

Wages cut by inflation: Building Back Better or return to austerity?

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The shipping industry was already limping and supply chains were disrupted before the pandemic.

Wages are being cut by inflation — the worst round of inflation in 30 years.

The dollar store is officially dead. Dollar Tree, the last of the big dollar-store chains selling items for \$1 or less, said on Sept. 28 that it was officially “breaking the buck.” Today dollar stores are selling at \$10 or less, no longer devoted to \$1 items.

Personal [income](#) from all sources – wages, unemployment compensation, stimulus checks, Social Security benefits, etc. – when adjusted for inflation, fell in August.

Personal income should have grown as more workers got jobs, and wages increased for some jobs.

Congress and the Biden administration are locked in what almost seems like a game being played out for the TV cameras. The “Build Back Better” program promised by the Biden campaign had popular support. Already Democrats are talking about removing most of the plan’s popular provisions. That’d mean a return to the austerity budgets of previous years.

In April, Biden proposed another 2% increase in the Pentagon budget, taking it up to \$753 billion for 2022; there was no opposition from the Democrats or Republicans.

Biden’s “Build Back Better” plan before Congress is reported as being \$3.5 trillion, but if that’s broken down into a single fiscal year amount — as is done with the Pentagon budget — then it is only \$350 billion, less than half of annual war spending.

Inflation rate now as high as 13.5%

The most well-known inflation measure is the Consumer Price Index (CPI), produced by the Bureau of Labor Statistics; the Personal Consumption Expenditures (PCE) is produced by the Bureau of Economic Analysis. In general, the CPI tends to report higher rates of inflation, which may be why the Federal Reserve prefers the PCE.

According to the Fed's preferred [PCE measure](#), with food and energy included, inflation is at a rate of 4.8%. This is the highest PCE inflation measure since January 1991.

The CPI report of [inflation for August](#) put it at 5.3%.

The CPI and PCE reports are controversial and not universally accepted. On Wall Street, other measures are frequently used.

The CPI used to be determined by comparing the price of a fixed basket of goods and services spanning two different time periods. A few years ago that was changed to a cost-of-living index, a purposeful manipulation that allows the U.S. government to report a lower rate of inflation.

[Business Insider](#) reports that John Williams at Shadow Government Statistics says that the real inflation rate is now 13.5% and it is going to get higher. Williams uses [the original CPI methodology](#) based on a basket of goods and services.

In the spring, the Fed dismissed rising inflation as something that was “transitory,” caused by bottlenecks and supply chain problems, that would be gone by the end of the year. Now the Fed is saying that “transitory” inflation will continue into late 2022.

On Sept. 29., Fed Chair Jerome Powell told a European Central Bank forum, “Inflation is high and well above target and yet there appears to be slack in the labor market,” making an apparent reference to the 1970s “stagflation” that combined high unemployment (Powell calls that “slack”) and fast-rising prices.

Today, employment is still almost [7 million jobs short](#) of where it was before the pandemic.

Actually, the cause of inflation is not a quickie supply chain disruption that'll just go

away, Powell seemed to admit.

“The current inflation spike is really a consequence of supply constraints meeting very strong demand, and that is all associated with the reopening of the economy, which is a process that will have a beginning, a middle and an end,” he said.

Fed handed out \$4.5 trillion

What is “very strong demand”? The Federal Reserve Bank handed out \$4.5 trillion over the last 18 months, along with short-term interest rates near 0% and long-term interest rates at record-low levels. The Fed’s trillions are the source of the “demand,” meaning spending, that Powell refers to.

The other part of the “demand” comes from Congress, which put out \$5 trillion over the past 18 months in forgivable small business PPP loans (over \$800 billion); funds sent to states to spend how they see fit; and bailouts for airlines and other big companies.

While some say that the inflation is “transitory” (over within the next year or so), other capitalist economists think it will be long term, such as [Nouriel Roubini](#), professor of economics at New York University’s Stern School of Business. He says that what’s coming is 1970s-style “stagflation” — a situation in which the inflation rate is high, the economic growth rate is slow, and unemployment remains high.

Trump’s trade war against China

The focus on supply-chain disruption ignores the fact that the supply chain was already disrupted before the pandemic began, though the pandemic did add to the disruption in some areas.

Trump’s MAGA trade war against China, which has been continued by Biden, had already created chaos in the supply chain. Tariffs raise prices and reduce availability

of goods and services.

As [Forbes](#) noted: “Donald Trump’s tariffs and the trade war his administration launched against China turned out to be far more damaging than many believed. ... The U.S. economy paid a heavy price for the Trump administration’s protectionist trade policies.”

Protectionist tariffs are inflationary; they increase prices as they keep out lower-priced foreign imports. Also, Trump’s trade policy and his protectionist, anti-globalization policies hurt shipping. The [shipping industry](#) was already limping, and supply chains were disrupted before the pandemic.

War spending and inflation

Sanctions are a form of economic warfare. In its hybrid wars against Iran and Venezuela, Washington has imposed sanctions against both countries that block oil trade. The sanctions, no surprise, mainly benefit Big Oil and are responsible for increasing the consumer price of fuel.

Also left out of the discussion of inflation is the ever-increasing Pentagon budget, perhaps the most important factor driving the inflation surge.

The Pentagon budget routinely eats up more than half of annual U.S. discretionary spending. By the Department of Defense’s own accounting, military spending in the U.S. budget was \$13.34 trillion from 2000 through fiscal year 2019 in inflation-adjusted 2020 dollars. Add to that another \$3.18 trillion for the Veterans Administration, and the yearly average comes to a whopping \$826 billion.

Every year for the last seven years — under both Democratic and Republican administrations — the U.S. military budget has set a new historic high. The U.S. is spending more on its military than at any point since World War II.

Do weapons have use value?

In ["Generals Over the White House,"](#) Marxist theoretician Sam Marcy wrote that "military production in the epoch of imperialism is a special case of commodity production. ... The products of the military-industrial complex are by Marxist definition commodities. However, in addition to having an exchange value, commodities must also have a use value. ...

"The products of the military-industrial complex enter into the process of capitalist production not as commodities in general but as ... commodities of a peculiar type. While they have use values in the narrow economic sense, their broad sociological significance is that of a cancer which tends to consume the entire body politic.

"The process of capitalist production and exchange in the final analysis does mean that the capitalist, in order to realize his profit, must produce a useful product. If not, it undermines the very process of capitalist reproduction.

"The sum total of the product that emanates from the military-industrial complex is devoid of usefulness to society. This is not readily apparent in the U.S., which was the victorious country in World War II. At the end of the war, after having spent billions and billions of dollars, the U.S. appropriated most of the profitable world markets and sources of scarce raw materials which had belonged to its allies and its adversaries, thereby vastly enriching monopoly capitalism at home.

"However, since the Korean War, the U.S. imperialist establishment has consistently lost ground in its military adventures. It has flooded the U.S. as well as the rest of the world with small pieces of paper whose decreasing value gives evidence of the indebtedness it has incurred as a result of military adventures for which there has been no material return to compensate for the vast expenditures entailed in producing the planes, guns, tanks and other sophisticated equipment employed. ...

“Cranking up the war machine in the very early 1930s was a stimulus to the capitalist economy. Cranking it up again in a period of hyperinflation and worldwide capitalist stagnation will operate as a depressant instead.”

