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Organ of Communist Platform – for the Communist Party of the Proletariat of Italy

# **Inflation and stagflation, plagues of the imperialist-capitalist system**

## **What is inflation and who it favors**

Historically, the issuance of money by the central banks, if the total in circulation is growing more proportional to the increase in the sum of the values of the goods produced, determines the increase in prices, i.e. inflation.

The excessive issuance of money as a pure sign of value leads to the devaluation of the currency and is used by the ruling classes to place state expenditure on the shoulders of the working masses and aggravate their exploitation.

Inflation, by causing the prices of products to rise, affects wage workers and the vast majority of the population, since with the same amount of wages a smaller quantity of goods of equal quality can be purchased that is, there is a reduction in the purchasing power of wages).

At the same time inflation favors the capitalists and landowners especially by the depreciation of the real wages of the workers.

However, when it is out of control, especially in mature imperialist countries where states are struggling with the refinancing of public debt, for individual capitalist economies and for their whole, it can be a serious problem. Financial stability and the maintenance of exchange rates are essential requirements for the bourgeoisie of the major imperialist and capitalist countries.

## **Inflation and monopolies**

Inflation today is no longer due only to the increase in the amount of money in circulation. The origin of inflation must be sought in our time in the demands of valorization of monopoly finance capital.

The high prices charged by monopolies are one of the means to the realization of maximum profit. Monopolies react to crises of overproduction by reducing production and layoffs, while leaving prices unchanged, which can even rise through "programmed" inflation, of which the ultimate beneficiary is big capital.

The increase in prices imposed by monopolies requires an increase in the money in circulation, which central banks can counter but not block; this in turn leads to a further rise in prices.

Under imperialism, monopolies replace free competition. Monopoly production is a powerful instrument of the redistribution of profit (the sum of the surplus values that the capitalist class extorts from the workers) for the benefit of gigantic enterprises. The monopoly concentrates the production and sale of various branches of industry and is used to set high prices on commodities and make a high profit through cartels, trusts, etc.

## **Inflation and imperialist war**

Especially during times of war, imperialist and capitalist states issue more money to cover their growing war expenses.

An extraordinarily large issue of money, which leads to its depreciation, is used by the ruling classes for the purpose of transferring the weight of military orders onto the shoulders of the working masses in order to obtain an extraordinary profit.

Unproductive and parasitic, expenditures on war and repressive measures absorb a significant part of the national income and are covered by the reduction of social expenditures and the increase in taxes during the war: a real organized looting. The most powerful bourgeois states, holders of the levers of world liquidity, have never scrupled to use inflation as an instrument of economic war against other countries, for the conquest of new markets favoring, with the monetary issue, the export of capital.

On the other hand, inflation, causing the devaluation of the currency, favors capitalists and landowners who export their commodities abroad, including weapons.

It thus becomes possible to successfully compete with foreign capitalists and landowners, increase the disposal of their commodities and obtain additional profits.

But this does not apply to all capitalists. For some, especially the smallest, the sale of commodities decreases in the domestic and foreign markets, due to other prices. And with that thousands of jobs are destroyed.

### **Inflation and productive investment**

To limit inflation, the central issuing institutions make the "cost of money" more expensive by increasing the interest rates at which it is anticipated. It is evident that the increase in the cost of money discourages productive investment by companies, having repercussions in the lowering of the growth rate of the economy.

Equally evident is that the increase in the price of money (the interest rate) benefits finance capital (large banks connected to the large monopoly groups of production and distribution), to the detriment of the wage earners and weaker sectors of capitalists.

### **From inflation to stagflation**

In the European capitalist countries the inflationary process was essentially chronic in the period following the First World War.

After the Second World War there was a moderate inflationary increase in prices in the cyclical recovery phase.

Since the second half of the 1960s the picture radically changed and the rate of inflation increased considerably.

Despite the decrease in industrial production caused by overproduction, prices have had a steady upward trend. This process characterized all the crises of the 1970s.

The simultaneous presence of the stagnation of industrial production and the increase in prices is called "stagflation".

Stagflation, which first appeared in the late 1960s, expressed the exhaustion of Keynesian policies via budget deficits and their effectiveness.

### **The stagflation of the 1970s**

In 1971 the dollar pegged to an international value reference such as gold was ended. The dollar has since been the world's monetary reference, benefiting from a "seigniorage right" based on the economic weight and military might of the United States. They have had no qualms about

issuing additional money in case of need, among other things to finance imports and budget deficits. The influence of rising prices was significant in the course of the cyclical overproduction crisis of 1973-75.

The phenomenon of stagflation, which received a further boost from the oil shock following the Yom Kippur War, was managed and directed by the USA and the large multinationals, which control the markets for fundamental commodities (sources of energy, raw materials, agri-food products). Inflation in those years was part of the offensive strategy of imperialism to place the capitalist crisis entirely on the proletariat and subdue the weakest and most dependent countries.

### **The real culprits of inflation**

Bourgeois economists point to the working class, with its demands, as the main culprit of inflation, masking its real origin.

In the 1970s and 1980s this led many countries, including Italy, to carry out a heavy attack on the welfare state and wages, with the elimination of the sliding scale, an automatic mechanism by which, at the end of the year, the inflation rate determined (therefore after the fact) the increase in wages. Even today, the supporters of capital point to the shortage of cheap labor as the cause of inflation.

The reality is quite different. The purchasing power of wage-money calculated on the basis of the official indices of the price of subsistence products shows that the condition of the workers worsens in an absolute and relative sense in a situation of inflation (it should be noted that the statistics give the wages of the employed workers, but do not take into account the fact that a considerable part of the workers is constantly inactive).

The bourgeoisie, which spreads false theses about inflation, aims to stifle the class struggle and impose class collaboration. The main culprits of inflation are the capitalist states and monopolies, which control production and the markets, and decide economic, monetary and price policy.

Today the difficulty of gas supply, the decrease in the number of nuclear kilowatt hours produced in countries such as France and their increase in price, the real capacities of the oil fields for the more or less long term, the increasingly substantial financial investments necessary to maintain the exploitation of the now "mature" energy source, push the increase in prices so as to allow the obtaining of maximum profit.

The increase in the cost of energy is reflected in the increase in the cost of transport and in the increase in prices to the extent that the energy cost enters the cost of producing goods.

Once a high price level has been established, lowering it meets strong resistance. High prices, which have become elements of constant capital, are part of the production costs of capitalist enterprises. The power of the monopolies, of the monopolist associations, delays the lowering of excessively high prices.

### **Inflation and stagflation at the present stage**

The current inflationary phenomenon manifested itself before the Russian invasion of Ukraine. Until December 2020 there was very low inflation (in the eurozone it was even negative), due to weak world demand and trade, as well as low energy prices.

Since the beginning of 2021 the picture changed. In the first six months of 2021, with the global "economic rebound", consumer inflation showed itself especially in the USA (5.4% in September 2021), Russia (7%) and Brazil (10.3%).

Supply-side bottlenecks, in the face of the sustained increase in domestic demand, the rise in energy prices due to various factors and the difficulties in supplying microprocessors, are at this moment just as many levers of the increase in consumer prices.

To this must be added another important inflationary factor: the *quantitative easing* practiced by the Fed and the ECB [European Central Bank] during the *lockdown* period to the extent that they poured liquidity into the real economy without causing corresponding expansion of production.

In December 2021, as the economy slowed due to a new pandemic wave, the US recorded 7% inflation, the highest level since the 1980s. Only towards the end of 2021 did the Fed begin to review its expansionary policy (it is good to remember that the Biden administration launched aid and subsidies up to \$3 trillion in order to counter the magnitude of the recession), strongly reducing the massive purchase of securities and preparing the rise in interest rates. Russia and Brazil also applied monetary restrictions.

With the outbreak of the war in Ukraine, the inflationary dynamics worsened significantly in almost all countries, reflecting the sharp rise in energy prices (which sanctions affected) and agri-food prices, which are passed on to the prices of many other goods. The increase in military spending and the speculation of finance capital exacerbate the inflationary phenomenon.

For example, in Italy consumer prices increased by around 9% annually in September 2022. The ones who suffer the most are the wage earners of the lower categories, the low-income families. The erosion of the purchasing power of wages proceeds rapidly as industrial production stagnates. The risk of stagflation becomes concrete in the capitalist economy, and everything suggests that it will not be temporary.

The war situation, the increase in interest rates decided by central banks (Fed, ECB), the decline in investment and disruptions in supply chains, will depress the economy, pushing it towards stagnation and recession; this while the current causes of inflation remain, linked to the increase in the prices of raw materials and energy, as well as to monopoly speculation (super-profits).

### **Difficulties of the imperialist bourgeoisie**

The major imperialist countries, those that can use their currency as a weapon in the world contestation, today see uncontrolled inflation (above 2.5%) as the plague.

The European Union has designed and adopted a strong currency (that is stable against the dollar) that cannot be attacked by speculation, at least until the war in Ukraine, which has decisively favored the dollar that has revalued in relation to the Euro. Today an EU weakened by war, with public debt soaring, must guard against inflation, before interest rates on public debt are not established by financial speculation and debt spin around itself, creating serious difficulties for heavily indebted countries without monetary sovereignty (such as Italy). They risk the collapse of the price of securities, starting with those of public debt, and with it the failure of exposed banks.

The fight against uncontrolled inflation is also of great interest to the Fed, which does not want to see a dollar that loses the essential "seigniorage right" so as not to jeopardize its hegemony.

To fill the large deficits in the balance of payments, US imperialism resorted to the inflationary issuance of the dollar in international currency and banking relations, as well as to war and NATO to put the EU in difficulty.

But just as the increase in the interest rate, that is, the trend of capital inflows into the US, impedes productive investment, creating the conditions for a new generalized crisis, so the crisis of globalization – a phenomenon that has characterized an entire historical period, but which has led to the development of different capitalist powers and a greater balance of exchange rates – does not favor the policies of the central bank of US imperialism.

In addition, speculation creates strong fluctuations in the prices of important and strategic raw materials (energy, cereals, rare earths, etc.) increasing general uncertainty.

### **Some conclusions**

Different classes and sections of social classes react differently to inflation and stagflation.

The financial oligarchy exploits inflation to its exclusive advantage, in the interests of maximum profit and increasing monopoly concentration. But acute inter-imperialist contradictions make it increasingly difficult to coordinate economic and monetary policies, and inflation is increasingly a factor of instability.

The measures taken by the imperialist countries to get out of the dead end of stagflation, for example, have a strong impact on dependent countries, especially the most indebted ones. Inflation has a different effect on different types of capital. In a simplified way, it can be said that the expropriation of the productive medium and small capitalists also takes place because in carrying on their business they cannot promptly adapt to the complex phenomena that significant inflation entails.

Moreover, fluctuations in currency prices give finance capital, which is able not only to predict these fluctuations, but also to arouse and amplify them, the possibility of robbing the "uninitiated". This exacerbates the contradictions within the bourgeoisie.

But it is in the contradiction between capital and labor that inflation and stagflation have the most significant effects, making the class struggle between the exploited and the exploiters more acute and more extensive.

The working class struggles for wage increases, that is, it resists the devaluation of labor power so as not to worsen its social condition; the bosses take advantage of inflation to safeguard profits and obtain super-profits, increasing the exploitation of the wage workers and placing the rise in prices on their shoulders.

The proletarian struggle against the consequences of these sores of the imperialist-capitalist system cannot be limited to the sacrosanct struggle in the economic terrain to safeguard the price of labor power through the increase in wages at the expense of profits; it requires general political action, it demands energetic measures against the bourgeoisie and capital, which only a government that is an expression of the power of the working class can adopt.

Phenomena such as inflation and stagflation offer a further argument for the need of the policies of a united front and a popular front led by the proletariat, of struggle for a true democracy, which rests on the majority of the exploited and oppressed against the minority of exploiters and oppressors.