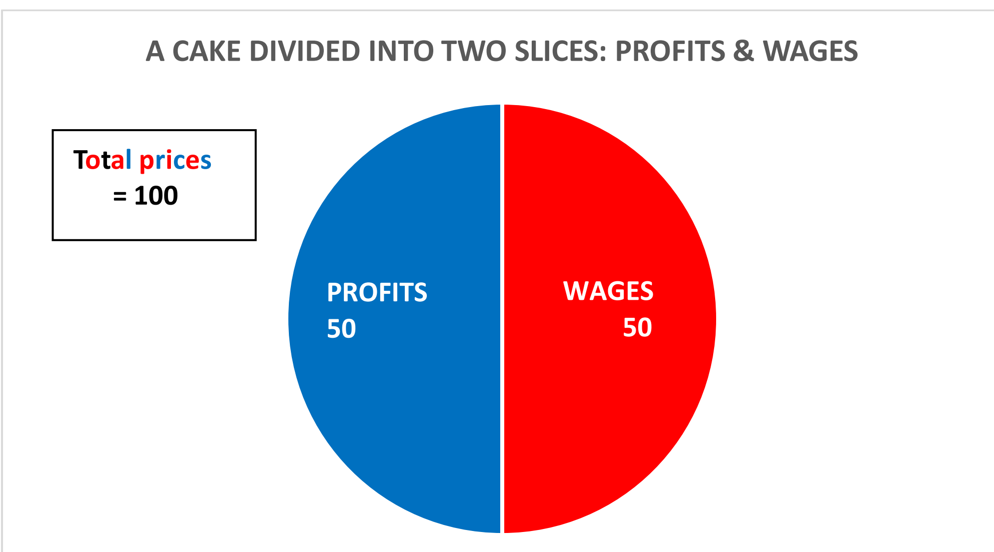
WAGES, PROFITS AND PRICES

The terms of the debate between wage rises leading to price rises, commonly known as the 'wage-price spiral', have changed. It is one thing to argue against the relationship when prices were rising and overtaking wage rises, and quite another to argue against the relationship when prices are falling below wage rises. By June in most countries, base effects supporting inflation will have fallen away, and therefore this article is written in anticipation of the inevitable argument by the capitalists that it is now wage rises which are preventing price falls.

We need to prepare for a new counter-offensive against the working class designed to force down wages. Here we are not talking about previous pay rounds but upcoming ones. The main argument by employers will be that elevated wage rises won during the earlier phase of rising prices will create a floor below which price rises cannot fall. Ergo, wage falls must lead price falls to prevent this.

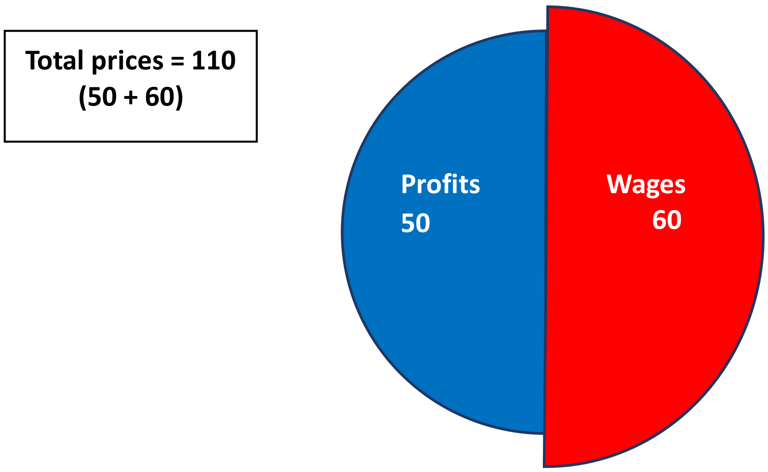
The argument that higher wages necessarily lead to higher prices, thus cancelling out higher wages, has raged for nearly two centuries. This is what Marx had to say in 1865 in his famous pamphlet Value, Price and Profit paraphrasing an economist named Weston: *If the working class forces the capitalist class to pay five shillings instead of four shillings in the shape of money wages, the capitalist will return in the shape of commodities four shillings' worth instead of five shillings' worth. The working class would have to pay five shillings for what, before the rise of wages, they bought with four shillings.* Since then this argument has been used over and over again by the bosses and the central bankers seeking to convince workers that intemperate wage rises are self-defeating, because while they may put more money in the pockets or on the cards of workers, that additional money will be wasted on prices which are now higher.

This argument has no bearing in fact. In considering the above proposition, three factors present themselves - wages, profits, and prices. The cake produced by workers, measured by the sum of prices, is always divided into two slices - wages and profits (profits here mean undivided profits, before its division into interest, rents, taxes, and enterprise profit) The cake and its equal slices can be seen in Graph 1.



Considering that workers are the real bakers, blaming them for price rises would amount to this; any increase in their wage slice will lead automatically to a bigger cake when priced. But why should it do so and if it did, it would look like the cake found in Graph 2. Not so much a single cake but clearly two slices from two cakes jammed together, totally unappetising, and obviously unsaleable.

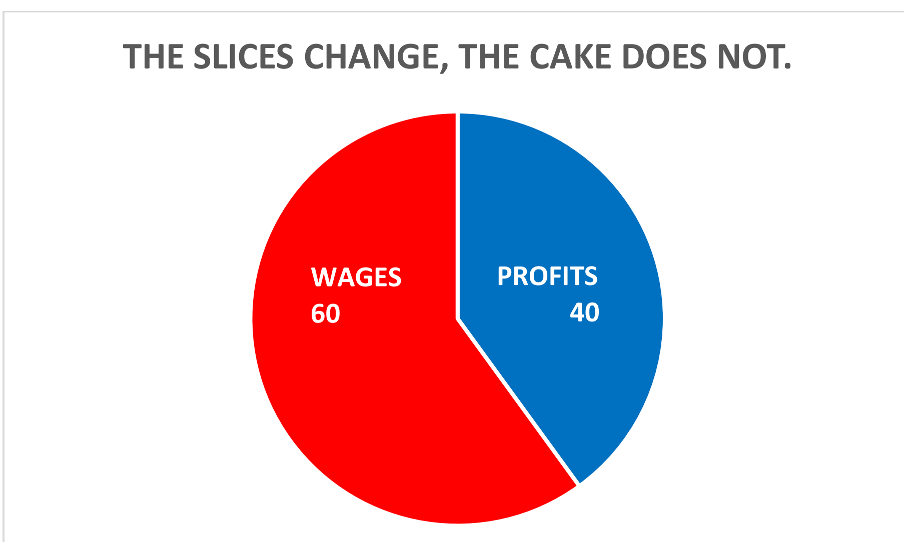
Graph 2.



In the second graph the capitalist argument reduces to this. Workers' wages have risen from 50 to 60 and when we add this new slice to the 50 which belongs to profit then total prices will be 110. Workers may have earned 10 more in wages, but this will be eroded by 10 more in prices. We can see in this fairy cake a real fairy tale. No one would buy such a mishappen and odd cake and workers certainly should not buy this explanation.

In fact what happens can be seen in Graph 3. As any baker would say, changing the size of the slices does not require changing the size of the cake. If one slice is bigger, ipso facto, the other size must be smaller.

Graph 3.



So what is the proof that it is graph 3 rather than graph 2 which is correct. The answer is provided by the law of demand and supply, the arbiter of all thing's capitalist. If workers win a wage rise, then initially demand for the goods workers consume will go up. If they do not change their habits and buy things which the capitalists used to buy, then prices initially will rise. On the other side because the capitalists have less money to spend on themselves, the demand for the goods they normally consume will go down and prices will fall. This is the simple case. On balance therefore, prices will rise in one section of the market and fall in another, cancelling each other out and leaving average or general prices unchanged. Total prices will still be 100.

Of course workers will not be better off initially. But this is only step one in the saga of supply and demand. The capitalists will find that the sector which produces goods for workers, now that prices have risen, has become more profitable. On the other hand, in the luxury sphere where prices have fallen, profit margins will have been squeezed. As the capitalists always seek to maximise their profit regardless of what is being produced, they are bound to invest in the sector providing for workers and divest in the sector providing for themselves. Capital will thus flow from the capitalist-consumer sector to the worker-consumer sector. Production will rise in the worker-consumer sector bringing down prices while production will contract in the capitalist-sector pushing up prices.

In the end production, which was originally 50:50 with demand 50:50 yielding an average price in each sector of 1, has now shifted to 60:40 and with demand now at 60:40, it once again yields an average price in each sector of 1. This is called the much vaunted equilibrium state.

In the words of Marx and therefore in the vocabulary of the working class the following happened. To begin with, workers produced value amounting to 100 in total. Half of that was necessary labour, the time they reproduced their wages and the basket of goods those wages bought, while the other half was surplus or unpaid labour, the time when they produced profits and with it the luxury basket of goods enjoyed by the capitalist class. At this stage prices and values matched. The total prices for the basket of workers' goods valued at 50 was also priced and 50 and so too the luxury basket of the capitalist class.

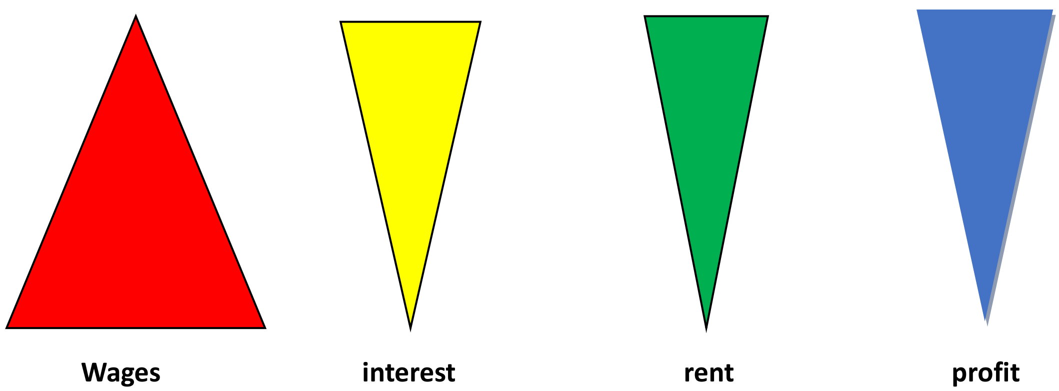
However, when the workers managed to extract an extra 10 from their employers, they had 60 to spend on goods valued at 50. The result was that prices rose from 50 to 60, meaning that prices had risen above their values. The opposite happened on the side of the capitalists. Their social demand sagged from 50 to 40 in return for goods valued at 50. Here prices fell below their values. So when demand and supply rode to the rescue, production expanded in the sector producing for workers and fell proportionately in the sector producing for the capitalists. With more jobs opening up there and fewer jobs available in the luxury sector, capital and labour would have migrated from the luxury sector to the workers' sector.

Consequently the amount of value produced in the workers' sector would have increased because of this additional labour expanding production, while the amount of value produced in the luxury sector would have contracted because less labour would be expended there now. Due to the changed pattern of investment, value and prices become aligned once more. And when they did, when the prices workers pay for their consumables fell, their wages now purchase more of these articles. Consequently, their standard of living would have risen while that of the capitalists would have fallen. And all the while the cake has remained the same, but now more of it is being enjoyed by the working class and less of it by the capitalist class. Now we know why the capitalists lie about unaffordable wages being self-defeating. They are not self-defeating but other-depriving, they deprive the capitalists of their precious profits.

One final question has to be answered; what seems to substantiate the mistaken belief on the part of the capitalist class that wage rises are mechanically connected to price rises? Marx never tired of saying that competition turns the perceived world upside down. In terms of appearances, given that appearances are always concrete because they inform how we experience the world, it appears that labour is not the sole producer of value due to prices appearing to be divorced from values. As far as the diverse capitalist class is concerned they are co-producers and it is their efforts together with workers which makes up the slices forming the cake.

There is the slice that belongs to workers in the form of wages. There is the slice that belongs to the moneyed capitalist in the form of interest. There is the slice that belongs to the landlord in the form of rent. And there is the slice that belongs to the owners of firms and their senior directors in the form of enterprise profit. Without each agent of production - without labour, finance, land and means of production, production cannot take place. All these slices can be seen below. No cake then?

Independently produced slices.



The owners of money capital, the land and industrial capital know that without finance, or land, or means of production, labour power would lie idle. Ownership bequeaths entitlement, and so they believe they are entitled to be rewarded for the fruits of their ownership. Interest is the entitlement for providing money, though to be honest I have yet to see a twenty Dollar or Pound note load a truck never mind drive it. Rent is the entitlement for owning land, though to be honest the land existed for billions of years before homo sapiens evolved to walk upon it. And finally profit is the entitlement for owning the means of production, though to be honest no machine or piece of equipment ever grew on trees and if they did, we would still be living in the garden of Eden rather than having to live off the sweat of workers' brows.

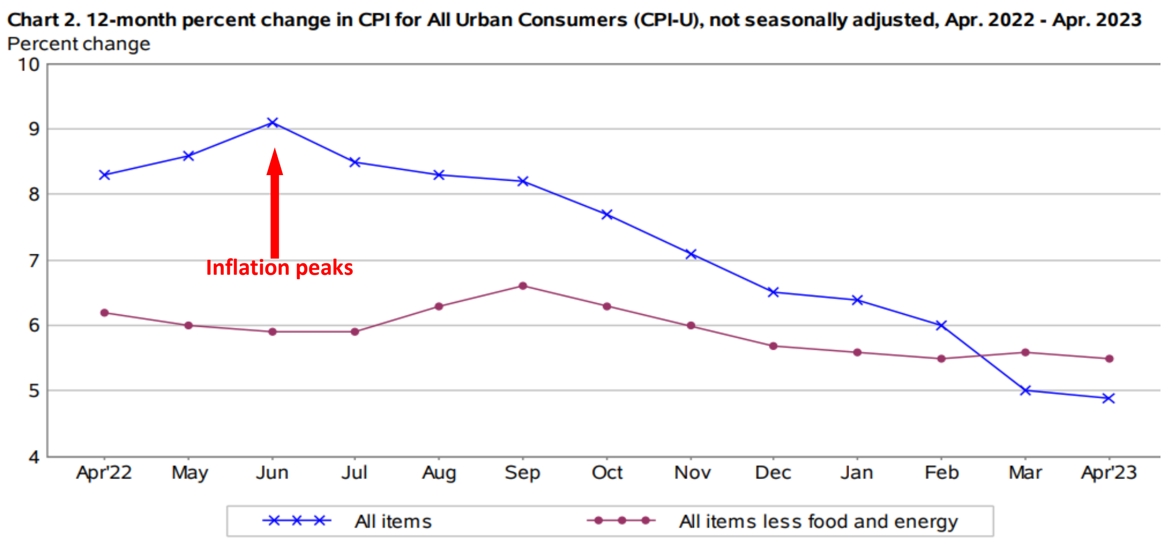
They sincerely believe themselves to be producers as integral and necessary to production as workers are. The CEO like a Royal, collected in the morning by chauffeur driven car to work, taking the lift up to the executive dining room to have their power breakfast, then reviewing reports prepared for them overnight by their underlings, before catching the executive helicopter to one of the plants to show their face, then being flown back and onto a corporate charity event, is convinced they have just put in a sixteen hour productive working day. Therefore they deserve a piece of the action. And thus as far as the capitalists are concerned the cake only comes into being when all these pieces which have arisen separately are combined into a single cake with the size of the cake corresponding to the sum of these pieces.

So instead of the capitalists dividing up an already baked cake, they see themselves as making up the cake by contributing various slices. So instead of beginning with a single cake to be divided into slices, we end up with slices making up the cake. A truly religious event. The case of the *immaculate cake* where the slices precede the cake. The oven turned upside down. Farcically, the capitalists confuse the crumbs in the corner of their mouths for the flour on their 'working' hands.

The real world of inflation.

According to the BEA, in the last quarter compensation of US workers in the private sector rose 5.5% annually. According to the Bureau of Labour Statistics the figure is 4.8% for non-farm business and 5.1% for non-financial corporations. And according to ADP the biggest US payroll provider processing 25 million employee paychecks each month, the figure is 6.7% for those employed. Whatever the case, as the BLS graph below shows, the Urban CPI has fallen to 4.9% which is proximate to the non-farm business wage increase and below that found elsewhere. (Stripping out owner occupier rents, the CPI would be reduced to 4.1% and the CPI less food and energy would have come in at 4.6%. (Table 2 of the report, expanded detail, which shows the weight of owner occupier rents to be 23% of the total CPI.)

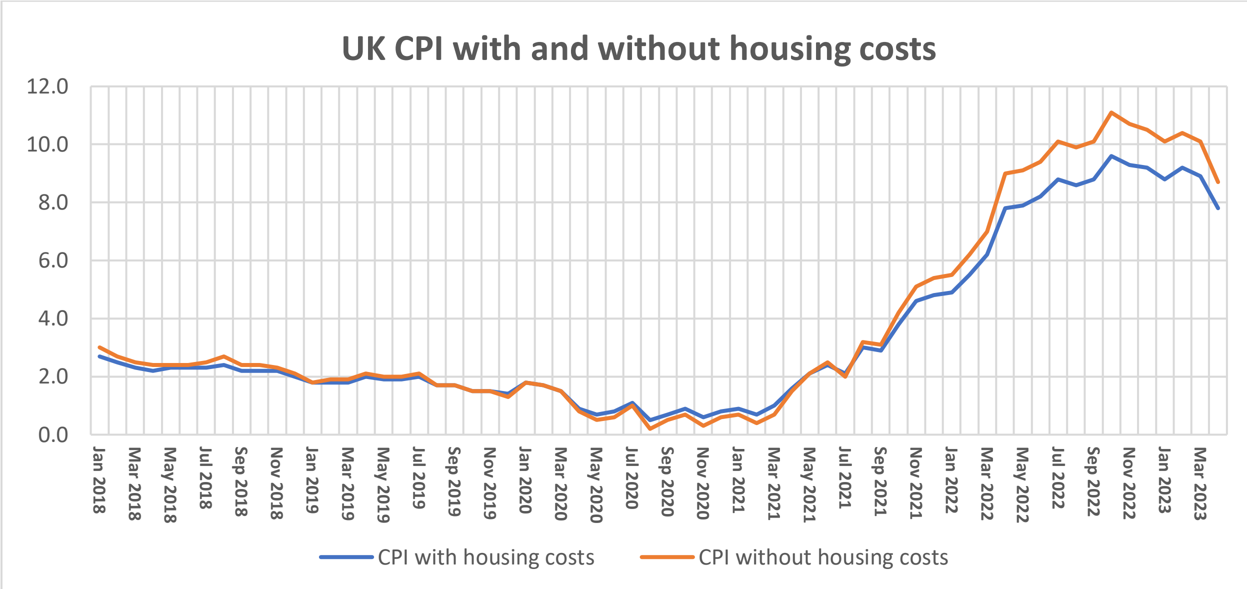
Graph 4.



The arrow I have added in points to the peak in inflation which occurred in June. Even if month on month prices do not change up to June this year, the annual CPI would fall to 4.1% and without owner occupier rents to 3.3% or well below the annual increase in wages currently. Now we see the gist of the coming argument and the assault on wages. Already wage rises of 5.5% to 6.7% at a time when inflation is put at between 4.1% and 4.9% is beginning to compress profit margins and it will get worse from June when the headline annual rate of inflation takes another step down. Six months of this kind of wage advantage will wipe out half the advantage the employers received when prices were higher than wages.

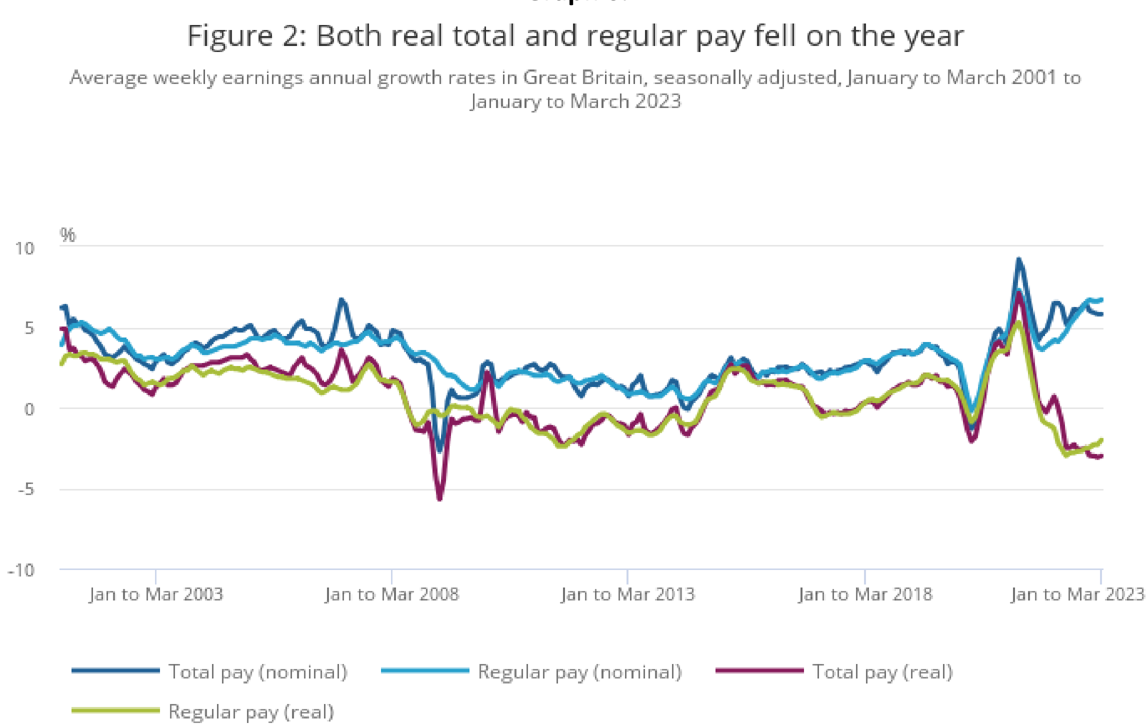
The same is true in the UK. Inflation is falling, but this has occurred later than in the USA and it is slower because of energy and food costs, the latter the victim of BREXIT. It is worth mentioning that food costs in the UK have risen by 19%, the most since 1977. However, unlike the USA, the Office for National Statistics in common with its European counterparts produces a CPI with housing inflation and a CPI without it. In the UK, unlike the USA, housing costs have reduced rather than raised the CPI.

Graph 5.



The [ONS](ONS) provides the following data on pay: *Average regular pay growth for the private sector was 7.0% in January to March 2023, and 5.6% for the public sector*; yielding an average of 6.7%. Over the last 6 months this has led to an average 3% loss in pay. (See graph below.)

Graph 6.



Source: Monthly Wages and Salaries Survey from the Office for National Statistics

Thus although inflation fell to a disappointing 8.7% in April, remaining significantly above wage rises particularly for the public service, the outline of the attack on pending wage rises is once again confirmed. As early as February the Governor of the Bank of England appearing before a parliamentary committee used it as a soap box appealing to workers to cast their eyes forward to the prospect of inflation waning and to therefore to modulate their wage demands accordingly. Just as well workers did not listen to Bailey as inflation fell more slowly than the Bank predicted. On the 18th of May while addressing the British Chamber of Commerce, he sharpened his attack on workers. He began: "*Some of the strength in core inflation reflects the indirect effects of higher energy prices. But it also reflects **second-round effects** as the external shocks we have seen interact with the state of the domestic economy*." (my emphasis) So while the Bank of England refrained from blaming wages in the **first-round effect** on prices, this has changed, and they have now become a central concern in assessing **second-round effects**. "*So even as headline inflation is coming down, the MPC pays particular attention to indicators of inflation persistence, including labour market tightness and wage growth…"Importantly, however, the Committee continues to judge that the risks to inflation are skewed significantly to the upside, primarily reflecting the possibility of more persistence in domestic wage and price setting."*

Thus to the employers assembled at the meeting, a veiled threat, interest rate policy is contingent upon you holding the line over wages. And to sweeten this threat he added they should be helped by labour market conditions beginning to loosen mid-year*. So here we see the shape of the ideological attack. Inflation now is not due to greedy profits as in the first round but unsustainable wages in the second round. This attack was echoed by Chris Giles in the Financial Times this week who by confusing the rate of return with profit margins claimed that non-financial profitability in Q4 of 2022 did not support the accusation that greed-flation was to blame for inflation. Mistake aside, the kernel of his argument is that profit margins are no longer rising but falling, and that UK profitability is lower than any time since 1997, except for 2009. With profit margins now being squeezed expect the theme to be wages, wages, wages.

Michael Roberts plays a vital role in introducing his readers to mainstream discussion over key issues of the economy. His recent focus has been the discussion by bourgeoise economists around the issue of the wage-price spiral. He has assembled a formidable body of evidence presented by eminent economists demonstrating that price rises were associated with *profit-gouging* and not with wage rises, which in any case lagged price rises.

But that debate is now stale, dated, and water under the bridge. The terms of the debate have changed. What we now have to challenge is the *second round effects* and any harking back *to first round effects* will be of little use. The debate will be framed not around wages needing to catch up to rising inflation, but falling inflation held captive by rising wages. We can expect a full media onslaught on this issue shortly once the media feels confident the time is right to replace commiserating with hard-pressed workers with lecturing them on the importance of pay restraint.

That time is not far off. Two factors will determine when. Firstly, when price falls becomes obvious as should happen in Q3 because annual comparisons will benefit from improved base effects dating back to 2022. (Of course the weather by then may have something else to say.) Secondly, when they sense workers are vulnerable, that is to say the strike wave is faltering and seen to be faltering.

This is beginning to happen. The strike wave is de-escalating in the UK, becoming more ragged. A number of key sectors of workers have accepted pay offers. Strikers are becoming more isolated.

How could this have happened in the face of the greatest cost-of-living crisis since the Second World War? Blame the Trade Union leaderships, especially the TUC. Most of them have acted like Manorial Lords treating their union like their own manor. Instead of reaching out to other unions and organizing a collective strike, each has gone their own way, calling their own strikes independently and without synchronicity. And instead of pledging that no union should go back to work until every union had won its pay demands, they have negotiated and settled individually. And to excuse this betrayal they have taken cover behind the anti-union laws knowing full well that workers cannot win their demands unless they not only take on their own bosses, but the anti-union laws as well which hold the unions to ransom and dislocates strike action.

Knowing that individual and uncoordinated action would fail against a government with its back to the financial wall determined to hold the line, we should not hesitate to condemn the Trade Union Leaders for deliberately betraying the British working class. The result will be a working class further impoverished by their misleadership. Unlike the Bank of England who have arrogantly commanded workers to accept they will be poorer, we say the opposite, do not accept that you need to be poorer. However, if you are to fight to overcome this, learn the lessons of the failed strikes, and transform the unions from being the source of bureaucrats' salaries into fighting unions, where leaders are regularly elected, where decisions are made from below in mass meetings, and where any union leader who disobeys a single instruction from the mass meeting is thrown out of the union without pension and severance pay. Nothing less will do.

Conclusion.

We need to sharpen our arguments as we enter the second round of the inflation fight, which is designed to consolidate the fall in real wages by the bosses. This article seeks to help by providing graphic arguments for why changes to wages changes profits not prices. In any case profits are nothing more than unpaid labour, the property of workers stolen by the capitalist class and claimed as their own. Should we prevail in this argument, that wage rises are not responsible for price rises but profit falls, that it is therefore not self-defeating, we will win the argument for higher wages. But we should not stop there, we need to win the final argument as well; to abolish wage slavery by putting an end to the wage relation itself through expropriating the capitalist class and returning their property back to its original producers, the international working class. And by doing so to thereby end this unrelenting and debilitating tug of war between wages and profits.

> *If there is a tight labour market, this is not due to the demand for labour but the supply of labour. In an unhealthy nation any novel virus will be devastating. In the USA as the CDC reports 6 out 10 US adults have a chronic disease. This is the legacy of neo-liberalism, the gross neglect of the working class in the pursuit of short term profits, truly a case of killing the goose that lays the golden eggs. Greed is its own worst enemy.

Brian Green 31st May 2023.