Real wages fall as record price hikes hit US workers

By Andre Damon
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US prices jumped in July by their highest month-to-month rate since 1981, in one of the sharpest inflation spikes since the Second World War.

The July Producer Prices index, reported Tuesday by the Bureau of Labor Statistics, rose by 1.2 percent, on top of a 1.8 percent increase in June. "Core" prices, which exclude food and energy, shot up by .7 percent, more than triple economists' expectations. Producer prices were up 9.8 percent from a year ago.

"There is no doubt we're in a period of stagflation," Peter Kretzmer, a senior economist at Bank of America, told Bloomberg News, referring to the combination of stagnant growth and inflation, which characterized the US economy in the 1970s.

The consumer price statistics released last Thursday mirrored the producer price statistics. Seasonally-adjusted consumer prices jumped .8 percent last month—more than double earlier predictions—and were up 5.6 percent since July 2007. Even so, inflation has picked up in recent months. While the Consumer Price Index rose at a comparatively low annualized rate of only 2.8 percent in the first quarter, it shot up at an annualized rate of ten percent in the past three months.

The living standards of workers continue to decline as the purchasing power of their wages falls and pay increases fail to keep up with inflation. The most recent Bureau of Labor statistics report found that real average weekly earnings fell by .8 percent from June to July. Over the past year, weekly earnings fell by 3.1 percent. Thus, the average household now earns a staggering $1,500 less than it would if wages had kept pace with inflation over the past twelve months.

Skyrocketing prices, falling wages, rising unemployment, and falling home values are all lining up to create a massive social catastrophe. According to Credit Suisse, the credit analyst, there will be some 6.5 million home foreclosures by 2012, amounting to 12.7 percent of homeowners with mortgages. While arranging multi-billion dollar bailout of big investors involved in the mortgage meltdown, the Democrats and Republicans have offered no relief for working people facing the loss of their homes and unsustainable levels of debt.

The housing market, one of the main components of the US slowdown, showed no signs of improvement, as the construction of new homes fell 30 percent lower than a year ago. "A [housing market] recovery will not happen this year,'' Russell Price, a senior economist at H&R Block told Bloomberg News. "Not only are mortgage rates creeping up, but financing is becoming more difficult for a lot of people. Builders will continue to pull back.''

The unexpectedly high US inflation statistics followed the announcement last week that the Eurozone economy contracted for the first time since the creation of the European Monetary Union in 1999. Combined output in the fifteen Eurozone countries fell by 0.2 percent in the second quarter. Germany was particularly hard hit, with output falling by 0.5 percent in the second quarter. France's economy contracted by 0.3 percent and Italy's by .3 percent.

The British, Spanish, Greek, and Austrian economies managed to avoid contracting, but all grew at rates lower than one percent. The weaker position of the Euro—which has helped keep the US economy from shrinking in the last several quarters—has dragged down growth of the EU's largest exporters: Germany, France, and Italy.

Meanwhile, the Japanese economy contracted 0.6 percent in the second quarter, according to figures released last week by the government. Japan is the world's second-largest economy and the fourth-largest

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exporter. Thus far, all eight of the world's largest exporters—excluding China—have announced at least one quarter of stagnation or negative growth.

Consumer Price inflation also reached its highest level since the creation of the Euro. Consumer prices rose by 4.1 percent in the second quarter, more than double the European Union's inflation target of 2 percent.

Despite facing similar difficulties—slowing growth and rising prices—the US and European Central banks have reacted in completely opposite ways. In the past year, the US Federal Reserve has cut its benchmark Federal Funds Rate from 5.25 to 2 percent. The European Central Bank has on the other hand proceeded to raise rates to 4.25 percent.

This is at least partially due to the differing levels of success the European and US corporate elite have enjoyed in suppressing the wage demands of the working class in their respective countries. Thus far, the American ruling class, with the full assistance of the trade union bureaucracy, has kept wage increases well below the rate of inflation despite widespread anger over high prices and eroding living standards. By contrast, German wages have risen at the same rate as inflation, which reached an annual rate 3.5 percent in the second quarter.

The *Wall Street Journal*, noting the results of its recent survey of leading economists, observed that "part of the reason for the disparity [in central bank policy] is the difference between the European and US work forces. Some 94 percent of respondents said the US's risk of a wage-price spiral, where pressures from labor costs and high prices push each other up, is either minor or nonexistent. But 34 percent said that the Eurozone countries face a major risk of a wage-price spiral, and 9 percent said it is already beginning."

The Federal Reserve, facing a financial meltdown that would cost the US government hundreds of billions, if not trillions, of dollars, has pumped huge amounts of cash into the US economy. It has kept interest rates extremely low, extended billions of dollars in loans to Wall Street, and all but guaranteed that it would bail out any large financial firms that run into trouble. This, combined with rising commodity prices, has contributed to persistently high inflation rates despite radically falling wages.

But, despite all this, the Fed has been unable to stabilize the financial sector. In recent days, the conditions facing major finance companies have only worsened. On Wednesday the Treasury Department backed away from its previous assertions that it would not bail out Fannie Mae and Freddie Mac, after the two firms saw their stock values plunge more than thirty percent since Monday.

Meanwhile, Kenneth Rogoff, the former IMF chief economist, said Tuesday that "the worst is yet to come," and that another major financial firm is likely to collapse in the next few months. "We're not just going to see mid-sized banks go under in the next few months," he said at a conference in Singapore. "We're going to see a whopper, we're going to see a big one, one of the big investment banks or big banks."

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