

Corporations Are Profiting From Inflation

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*[Article published by Jacobin, June 23 2022,
available at <https://jacobin.com/2022/06/canada-inflation-corporate-profits-supply-workers/>.]*

The Left has to understand the causes and consequences of inflation and why it is increasing corporate profits. Then we can make demands that both recognize the dangers of inflation and challenge new austerity measures.



The surge in global inflation following the relaxation of pandemic restrictions is a tectonic development that will alter economic and political outcomes for years to come. It is already clear that the conventional neoliberal medicine for this problem — monetary tightening being pursued aggressively by central banks around the world — will be worse than the disease.

Financial markets are falling sharply, riskier assets (from cryptocurrency to emerging market debt) are collapsing, and the overvalued real estate bubble prices are bursting. There is a growing consensus, even among mainstream economists, that an international recession is imminent, possibly sparking another broader financial crisis.

In this context, it is clearly not the inflation itself but the unthinking and unapologetic application of conventional neoliberal anti-inflation policy that is the bigger problem. Central bankers acknowledge that the causes of this inflation are unique and — to some extent — temporary side effects of the pandemic.

Bankers admit this inflation is different from the wage-price spiral of the 1970s that neoliberal monetary policy wrestled to the ground. But after some initial hesitation — the hope that post-COVID inflation would be transitory — they have now invoked that textbook policy response with renewed vigor. Interest rates will be increased to reduce inflation back to the target of around 2 percent in most countries, no matter what.

Corporations Eat Fat, Workers Eat Lean

Central bank intransigence on the matter of interest rates is a harbinger of the mass economic and social destruction to come. Many central banks adopted a somewhat more flexible stance in the wake of the global financial crisis of 2008–9, but with the inflation genie out of the bottle the bankers are now stiffening their resolve. Once again, reducing inflation has been elevated above all other economic, social, and environmental priorities.

This is reminiscent of the harsh monetary medicine that ushered in the neoliberal era, starting with the Paul Volcker interest rate shock beginning in 1978. As Michael Mussa, former director at the International Monetary Fund, put it with uncharacteristic bluntness:

The Federal Reserve had to show that when faced with the painful choice between maintaining a tight monetary policy to fight inflation and easing monetary policy to combat recession, it would choose to fight inflation. In other words, to establish its credibility, the Federal Reserve had to demonstrate its willingness to spill blood, lots of blood, other people's blood.¹

Central banks are clearly ready and willing to spill blood. It doesn't matter that the immediate causes of the current inflation have little to do with "overheated" aggregate demand and nothing at all to do with labor markets and rising wages — the supposed main culprit of 1970s-vintage inflation. Prices initially rose after the lockdowns because of supply chain disruptions (for important products like semiconductors and motor vehicles), an energy price shock (associated with, but not actually caused by, Russia's invasion of Ukraine), and shifts in the amount and composition of consumer demand that are clearly not permanent.

This latter category includes both a pronounced shift in spending away from services and toward merchandise during and after the pandemic, and a burst of pent-up spending once COVID restrictions were lifted — fueled in part by household savings accumulated during lockdowns and in part thanks to strong COVID income supports implemented in most OECD countries.

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¹ Cited in Andrew Glyn, *Capitalism Unleashed: Finance, Globalization, and Welfare* (Oxford: Oxford University Press, 2006, p. 24).

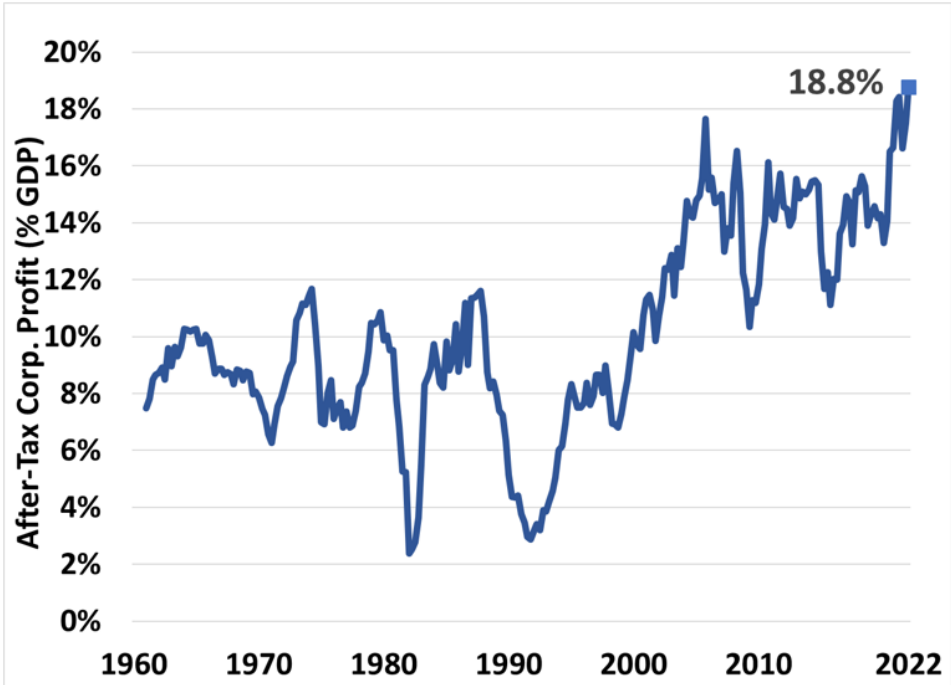
Progressives around the world are grappling with how to understand the causes and consequences of this inflation, and how to enunciate a set of demands that recognizes the dangers of inflation but challenges the logic and legitimacy of coming monetary austerity. While both the policy and the politics of this problem are complex, some features of the current moment are crystal clear.

First, it is undeniable that current inflation has virtually no connection to trends in labor markets, wages, or labor costs. Yes, unemployment declined quickly in most OECD countries as economies reopened and in some cases reached historically low rates. The faster-than-expected rebound in labor markets reflects many factors, such as the impact of massive fiscal injections by governments earlier in the pandemic, which stabilized purchasing power, employment relationships, and housing arrangements.

But wages have not taken off in response to lower unemployment. And this fact attests to the preeminent role played by institutions and structures — like collective bargaining, minimum wages, and pay norms — in shaping income distribution rather than simple supply-and-demand forces.

Another undeniable feature of the current inflation is how the corporate sector is profiting immensely from it. I have analyzed Canadian macroeconomic data showing record-breaking corporate profits coincident with accelerating inflation. Canadian after-tax corporate profits reached their highest share of GDP ever in the first quarter of 2022, as inflation surged. After-tax profits grew 11 percent in just three months, to an annualized total of over \$500 billion. That represents the highest share of total GDP (18.8 percent) since Statistics Canada began collecting GDP data.

Figure 1. Record Corporate Profit Share in Canada



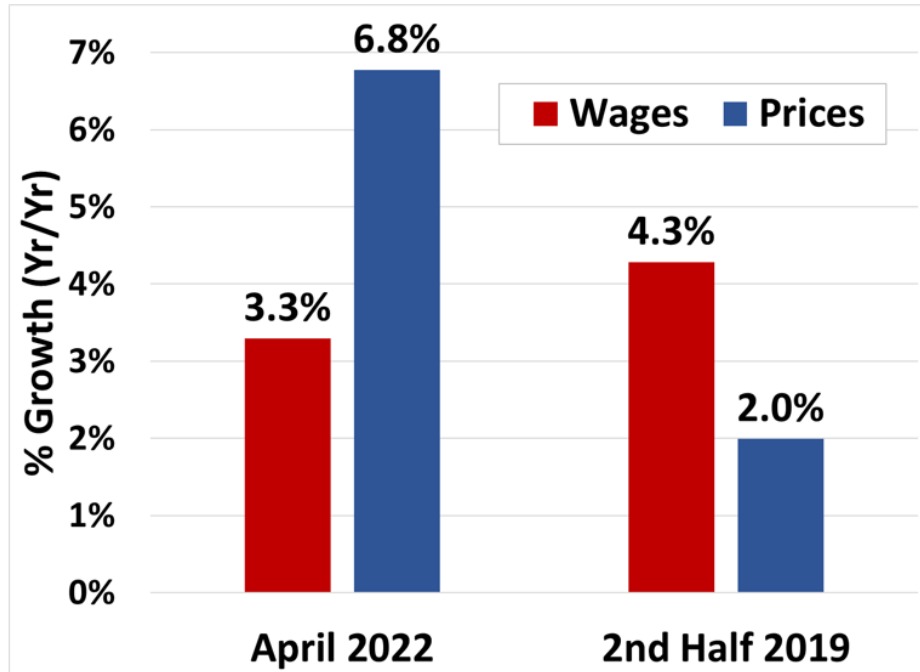
Source: Centre for Future Work from Statistics Canada data.

Meanwhile, workers’ wages are lagging far behind inflation, producing a decline in real wages and a shrinking labor share of GDP. Nominal hourly wages grew just 3.3 percent in the last twelve months — less than half as fast as consumer prices (6.8 percent). Despite a historically low unemployment rate (of

just above 5 percent), nominal wages are still growing more slowly in Canada than in 2019, before the pandemic. Yet inflation has more than tripled.

The nonrelationship between wage growth and inflation casts further doubts on the effectiveness of conventional monetary medicine. Even if unemployment is increased and wage growth slows, because wage growth wasn't the cause of the problem, there is no guarantee that even weaker wages will somehow solve it.

Figure 2. Wages and Prices in Canada



Source: Centre for Future Work from Statistics Canada data.

Labor compensation in the first quarter of 2022 equaled 50.2 percent of Canadian GDP, down almost one percentage point from pre-pandemic levels. In contrast, the share of GDP going to after-tax corporate profits has increased by over 4 percentage points since before the pandemic.

In short, abundant evidence confirms the current surge in inflation is being led by the corporations who set the prices for the things we buy, not the workers who make them. Evidence from elsewhere — including the United States, the UK, and Australia — indicates this is the case in other industrial countries too. Yet central banks seem determined to make workers pay to reduce inflation that they clearly did not create.

Understanding Inflation

It's easy to prove that corporations are the ones winning from current inflation. As prices have accelerated, profit margins have widened. The current episode is clearly a case of profit-price inflation, not wage-price inflation. The first step in constructing a progressive narrative of this moment is rebuffing the argument that inflation is the "fault" of workers. To do this, we need to call attention to

the fact that corporations — especially in high-inflation sectors like energy, housing, and groceries — are benefiting from the inflated prices workers are paying.

But that is only part of the story. We also need a better understanding of *why* corporations have been able to exert such pricing power in the wake of the pandemic. If they have autonomous power to gouge consumers by jacking up prices, why didn't they use it *before* the pandemic (when inflation was low)?

It's hard to believe there's been a sudden uplift in oligopolistic power, giving companies more ability to unilaterally raise prices. There is clearly a macroeconomic context to this problem, including demand-side factors that validate the higher prices (by permitting consumers to pay them).

This complex question needs further research and discussion. It is likely that what we're seeing reflects the ways in which preexisting corporate power can take advantage of the unique conjuncture of circumstances in the immediate postlockdown economy. In particular, it appears that key industries leveraged market power to exploit the effects of supply disruptions. In the case of energy (by far the biggest single component of recent inflation), there hasn't even been a supply disruption: global oil supply has increased, not decreased, since the invasion of Ukraine. Notoriously speculative futures markets drove up world oil prices solely on the strength of fear and uncertainty alone. This is normal behavior for futures markets, which are fueled more by psychology than supply and demand.

A bizarre consequence of all of this is that energy export revenues flowing to the Vladimir Putin regime have increased substantially. This is because Russian export supplies have hardly changed, while prices have increased dramatically. The speculative behavior of capitalist energy markets is thus enriching the regime that it supposedly aims to punish.

The impact of COVID income-support payments and other fiscal stimulus must also be carefully acknowledged. In most OECD countries, those payments fully protected *aggregate* incomes received by the household sector — although certain groups of households obviously lost income. In several of these countries, including the United States, Canada, and Australia, aggregate household incomes increased during the pandemic lockdowns. These supports saved millions of jobs and prevented millions of people from being thrown out of their homes.

However, the effects of these interventions on spending power are undeniably part of the context for current inflation. Acknowledging this does not mean accepting the arguments of inflation hawks that the fiscal stimulus was too large and thus caused subsequent inflation. It suggests, rather, that this inflation is in part a side effect of an effective response to an enormous, much worse problem. Present inflation could likely have been avoided by allowing the economy to fall into a deeper, much longer recession — such a trade-off would obviously not have been acceptable.

Countering the Arguments of the Right

The Left badly needs a stronger sense about what to do about current inflation — including arguments about how to challenge the role of swelling profit margins in driving it. A typical response to the charge that powerful corporations are jacking up prices is to argue for tougher competition policy.

Proposals for seeing this through include breaking up large firms, banning particular anti-competitive practices — including those in the labor market, like no-poaching and noncompete clauses — and other measures to reduce corporate pricing power. This strategy needs to be approached with caution. More

decentralized, competitive market structures are usually associated with worse wages and conditions for workers and greater instability and precarity in the economy as a whole. In some cases, competition creates more problems than it solves.

However, there are other tools to combat corporate profiteering and resulting inflation. These include:

- Direct price regulations or price controls in certain strategic industries. Energy prices would be a good place to start: many forms of energy prices are already regulated in many countries, and there's no reason for petroleum products to not be subject to similar direct oversight.
- Redistribution of excess profits back to households or workers, through targeted profits taxes (such as those now being imposed [in the UK](#) on energy companies or [in Canada](#) on major banks). Such taxes could be matched with subsidies or rebates to households. This would improve equity but would not likely reduce inflation, due to the fact that households would have more money to spend and corporations would gladly respond with higher prices.
- Ambitious efforts to expand public provision in key sectors experiencing high inflation. Ramping up supply of nonmarket housing would be a good example of using public provision to reduce speculative inflation and profiteering. This proposal would admittedly take time, but higher interest rates are already working to pop the housing bubble.

All of these measures would take time to have effect. An immediate challenge to swollen profit margins could take the form of a fight to defend workers' share of total output by increasing wages. That won't make inflation worse (wages have lagged inflation, and real unit labor costs have declined), but it won't cure it, either.

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In this context, it makes some sense to simply tolerate higher inflation for a while. The costs of moderate inflation, even for workers, are definitely overstated by the hawks. The best course of action may entail taking other measures to address high inflation's underlying causes (supply disruptions, energy prices), while fighting to defend workers' real incomes in the meantime.

To the limited extent that strong domestic spending power contributes to — or at least validates — inflationary pressures, it should be tackled through more targeted and fair measures to dampen demand. This would be vastly preferable to crushing the whole economy with the sledgehammer of monetary tightening.

Countercyclical fiscal policy largely fell out of favor under neoliberalism, but it has proved its worth during the pandemic. Targeted fiscal measures — such as tax increases for higher-income households and corporations — could cool off domestic spending power without sacrificing the living standards of poor and working people.

Other policies might aim to *defer* domestic spending power (rather than destroying it) — for example, establishing extra incentives for workers (who can afford it) to deposit extra funds into tax-assisted pension vehicles, or offering cost-of-living bonuses that come into effect at a later date. With any of these discretionary fiscal measures, however, significant time lags are also typically involved in their

design and implementation. Changes in tax rates don't typically make an impact until a subsequent fiscal year. So again, a likely reality is that higher inflation will have to be tolerated for a while.

The current surge in inflation is unique, complex, and not fully understood. What is clear, however, is that workers didn't cause it, workers' incomes are being eroded, and corporations are making out like bandits. But the main solution on offer, neoliberal monetary austerity, will inflict enormous pain. This will afflict workers first and foremost — they will lose work and income as a result of a deliberate contraction (likely a recession). Neither the current situation, nor the looming alternative, are acceptable.

The way out of this quandary is for workers' movements to reject the underlying neoliberal arrangement in which excess capacity — in essence, a reserve army of workers — is always available to discipline labor and control inflation. This is the case even when that inflation was not caused by workers.

Our current predicament requires a rethink of how the economy functions. We need more direct regulation of vital industries, more public provision of essential products, including housing and energy, and more labor market planning. (This last item would enable the simultaneous attainment of full employment with sustainable wages and stable prices.) It will take years of educating, organizing, and struggle to win any of those remedies. But in the meantime, workers and their unions need to call out the parties who are benefiting from the current arrangements. The labor movement must stubbornly resist the system's efforts to make workers pay for a crisis they didn't create.