The return of inflation

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Back in 1978, when economic sociology was still in an embryonic state, the British sociologist John Goldthorpe published an important paper, "The Current Inflation: Towards a Sociological Account" (Goldthorpe 1978). Goldthorpe rejected the conventional arguments that inflation was the consequence of too much money chasing too few goods or that it could be attributed to excessive public sector spending. He argued instead that inflation was often the result of distributional conflict, particularly between workers and their employers.

Shortly thereafter, Margaret Thatcher and Ronald Reagan launched their neoliberal revolution that included highly publicized efforts to blunt the strike power of organized labor. Almost overnight, inflation ceased to be a problem in the developed market economies during the period 1985–2007. Economists labeled that epoch as "the great moderation." The relative weakness of organized labor was reinforced with the collapse of communism in the Soviet Union and Eastern Europe and China's rise as a global manufacturing center. Threats to shut down production at an auto factory in Detroit or Turin or Dagenham rang hollow as production could be shifted to China or Eastern Europe.

Low rates of inflation meant that Goldthorpe's contribution could be forgotten and economic sociologists could focus their attention on other issues. But the return of inflation during the Covid-19 global pandemic has put the old debates back on the agenda. The Right stands by the old argument that inflation is a result of too much money chasing too few goods. They argue that inflation is a direct consequence of deficit spending and all of those generous programs designed to protect people from the disruptions caused by the virus and the lockdowns. However, the pattern through which the inflation developed suggests something quite different.

First, a large share of the inflation is accounted for by energy expenditures. During the twelve months ending in May, 2022, the Consumer Price Index (CPI) in the US rose by 8.6 percent. However, the cost of energy – petroleum, natural gas, and home heating oil – rose by 34.6 percent. And, of course, enterprises of all sizes pass along those rising energy costs to consumers. This rise in energy prices can be traced to Covid-driven disruptions in supplies, the Russian invasion of Ukraine, and the durable market power of OPEC and the giant energy companies that control the production of refined products.

Second, in the first part of 2020, the Covid pandemic severely disrupted the US labor market. For quite some time, the Bureau of Labor Statistics data on the median real weekly income of full-time workers in the US had fluctuated in a range between $325 and $355 in 1982–84 dollars. However, in the first two quarters of 2020, there was a sudden jump to $393 per week. This represented an 8.6 percent jump over the final quarter of 2019. However, by the first quarter of 2022, the figure had fallen back to $362 a week as inflation ate away at earlier wage gains.

There are some complexities with this data. Some of the initial rise in real wages could reflect the fact that as payroll employment shrank during Covid lockdowns, fewer skilled workers were likely to be laid off. But it is also the fact that the CPI that is used to measure inflation has become problematic as consumption behavior has become less standardized. In constructing the CPI, analysts track the prices of a standard basket of about 80,000 goods. This made sense fifty years ago, but today there are twelve million products available on Amazon, and consumers choose among five or six types of cow's milk as well as almond milk, oat milk, flax milk, and pea milk, all of which come in varieties with different calorie counts. As consumption patterns became more complex, the idea of a standardized market basket becomes ever more problematic.

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Nevertheless, there are good reasons to believe that a part of the current inflation results from employers using price increases to claw back wage gains that were won in the early days of the pandemic. Intensified distributional conflict is also suggested by the rise in interest in union organizing this year, with successful union votes at multiple Starbucks cafes and at a giant Amazon warehouse. Survey data shows that 59 percent of US employees favor increased unionization at their own workplaces. To be sure, actual unionization rates in the US have been falling for years, and it is still uncertain whether this spurt in activism will finally break the decades-long decline.

Moreover, this explanation suggests that inflation might be with us for a while. Even if energy prices moderate, the distributional conflict is likely to continue even if central banks continue to raise interest rates. Back in the 1980s, recessions meant mass layoffs in auto, steel, and other factories that imposed discipline on factory workers. However, it is not obvious that an economic recession today would have a similar effect on the far more diversified service sector. After all, open job listings for the whole US economy are still reported to be at a record level of more than eleven million.

In the meantime, the Federal Reserve's monetary tightening is having a predictably destructive impact on the global economy. There is, however, another less dangerous way to fight inflation. The government can respond to concerns about real wages by increasing the social wage. This would reduce the amount that households have to pay for child care, health care, housing, and higher education. The Biden Administration's initial legislative proposal took steps in that direction, but most of it was blocked in the Congress. We can only hope that progress in that direction resumes.

Reference

Goldthorpe, John H., 1978. "The Current Inflation: Towards a Sociological Account." In *The Political Economy of Inflation*, edited by Fred Hirsch and John H. Goldthorpe, 186–214. Cambridge, MA: Harvard University Press.