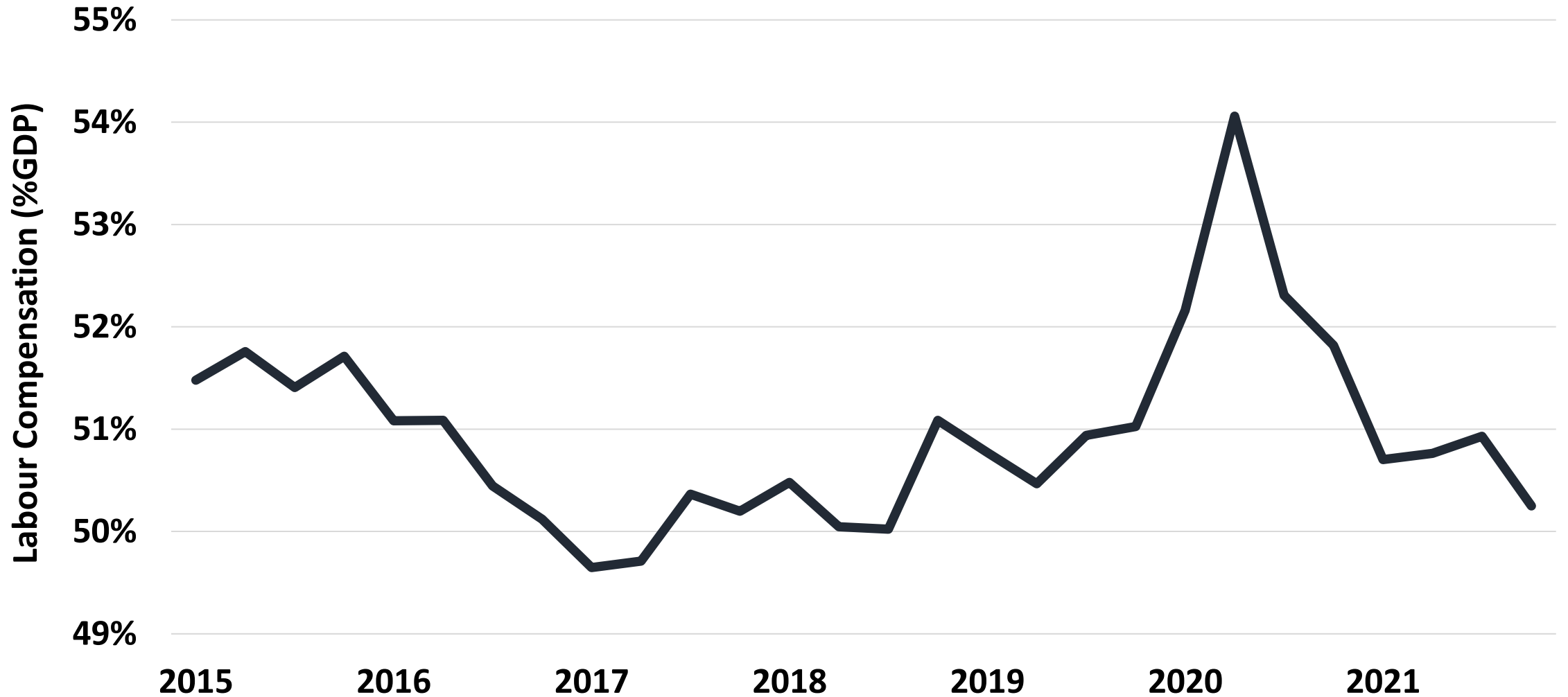
Retail & Wholesale Margins



Net Corporate Surplus



Labour Share of GDP



A Progressive Take on Inflation

- Yes: Be concerned about inflation.
- No: Beware of right-wing solution.
 - Monetary and fiscal austerity.
- Government's aggressive response to COVID did indeed 'ratify' current inflationary pressures.
- The alternative was much worse: mass displacement & depression.
- Now need to respond to inflation in context.

A Progressive Policy Response

- Strengthen wage growth to keep up.
- Index social benefits (esp. at provincial level).
- Direct measures to reduce prices:
 - Housing policy.
 - Public services (child care, transit).
 - Accelerate shift to renewable energy.
- Targeted taxes to cool off demand.

Locking in a New Cycle???

- Conventional institutions will fiercely resist catch-up wage increases.
- But if wages do not catch up, we accept a large one-time transfer of wealth & income to those profiting from current inflation.
 - Developers, oil companies, grocery oligopolies.
- We can imagine ways to redress this surge and protect our members, without spurring a 'cycle'.

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Thank you!