

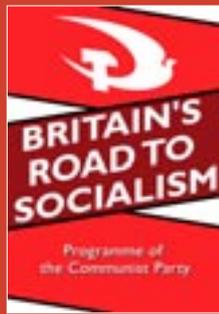


A report by the
Communist Party
Political Economy Commission

Briefing Notes

The political economy of price inflation

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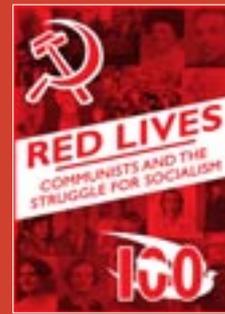
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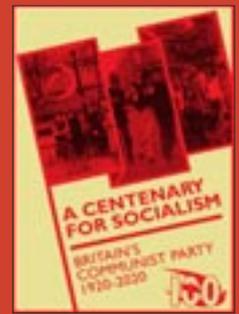
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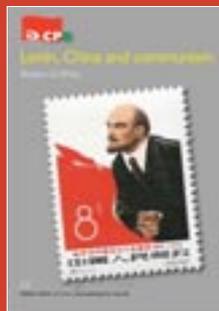
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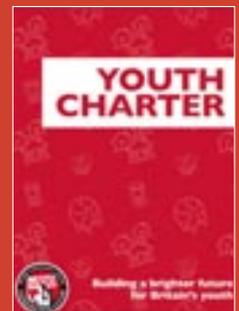
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Briefing Notes

The political economy of price inflation

Inflation is a class issue and the products of decisions taken by people and institutions in an economy characterised by serious discrepancies of wealth and power. The reporting about inflation also reflects class interests and inequalities in our society.

What is inflation and why is it now in the news?

The 1970s

Inflation is commonly defined as a general and sustained increase in the prices of goods and services in an economy. It's been largely out of the news since the 1970s, when it hit a peak of over 25% in the UK in 1974. That inflation was largely caused by:

- The USA government paying for the Vietnam War and major social programmes by printing dollars rather than taxation, this helped fuel global demand,
- The “Heath-Barber boom” of the early 1970s in which the incoming Tory government spent a lot of public money and relaxed regulatory controls on the banking sector; this latter ensured high levels of demand were sustained.
- The oil price shock of late 1973.
- Unemployment was low, and the figures were not massaged as they are today, there was limited excess capacity in the economy.
- Unions were stronger and working people were able to secure wage increases to protect living standards against the ravages of inflation. According to bourgeois economists this perpetuated a “wage-price spiral” perpetuating “cost-push” inflation in the economy. They never spoke then, nor now, of inflation could be “profit push” as capitalists hiked their prices in order to maintain or improve margins, it was all blamed on the unions for daring to defend the livelihood of working people. More on this later.

The 1970s global inflation persisted until the end of the decade and was aggravated by the second oil price shock in 1979 with the fall of the Shah of Iran. It declined in the early 1980s with massive interest rate increases, expenditure cuts that helped triple the UK's unemployment rate and assaults on the Unions' ability to protect the working class, the dark dawn of the neo-liberal world in which we now live.

Pre-2008 Crash

Price inflation briefly became an issue again in the summer and autumn of 2008 as oil prices rose and energy companies increased the price of gas and electricity. This on the back of some serious increases in world food prices in 2007 and the first two quarters of 2008. The Global Financial Crisis and Great Recession ended that nascent inflationary spiral though commodities prices resumed their upwards trajectory into 2009 and 2010 partly because of investor speculation fuelled by the Quantitative Easing undertaken by some western governments as a response to the Great Recession, see <https://www.theguardian.com/business/2010/jul/19/speculators-commodities-food-price-rises>

This is a cause of inflationary pressure little covered by bourgeois economists who like to talk more about wage costs.

Current inflationary concerns

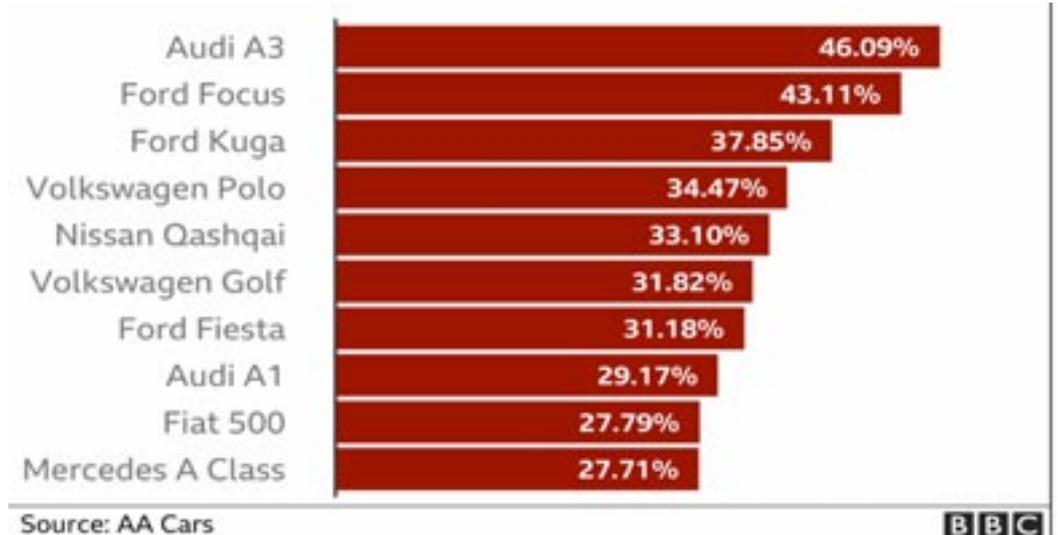
Since the post-pandemic recovery since the summer of 2021 there have been inflationary pressures primarily due to the effects of pent-up demand on supply chains that have become compromised for various reasons during the pandemic. The recent increase in the price of second-hand cars on both sides of the Atlantic is both a major cause of the jump in inflation indices and a good exemplar of the phenomenon that highlights some of the policy dilemmas.

A global shortage of computer chips used in car production, as well as other materials such as copper, aluminium and cobalt, has led to fewer new vehicles rolling off production lines. This has meant more buyers turning to the used-car market.

The easing of coronavirus lockdown restrictions in summer 2020 unleashed demand that had been pent up during the early stages of the pandemic.

Used car values have risen by up to 57% in two years

Percentage price increase for the 10 most popular cars listed on AA Cars (aged three to five)



The chip shortage was aggravated by the pandemic but the situation has been developing for years due to demand outstripping supply and some technical factors, Industry news site Semiconductor Engineering highlighted the risk of a chip shortage in February 2020.

Chip makers are responding to sustained demand by increasing capacity but that takes time, semiconductor factories cost billions of dollars to build and become operational and require a very well-trained workforce. The chief executives of Intel and IBM have both said recently that the chip shortage could last two years.

Why is inflation a class issue?

Firstly, why has headline inflation been low over the last 20 years despite the serious price increases in the prices of essential goods and services?

Over the last two decades, globalization has proceeded rapidly, cheap goods made in China have affected prices, more and more companies are using global supply chains to shift parts of their production to cheaper locations, supermarkets have been putting greater pressure on their domestic supply chains to deliver at low prices and “just on time,” and workers have lost bargaining power in many countries across the world.

Some of these decisions now form part of the inflationary problem. The following goes through some of the class features of Monopoly Finance Capitalism behind the current rise in price levels.

Profit-led inflation

Capitalist economics tells you that cost increases, particularly wage rises, have to be passed onto the consumer as if it were a law of physics. They never ask why profit margins have to be maintained and real wages suppressed. Prices only have to go up to maintain the profits that go to capital.

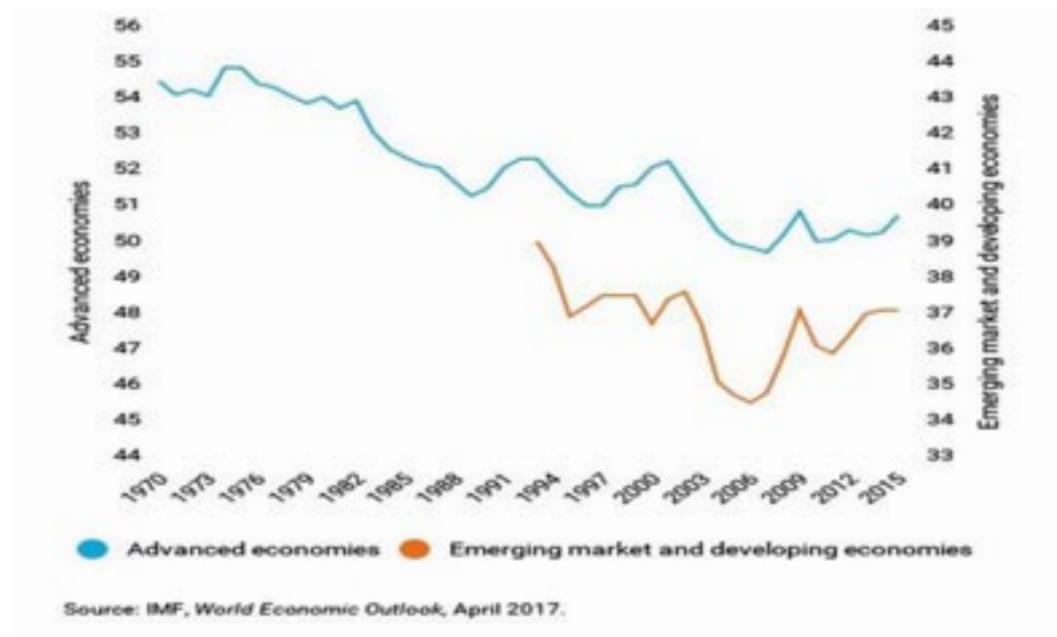
Labour's share of income across many economies has been falling for decades, particularly since the fight against trade union power led by Thatcher and Reagan and the decoupling of wage increases from productivity growth. See the chart below from the IMF, no purveyors of Leftist Propaganda, the capitalist class have the capacity to absorb cost increases without increasing prices but choose to maintain profit margins.

Inflation is like anything else in capitalism, a function of unequal power relations and the drive to accumulate and is Profit-Led, not “Cost-Push” - In October Tesco announced a 20% increase in half-year dividend payouts to shareholders. Tesco benefited by £532 million in their financial year from a business rates holiday due to the pandemic.

Sainsbury's in November announced a 23% profit increase in its first half profits. In June Oxfam issued research that showed that 98% of net profits of eight publicly-listed supermarkets in Europe and America were distributed to shareholders through dividends and share buybacks. They don't need to pass on price increases to the consumer, they have the ability to absorb the price rises caused by supply chain shocks and avoid increasing pressure on the growing number of people suffering from fuel poverty and the cuts in Universal Credit. But to them it's all about making the wealthy even wealthier through the focus on increasing shareholder value.

Labour is losing out

The share of national income paid to workers has been declining in many countries.
(*evolution of the labour share of income, per cent*)



Monopoly capital effects

Inflation is made much worse by monopoly/oligopoly control of key sections of the distribution process.

The surge in global freight rates is likely to push up global consumer prices by an additional 1.5 per cent should they remain high for the next year, according to estimates by the United Nations Conference on Trade and Development in a November 2021 report.

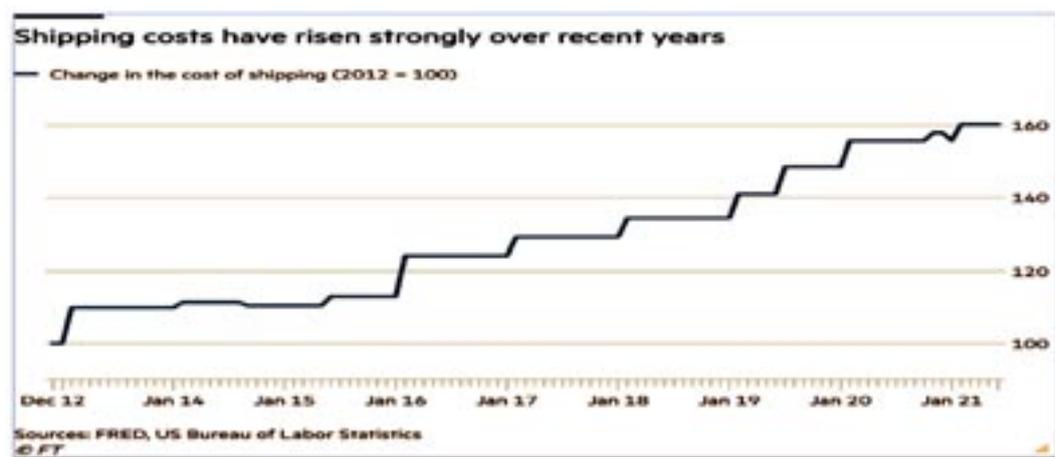
This is not just about supply chain pressures after pandemic recovery, this is about monopoly profits. The 10 largest companies control more than 80 per cent of the shipping market, up from 51 per cent in 2000.

In September **Maersk**, the world's largest shipper, forecast profits to rise this year to somewhere between 215 per cent and 240 per cent above pre-pandemic levels. **Hapag-Lloyd**, the fifth-largest shipper in the world, expects an even more dramatic increase between 815 per cent to 1,025 per cent in 2021, when compared with 2019.

And prices have been rising for some time, see the chart. The thirst for monopoly profits is a major driver of inflation, do not believe them when they blame working people seeking their first pay rise for years.

Shipping costs have risen strongly over recent years

Change in the cost of shipping (2012=100)



Supply chain vulnerability

This vulnerability is often and correctly cited as a cause of inflationary pressure, but this vulnerability is the product of the imperatives and capabilities of monopoly capitalism, not a natural phenomenon drawn from the mythical scientific laws of a reified capitalism.

Maximising shareholder value minimises welfare and stability.

"Just-in-time" supply chains are all about cutting down on the cost of inventories and enhancing profits. Supermarkets have used their buying power to reduce prices so much in food chains that only suppliers using very cheap migrant labour can do the job. In turn, suppliers reduce wages and conditions to the point they can barely operate. There are 90,000 job vacancies for HGV drivers in Britain as wages have been driven so low due to, inter alia, pressure on freight forwarders to reduce wages. There is no shortage of HGV drivers, there is a shortage of people wishing to do the job.

We say it's the system that has to change. A system without the ability to plan and store ahead, designed to maximise profit rather than provide a buffer against shocks, is harmful to all of us; and if that system is dependent on the continued exploitation of cheap labour with no rights, it does not deserve to survive.

What is to be done?

There is still considerable uncertainty about whether the current inflation is transitory or more permanent; this presents some policy dilemmas for economists. Those who think that the inflation presents a more permanent problem demand interest rate rises and a tapering of ongoing government policies aimed at maintaining market liquidity in response to the pandemic; others are concerned that this will choke off short-term economic recovery in the short-term, and in the longer-term will curtail some of the investment needed to rectify supply-chain issues such as those described above regarding computer chips.

In the neoliberal era anti-inflation measures have been largely confined to interest rate increases.

Apart from their narrow focus, they can be counterproductive: raising interest rates will not fix supply chains, they will serve to curtail confidence, expenditure and the investment needed to rectify the problems in those supply chains; for a heavily indebted population rate increases will increase the cost of servicing that debt, depress demand and, in the terms of bourgeois economics, will increase potentially inflationary pressures on wages.

Slowing the economy down and increasing the cost of debt will impact working class people badly at a time when they are beginning to suffer badly from fuel price increases, hikes in national insurance and increasingly unaffordable accommodation costs.

Solutions for the short and long-term:

- The priority has to be a freeze on energy prices and consideration given to some form of windfall tax on the oil and gas companies that have profited from the price increases.

The acute problem is that the energy price cap is likely to rise by over 50 per cent in April raising the cost of gas and electricity for a UK household with typical energy consumption from £1,277 to around £2,000 per year. It's enough, according to Goldman Sachs, to push the UK inflation rate from 5.1 per cent in November to 6.8 per cent in April, a 33% increase in the inflation rate just from this one source.

In the last 5 years the Energy Big Six have paid dividends paid to shareholders six times larger than their tax payments representing **82% of their pre-tax profit**; their effective tax rate has been just 13% in the same period, well below the current statutory corporate tax rate of 19%. In an industry that requires significant investment for a more green and sustainable future this is a disgrace; now they want price increases to maintain their margins and keep shareholders happy. They should be told to take the hit along with their shareholders.

- A Windfall Tax should be pursued but there are issues regarding which manipulated profit figure will be taxed and the mechanism and criteria for "directing money to the least well-off." Some people who may not fall into that category will still suffer from higher fuel prices and end up under serious pressure from higher costs.

Industry will also be hit by higher energy prices and could pass the increased costs onto prices disproportionately damaging poorer people and maybe cancelling out any impact of a Windfall Tax. The tax should be combined with measures that keep prices low, and of course culminate in full control and ownership being passed back to the public sector.

Some British steelmakers are pausing production when electricity prices rise, according to trade body UK Steel. Concerns are rife that as inflation starts to bite, demand might subside and when it does, companies will still be left with very high operational costs. Companies will lay workers off in response so unemployment increases along with continuing upwards pressure on prices.

● Supermarkets and other companies should be told to take the hit and not pass on price increases, we need a series of strategic price controls similar to those implanted at the end of WW2 to limit the impact of pent-up demand on a series of recently disrupted supply chains. Again, this makes sense even within the limited tenets of bourgeois economics: if you are concerned about the impact of a potential wage-price spiral then suppress the price increases most likely to provoke that spiral.

Take control of the Housing Market. Build more affordable properties and institute rent control immediately.

Looking ahead, with the end of furlough unlikely to do much to ease the tightness in the labour market, mismatches between demand and supply will continue. We need to train people for the skills they need to overcome the effects of long-term unemployment/underemployment and suppressed wages in the interests of profits.

Immigration policies, given our ageing and under-skilled population, must be seriously addressed but immigration must not be allowed to undercut wages as it has done in the past.

The ultimate long-term solution will be to build an economy driven by social priority rather than private profitability, and one that is not dependent on the continued exploitation of cheap domestic and overseas labour with limited rights.

Communist Party Political Economy Commission

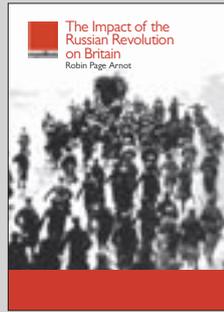
January 2021

Further reading and sources

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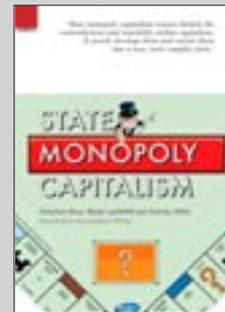
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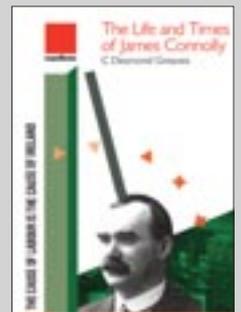
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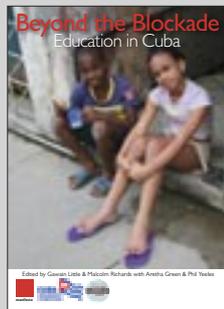
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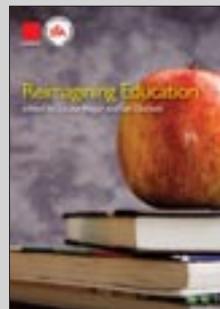


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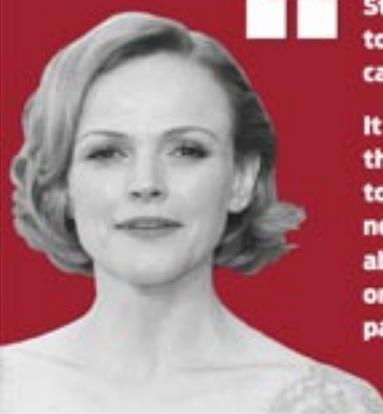


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