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PRICES GO THROUGH THE ROOF

Since 1966, prices paid by consumers have increased an average of six percent annually, and in 1979, they jumped 13.3 percent. Currently, they are rising at an annual rate of 18 percent. Producer prices, better known as wholesale prices, are also increasing at an annual rate of 18 percent. These wholesale price rises will shortly be reflected in even higher consumer prices, suggesting that rapid inflation will continue for an extended period of time.

The Causes of Inflation

In explaining inflation, Rudy Oswald, Director of the AFL-CIO Department of Research, emphasizes price movement in necessities. Prices for medical care, housing, energy and food have been increasing at rates faster than average for the economy as a whole.

The causes of inflation are different in each of these different sectors of the economy, but in none of them can they be traced to rising labor costs. Rising prices for medical care can be explained by skyrocketing hospital fees partially due to the cost-reimbursement procedures of third party insurers and price-raising practices of doctors. The most inflationary aspects of housing costs have been financing, taxes and insurance. The pricing decisions of the oil producing countries, the ability of oil companies to profit from the "energy crisis" and the declining presence of government price controls help to explain rising energy costs. Food inflation has resulted from rapid growth in world food demand, growing dominance of agribusiness corporations and government policies designed to limit production and increase prices.

Other economists, while aware of price rises in food, energy, housing and medical care, believe that the slowdown in the rate of growth of the economy since 1973 is necessary to explain why prices are rising throughout the economy. With adequate economic growth, everyone can improve his standard of living each year. With minimal if any growth, gains can only be made at someone else's expense. Workers and corporations, expecting and attempting to win real income gains, drive up wages and prices; corporations in different industries, competing with each other as well as with workers, raise the prices they charge each other. An inflationary spiral begins and acquires a momentum of its own.

The Administration's Anti-Inflation Strategy

Though there is extensive unemployment and much excess capacity, the Carter Administration is attempting to fight inflation with policies aimed at causing a recession. The President has revised his January budget proposal to eliminate a projected \$16 billion deficit and achieve a balanced budget. The Federal Reserve Board is committed to restrain the growth of money and credit.

To achieve a balanced budget, the President has suggested increasing taxes and decreasing spending. The tax increases include a \$4.62 fee per barrel on imported oil, having the effect of raising the price of gasoline by 10 cents.

The cuts in spending, which need to be approved by Congress, are likely to be in social programs. New programs likely to be deferred include the

Youth Employment Initiative and the Child Health Assurance Program, a Medicaid program for children. Programs to be reduced or eliminated include 50,000 countercyclical CETA jobs, unemployment benefits for former CETA workers and local economic development projects. The proposed \$1.7 billion cut in the states' portion of revenue sharing will force many states and cities to dismiss workers, reduce spending for public works and transportation and cut back on social services.

Both the decline in the rate of growth of the money supply and the balanced budget will result in less spending, relieving some inflationary pressures. Reduced spending causes a buildup of unsold goods and a cutback of employment as overall production of goods and services is reduced. The increased unemployment lessens the "bargaining power" of those retaining their jobs. The decline in spending restrains the rate at which businesses are prone to raise their prices.

"Voluntary" wage and price guidelines, begun in 1978, are designed to complement the anti-inflation strategy. They are supposed to lower inflation by "jawboning" excessive wage and price changes. The first year guidelines, created with minimal input from the labor movement, restrained wages more than prices resulting in lower living standards for many workers. The current guidelines, created with the input of representatives of the labor movement, change the seven percent guideline for wage and benefit increases to a 7.5 to 9.5 percent range. Prices are currently rising at considerably more than 9.5 percent.

An Alternate Anti-Inflation Strategy

The executive council of the AFL-CIO recently backed down from its call for mandatory controls and is currently supporting the Administration's wage and price guidelines.

Prior to directly participating in the Administration's program, the AFL-CIO's anti-inflation strategy combined comprehensive mandatory controls with policies designed to stimulate economic growth. The controls covering all prices and all forms of income would deal with both the immediate economic pressures facing those unable to keep pace with inflation as well as break the existing inflationary psychology.

Expansionary monetary and fiscal policy resulting in economic growth would lessen the likelihood of shortages. Specific policies would focus on those areas such as food, fuel, health and housing where inflationary pressures have been the strongest. They would increase the supply and lower the price of these products. For example, credit controls are advocated to protect the housing industry from the full impact of high interest rates and tight monetary policies. Also, the AFL-CIO suggests that Congress and the Administration undertake programs to increase the supply of low and moderate income housing.

The AFL-CIO's program, if implemented, would lessen the burden of the fight against inflation and spread that burden more equitably among the population as a whole than would the current federal program. This program is unlikely to be seriously considered as long as the AFL-CIO maintains its "national accord" with the Carter Administration, thereby reducing its ability to actively oppose the Administration's current anti-inflation strategy.

- Sam Rosenberg

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