



The Battle Between Wages and Inflation

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The good news is that American workers saw their average hourly wage rise \$1.46 an hour, a 5.8% increase that brought the average up to \$26.61 an hour worked. The only one-year wage gain to compare with this was in 1981, when wages rose 7.2 percent. Meanwhile, the Conference Board's latest survey found that executives at large businesses are budgeting 3.9% salary increases for the current year, which would be the highest growth rate in budgeted raises since 2008.

Normal economic logic would tell us that when workers have more money in their pockets, they will be inclined to spend more, which would raise the overall gross domestic product in the U.S. But the other side of the news is less upbeat: while workers were earning 5.8% more pay, on average, the cost of a normal basket of the things they would be buying was rising even faster. The final tally on 2021 inflation was 7%, the largest 12-month gain since the 12 months ending in June 1982. In terms of purchasing power, American workers, in aggregate, lost ground last year.

Those references to the years 1981 and 1982 might ring alarm bells for anyone who happened to live through the 'stagflation' era that lasted from the late 1960s to, yes, around 1982. Relative to the size of their paychecks, workers received bigger raises every year from 1971 to 1981 than they did in 2021, in large part because they needed to earn more to keep up with the inflation-driven erosion of the dollars they were receiving. The inflation rate rose from 5.46% in 1969 to 6.18% in 1973 before taking off: over 11% in 1974, over 9% in 1975, between 5.75% and 7.63% in the three subsequent years before jumping to 11.25%, 13.55% and 10.33% in 1979, 1980 and 1981, respectively.

The dynamic at the time was eerily similar to what the U.S. economy experienced last year: companies had to pay more in wages to attract and keep workers, which created higher production costs for goods and services. Higher production costs showed up in the form of higher prices, driving up inflation, causing workers to demand higher wages in order to stay roughly even in purchasing power. Lather, rinse and repeat over a period of years, and you have the perfect recipe for stagflation.

There is no guarantee that we will experience a repeat of that unfortunate time in economic history; 2021 could be a one-time anomaly that merely reminds us of the 1970s stagflation experience. But it is not out of the bounds of possibility that the U.S. economy has entered some kind of mutually-reinforcing spiral, and that means that any joyful headlines you read about how much more money is flowing into the pockets of workers should be read, for now, at least, with a grain of caution

Sources:

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<https://www.macrotrends.net/countries/USA/united-states/inflation-rate-cpi>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:(215)325-1595) or you can [click here to schedule a meeting](#).

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