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Capitalist profit drive fuels war, inflation, wage loss

written by Gary Wilson
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The workers who have the best chance of fighting inflation and stopping falling wages are those in a union.

President Joe Biden used the phrase “Putin’s price hike” again in a reaction to the June 10 Consumer Price Index report revealing continued high inflation. Biden isn’t a comedian, like that guy Zelensky in Kiev was before taking on the role of president, so Biden really needed a laugh track played after he said it.

“Make no mistake about it: I understand inflation is a real challenge to American families. Today’s inflation report confirms what Americans already know: Putin’s price hike is hitting America hard," Biden said.

It was funny because, of course, Putin can't raise prices on anything in the U.S. Only U.S. businesses can do that.

Also, when he imposed sanctions on Russia in February, with a lot of bull and bluster, Biden declared: "Defending freedom will have costs, for us as well and here at home." He got that last part right. It's costing a lot. So really it'd be better to call it "Biden's price hike," even if that's only part of the inflation.

Prices started to escalate more than a year ago. In fact, the Federal Reserve suggested last December, with inflation at a 40-year high then, that inflation had peaked.

Of course, you probably knew even then that it wasn't true. Inflation hasn't peaked yet and no one (including the Fed) knows how many peaks are ahead.

The U.S. sanctions on Russian natural gas, oil, grains and fertilizers have allowed U.S. companies to raise prices. The sanctions are designed to stop trade from Russia and turn the trade over to U.S. corporations, which can demand premium prices because of the sanctions.

Natural gas is a primary energy source in the European Union and is the dominant source for home heating and cooking. The EU imports 40% of its natural gas from Russia. Natural gas from Russia can be piped into Western Europe at a relatively low cost, while natural gas from the U.S. must be liquefied – liquefied natural gas or LNG – then shipped by sea to Europe.

Sanctions cutting off natural gas from Russia was a big bonus for the U.S. oil oligarchy.

Gas and oil prices are rising because supply has been restricted. Supply dropped during the pandemic, raising prices, and now Russian exports are sanctioned by the U.S. and NATO, sending prices ever upward.

Wage and price crisis

But the inflation crisis isn't just about rising energy prices. Prices across the board, but especially in energy, food and housing, are rising, while real wages have sharply fallen. Price rises are outstripping wage growth nearly everywhere.

Wages are not driving prices up. No, it's profits that have risen sharply.

Josh Bivens of the Economic Policy Institute noted that while "it is unlikely that either the extent of corporate greed or even the power of corporations generally has increased during the past two years … the already-excessive power of corporations has been channeled into raising prices rather than the more traditional form it has taken in recent decades: suppressing wages."

In an article on "greedflation," New York Times business reporter Lydia DePillis says: "There is not much disagreement that many companies have marked up goods in excess of their own rising costs. This is especially evident in industries like shipping, which had record profits as soaring demand for goods filled up boats, driving up costs for all traded goods. Across the economy, profit margins surged during the pandemic and remained elevated. …

"Consider the supply of fertilizer, which shrank when Russia's invasion of Ukraine prompted sanctions on the chemicals needed to make it. Fertilizer companies reported their best profits in years, even as they struggle to expand supply. The same is true of oil."

The Fed goes after workers

Biden, the politicians in Congress and the corporate-controlled media have all agreed on one answer to the inflation monster: the U.S. Federal Reserve System. Capitalism's central banking system is supposed to come to the rescue. Except that it hasn't, so far.

The chair of the U.S. Federal Reserve, Jerome Powell, announced May 4 that the Fed will be raising interest rates and implementing policies aimed at reducing inflation in the United States. The goal is "to get wages down," he said. There's no way reducing wages would stop inflation, though reducing wages does boost profits.

According to a transcript published by the Wall Street Journal, Powell blamed the inflation crisis, which is global, not on U.S. and NATO sanctions on Russia, but rather on U.S. workers allegedly making too much money.

"Employers are having difficulties filling job openings, and wages are rising at the fastest pace in many years," Powell said.

"Wages are running high, the highest they've run in quite some time," the Fed chairman lied.

Wages falling fast and faster

The U.S. federal minimum wage is just $7.25 per hour, and has remained at that level since 2009, despite significant increases in inflation.

In 1968, the U.S. federal minimum wage peaked at $1.60, which would be equivalent to $13.29 in 2022 dollars. When you adjust the minimum wage for inflation, you'll see that it's been going down every year since 1968.

As the April 12 Wall Street Journal reported, "Unfortunately, inflation-adjusted wages are falling faster than they have in 40 years. Inflation ran 8.5% in the year ending last month, while nominal wages grew only 5.6%, a decline in inflation-adjusted wages of 2.7%."

Got that? Wages across the board are down 2.7% this year.

So if wages are already decreasing (and inflation is increasing), how could the Fed's plan to "get wages down" be a way to stop inflation? If that sounds confusing, that's because the Fed's Powell is talking nonsense about wages and inflation.

Raising interest rates, on the other hand, is the standard Fed response to inflation. The only problem there is that experience shows that raising interest rates means businesses cut back on everything, especially jobs.

Fewer jobs means decay, unemployment and recession – an economic bust. The World Bank warns that the economy appears to be heading into stagflation — high unemployment combined with runaway inflation.

No matter what policy the Fed chooses, what's coming does not look good.

But labor unions can be part of the answer. The workers who have the best chance of fighting inflation and stopping falling wages are those in a union.

In fact, every worker already knows that instinctively. That consciousness is part of the union organizing upsurge across the country from Amazon to Starbucks to Apple to REI and on and on. A strong union movement can fight back.