

Inflation and the Crisis in Workers' Living Standards

*Jim Stanford, Economist & Director, Centre for Future Work
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A Cure Worse than the Disease?

Toward a More Balanced
Understanding of Inflation
and What to Do About It

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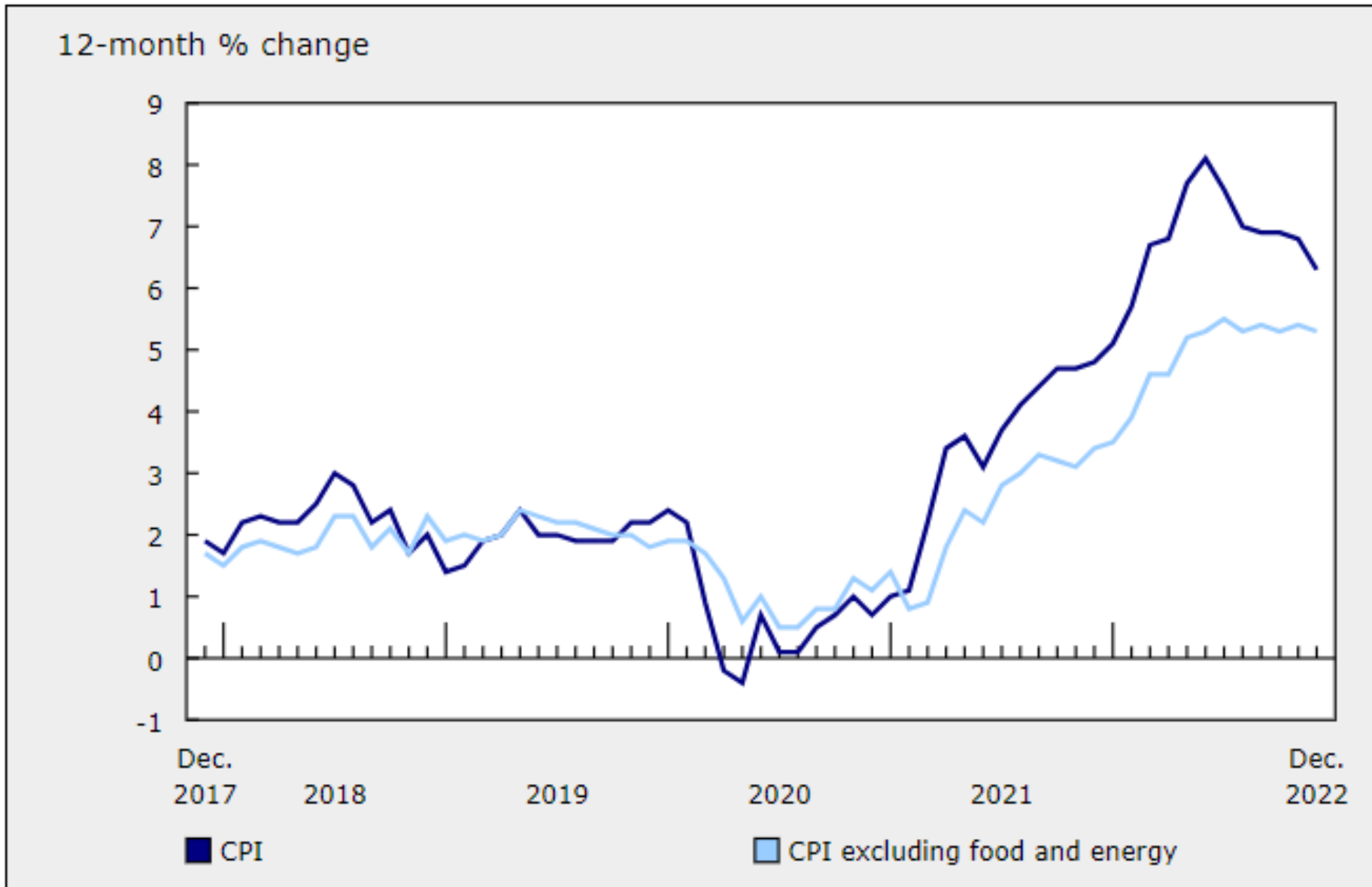


CANADIAN LABOUR CONGRESS

Outline

1. Inflation: WTF Happened??
2. What Inflation Does to Real Wages
3. Who has PROFITED from Inflation?
4. What NOT to Do: The Risks of Monetary Austerity
5. A Better, Fairer Strategy for Managing Inflation

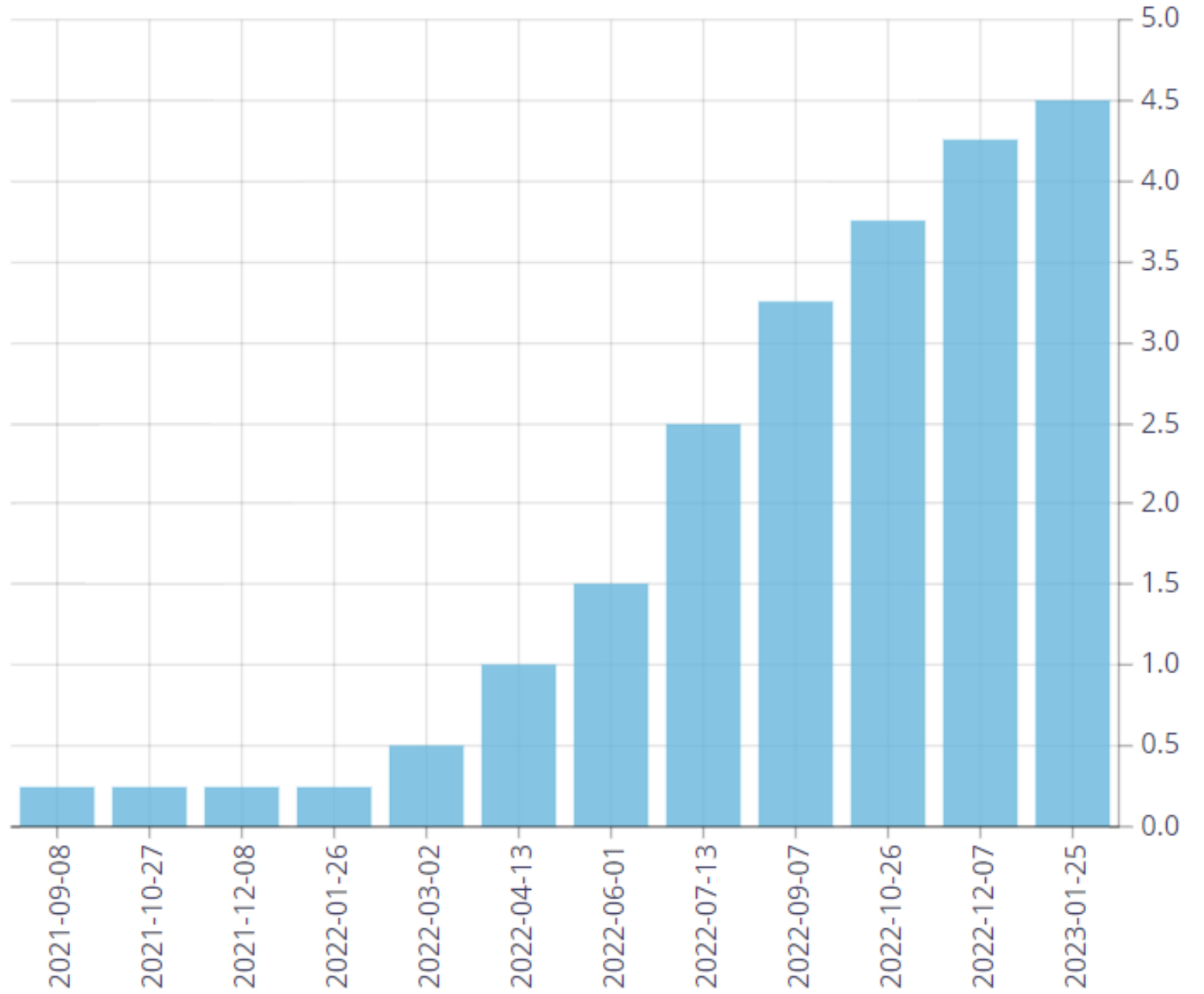
The Return of Inflation



A Short History of Post-COVID Inflation

- Output, supply chains, logistics all hammered by lockdowns.
- Income supports (sensible) supported households through the worst.
- Energy price shock (futures market speculation after Ukraine war).
- Companies took advantage of combination of supply disruptions, uncertainty, and consumer desperation to jack up prices.
- Most initial spurs to inflation are gradually resolving anyway.
- Bank of Canada won't wait:
 - False worries of 'wage-price spiral' and 'locked-in expectations'.
 - Forcibly prevent workers from catching up; permanent wage cut.
- Now we face a cure (recession) that's worse than the disease.

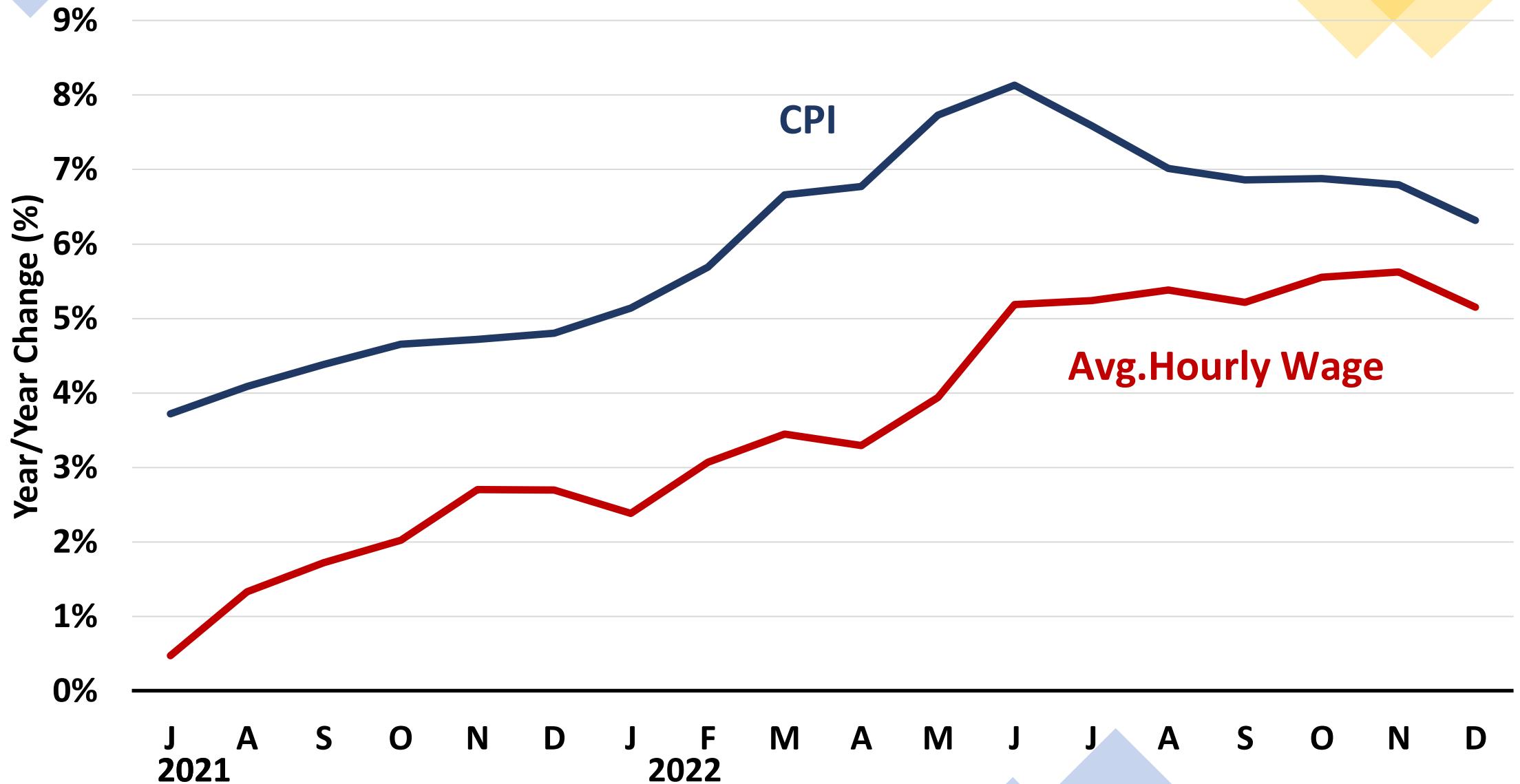
Record Monetary Austerity



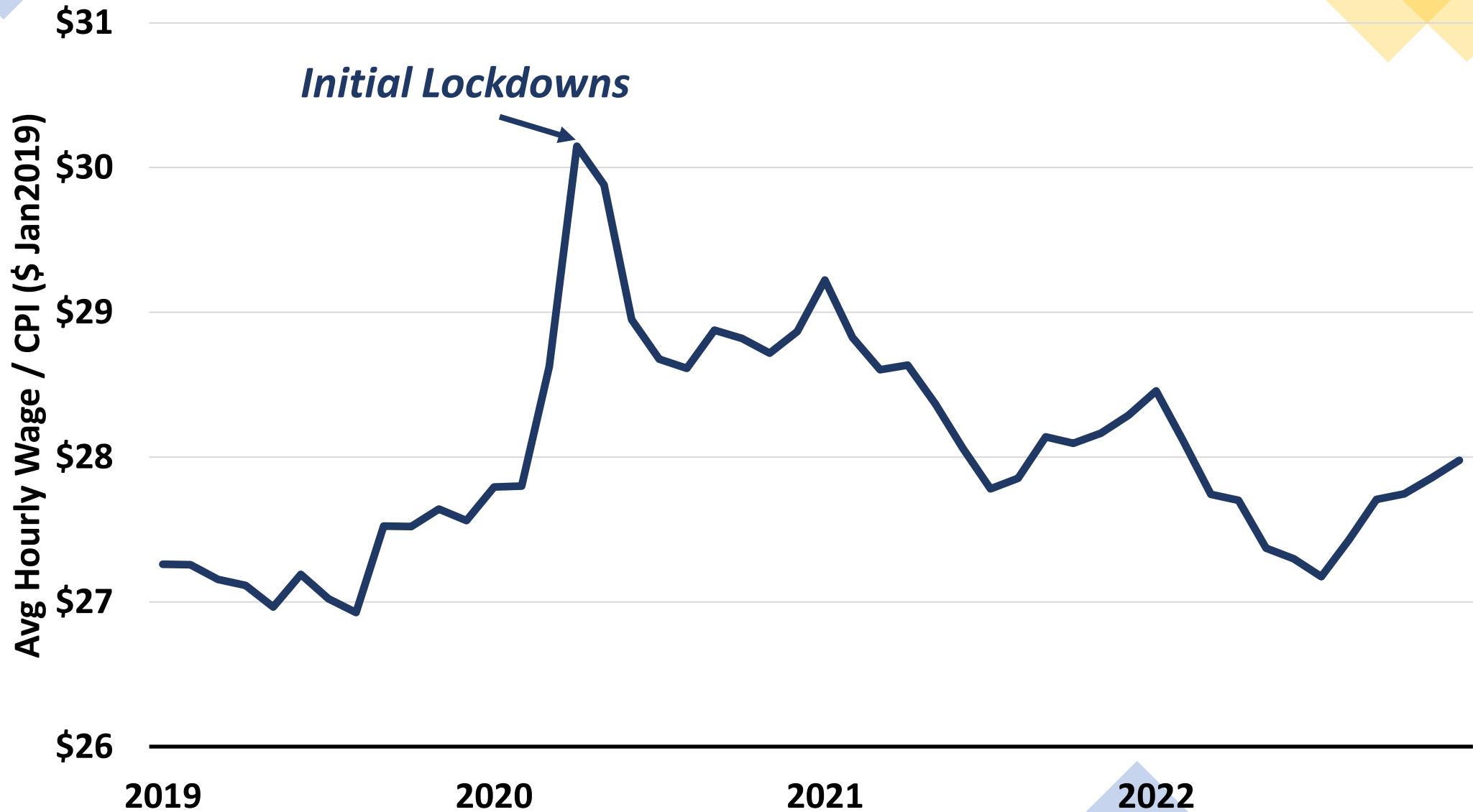
Inflation and Real Wages

- Average prices rose 6.8% in 2022.
- Prices rose *more* for the necessities that workers must buy.
- Who got a 6.8% wage increase???
 - CEO pay up 31%!
- When prices rise more than wages, the real purchasing power of workers' wages (called the 'real wage') declines.
- Down about 3% last year.
 - A lot more for workers with wage caps or freezes (Bill 124).
- More cuts ahead if workers are prevented from catching up.
- Combined with crisis in public services, this means major erosion of living standards.

Prices Winning The Race



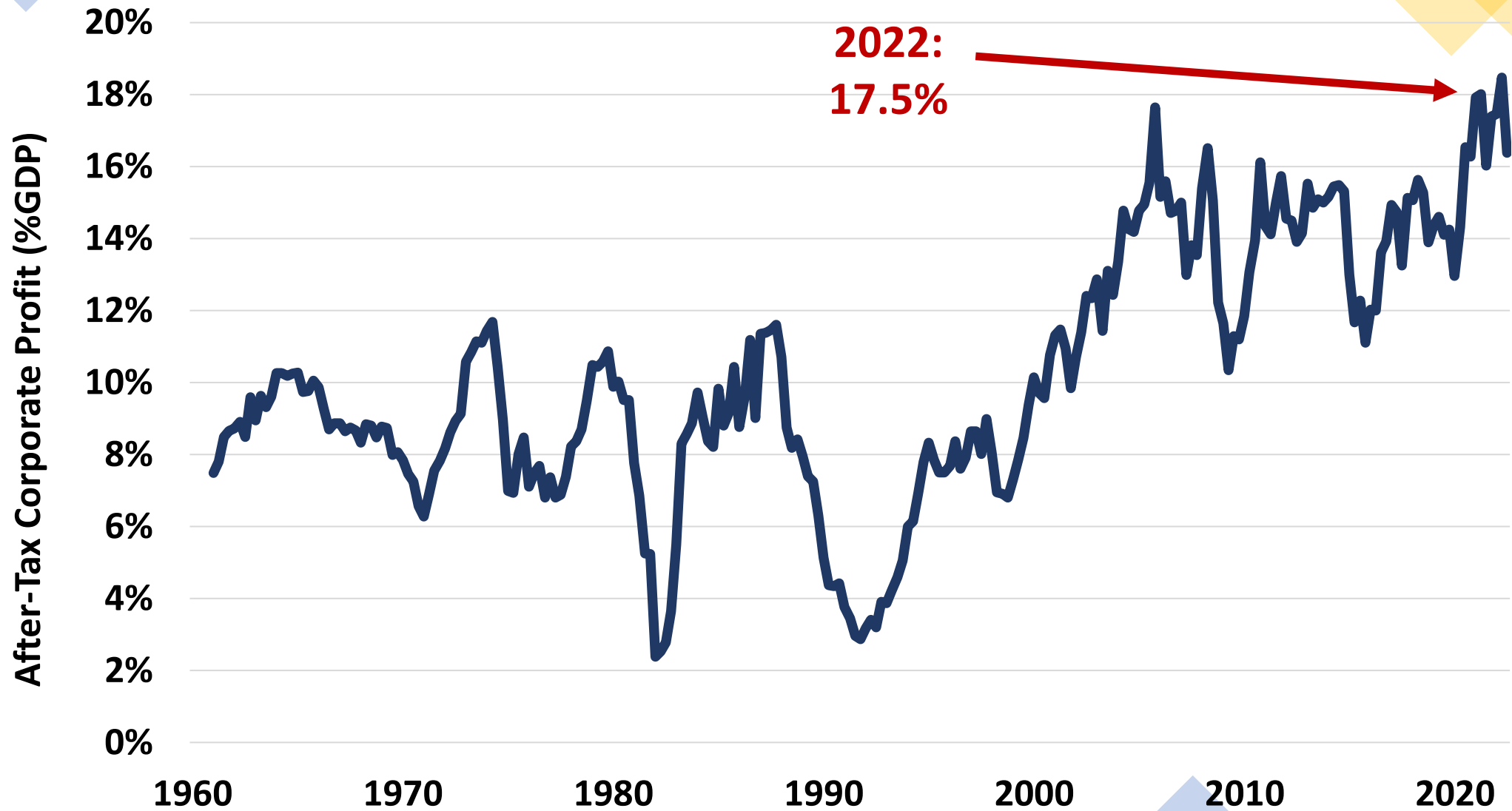
Real Wage Erosion



Not Everyone “Loses to Inflation”

- Fun fact: It’s ***COMPANIES THAT SET PRICES!!***
- They’ve done much more than just “pass on higher costs.”
- Corporations (especially in 15 strategic sectors) have jacked up prices much faster than costs, and earned record profits.
- It’s a ‘profit-price spiral’ (not a wage-price spiral).
- Bank of Canada, and mostly the government, have been silent about the role of profits driving inflation.

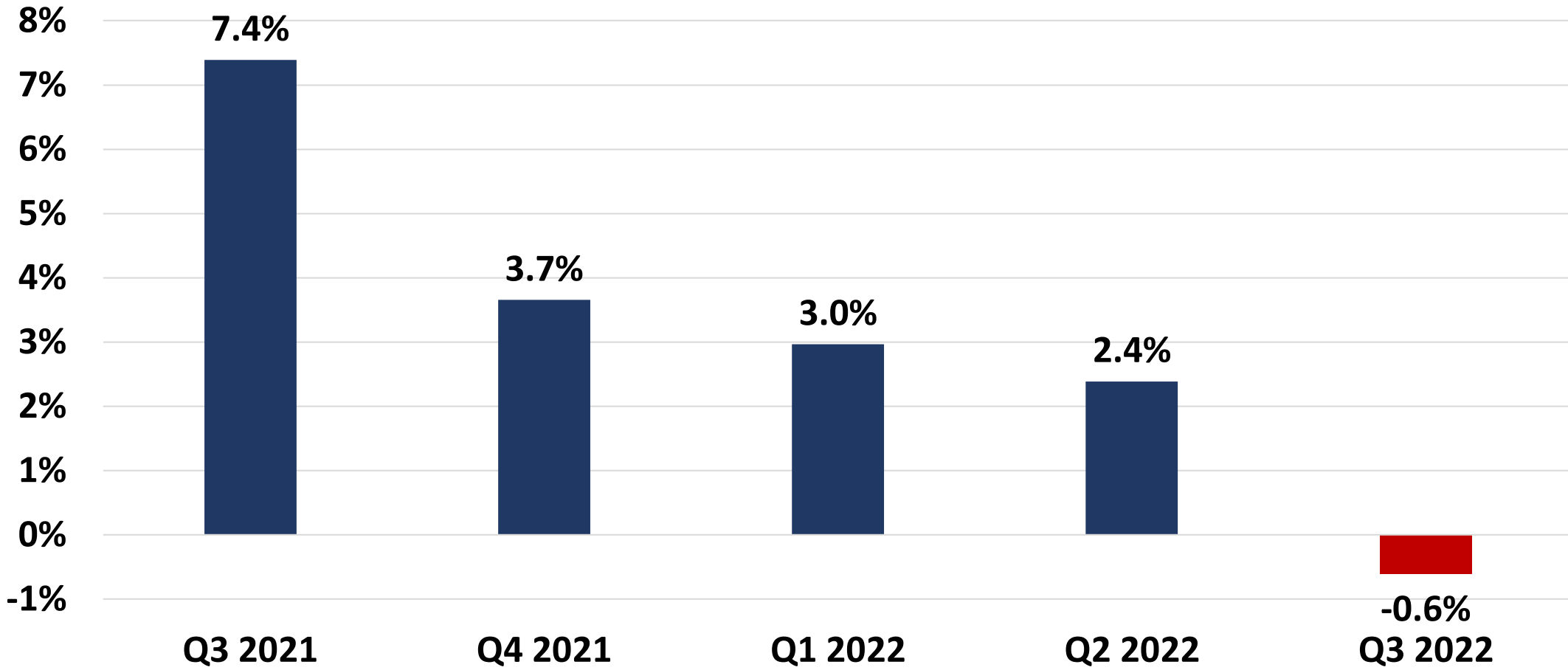
Economy-Wide 'Margin' Record High



Cure Worse than the Disease

- Bank of Canada:
 - Inflation reflects unemployment that's too low, and too much domestic purchasing power.
- Their goal: raise unemployment and stifle growth.
 - What they call 'NAIRU' is actually 'class war'.
- 'Best-case' scenario: 'soft landing' (zero growth, 6% unemployment).
- More likely: recession comparable to early 1980s and early 1990s.
 - And for similar reasons.
- In that case: 300-400,000 job losses, 9% unemployment.
 - Lasting hardship after 3 years of suffering.
 - Pierre Poilievre will have a heyday.

Annualized Growth Final Domestic Demand



A Better, Fairer Inflation Strategy

1. Short-circuit the profit-price spiral:
 - Price regulation for strategic commodities.
2. Redistribute excess profits:
 - Excess profit taxes, taxes on disbursements.
 - Fiscal support for workers & low-income Canadians.
 - Strengthening EI benefits will be critical in a recession.
3. Protect real incomes, without locking in long-term inflation
 - COLA, indexed benefits.
4. Address supply-side pinch points: energy, housing, transport.
5. Use fiscal policy to stabilize in both good times & bad.
6. Patience.

The Labour Movement's Challenge

- Explain to our members and all workers that workers did not cause this inflation, corporations have profited from it.
- We will not sacrifice our living standards to 'solve' a problem we didn't create.
- Keep bargaining for wages that:
 - Keep up with current inflation.
 - Make up for past losses.
- Reject Bank of Canada's monetary austerity as the solution.
- Demand protection against the coming recession:
 - EI repairs.
 - Public investments and job-creation.
- Make full employment the top priority of policy; reject NAIRU.

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**Thank
You!**