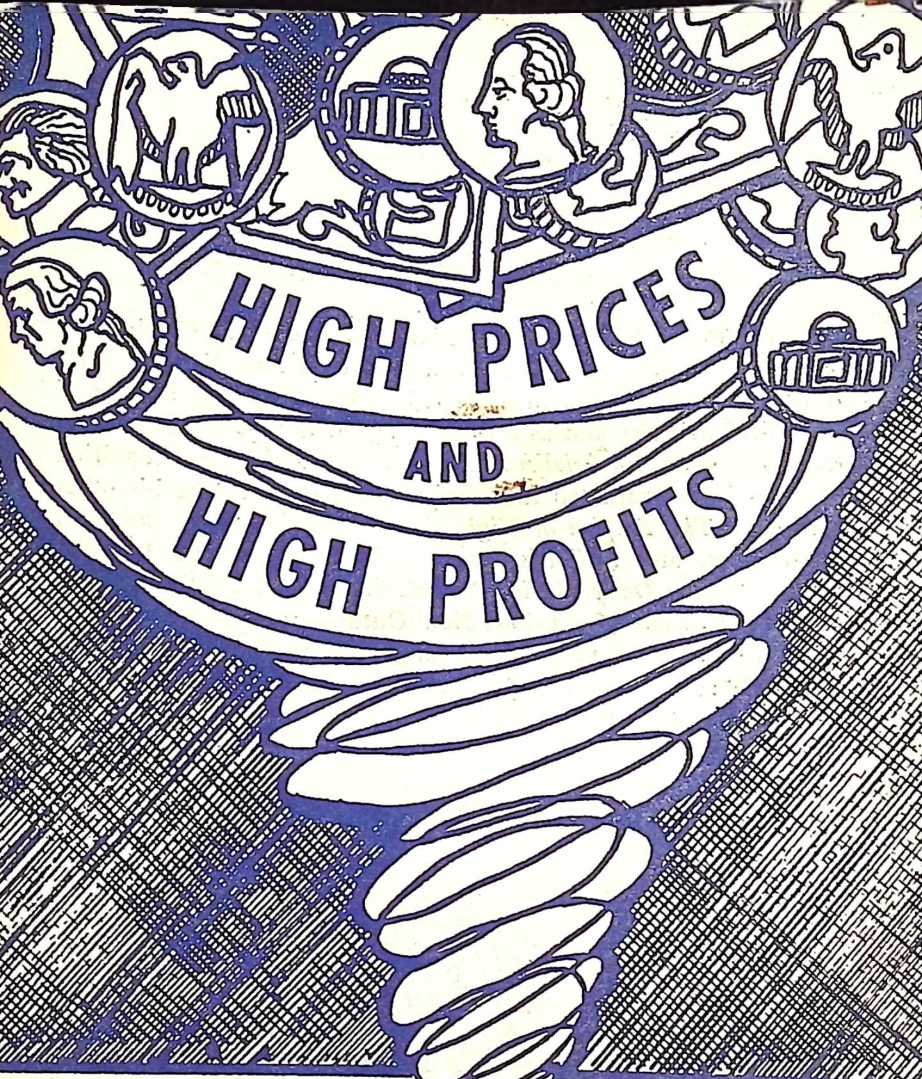

how they affect your wages and living costs

Victor Perlo

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ABOUT THE AUTHOR

VICTOR PERLO, Chairman of the National Economics Commission of the Communist Party, U.S.A., was born in New York in 1912. A world-renowned economist, he is best known for his books and periodical writings, and as a lecturer and educator. His frequently cited *American Imperialism* has received world-wide recognition and has been translated into several languages. Among his other works are *The Empire of High Finance, The Negro in Southern Agriculture,* and *Militarism and Industry*. He writes frequent articles for the *Daily World, People's World* and *Political Affairs.* He is the author of previous New Outlook pamphlets which include *The Vietnam Profiteers, American Labor Today, The Dollar Crisis: What it Means to You,* and together with Barry Cohen, *Robbing the Poor to Fatten the Rich.*

ISBN 0-87898-105-5

Published by

NEW OUTLOOK PUBLISHERS

205 West 19 Street • 9th Floor • New York, N. Y. 10011

December 1973

PRINTED IN U.S.A.

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Inflation is stealing the food from the tables of tens of millions of Americans. In the year ending August 1973 alone the cost of food for home consumption went up 21 per cent, and of meat 41 per cent. Per capita consumption of meat declined 12 per cent in the first half of 1973. Elderly people are forced to steal or rummage through garbage cans to avoid starvation. Children of the poor go to school without breakfast, often to find their school lunches cut out by government edict. Costs of housing, gasoline, medical services, utilities—everything the people need—are rising more rapidly than working people's incomes.

Inflation hits the poor people with extra force, and it hits Blacks and other oppressed groups a triple blow. While prices go up faster than ever, Nixon has vetoed the minimum wage bill, which hurts Black and brown workers more, proportionately, than any others. And Nixon has slashed government welfare programs tens of billions of dollars, again particularly hitting the poor, Blacks, and the other oppressed groups. The Administration has encouraged racist employment policies, with the result that Black unemployment has increased in the middle of the boom, and is 2½ times the level of white unemployment.

Ghetto stores and landlords are particularly vicious in raising prices and rents in inflationary periods. Soaring interest rates on consumer loans have the same bias. And prices of poor people's foodstuffs, from hamburgers to potatoes, have risen faster than any others.

Since 1971 the country has been under price and wage controls.

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These have been used only to keep wages down. They have had no appreciable effect on prices, nor were they intended to. No enforcement machinery was set up, and no specified dollars-and-cents ceilings were fixed. Without these there can be no real price control. But wages were kept down simply by employers, who have been only too happy to "obey" rules which keep down their costs and increase their profits.

The people are disillusioned with this system of price and wage controls, which is frequently revised and may be abandoned soon. But the intention of the Administration is to keep controls over wages, if not by law, then by the use of arbitrary "guidelines," enforced by anti-strike injunctions when necessary.

Never have the rich had it so good. Never have the working people lost so much in a period of economic boom. Corporate profits went up 37 per cent over a year earlier in the second quarter of 1973, while factory workers' real take-home pay declined 3 per cent in the 10 months ending August 1973.

All this is part of the picture of inflation.

Why? Who is to blame? What should be done about it?

Big business, the press, establishment economists and government officials all agree: they blame organized labor for the country's economic troubles. Labor, they cry, is so greedy and powerful that it wins wage increases that are too big. These push up prices and cause inflation. The way to cure inflation is to tie down labor, hold down wages, eliminate strikes. That will stop inflation, they promise. That will give business the "climate" necessary for universal prosperity and stable prices.

Congress accepted this argument, and in 1971 gave the President the power to clamp down on wages and prices. Congress has since renewed the President's power, even after it became obvious that Nixon was using it only to hold down wages.

The argument that wage increases cause price increases is as old as trade unions. It was invented by employers when workers first began to organize to try to improve their conditions. It is used to try to persuade workers not to fight for higher wages, and to

try to persuade middle-class people and unorganized workers that unions are responsible for high prices, that it is all right for the Government to help employers break strikes and enforce laws holding down wages.

The influence of this argument is increased because powerful trade union leaders do little to combat it, and even support it in important ways. For example, Leonard Woodcock, president of the United Automobile Workers, claims that wage increases which result from escalator clauses are not inflationary, but he concedes that other wage increases may be inflationary. Thus, he tends to influence his own workers to accept settlements in which their wages always lag behind the cost of living and never lead to real gains in living standards.

George Meany, President of the AFL-CIO, says that labor is willing to "bite the bullet" and "sacrifice" to fight inflation, so long as business makes its contribution. In effect, this also accepts the idea that workers must accept ceilings and freezes on their wages. The talk of business making a contribution is just a pacifier. Big business has never made a voluntary contribution to workers' welfare or the national good.

Woodcock, Meany, I. W. Abel (President of the United Steelworkers of America), Frank E. Fitzsimmons (President of the International Brotherhood of Teamsters), are the most prominent labor leaders to collaborate in holding down wages by serving on labor-management boards designed to buttress government efforts to enforce wage ceilings. They also negotiate contracts providing wage increases limited to the skimpy government guidelines, enforcing them either without membership ratification, as in the case of the steelworkers, or by putting extreme pressure on the membership to ratify, if only by the narrowest of margins.

In this pamphlet we expose as a lie the charge that excessive wage increases are responsible for inflation, and explain the real causes of inflation. We show that very big wage increases are needed to meet the elementary needs of the working people of this country and to contribute to the real national interest—which is the welfare of the overwhelming majority of the population. And we show that the way to fight inflation is to roll back monopoly prices and to end those big business and government practices which cause inflation.

Which Came First?

Wage increases and price increases aren't like the chicken and the egg. There is a difference. In every inflationary cycle:

First, prices and profits go up.

Second, wages rise as workers attempt to offset higher prices. The *Wall Street Journal* put it straight:

In the past 20 years there have been three distinct periods in which factory prices climbed substantially over a prolonged interval.

In each instance, labor costs per unit of factory output were declining when the price climb began—and these costs continued to decline for a considerable period after the price rise was under way.

In each case, corporate profits began to increase sharply well before the price climb started. (August 5, 1969)

Labor's Share Declines

Big business propagandists try to confuse the public by mixing up wage rates and labor costs. Wage rates are the amounts paid to workers *per hour of labor.* Labor costs are the amounts paid to workers *per unit of production.* They are *not* the same. Labor costs are determined by *both* wage rates and *labor productivity.* If wage rates and labor productivity both increase by 5 per cent, there is no increase in labor costs. If wage rates increase 10 per cent and productivity 5 per cent, there is an increase of about 5 per cent in labor costs. If wage rates increase 5 per cent and productivity increases 10 per cent, there is a *decrease* of about 5 per cent in labor costs. Labor costs hardly ever increase as much as wage rates, and often decline.

Also, when we talk about labor costs we talk about money wages paid to production workers. Big business and government propagandists try to confuse people by adding in many other items, including bonuses of the top corporate brass, and various fringe payments into trust funds, which do not go to the workers on the job. Government figures exaggerate increases in labor costs in a number of ways.

Here is what really happened:

Between 1947 and 1972 labor costs in manufacturing—that is, money wages paid to production workers per unit of output—

increased only 17 per cent. If higher prices were really linked to higher labor costs, all that would be justified would be an average price increase of 17 per cent. What worker wouldn't be happy if the cost of living had actually gone up only 17 per cent in the past 25 years? But actually, wholesale prices of industrial commodities, which are most directly affected by factory costs, went up 67 per cent; and the consumer price index as a whole went up 87 per cent!

Prices went up four to five times as much as unit labor costs. That's the fundamental fact.

Far from causing higher prices, wages have lagged further and further behind prices and productivity, taken in combination. That's the real meaning of the figures.

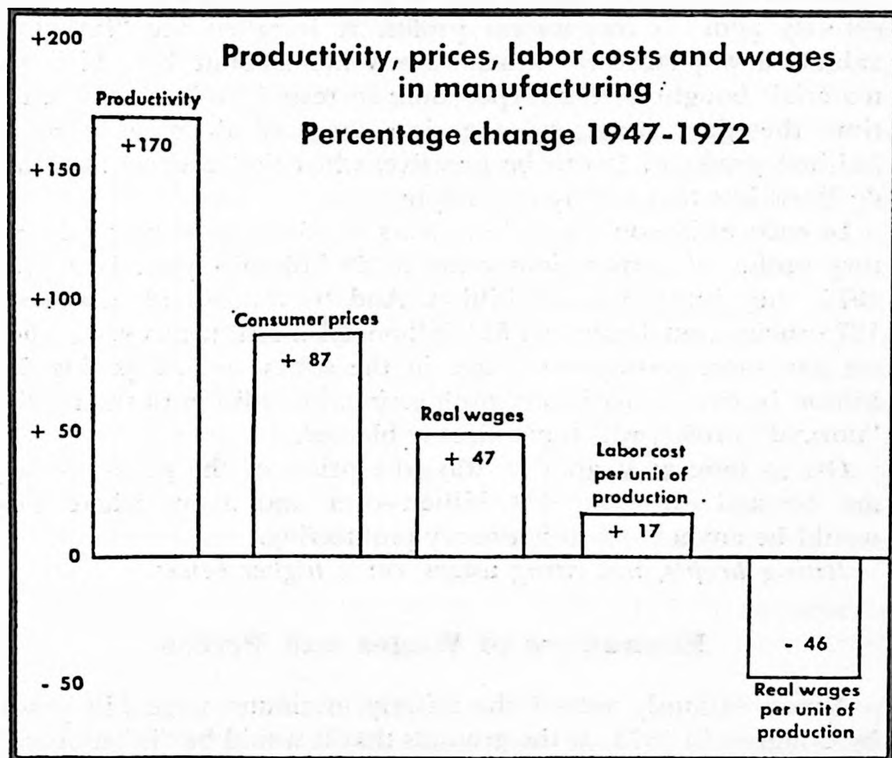
Now let's see how the factory worker made out. Production per worker increased 170 per cent in those 25 years! That is, by 1972 the worker was turning out 270 units of goods for every 100 units he produced in 1947. But, owing to increased consumer prices and government tax withholdings, his real take-home pay increased only 47 per cent. For each $100 of real purchasing power he got in 1947, he got $147 in real purchasing power in 1972.

Suppose we say that in 1947, for every 100 units of production, the worker was getting $100 in real purchasing power. Then, in 1972, for every 270 units of goods he produced, he was getting $147 in real purchasing power. This means that now, for every 100 *units he produces,* he gets only $54 in real purchasing power, or barely half as much as for the same amount of production 25 years earlier! On the other hand, the employer gets 184 units of production for every $100 in real wages paid, or 84 per cent more than 25 years ago!

To have today the same relationship of pay to production as prevailed in 1947, factory workers would need wage increases averaging 84 per cent instead of the 5½ per cent ceiling!

In short, the workers' share has been cut drastically. The share of the employers, of the big bankers, of the military-industrial complex, of the corporate bureaucracy, and of all who share in the loot, has increased outrageously.

That's where inflation comes from. It's profit inflation, not wage inflation!



Now let's see how the capitalists made out. We take the main parts of their property income that are reported—corporate cash flow and interest payments in the entire economy. In 1946 these came to $30½ billion, or 11 per cent of the gross national product. In the second quarter of 1973 they reached an annual rate of $305 bililon, or 27 per cent of the gross national product.

Revenues of the rich increased ten times over. As a percentage of the gross national product they increased two and one half times over.

Much of this increase in profits and other revenues of the rich is the product of inflation in prices and interest rates. Actually, government figures measure part of the amount by which inflation directly adds to corporation profits. It is called the "inventory valuation adjustment," which means the amount by which the materials bought by the corporations increase in value between the time they buy them and the time they sell them, as parts of finished products. It can be negative, when the value of materials declines, but that hardly ever happens.

In each of Nixon's first three years in office, these "pure" inventory profits of corporations came to $5 billion a year. Last year, 1972, they jumped to $7 billion. And by the second quarter of 1973 their annual rate was $21 billion. As a result, this year, when we pay those outrageous prices in the stores, we are paying $21 billion in extra inflationary profiteering, in addition to the regular "normal" profits, which are already bloated.

Or, to look at it another way, the prices of the goods we buy are boosted an extra $21 billion—over and above where they would be anyhow—by inflationary profiteering.

Rising profits, not rising wages, cause higher prices.

Economics of Wages and Prices

Nixon callously vetoed the miserly minimum wage bill passed by Congress in 1973 on the grounds that it would be "inflationary." At the beginning of 1973, government and big business spokesmen blamed the extraordinary rise in food prices on working people having too much income and eating too much.* But later it turned out that people were actually cutting their consumption of food because prices were too high. At the same time, banks were pushing out consumer credit at a record rate of $25 billion a year to get consumers to buy more durable goods than they could afford.

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* The establishment economists call this "demand-pull" inflation.

The most frequent argument is that when wages go up this increases the manufacturer's costs, so he has to increase prices by the same percentage*. They conveniently "forget" that productivity usually goes up at least as much as wages, so that labor costs per unit are not increased. But even with *no* increase in productivity, a wage increase does *not* cause a price increase.

Of course, every manufacturer wants to sell his products for as high a price as he can get. He will raise prices whenever he thinks he can do so without losing his market, *regardless of what wages he pays.* But wanting to increase prices, and being able to, are two different things. *There is nothing about a wage increase that makes it easier for the employer to raise prices and still sell his goods.*

Every worker knows how stubbornly the employer resists each penny of increased wages. If increased wages were automatically translated into higher prices, the employer wouldn't resist wage demands, and workers would rarely have to strike for wage increases. Apparently, the corporation executives do not believe their own propaganda. They know the real truth—that wage increases are at the expense of their profits, not at the expense of the consumer.

Why is it difficult for employers to raise prices in response to higher wages? To answer that, we have to examine what determines values and prices.

Everyone knows about Benjamin Franklin's important experiment with electricity and lightning. Few know of his major contribution to economic theory—an early statement of the law of value, written in 1721:

> By labor may the value of silver be measured as well as other things . . . Thus the riches of a country are to be valued by the quantity of labor its inhabitants are able to purchase . . . Trade, in general being nothing else but the exchange of labor for labor, the value of all things is, as I have said before, most justly measured by labor.

* The establishment economists call this "cost-push" inflation.

Note that the value of a commodity (something produced for sale) is determined by the *quantity* of labor required to produce it. So, when wages go up, and there is no change in the amount of labor required to produce the commodity, there is no change in its value.

Karl Marx went further. He showed that what the worker gets in wages is always less than the value created by his labor. The difference, which Marx called *surplus value,* is what the capitalists, bankers and landlords pocket. This difference is what measures the exploitation of labor by capital. Thus, the value of a commodity is equal to the sum of two parts—the wages of labor, and the surplus value taken by capital. When wages go up, the value stays the same, and the surplus value goes down by an equal amount.

Because Marx's theories became the foundation of revolutionary organization and struggle by workers, capitalist economists tried to bury his theories and, along with them, the theories of Benjamin Franklin, Adam Smith, and other early capitalist economists who honestly stated the fact that labor is the sole source of value.

But it is still true.

However, the price of a commodity is not always equal to its value.

When the supply of a commodity exceeds the demand for it, the price falls below its value. When the demand exceeds the supply, the price goes above its value. What happens to supply and demand when workers win a wage increase?

Initially, there is no change in supply, because there is no immediate reason for the manufacturer to change his production rate.

The total amount of income distributed between the workers and the employers remains as it was before, except that more goes to the workers and less to the employers. The total demand for all kinds of goods remains the same, except that workers are buying more and capitalists less. If the employer tries to get back the wage hike with a price increase, there will not be enough buyers at the higher price.

True, there might be some temporary shift in the pattern of prices, because in general the goods workers buy aren't the same as the goods capitalists buy. But these changes would soon be ironed out as production of different commodities was adjusted to meet the shifts in demand.

Thus, a wage increase would not *cause* a price increase. Sometimes prices will go up at about the same time as wages do, *but for some other reason.* This was admitted by the First National City Bank in its monthly newsletter:

> But, popular sentiment notwithstanding, there is no reason for rising labor costs in selected industries, however important, to lead inexorably to a rise in the general price level. . . . Before a general rise in the price level can result from such increases, they must be validated by a monetary policy that fosters a general expansion in demand . . . if rising wages push up costs more rapidly than prices can be raised, profits will be squeezed.

The bank went on to explain that more and more businessmen were coming out for wage controls because it is "increasingly difficult to offset excessive wage demands by raising prices." If the government followed an expansive monetary policy and therefore "inflation were expected to accelerate, they would not be so apprehensive about their ability to protect profits by increasing prices." (November 1969)

Thus:

Wage increases do not cause a general increase in prices.

Instead, they "squeeze" corporate profits.

But, the government may follow an inflationary monetary policy that will permit corporations to increase prices and maintain profits.

The employers demand *either* inflation to erode the workers' wage increases, *or* a government edict to limit wage increases.

President Nixon has given them both: inflation and wage controls at the same time!

Fred Ellis Daily Worker April 28, 1947

To sum up so far:

In every instance of inflation, prices went up before wages did, so wages could not have been to blame.

The share of production labor in the total values created has declined sharply in the last 25 years. Workers would have to get enormous wage increases merely to get back the ground lost, merely to get labor costs back to their previous share of the final price.

Wage increases do not change the total values created, nor do they change the total balance of supply and demand, therefore they cannot cause a general increase in prices.

Monopoly

The foregoing analysis assumes a competitive market. But what

about monopolies? Most of the economy today is in fact run by or largely controlled by monopolies. These are the basic source of inflation; they *do* have extraordinary power to raise prices above values. But that power is not unlimited, *and it does not depend on their wage scales.*

There is no absolute monopoly. Even when there is a total monopoly of a particular product in a given country, that product has to compete with substitutes, or with imports.

Monopolies can often sell products above their real values—above what would be a reasonable price in terms of the amount required to make these products. And they can manipulate supply so as to create an excess of demand and make it easier for them to increase prices. But they cannot do this any better when they raise wages than when wages are unchanged.

For example, in 1973 the food and agribusiness monopolies conspired to hold supplies of meat and grain off the market, forcing up the prices of meat, bread, and foodstuffs generally at a very fast rate. During this period there were no wage increases in the meatpacking industry, and only scattered small increases in the food industries generally, The monopolies didn't dare, on this occasion, to blame high wages. Instead they turned to another scapegoat: Soviet wheat purchases. But actually, exports of farm products to all socialist countries in the first half of 1973 came to only one eighth of total exports of all farm products, and were less than those to Japan and one half of those to Western Europe.

The U.S. Government for years has followed a dual policy of holding down farm production and subsidizing exports for the purpose of increasing the profits of the agribusiness and food monopolies. The only thing new about that policy in 1972 was that there was a significant volume of sales to the Soviet Union, as there was in some past years such as 1964. The increase in food prices now, as in past periods of increase, is wholly due to monopoly profiteering. Soviet purchases are presented as a scapegoat to divert public attention from the real causes of price increases, and also to contribute to the general weight of anti-Soviet propaganda.

What about public utilities, whose prices are regulated by state public service commissions and which are permitted to increase rates when costs increase? To some extent, the amount of wage increases affects the prices set by regulatory bodies; but even here the wage factor is relatively minor. Much more important are the balance of political forces, and the general rate of return on capital.

During the New Deal period of the 1930s and early 1940s, the political influence of labor, farmers, and other anti-monopoly forces was strong. Cooperatives and demands for nationalization threatened the utilities. Workers won substantial wage increases; labor costs actually increased. But the utilities were forced to cut their rates by regulatory commissions, which had to reckon with the political environment. Even during the inflationary period of World War II, they were not able to increase rates. The rate of return on capital of the utility monopolies was cut, to the benefit of their employees and of all working people using electricity, gas, telephones, etc.

Recently, utility rates have been going up faster and faster. But unit labor costs have not been increasing, or are increasing very slowly. However, right-wing forces control the Federal government and many state governments and there is no effective anti-monopoly coalition. Huge rate increases are granted to the utilities on the grounds of higher interest rates, not higher wage rates. The capitalists' and bankers' take from utilities is mainly in the form of interest, not dividends. Not so long ago, the "normal" rate of return permitted telephone companies was 6 per cent. Now, in some cases, they are granted a 12 per cent rate of return.

Thus, in effect, profit inflation is translated into price inflation. Monopoly profiteering, not workers' wages, are to blame.

Monopoly strength increased more rapidly during the 1960s than at any previous time in history. There was a record "merger boom": "conglomerate" and "multinational" monsters were formed, with vast economic power, which they have used ruthlessly.

Usually they are able to hold down the prices of materials they buy, while raising by extra amounts the prices of the goods

worker-consumers buy. Between 1957 and 1971 wholesale prices of raw materials bought by monopolies increased 15 per cent, but the consumer price index increased 44 per cent, or three times as much. When raw material prices "took off" in 1972 and especially in 1973, manufacturers took advantage of that, too, raising prices to consumers while still using the lower-priced materials they had in stock. Then, they retained the prices to consumers at peak levels when the raw material prices fell rapidly from their peaks.

By 1972 the top 500 industrial corporations accounted for 65 per cent of the sales and 75 per cent of the profits and employment of all U.S. industrial corporations .

Food production is now controlled by "large multi-product firms," in the words of the U.S. Department of Agriculture. These firms control everything from the farm itself to the supermarket shelf. According to Agriculture Department figures, giant conglomerates and cooperatives control 100 per cent of the sugar supply, 98 per cent of the milk supply, 97 percent of the broiling chickens, 95 per cent of vegetables for processing, 85 per cent of citrus fruits, etc.

Banking monopolies require special mention. The power of the banks has grown much faster even than monopoly in general. The giant banks have a huge thumb in every industrial pie, and are centers of control for vast empires of industrial, utility and financial corporations. By the end of 1972, just 14 giant banks held 10 per cent of the stock of the 20 most valuable corporations—10 per cent being sufficient for control of these corporations.

The banking monopoly has been able to jack up the rate of interest to higher levels than ever known in our modern history. These high interest rates directly add to the cost of living for workers with mortgages and consumer debts, and indirectly add to the cost of all commodities and services.

The government does not enforce the anti-monopoly laws. Instead it joins with monopolies, and assists them in increasing prices and profits. Big business executives shift back and forth between key Washington posts and their home offices. This inter-

mingling and close collaboration of government and big business for the benefit of big business is called state-monopoly capitalism.

One of its most dangerous and inflationary forms is the military-industrial complex.

Militarism

In the two centuries of our country's history prices have gone on a roller-coaster with every major war—going way up during the war and down a large part of the way afterwards. The exception has been since World War II, when prices kept on going up after the war and haven't stopped yet. In large part that's because the country has been continuously saddled with a huge military budget, a powerful Pentagon, ever since. The cost of past, present and future wars has usually accounted for more than half of the Federal budget. No other major country approaches this proportion.

The Pentagon and related agencies spend over $100 billion a year without producing any goods that can be bought and used by the population. That's creating $100 billion of demand without supply which tends to push up prices. A large part of the extra $100 billion stays in the pockets of military contractors and brass hats, landlords who charge sky-high rents in base areas, bankers who collect interest on the war-generated national debt. And it is exactly *their* excess purchasing power that pulls up prices.

After every previous war in history, there has been at least a temporary reduction in military spending. But on ending the war in Indochina, Nixon, for the first time, has simultaneously increased military spending. That's a major reason why prices went up faster in 1973, after the end of the Vietnam War, than during the conflict.

Not only that. The Pentagon grants tens of billions in contracts yearly to major corporations at super-profitable prices. This puts the corporations in a stronger position to get away with a "public-

First Things First!

be-damned" attitude. They can insist that civilian buyers pay the same excessive prices as the Pentagon or do without. That's why civilian electronic products are now sold at four to five times the factory cost of production!

Devaluation of the Dollar

Successive devaluations of the dollar in recent years have spurred the pace of price increases by increasing the cost of imports. This then became a pretext for increasing the prices of everything by several times the amount of the increases in the cost of imports. These devaluations were forced by the accumulation of huge deficits in the U.S. balance of payments. These deficits are mainly connected with U.S. military activity and wars. The huge network of foreign bases of the military, and its interventions in Indochina and elsewhere, account for a large part of the deficit. Another large part of the deficit is accounted for by the government's actions designed to favor the operations of the U.S.-owned multinational corporations, which send abroad millions of dollars of capital every year in order to buy up the economies of other countries.

Government-Business Collusion to Raise Prices

The hundreds of millions of dollars paid by millionaires into the campaign funds and Watergate-type crime funds of Republican and Democratic politicians are not charity. They are investments seeking returns of a thousand per cent and more.

One of the main methods of reciprocation is for the government to assist these millionaires in raising prices. A notorious example was the changing of government regulations to force a price rise in dairy products immediately after a dairymen's association made a big contribution to Nixon's political slush fund.

Utility and transport regulatory agencies are granting billions per year in rate increases to telephone, electric and gas companies while their profits and rates of return rise ever higher.

Agriculture Secretary Earl Butz is a former director of the Ralston Purina Corporation, the largest conglomerate in the poultry and egg business. In January 1973 the Agriculture Department advised the broiler producers to cut production 5 per cent. Since

the industry is 97 per cent controlled by big corporations, they were able to carry this out, and thereby to double the prices charged to consumers.

Of this action, Rep. Joseph Gaydos (D-Pa.) wrote: "American housewives are facing a situation where their own government—while going through the motions of holding down meat costs—is actually sending chicken prices soaring."

The farm price support and crop reduction system is a major method of forcing up prices of food and profits of the food monopoly. This year the government is spending $10.8 billion to help raise food prices. The food monopolies get double profit—from higher prices and government subsidies, and the American people pay a double bill, in higher prices and higher taxes.

State minimum-price regulations and "Fair Trade" laws also raise prices. In addition, government excise, sales and customs taxes, which directly raise prices, are increasing by 10 per cent yearly, and now total $65 billion per year.

Besides these specific ways, there is a more general way in which the Government helps big business raise prices—through inflationary budgetary and monetary policies.

Budgetary and Monetary Policies

When the government spends more than it collects in taxes, there is a deficit. Government deficits place extra purchasing power in the hands of companies and individuals without supplying additional goods. This raises demand above supply and helps drive up prices. Nixon, who came to office pledging a balanced budget, has run up the second biggest deficits of any President. In his first four years the combined deficit came to $56 billion, in addition to deficits of various government corporations not included in the budget.

The deficits are financed by issuing extra money, directly and through loans and the banking system. In addition, the Federal Reserve Board uses the banking system to create credit money for

other purposes. The very essence of inflation is the issuance of more money than needed to finance the circulation of goods that are produced. When the money supply increases more rapidly than the physical production of goods and services, prices go up.

Between 1940 and 1970 the "real" gross national product increased three times, but the money supply increased eight times.* So, prices increased two and two-thirds times. It's as simple as that.

Under Nixon the process was speeded up. Between 1969 and 1972 the "real" gross national product increased 8.8 per cent, while the money supply increased 32.7 percent, or 3.7 times as fast. That's part of the reason why the pace of inflation has speeded up.

Inflation to Fight Labor

Despite all the talk about the "war on inflation," the "powers that be" *aim* for a continuous rise in prices of consumer goods: it's the modern way of fighting labor. Formerly, capitalists sought to increase profits by cutting wages in slack times. But strong unions in basic industries usually make that impossible. So big business tries instead to increase prices of goods that workers buy, and pocket the increase as higher profits.

Gaylord Freeman Jr., Chairman of the Board of the First National Bank of Chicago, put it this way:

> The underlying trouble is that most of us like some inflation, no matter what we say. . . . We all like to show good report cards, and inflation makes our performance look better. (Quoted by Clayton Fritchey in the *New York Post,* April 8, 1970)

Economist Robert J. Gordon of the University of Chicago told a Congressional Committee:

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* The money supply, as here used, includes currency in circulation plus demand and time deposits in commercial banks, with certain technical adjustments.

> The economy would not be damaged if inflation were to continue forever at the 4 or 5 per cent rate which we have experienced in the last few years.

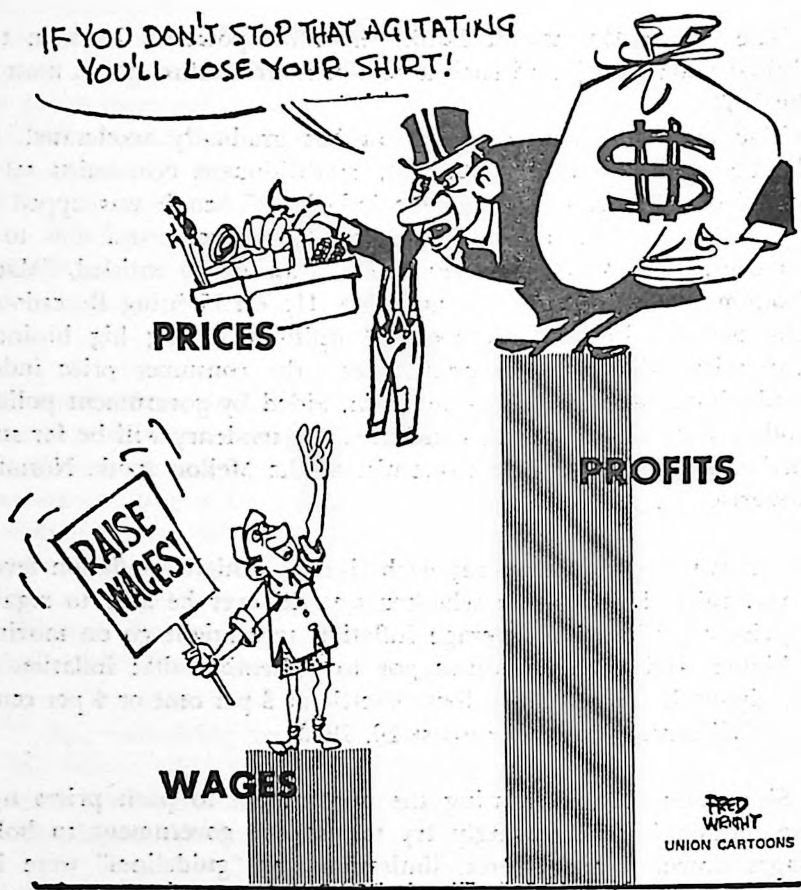
The Chase Manhattan Bank, the most powerful bank in the United States, projected such a rate of increase throughout most of the 1970s.

The aimed-for rate of inflation has gradually accelerated. In the decade after World War II, establishment economists set a "goal" of 1½ per cent per year inflation. Then it was upped to 2½ per cent, and under Nixon to 3½ per cent, and now to 5 per cent. The *Wall Street Journal* had an article entitled, "Many Economists Think Government Gives Up on Fighting Recession." The article cited a consensus of opinion among big business economists, that for the next decade the consumer price index would increase by 5 to 5½ per cent, aided by government policy. And so long as this policy continues, the tendency will be for still further acceleration. The economist of the Mellon Bank, Norman Robertson, puts it thus:

> If we start our economy each time at a higher inflation level, you raise doubts as to whether we will ever be able to regain price stability. The average inflation rate might go on moving higher and higher. You've got to remember that inflation is a dynamic force. It just doesn't settle at 3 per cent or 4 per cent. (*Wall Street Journal,* August 20, 1973)

Simultaneously with using the government to push prices up, the monopolies increasingly try to use the government to hold wages down. Wage freezes, limitations, or "guidelines" were in effect during World War II and the Korean War; from 1962, on into the Vietnam War until 1967, and now again from 1971 through 1973. They have been in effect for more than half of the time since 1940, and for three-fourths of the time since 1960. Undoubtedly, even if public pressure forces the end of the present

control system, there will be a fresh attempt to institute binding or "guideline" type wage restrictions.



The policy of monopoly is to raise prices and hold down wages. The policy of working people must be to hold down prices and end restrictions on wages and salaries.

Inflation—a Disease of Decaying Capitalism

The accelerating inflation is not limited to the United States. It's taking place in *all* the countries of capitalism. There are variations in details, but the basic pattern is similar in all these countries: a monopolized economy, rising miltary expenditures, government-big business collaboration, use of rising prices to fight labor, and price indexes going up faster and faster.

Throughout the capitalist world, inflation strikes at the welfare of the working people, leads to a sharpening of anti-monopoly struggles and to greater economic and political instability.

Only in the socialist countries, where the working people own the means of production and have a planned economy, has inflation been ended. Consumer prices stay the same year after year, or even go down in some cases, while wages, farm incomes, and living standards steadily increase.

A Program to Fight Inflation

In September 1973, the Communist Party issued an Emergency Action Program to fight inflation. It called for a Joint Session of Congress to enact the measures listed below. They key to winning all or part of this program is organized action by millions of working people. Parts of this program can be won directly by workers forcing wage concessions from employers, by the residents of communities forcing price reductions by chainstores, as well as organized boycotts, demonstrations, and by the election of people's candidates to bring about the desired action by Congress.

1. *To increase wages.* Since wages have fallen so far behind production and profits, and in 1973 actually lagged behind living costs, big wage increases are essential not only to restore the conditions of workers, but also to cut down inflationary profits.

The fact is that in no other major capitalist country have workers been so victimized by rising prices combined with relatively frozen wages.

The U. S. Department of Labor publishes calculations of percentage increases in hourly compensation of manufacturing workers in 11 industrialized capitalist countries. In every one of the last four years, the U.S. workers ranked last. Here are the figures for 1971, the latest year for which the Labor Department has complete figures. These are typical, except that U.S. workers have fared even more poorly since 1971 because of the impact of government wage controls, which were not yet in effect during most of 1971.

INCREASES IN HOURLY COMPENSATION OF MANUFACTURING WORKERS, 1971

Country	*Percent Increase in Hourly Compensation, 1971*
United States	6.7
Canada	10.5
Japan	15.6
Belgium	14.0
France	11.4
West Germany	13.9
Italy	17.8
Netherlands	17.3
Sweden	12.4
Switzerland	12.8
United Kingdom	13.1

Source: U.S. Department of Labor, International Comparisons of Labor Costs and Productivity Trends in Manufacturing, Preliminary Estimates for 1972, Release 73-116.

While wage increases in these other countries were two or three times as much as in the United States, living costs increased about the same amount, or moderately more. The workers in these countries have been getting real wage increases of 5 per cent or more per year, while those in the United States have been getting virtually no real wage increases, or in fact real wage reductions.

To meet the immediate emergency, and make up for some of the lost ground of recent years, the Communist Party proposes that all wages be increased by $1 per hour, regardless of current contract provisions.

This could be paid for out of the increase in profits, interest, and rents since 1970, that is, since the year before the Congress and Nixon imposed wage controls. The cost of the increases to 63 million private employees would be $126 billion per year. The increase in profits, interest, and rent between 1970 and 1973, according to preliminary estimates, has been $135 billion.*

In addition, all governmental restrictions on wages should be immediately and permanently removed.

The proposed $1 an hour wage increase would benefit the lowest-paid workers most, percentagewise. This is necessary, as the lowest-paid workers suffer the most from inflation. In addition, minimum wages should be radically increased. A proper minimum wage for the United States would be $5 per hour. This would permit a person to come within striking distance of earning enough to support a family, even at the minimum wage.

2. *To roll back and freeze prices and rents.* Under present conditions of extreme monopolization of the economy, it is futile to expect the influence of supply and demand or other general economic influences to be sufficiently powerful to stop the upward trend of prices and rents. The only way to stop rising prices and rents is to freeze them by government order, with an adequate system of enforcement, including severe fines and jail sentences for violators, and provisions for public participation in enforcement. Prices and rents should be rolled back to the August 1971 level, when Nixon announced his phony price freeze, so as to eliminate the extra profiteering of the period since then.

Special provisions should require selling goods to small merchants and manufacturers at the same wholesale prices as those paid by

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* Calculated by adding corporate profits before taxes, proprietors' income, capital consumption allowances, monetary interest paid, and rental income of persons.

giant industrial and retailing concerns. Farm prices should be included in the system of controls.

3. *To roll back profits and cut interest rates on debts of the working people.* The proposed measures on wages and prices would effectively reduce profits. Special government banking organs should be created to provide loans to working people at a 2 per cent interest rate. Private financial institutions should be required to cut interest to that rate on outstanding loans.

4. *To transfer money from the military to civilian needs.* This most important measure would reduce one of the main sources of inflationary pressure and of danger to the very existence of humanity resulting from the Pentagon-inspired arms race. Also, it would make a start towards meeting the long-neglected social needs of tens of millions of people.

5. *Radical tax reform.* Constantly soaring taxes are an important component of rising living costs to working people. The tax burden has been shifted overwhelmingly from the rich to the poor, from capital to labor. We propose abolishing all income taxes on families with incomes under $15,000 and single individuals with incomes under $10,000, so that the money required to meet decent living requirements will not be taken away for taxes. We also propose abolishing all sales taxes, and all property taxes on small homeowners.

6. *Direct aid to working farm families.* The present high food prices and government farm subsidies benefit agribusiness, not the 90 per cent of poor and middle-sized working farmers. Income support, combined with incentives to increase production and cheap credit for capital requirements, should be provided to aid working farmers and increase the food supply, for domestic requirements and for export. Also, financial and technical assistance should be provided to make it possible for Black, Chicano, Puerto Rican, Asian-American and Native American people who wish to do so to obtain adequate good land and equipment and become farmers, either individually or in cooperatives. Such assistance should also be available to poor white people.

7. *Nationalization of selected monopolies.* The power and willingness to take over and operate an enterprise is a necessary sanction to enforce lawful and non-destructive behavior by private corporations.

The Communist Party believes that the steps outlined above, though important and necessary, cannot solve the basic problems of capitalist society. That can only be done by eliminating private ownership, and operation for private profit, of the means of production—by a transition to a socialist society in which production is planned for social needs. But we advance this program as one which will do much to curb inflation and improve living conditions for the masses of the population. It is a program around which all workers can unite, employed and unemployed, organized and unorganized, together with welfare recipients, retirees, tenants, professionals and all others whose needs are frustrated by the rule of big business.

The final ending of inflation, and the guarantee of a constantly improving life for all working people, can only be obtained through socialism. There is no inflation in the Soviet Union, the German Democratic Republic, Czechoslovakia, and other developed socialist countries. Prices are stable, and from time to time prices of consumer durables and other goods are reduced, as production costs decline and supplies increase. Simultaneously, wages and farm incomes rise steadily year after year.

We urge all working people to join in the immediate fight for a progressive way out of inflation, along the lines of the program outlined above. This is necessary for our vital interests, regardless of what one thinks of the ultimate desirability of socialism.

We invite comments and questions about the Communist Partv and its program. For information, write to:

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