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(Re)Politicizing inflation policy: A global political economy perspective

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(Re)Politicizing inflation policy: A global political economy perspective

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Abstract

This article investigates the political and social outcomes of low-inflation policy as it relates to labour market policy and wages. Current policy orthodoxy assumes there are indomitable negative costs associated with inflation; as such, Central Banks are tasked with maintain price stability to ensure economic growth and global competitiveness. Critical political economists challenging these assumptions tend to focus almost exclusively on the ambiguous relationships between low inflation, monetary policy and real economic growth. Examining the politics of low-inflation policy and labour market reform adds a new dimension to this critical research agenda. Using the United States and the United Kingdom as case studies, two policies designed to control inflation and adopted as part of labour market reform are examined: promoting increased product market competition and indexing wage increases to price levels using the consumer price index (CPI). These two policies reveal how controlling wage-led inflation, and all the related distributional outcomes, at the heart of low inflation policy. Finally, with inflation rates rising quickly across the US and the UK the politics of inflation have again entered the public domain. Again, we see that policy makers are looking to labour markets, not monetary policy, to quell inflationary pressures. Wage-earners must take real wage cuts to ensure a rebounding of economic growth. For all intense and purposes, it appears the politics and vigilance against wage-led inflation is paramount in Anglo-America, whether the actual inflation rate is low or high.

'1(Re)Politicizing inflation policy: A global political economy perspective

I have seen no government explanation as to why, when the Bank of England governors publicly state that ALL public sector pay could rise by four per cent without any significant effect on inflation, this lame duck government appears to think their only weapon against inflation is to punish those that can't fight back.

Peter Smyth, Metropolitan Police Federation Vice Chairman (Jan 30, 2008)

In late January 2008, thousands of off-duty police officers marched through the streets of London against a government imposed 2.5% yearly pay rise deal. Similarly, in April 2008, the National Union of Teachers, joined by thousands of civil servants, staged a one-day walkout to protest against a 2% annual pay increase. These public employees claimed their pay was not keeping pace with rising living costs. In both instances the UK government claimed that as part of its inflation fighting policy, all public sector contract negotiations would keep pay increases within its 2% target. Police officers and teachers argued that their contracts amounted to below inflation pay raise. With the UK's CPI at 2.3% in 2007 and predicted to increase further in 2008, this is a legitimate concern. This public opposition served to politicized inflation policy as an inadequate justification for prolonged wage stagnation or real wage cuts. Not since the 1970s has inflation been a topic of public debate in Britain.

These UK protests shed light onto the puzzling lack of sustain engagement with the politics and social outcomes of inflation policy, particularly as it relates to wages. The current orthodoxy adopts neoclassical economic assumptions about the universal negative costs associated with inflation (Sayer 2000). Rather than engaging with this orthodox literature, this article addresses on-going debates within the critical political approaches which offer pertinent challenges to key assumptions about low-inflation policy. The aim is to add to these insights by accounting for the political struggle central to victory of low-inflation policy as well as evaluate the outcomes for wage-earners.

Much of the critical literature primarily focuses on the institutional mechanisms which implement low inflation policy. Paying considerable attention to how ideas about inflation are formed and acted upon by key policy making bodies. Constructivist interpretations of the inter-subjective understanding that shape policy interests sees the ideas about the universal benefits of low inflation as sustained and transformed through iterative processes within state institutions (see: Blyth 2002; Widmaier 2005). As Widmaier (2003) suggests this approach as a unique affinity to the (neo) Keynesian concept of 'convention' which is intrinsic to forming state interests and policy possibilities (89). Indeed, neo-Keynesian analysis does investigate how 'ideas about inflation', and their evolution, is paramount in understanding policy makers vigilance against inflation (see: Primiceri 2006; Sawyer 2006). Also how, despite growing evidence to suggest that low-inflation policy has not rendered significant economic gains, policy makers cling to anti-inflation policy.

Beliefs, especially when they harden into an ideology (beliefs that are held as articles of faith and thus resistant to change even in the light of evidence) can skew the ways in which policymakers understand and react to problems. Ideas can also contribute to normative understandings about 'appropriate' behaviour – and create artificial yet powerful constraints on policy.

(Kirshner 2003: 655)

Arguing for the paramount role that ideas play in shaping policy makers decisions about inflation directly challenges neoclassical economic depictions of inflation as a natural process emanating from market dysfunction. This further politicizes the technical governance of

inflation. The attempt here is to position this ‘victory of ideas’ about inflation as a product of political struggle. Anti-inflation policy gained political purchase as a result of the specific historical conditions surrounding the protracted stagflationary crisis of the 1970s. Policy prescriptions that embodied the now conventional wisdom about the negative consequences of inflation cannot be divorced from these political origins. Moreover, I highlight that controlling wage growth was at the core of this political struggle against inflation in the 1970s, and is still a prominent feature of life in low-inflation era.

The rhetoric and narratives of central bank independence is one main focus of the critical engagement with low-inflation policy. This leads to an overemphasis on monetary policy as it relates to inflation, and inflation targets. Current political justifications for independent central banks claim they act as dis-passionate guardians of monetary policy insulating markets from political mis-management and negative effects of profligate fiscal policies. While these claims are couched in terms of realizing economic growth and global competitiveness, Watson (2002) argues that the real motivations of central bank independence are ‘primarily domestic and political rather than global and economic’ (183). The conventional wisdom surrounding the superiority of central bank independence is further challenged by those who argue that it has not translated into empirically observable economic gains (Temple 1998; Berger, de Haan et al. 2001). Confronting policy orthodoxy on its own ground does undermine prevailing logics and point to key political motivations that guide monetary policy. Nevertheless, this amounts to fighting the orthodox view ‘on its own turf’, limiting the scope of engagement.

This article extends the scope of critical analysis beyond monetary policy by investigating the politics and social outcomes of low-inflation policy as it relates to labour market policies. Using the United States and the United Kingdom as case studies, two policies designed to control inflation and adopted as part of labour market reform are examined: promoting increased product market competition and indexing wage increases to price levels using the consumer price index (CPI). Over the long-term these two policies brought about pronounced wage stagnation for those who rely on cost-of-living adjustments (COLA) as a primary source of annual pay increases. Increased product market competition facilitated the decline of retail prices in consumer goods produced in low-wage jurisdictions, such as: consumer electronics, clothing, footwear, and personal care products. Crucially, these items make up a significant portion of the Consumer Price Index’s basket of goods, anchoring the overall all-items measure. By indexing wage increases to the CPI, through cost-of-living adjustments (COLA), the falling prices of these cheap consumer goods gradually stifled wage growth over the long run.

Examining the politics of inflation in this way reveals two important and often overlooked elements of low-inflation policy. First, the significant global dynamic involved in realizing low-inflation in Anglo-America. Adopting product market competition through free trade as a policy co-ops well established global trends play to bring down retail prices for certain consumer goods. This extends the purview of the current critical literature, which hitherto frames low-inflation policy in the domestic context. Jonathan Kirshner’s (2001) argument for the re-politicization of inflation policy claims that, whether high or low, all levels of inflation are the outcome of political struggles that ultimately effect the composition of economic growth and the distribution of gains from it. While Kirshner is primarily concerned with domestic interests at play and the distributional consequences at the macroeconomic level, including the global dynamics of low-inflation policy only furthers this insight. The politics of falling retail prices is as much a product of entrenched economic interests with corresponding, and profound, distributional inequalities.

Secondly, in practice not all forms of inflation (as a measure of price change) are treated equal in execution of low-inflation policy. During the sustained period of low-inflation in Anglo-American, asset prices have been able to rise unchecked by monetary austerity measures. In fact, stock markets and property markets have been subject to numerous intercessions by the

US and UK central banks to promote further asset price inflation. This is in stark contrast to these governments overt vigilance against wage-led inflation. Since labour markets are purview of various government departments these actions are not reducible to central bank independence, albeit they are wholly endorsed by the Federal Reserve and Bank of England. The core purpose of low-inflation is controlling inflationary pressures emanating from labour markets. Just as the wage/price spiral was central to anti-inflationary policies designed to respond to the 1970s stagflationary crisis, so too are current policies to maintain price stability based on quelling wage growth.

From political struggle to conventional wisdom: the conquest of Anglo-American inflation

The current dominance of low inflation in macroeconomic governance priorities of Anglo-American governments is a product of political struggle during prolonged economic crisis of the 1970s. Stagflation in both the US and the UK meant investment rates declined with unemployment and wages rising in step with ever-higher inflation rates. In addition, US government spending on the Vietnam War and the OPEC induced oil crisis pushed up energy prices, exacerbating global inflationary pressures. The glut of ‘petro dollars’ circulating through the international credit markets coupled with real negative interest rates fuelled a borrowing boom, particularly in the developing world. A subsequent credit crunch was blamed on government mis-management as the US and UK governments sought to control inflation through credit and price controls. The cumulative effect of these domestic and international political and economic factors created a protracted period of economic instability.

These economic conditions framed political conflicts about the underlying causes of, and potential solutions to, stagflation. Quelling inflation became the rallying cry of Monetarist and neoconservative revolutions in both the US and the UK. Through well articulated and internally coherent set of economic logics, high inflation rates were singled out as outcomes of Keynesian economic practices and political mismanagement of the economy (Lovett 1982). Moreover, the power of labour unions and structural rigidities in labour markets were argued to be the main cause of galloping inflation. The ultimate victory of low-inflation policy is a defining feature of the shift from Keynesian demand management to neoliberal macroeconomic governance priorities (Jessop 1993; Kirshner 1999).

The primacy of low inflation is an important signifier of a particular ideological vision and complementary political objectives. However, this analysis cautions against overly epochalist interpretations of low inflation as a strictly Monetarist undertaking, wholly separate from Keynesian post-war policies. As such, understanding the nuances of this ideological shift and policy requires additional qualification. The transition from Keynesian to Monetarist, and later neoliberal, macroeconomic policies is neither complete nor wholly divisible by a caricature of their main policy characteristics. For instance the Anglo-American Central Banks’, key actors in non-inflationary growth era and guardians of monetary policy, still use ‘Keynesian’ policy tools to intervene in markets. For example, the Federal Reserve cut interest rates immediately after the 2000 dot com crash to stimulate investment and demand. Or, more recently, in response to the 2007 credit crunch the Federal Reserve and Bank of England cut interest rates, organized liquidity injections into several markets, and bailed out Northern Rock and Bear Stearns, respectively. These are distinctly Keynesian economic practices.

In this case, a non-epochalist approach evaluates the conquest of inflation from the 1970s to 1990s as a primarily ideological victory, where particular ideas and assumptions about the negative consequences of inflation came to dominate the logic of policy making. Therefore, it is not the case that high inflation was a characteristic of Keynesian policy, in fact there were

sustained periods of low inflation before the 1970s stagflation crisis. Nor, as recent sustained increases in the inflation rates across Anglo-America suggest, is low inflation a distinct feature of non-inflationary growth. The point is, what began political struggle against Keynesian demand management became conventional wisdom in macroeconomic policy making. This was a contingent process of change at the elite levels of policy making which filtered down to become common sense assumptions about need to control (wage-led) inflation.

Conquering inflation was the focal point of political struggles against the perceived weaknesses of the Keynesian system, both domestically and globally. Monetarism, and later neoliberalism, eclipsed Keynesianism by attacking its theoretical foundations and highlighting key ways politicians used economic policies for their own benefit.

Through the leadership of Milton Friedman and Frederick von Hayek, Monetarism offered alternative theories and policy objectives. One example is the seminal critique by Milton Friedman of the Phillips Curve. Keynesian economists used the Phillips Curve, which believed there was a trade-off between inflation and unemployment, as policy mechanism where actors could choose the combination of unemployment and inflation they thought most desirable. Making inflation rates an explicitly political outcome. Friedman's alternate theory of the non-accelerated inflation rate of unemployment (NAIRU) claimed there was no trade-off in the long-run, so economies could have both low inflation and low unemployment. This meant a certain level of unemployment (natural rate) must be tolerated to limit inflationary pressures which inhibit investment. This required abandoning full employment in favour of monetary policy, with primary aim of stabilizing the inflation rate.

Moreover, high inflation rates were politicized as an outcome of the rent-seeking behaviour of governments enabled through Keynesian economic mechanism. Rising inflation, it was argued, benefited governments by increasing revenues (tax-bracket creep) and off-setting rising government debts incurred through excessive spending. As voters felt wealthier because nominal incomes grew, while state investment kept expanding social services, politicians used outcomes of high inflation to attract votes for re-election. In short, Keynesian economic policies provided the institutional mechanism that allowed politicians to manipulate markets for their own benefit.

Despite these early overt political campaigns against Keynesian economic theory and policy, the legacy of Monetarism is the successful de-politicization of inflation. By conceptualizing inflation as 'always and everywhere a monetary phenomenon' (Friedman 1966: 18) monetarism subverted inflation to the technical analysis of formal models, divorced from the social and political world. The revival of neoclassical economics encompassed key assumptions about the negative economic costs of inflation. Namely, that inflation inhibits economic agents ability to recognize changes in relative prices which leads to incorrect rational production and consumption decisions, creating inefficient resource allocation (Taylor 1993). Also, that high inflation rates induce speculative practices in economic agent's decision making as nominal interest rates must include an 'inflation risk premium' (*Ibid*). Finally, as high inflation rates lead to yet higher inflation rates, individuals and firms will seek to divert resources from productive uses to hedge against inflation, hindering economic growth (Jorden 2006).

These assumptions became universal truths about inflation. Therefore, economic policy making focused on controlling the negative effects of inflation (Blank 2000). In the context of the stagflationary crisis these objectives provided a rational and technical way forward for policy makers. Advocates claimed that lower inflation would allow nominal interest rates to fall, giving incentives for much needed investment (Cogley and Sargent 2005). More investment would eventually create more jobs, lowering unemployment rates.

Evidence of the growing international consensus on tackling inflation as primary means of ending stagflation appeared at the Group of Seven's (G7) inaugural ministerial meeting in 1975. The G7 actively promoted price stability as an alternative to full employment, governments committed to 'explicitly reject a Keynesian macroeconomic response to these problems' (Webb 2000) (144). The G7's creation in 1975, after the collapse of the Bretton Woods agreement is not a historical coincidence. The Bretton Woods agreement was a Keynesian-inspired multilateral commitment to preserve global economic stability. Admittedly, the institutional power of the G7 is limited. It operates as a loose institutional complex based on the adherence to a similar, but by no means identical political outlook. The G7 operates as 'nexus' between congruent sets of political and economic principles adopted by member states (Gill 1999).

The term 'non-inflationary growth' emerged from the initial G7 ministerial meetings as common goal to lead the global economy out of recession and bring about economic change.¹ Price stability became the paramount policy tool used to legitimize fundamental macroeconomic change. Ministerial communiqués throughout the 1970s and 1980s focused on sound economic principles and their need to be applied to address weak economic performance (Bergsten and Henning 1996).

Inflation. Ministers agreed the most obdurate obstacle to faster growth and more jobs is the continuing high rate of inflation in many Member countries, and the risk that it may accelerate. Inflation undermines growth directly by creating uncertainty and inhibiting investment; it may also require governments to pursue restrictive demand management policies

(OECD 1979)

The Anglo-American governments embraced recommendations for non-inflationary growth more than any other nations. They believed it would end the vicious circle of high inflation, recession, and unemployment by replacing it with a virtuous circle of investment, employment, profitability, and wealth creation (Altig 1997; Barker 2003). The imperatives of market restructuring, together with an ideological apparatus, promised substantial economic change and new prosperity.

Labour market reform featured prominently in non-inflationary growth policy. Arguably, stifling wage-led inflation was its primary aim. Many of the negative costs of inflation clearly do not apply in the case of rising stock markets or property prices. Therefore, wage-led inflation in particular was isolated as having widespread pernicious effects on economic growth. In 1976 the OECD issues a report titled *Progress under the Strategy for Sustained Economic Expansion*, later introduced and adopted at the 1977 G7 ministerial meeting, states:

Member countries make further progress towards eradicating inflation. Further progress against inflation will not come about of its own accord. Determined action will be required to slow down the price/wage spiral. Some countries will need to pursue and some to reinforce vigorous stabilization policies

(OECD 1977: clause 6)

Through a process of de-politicization of inflation these acutely political assumptions about inflation became technocratic practices that were justified as natural and rational processes. All economic policy solutions became linked to price stability and low interest rates to attract investment: 'macroeconomic policy should emphasize price stability and fiscal consolidation....High unemployment should be addressed by deregulation to make labour markets more flexible' (OECD 1992: section 12).

Isolating wage-led inflation is the primary target of price stability policy, rather than monetary inflation. In fact, macroeconomic policy sought to support, and even promoted, inflation in asset markets through interest rate manipulation. By all accounts these governments inflated an asset-price bubble through their unwavering support of financial market expansion, while systematically suppressing generalized wage-led inflation.

From central banks to labour markets: re-politicizing non-inflationary growth

Maintaining low inflation is now the unquestioned core principle of Anglo-American economic governance. Despite the spectacular decline of neoconservative (Thatcher/Major and Reagan/Bush Sr.) governments, maintaining low inflation survived as a primary objective of macroeconomic governance in the ‘third-way’ politics of Bill Clinton and Tony Blair. Unlike the political wrangling surrounding the politics of inflation in the 1970s and 80s, now the supremacy of inflation is expressed technocratic language of ‘credibility’ and ‘expectations’ (Sargent 1999: ch.1). Extolling the virtues of low inflation is now the conventional wisdom guiding economic policy.

Non-inflationary growth policies comprise an array of policy prescriptions from the establishing the independence of Central Banks to commitments for prudent fiscal spending. Central bank independence is the primary institutional mechanism guarding against inflationary pressures and assuring price stability in Anglo-American economies. This assures that monetary policy remains separate from government’s rent-seeking behaviour, keeping their profligate fiscal tendencies under control.

To avoid an overly epochalist generalizations about scope of policy change, it is important to note that Clinton/Blair governments did not simply continue on with monetarist/neoconservative economic policies (Meeropol 1998). The Anglo-American governments actively pursue lowering unemployment as a central aim of government policy making, although they have abandoned full employment in the Keynesian sense. They are acutely sensitive to consumer confidence measures as they relate to aggregate demand. Moreover, these governments still support and fund a wide array of welfare state programs, to varying degrees, such as education, health care, pensions, and unemployment benefits to support households as well as using industrial subsidies to promote innovation, research and development. Therefore, it would be incorrect to assume that Keynesian principles have been wholly abandoned in Anglo-American macroeconomic policy making.

What is more relevant is the outcome of privileging low-inflation above these other policy objectives. Attempts to de-politicize inflation as a technical process of measuring price increases serves to sanitize the acute political decisions to allow certain market prices to raise over others. In the Anglo-American case, the political power of central banks independence is paramount in enforcing low inflation as the overriding priority of macroeconomic governance. Indeed, this has been successful. Both the Federal Reserve and Bank of England have successfully lowered inflation rates, as measured by the consumer price index (CPI). Substantial increases in the CPI are met with intense concern over the potential negative impacts on the economy and the central banks are called into immediate action. In the UK a CPI above 2% prompts a formal letter from the Bank of England to the Treasury as a signal to government to take control over inflationary pressures. On the other hand, galloping inflation in stock markets and rapidly rising property prices are lauded as signals of economic prosperity. Therefore, the simple economic definition of inflation as measure of price increases does not bear out in the politics of inflation policy, which involves making decisions about which type of inflation is ‘bad’ (wage-led) and which is ‘good’ (asset-price).

This unwavering support is at odds with the complete lack empirical evidence to link independence of central banks with improved real economic performance (see: Alesina and

Gatti 1995; Temple 1998; Berger, de Haan et al. 2001). Rather, the interrelationship between central bank independence and low inflation correlates with the relative strength of the financial sector with the economy (Posen 1993; Posen 1995). Support from the financial sector sustains priority of price stability above other policy objectives (Posen 1995: 254). The obvious link in Anglo-American is the political power of The City and Wall Street. With over ten years of sustained financialized growth, the US and the UK have required low-inflation to maintain financial markets as engine of macroeconomic growth (Epstein 2005; Krippner 2005). ‘Central bank independence does not de-politicize monetary policy. Rather, it represents a political outcome, affecting, among other things, the *composition* of economic growth’ (original emphasis) (Kirshner 2001: 42). As such, we must understand the Anglo-American governments’ desire to achieve price stability in relation to the political power of the financial services sector. For them, achieving price stability is paramount because inflation directly erodes financial profit.

More generally, there is no direct evidence linking non-inflationary growth policies with real gains in economic growth or employment. The real GDP growth in the US and the UK is unremarkable given the promises of low inflation policy (Pollin and Zhu 2006). As Krishner (2001) points out: ‘the net economic effect of low inflation is modest, ambiguous, and contingent on other factors’ (for further analysis see: Romer and Romer 1997; Bakhshi, Haldane et al. 1999). In fact, low inflation is more closely correlated to low nominal wage growth and increased income inequality than real economic growth (Rueda and Pontusson 2000; Rochon and Rossi 2006). The political power of Anglo-American central banks to enforce low-inflation, and their unfettered support of financial services industry as engine of economic growth, suggest that declining wage growth and increased income inequality are linked to political priorities to maintain price stability.

Institutional separation between monetary policy, as purview of central banks, and fiscal policy, as responsibility of government, leads most analyses of inflation focus on monetary policy and dynamics of central banks independence. This article focuses on the pursuit of labour market flexibility was an important element of non-inflationary growth. Rigid labour market laws, the power of unions, and rising wage expectations were considered the main contributing factors to high unemployment and lack of investment in Anglo-America throughout the 1970s (Prasad and Thomas 1998; Betcherman 2000; Nickell 2001). Labour market deregulation aimed to promote job creation by making market conditions conducive for investment; with promise of eventually lowering unemployment rates.

Four key policy prescriptions embodied in OECD *Jobs Study* put labour market reforms at centre of non-inflationary growth policies. Objectives wholly adopted in the US and the UK since the late 1990s (Glyn 2007: ch.4). Four core recommendations included: (a) flexibility in employment protection legislation; (b) active labour market policies; (c) Indexing wage increases to price levels (CPI); finally, (d) product market competition through multilateral trade agreements (OECD 1994). Despite the limited success of low inflation to induce real economic growth and reduce unemployment rates, these policies did succeed in bringing about significant structural changes in the Anglo-American labour markets.

The remainder of this analysis focuses on two aspects of OECD *Jobs Study* recommendations: indexing wage increases to price levels (through CPI) and promotion of product market competition through multilateral trade agreements. It is argued that by indexing wages to the retail price increases, imported low-cost consumer goods influence movements of all-items index. Falling retail prices for this large component of CPI, anchors wage growth through indexed annual COLA increases. Together, these policies create an environment of persistent low wage growth.

The politics of falling prices

At first glance increasing product market competition through free trade agreements seems oddly placed within labour market reform policies. Considering this policy alongside key transformations in the organization of Multinational Corporation and the global economy more broadly (at the time called globalization), its political underpinnings becomes more apparent: to control inflationary pressures emanating from labour markets. Product market competition facilitates low inflation by allowing falling production costs brought about by ongoing transformations in global organization of MNC, in particular the outsourcing of production and transport functions, to translate into declining retail prices within the domestic economy.

The concomitant rise of export-led growth strategies among leading developing countries is a significant aspect of falling retail prices and explains the need for multilateral trade agreements as part of inflation fighting policy. We begin by looking at retail price movements of consumer goods that exclusively rely on off-shore low-wage production facilities as part of their business model. For example, household consumer goods such as furniture, appliances, consumer electronics, toys, as well as everyday goods such personal care products, apparel and footwear. Currently, manufacturing and processing of these types of goods is geographically concentrated within South East Asia, and more recently China, since its inclusion in WTO in 2001. Managed trade, rather than free trade, best characterizes trade relations between these exporting countries and the Anglo-American governments. Since falling prices of consumer goods would not translate into profits if imports were subject to tariffs; moreover, total free trade would produce a glut of goods in consumer markets leading to collapsing prices and profits.

Focusing on these types of consumer products allows us to see how global restructuring of MNCs which produce these goods converge with export-led growth strategies to affect retail prices. The long-term impact of product market competition policies on retail prices is relevant because price levels affect wage growth within Anglo-American economies through the complementary policy of indexing wage increases to the CPI. Evaluating the politics of low inflation in this way allows us to consider the significant global dynamic inherent in falling retail prices and locate this trend within the global division of labour. Moreover, we can analyze the diffuse institutional mechanisms that translate opaque global process translates into profound socio-economic change in specific locals.

Observing how product market competition links with the indexing of wage growth to price levels begins with isolating how price movements of low-cost consumer goods affect the CPI all-items measure. To do so we have constructed a ‘cheap consumer good component’ by extracting weights assigned to representative items widely accepted as produced in low-wage jurisdictions.² Price movements for items within cheap consumer good component have been consistently lower than the all-items measure, acting as an anchor of overall retail price inflation.

Representative items which make up cheap consumer goods are (full list available in appendix one):

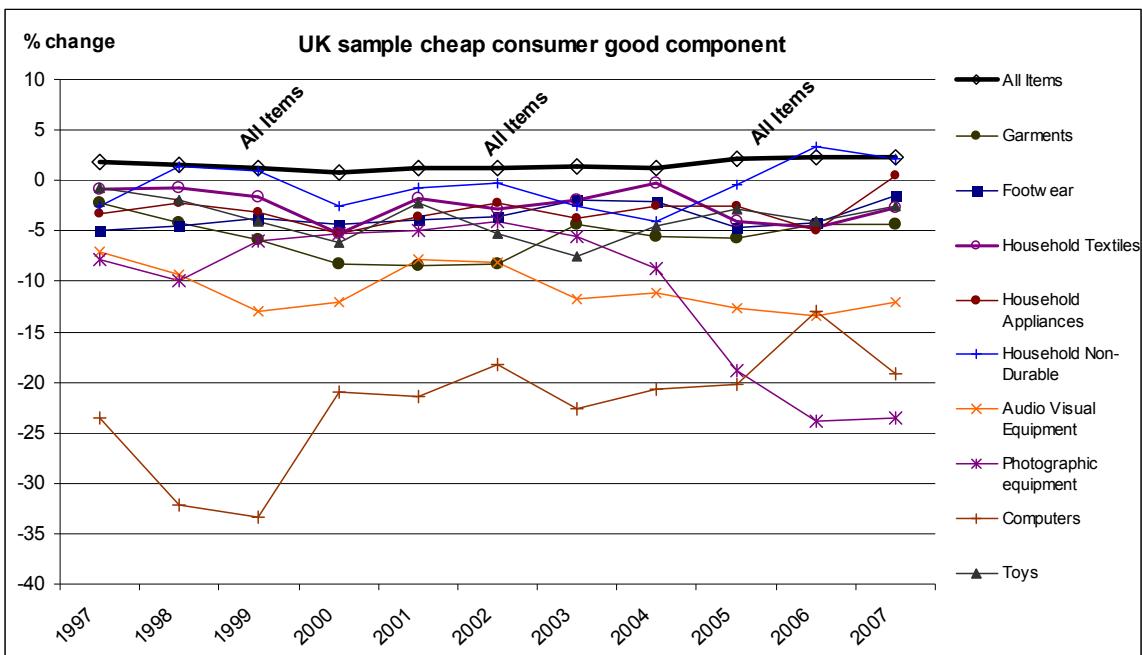
- *Household consumer goods*
 - Household furniture and furnishings
 - Textiles: coverings and linens
 - Appliances
 - Non-durables: cleaning supplies, paper and plastic
- *Apparel and Footwear* (major component taken as a whole)
- *Consumer Electronics*
 - Personal Computers, Laptops, and peripherals
 - Home entertainment: TV, VCR, DVD, audio equipment
 - Peripherals: CDs, DVDs, audio tapes
 - Telephone and mobile phone
- *Toys*
- *Personal Care products*
 - Toiletries: dental, hair, face, bath, makeup, moisturizers
 - Appliances: hair dryer, shaving

These representative items encompass both brand named and non-branded consumer goods (the substitution effect) that have been produced using low-cost labour. A good example is clothing and apparel category within CPI measure, which represents 3.73% of the US and 6.5% of the UK CPI basket. Brand named clothing and footwear such as The Gap or Nike are widely known to use low labour cost manufacturing to produce their goods. On the other hand, Primark or Wal-Mart are retail outlets that procure clothing and footwear items from low cost labour facilities.

<i>Cheap consumer goods component of Consumer Price Index 2006 Basket</i>	
United States	United Kingdom
14.24%	20.17%

The cumulative weight of cheap consumer good component is one-sixth in the US and one-fifth in the UK, of all measured price changes in the CPI basket. This is a substantial portion of the total CPI basket. In the US, the 14.24% of CPI is slightly less than total weight assigned to Food and Beverage (14.99%). In the UK, 20% is the slightly less than combined weight given to Food & Beverage and Housing & household services (10.2% and 10.8% respectively). This means that the overall impact of price changes in cheap consumer good has as much influence on CPI movements as the cost of food and beverage, and cost of housing in the UK.

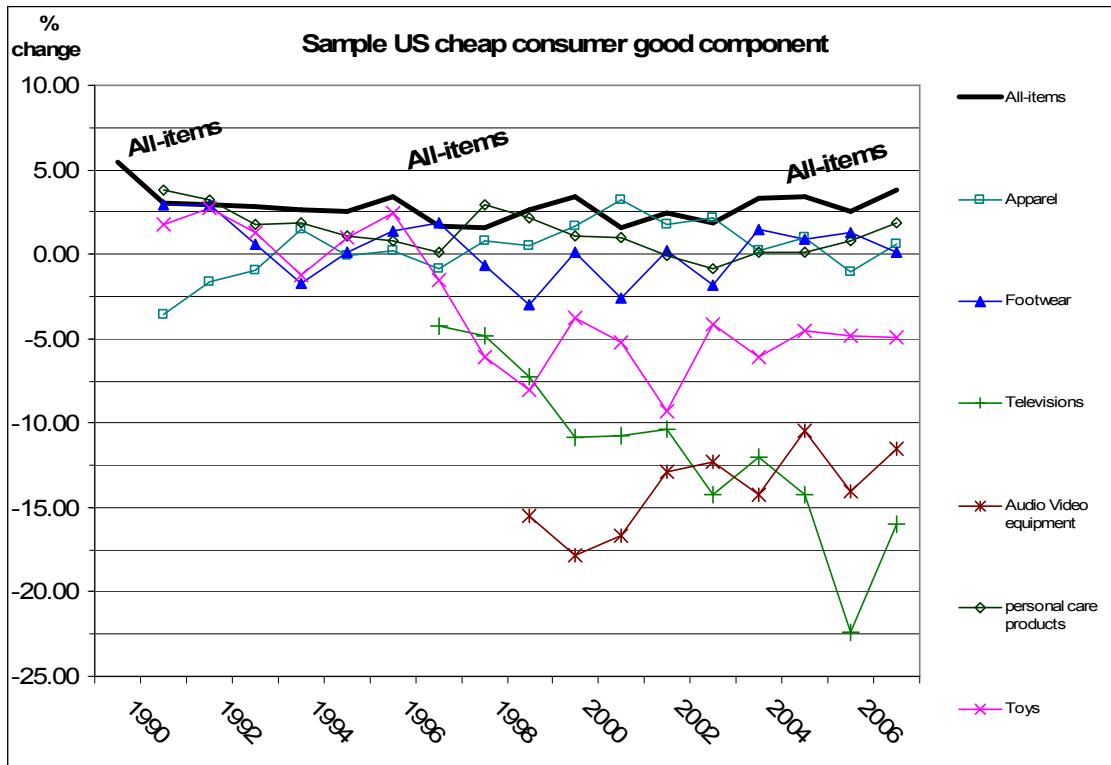
Time series data shows that price movements for selected items in cheap consumer good component are significantly lower in relation to all-items CPI measure.³ Constructing an accurate picture of the precise impact of price changes is limited by the availability of detailed data on specific representative items. A selection of items where price change data is available, albeit only from the late 1990s onward, illustrates the anchoring effect these items have on overall inflation levels.

Graph One: UK retail price movements of selected consumer goods

Source: *Office for National Statistics. Consumer Price Index*

In the UK, the most pronounced retail price decline is in consumer electronics, which represents five percent of cheap consumer good component. For example, computer prices dropped by 245%, while audio-visual and photographic equipment declined by 118%, from 1997 to 2007. Clothing (garments) and footwear, representing five percent of cheap consumer good component, and retail prices fell by 61.8% and 39.5%, respectively, over same ten year period.

We see a similar pattern of retail price movements for cheap consumer goods component in the US CPI basket. From 1990 to 2007 falling prices for consumer electronics are the most pronounced, such as Televisions (-127%) and computers (-190%), as well as Toys (-50%). Other representative items show limited price growth, retail prices for apparel grew by only 5.5% and footwear by 4% over the same time period.

Graph Two: US retail price movements of selected consumer goods

Source: Bureau for Labor Statistics, consumer price index

Since 1990 overall CPI inflation rates for both the US and the UK remained below 3.5% until 2007, averaging 2.6% over the past seventeen years. Here we can observe the important role that declining retail prices for consumer electronics, appliances, apparel and footwear, toys and personal care products has in anchoring the overall growth CPI inflation.

Equally relevant is the means through which falling retail prices are achieved. Namely, the global re-organization of the giant MNCs which sell the goods represented in the cheap consumer goods component. As well as the exporting states strategies to attract MNCs investment through the control of the wages and working conditions. The limits of space preclude a systematic analysis of all countries producing these goods; therefore, the focus will be primarily on China as the leading global centre for light manufacturing and assembling processes. Its strategies to attract foreign investment epitomize the type of practices required, writ large, to achieve global dominance in this segment of the global division of labour (Cantin and Taylor 2008). Moreover, China's economic miracle runs parallel to sustain low inflationary period in Anglo-America. Through product market competition the Anglo-American governments' harnessed the benefits from these key global economic trends as a means of controlling wage-led inflation in their domestic economies.

Organizational transformation within the MNCs that produce these cheap consumer goods has been a long process of breaking apart their vertically integrated business model. This has involved new productive process such as just-in-time or lean production as well as outsourcing to third-party manufacturing facilities. The widely acknowledged shift to post-Fordist production techniques requires little elaboration (Amin 1994; Lipietz 1997). The most common trend among the global corporations that dominate sales of consumer electronics, appliances, apparel and footwear, toys and personal care products involves focusing on

branding, while outsourcing the majority of the production and distribution process (Philips 2001).

Whether brand-name consumer goods such as Disney and Gillett or retail outlets such as Target or Tesco, these global MNCs focus their organizational strategy on marketing and sales in consumer markets, while relentless pushing against production and transport costs. Using off-shore of production facilities involves complex procurement initiatives where sub-contracted vendors compete based on unit production cost and lead times (the length of time from when the order is placed to when it leaves factory). Outsourcing transport, warehousing and distribution to third-party logistics providers further reduces the unit cost of goods and production lead times. Zero Inventory principle allow MNCs to reduce costs associated with holding stocks of unsold consumer goods, which requires additional rationalizing of the supplier base to manage inventory and ensure just-in-time delivery of goods to retailers. Moreover, new Quick Response techniques uses daily updates of computerized sales data to ensure suppliers rapidly replenish consumer goods as they are needed by the retailer. This business model has allowed these global brands to remain highly profitable as retail prices steadily fall.

Looking specifically at China, we see how state processes are central in creating conditions conducive to MNCs new production and transport needs. Special Economic Zones are set up as tax-free enclaves to attract foreign investment, ready-made infrastructure and proximity to ports facilitates the easy transport of finished goods back to consumer heartland (Bernard 2000).⁴ Also, key socio-political processes underpin manufacturers' ability to keep unit costs down. Namely, the Chinese government formation and control of migrant labour force through fixed resident system. With world's largest population and vast inequalities between rural and urban areas, the fixed resident system allows Chinese government to concentrate whole populations of migrant workers in Special Economic Zones as needed. More than 100 million peasant-workers are employed either directly, or through joint-ventures, with brand-name MNCs (Adams 2006).

Low-wages are an important competitive factor in labour-intensive light manufacturing industries that make up cheap consumer goods component of CPI. 'Studies show the salary of a migrant worker in the Pearl River Delta area has grown by a mere CNY68 (US\$8.20) over the last 12 years, far behind the increase in living expenses, and in real terms, wages are declining' (Tao 2006: 532). In addition, migrants are regularly subjected to delayed payment of wages as both a manner of keeping wages lower and of disciplining workers (Cantin and Taylor 2008: 63).

In and of themselves, low-wages are no longer enough to attract MNC contracts. Zero inventory and demand management strategies require sub-contracted manufacturers to quickly fill new orders as soon as they arrive. The ability to drive down per unit costs and reduce production lead times led to China's ascension as largest exporter of consumer goods. Controlled rural migrant flows, through the fixed-resident system, created a 'dormitory labour regime' where workers are regularly housed in factory dormitories. This allows labour to be deployed quickly to fill orders through forced overtime and lengthening the workweek (Smith and Pun 2006). Also, it exercise control over workers' accommodation, food, social and leisure pursuits, and travel (Pun and Smith 2007). Existing research details the militaristic and despotic nature of factory discipline, including rigid controls over movement, monetary penalties for missing productivity targets, and frequently delayed or failed payment of wages (Lee 1998; Chan 2001; Pun 2005).

In order to re-politicize the politics of inflation policy we must consider the global conditions that facilitate lower retail prices. Namely, the new strategies deployed by the leading MNCs which produce cheap consumer goods. Also, the geopolitical dynamics which seek to attract foreign direct investment by providing conditions amiable to new corporate strategies. The

Chinese case illustrates how masses of highly controlled and low-paid labour bestow a unique comparative advantage, enabling it to become the global leader in light manufacturing and assembling processes. Despite the celebration of falling retail prices for everyday consumer goods as positive outcome of China's economic miracle, there are substantial negative effects for both the workers who produce them and the consumer that buy them.

The social and political processes which underpin the rise of China link the conditions of work and low pay of dormitory workforce with falling prices for cheap consumer good component of CPI. This ultimately influences wages of workers in Anglo-America. Therefore, workers need not be in direct competition with one another, such as the manufacturing industry, to be affected by these global trends. Moreover, taking into account these global processes reveals that the conquest of Anglo-American inflation is not wholly a product of superior technocratic governance of independent central banks. Rather, lower inflation rates are a product of exploitation and control of vast armies of rural, and mainly unmarried female, migrant workers.

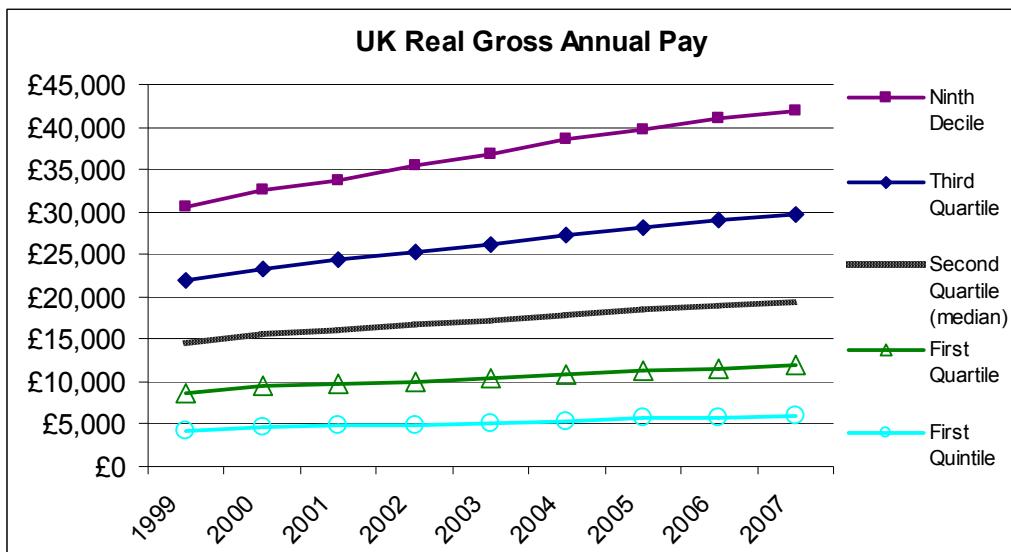
Who pays for falling prices?

The full affects of increased product market competition over the long term needs to be analyzed in conjunction with the complementary policy of indexing wage growth to price levels. In practice, this involves indexing wage increases to all-items measure of CPI through yearly cost-of-living adjustments (COLA). Therefore, those who pay for falling prices are all the workers in the US and the UK that rely primarily on COLA for annual wage increases.

Admittedly, there is no data source that counts the number of employees who rely on COLA for wage increases. Nevertheless, COLA is a well-known and widespread practice across the public and private sectors, used in both union and non-union employment contracts. Indexing wage growth to price levels is a policy designed to control wage-led inflation, it is reasonable to assume that it has been successful to some degree. While the limits of available data preclude establishing a direct correlation, disaggregating wage data does go some way in demonstrating the long term affect of CPI-index COLA on the overall wage trajectory for different income groups. Since the focus is on COLA-based wage increases, the data presented here excludes overtime, bonuses and commissions. Without these forms of extra income, we can observe the impact on workers that primarily rely on COLA as main source of annual or weekly wage increases.

The most apparent outcome of the two labour market reform policies, adopted under rubric of non-inflationary growth, is pronounced wage stagnation for those workers at, or below, the median income level. Breaking down aggregate wage data by industry sector shows that workers in manufacturing, lower-paid service work and public employees experienced steadily decelerating or outright stagnating wage growth from the late-1990s onward.

The UK's Annual Survey of Hours and Earnings (ASHE) shows that the majority of UK's working population (first, second and third quartile) saw real annual gross pay rose by approximately a third from 1999-2007. The top and the bottom ends of the distribution (first quintile and ninth decile) had the highest levels of real annual pay growth at 44% and 37%, respectively, from 1999-2007. Obviously there are differences in the scale of increases. Workers in the lowest quintile (bottom 20% of distribution) had real annual pay increase of just over £1,800 in eight years (from £4,198 in 1999 to £6,050 in 2007). On the other hand, the top 10% of income earners had real annual gross pay increase of just over £11,000 pounds over the same period. Median (second quartile) real annual gross pay increased by 32% or just under £4,800 (from £14,694 in 1999 to £19,484 in 2007) over eight years.

Graph Three: UK Annual Survey of Hours and Earnings—real gross annual pay

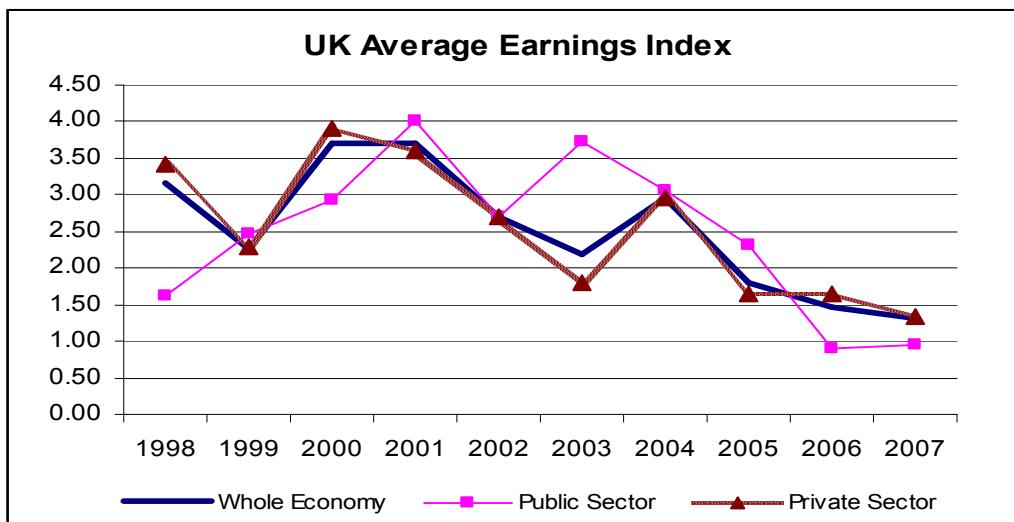
Source: *Annual Survey of Hours and Earnings (series 1.7a: gross annual pay) adjusted for inflation using CPI*

There is no real difference in wage growth across industry groupings as Manufacturing and Services industries experienced a similar 31% and 35%, respectively, over the same period.

These dis-aggregated wage figures show that the majority of UK workers have experienced sustained wage stagnation during the same period the government was celebrating its conquest over inflation. Yet, when we consider these figures in conjunction with extremely high cost of living in the UK, relative to the rest of Europe and the US, for most wage earners this is a rather dire situation. Basic living costs are steadily rising. Prices for now privatized utilities (gas, electric and water) have been rising above the basic CPI inflation rate. Also, the privatized rail network has seen yearly price grow by 4% to 6%, increasing daily commuting costs. Meanwhile, prices for fuel and food have also risen steadily.

Also, as gross income measures these figures do not account for the impact of taxation policies on wage growth. The UK government has consistently moved away from progressive income taxation in favour of consumption taxes. Those segments of population experiencing stagnant income growth regressive taxation (council tax, car tax, congestion charging) by local and national governments are impacted disproportionately. New taxation strategies plan even further regressive taxation by implementing new fee-for-use schemes such as garbage collection and road taxing.

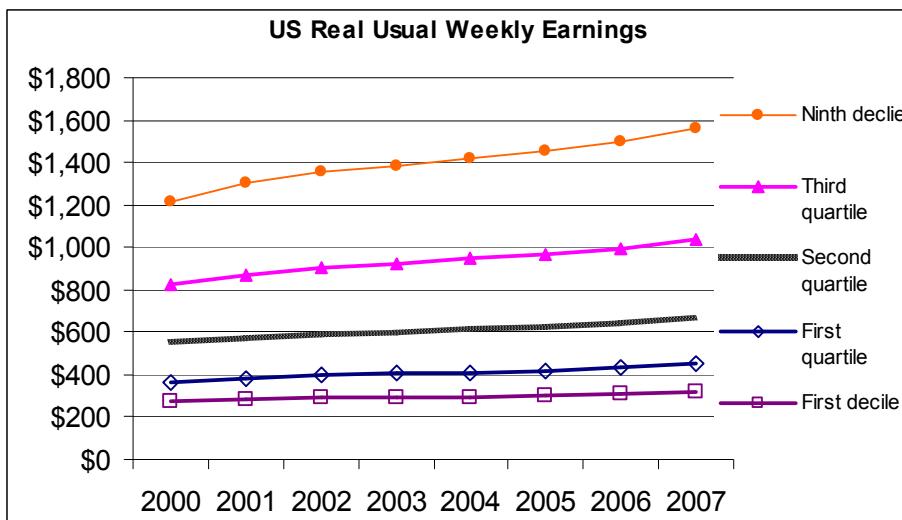
On the other hand, the government and Bank of England see these trends as an extremely positive development in relation to maintaining low inflation targets. Especially recently as global fuel prices have been rising steadily. The knock on effect has been escalating prices in industries dependent on oil and gas. Stagnant wage growth means there is limited inflationary pressures emanating from labour markets.

Graph Four: UK annual percentage wage increases

Source: *Average Earnings Index, adjusted for inflation using CPI all items*

The Average Earnings Index (AEI), the key indicator used by government and the Bank of England to show how fast earnings are growing, shows that wage growth across the UK has been moderate and decelerating. From 1998 to 2007, real wage growth across the whole economy declined from high of 3.69% in 2000 to low of 1.32% in 2007. Wage increases in public versus private sectors follow a similar trajectory. Public sector wage growth has varied considerable with a high in 2001 of 4% and low of 0.86% in 2006. Private sector wages most closely mirror the whole economy with high of 3.91% in 2000 and low of 1.34% in 2007, in real terms. These figures clearly illustrate that wage growth is decelerating across the UK.

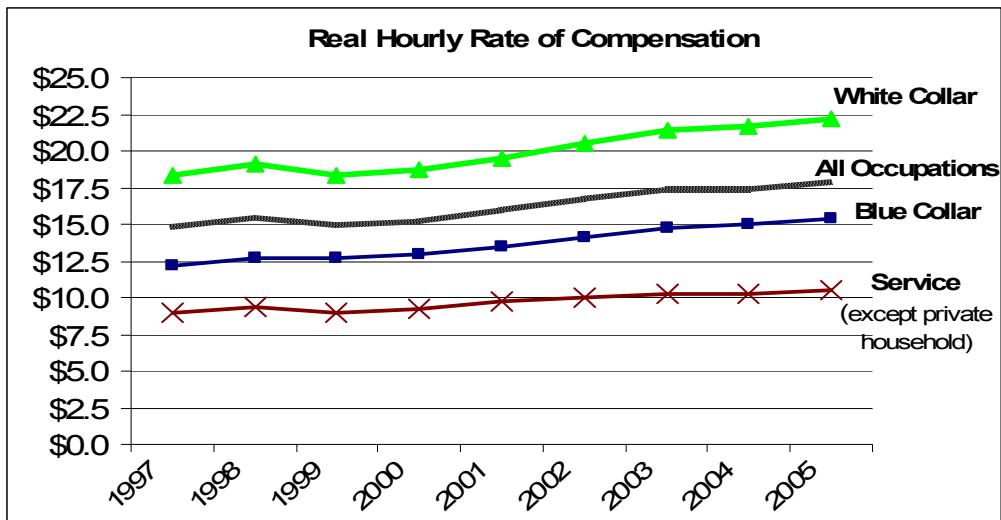
In the US, stagnant wage growth is even more pronounced since low-inflation became core goal of macroeconomic governance. Mean average annual weekly earnings actually declined in real terms from \$316 in 1969 to \$278 in 2006.⁵ As a mean measure this figure is prone to skewing from wage trends at either end of the distribution. Dis-aggregated wage data from the Current Population Survey shows a similar picture to the UK. Stagnant wage growth is concentrated in the bottom half of the income distribution.⁶ US data is for usual weekly earnings, compared to the UK's gross annual earnings, but the results follow a similar trajectory. While annual gross income growth in the UK averaged about one-third over eight years, the US weekly earnings growth was only one-quarter over seven years.

Graph Five: US real usual weekly earnings by income grouping

Source: *Current Population Survey (CPS): usual weekly earnings, in constant 1982 dollars using Consumer Price Index for All Urban Consumers (CPI-U)*

At the lowest end of income distribution, usual weekly earnings have increased by \$49 (or 18%) in real terms (from \$272 in 2000 to \$321 in 2007). Median usual weekly earnings grew by 21% in real terms (from \$557 to \$675) over this seven year period. Income levels for those at the upper end of distribution (third quartile and ninth decile) usual weekly earnings have grown much faster, 25% and 27% respectively, from 2000 to 2007. Moreover, these two groups benefited from 2001 tax cuts aimed at highest income earners, allowing them to keep a larger proportion of their earnings.

General wage stagnation at lower end of income distribution is also reflected in limited income growth in low wage industries. Occupational grouping in the National Compensation Survey shows that real hourly rate of compensation in the service sector grew by only \$1.58 and \$3.18 for blue collar workers, from 1997 to 2005. Manufacturing and affiliate industries are a large component of blue collar grouping. The prosperity gap between low-paid blue collar and service work, compared to relative wage increases for white collar workers, during the low-inflation era is linked to overall structural changes in US labour market. Direct wage competition with low-cost manufacturing facilities abroad limited wage growth in these industries. The large swathes of manufacturing contracts moved offshore throughout the 1980s and 1990s displaced many blue collar workers into the service sector. Significantly lower pay in this industry, and slowest rate of wage growth, demonstrates the degree to which direct and indirect wage competition from cheap consumer goods' producers has affected American workers over the long term.

Graph Six: US real hourly compensation rate by industry grouping

Source: *National Compensation Survey*, adjusted for inflation using CPI-U

A *Business Week* study which analyzed US employment data revealed vast disparities in wage growth between different parts of the economy. Individuals working in the ‘New Economy’ industries such as software, financial services, media, or consulting, experienced exceptional wage growth over the 1990s. While workers in the ‘Old Economy’ industries had wages either marginally increase or decline (Mandel 1999: 90). The pronounced increase in US productivity levels, supposedly the bedrock of the most recent economic boom, did not translate into real wage gains for the majority of workers (Brenner 2002).

These trends reveal the steadily increasing trajectory of wage inequality in the US and the UK. What is more, this trend runs concurrent with adoption of low-inflation as a primary economic policy objective. A key contributing factor to decelerating wage growth in Anglo-America is the long-term and diffuse affects of CPI indexed COLA based wage increases.

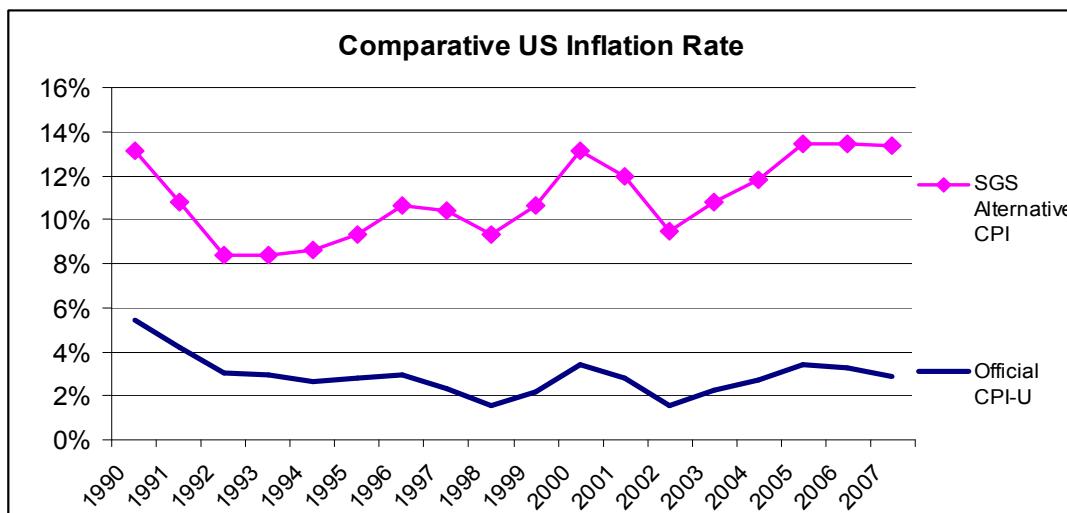
These labour market reform policies reveal the importance of the CPI. First, in terms of how it is impacted by falling retail prices of cheap consumer goods and, second, how this ultimately affects wage growth through indexed pay increases. Through this mechanism, the consumption levels of cheap consumer goods indirectly affects wage growth because the relative weights assigned to representative items in CPI are constructed based on consumer expenditure patterns. By indexing wage growth to the CPI consumption levels, to some degree, influences wage growth—albeit in a highly diffuse and indirect way. Therefore, we must see the CPI as more than a statistical measure of retail price increases; it is also a political tool. Which items are included, what prices are measured and how weights are determined does influence the accuracy of the CPI as a cost-of-living measure. Currently, the CPI is being increasingly politicized in the US and the UK. With food and fuel costs rising, there is growing public and press disquiet that the CPI is not an accurate reflection of the true cost-of-living.

In the US, there is concern that key methodological changes have significantly altered the rate of inflation reported. During the first Bush Sr. administration, newly appointed Federal Reserve Chairman Alan Greenspan pushed for the implementation of recommendations made by the Blue-Ribbon Commission on Consumer Price Index. The commission report argued that the CPI methodology used at the time significantly overestimated inflation because it did not account for the substitution effect (or the effects of changes in relative prices on

consumption). This refers to how under budget constraints consumers will substitute a lower price item for higher priced item. For CPI methodology, this meant abandoning measuring price changes for an identical basket of goods to a fixed basket of goods, where representative items of equivalent quantity and quality are considered substitutions for one another. Therefore, a consumer may buy the same representative item, such as beef, but could substitute steak for hamburger mince if the price of steak had risen over the past month.

Economist John Williams (2006) argues that this methodological change is tantamount to changing the CPI from a cost-of-living measure to a cost-of-survival measure. Because cheaper items will always be substituted in monthly calculations of price changes (Williams 2006: 3). Moreover, he claims that the switch to geometric weighting, from arithmetic weighting used previously, gives a lower overall weighting to goods where prices are consistently rising and a higher weighting for those where retail prices are falling (*ibid*: 5).

Graph Seven: US CPI and SGS Alternative CPI



Source: *Shadow Government Statistics and BLS CPI U*

To reflect the cumulative effect of methodological changes in CPI-U, Williams re-calculated price changes using initial post-WWII methodology. This alternate measure adjusts for net effect of geometric weighting and substitution-based basket of goods and reveals a 7% difference in retail price measures between two methodologies.

In the UK, the growing divergence between the old Retail Price Index (RPI) and the newer CPI, adopted in 1997, has led the popular press to enquire into the true extent of rising living costs. Divergence between the RPI and CPI is not nearly as pronounced as the US case, but this is arguably because both measures use the same substitution-based basket of goods methodology. Rather, differences between these two measures stem from the types of representative items in each basket of goods. For instance, the RPI includes mortgage interest payments, house depreciation, indirect taxes such as VAT, excise duties and other specific taxes (council and vehicle tax), which the CPI does not. At certain times these differences can amount to significant divergence in two measures: in 2007, the CPI measured inflation at 2.3%, while RPI was 4.3%. These figures resonate with the British public because of relatively recent introduction of CPI as key measure of inflation.

Not coincidentally, the timing of these methodological changes in calculating the CPI in the US, and the replacement of the RPI with CPI in the UK, are concurrent with the dominance of

non-inflationary growth. Differences within these price measures are more than an issue of statistical accuracy. The political dynamics are profound. In the first instance, the already ambiguous positive economic contribution of low inflation policy would quickly show a rather dire picture if current GDP levels were adjusted down by 7% (using SGS alternative measure) in the US, or using the RPI in the UK. The US government, in particular, is put at decisive advantage by indexing income transfers to current CPI measure. Williams (2006) suggests this change in methodology was a key factor enabling the Clinton administration to reduce the US government deficit (4). For workers, these divergent price measures demonstrates the disconnect between price levels used to index wage growth and what they actually pay for everyday goods and services. Indeed, it appears that increasing income inequality and stagnant wage growth with rising living costs characterizes everyday life in the non-inflationary growth era.

Conclusion

This article argued that growing income inequality and stagnant wage growth is a core feature of low inflation policy in the US and the UK. Through labour market reform policies specifically designed to control wage-led inflation, stagnant wage growth for the majority of workers is a central feature of the non-inflationary growth era. By facilitated product market competition the Anglo-American governments promoted the global processes that led to declining retail prices for everyday cheap consumer goods. These goods form a significant portion of all-items measure of CPI, which is widely used to as primary source of income increases through cost-of-living adjustments in employment contracts. Therefore, declining CPI inflation rates, which typify the non-inflationary growth paradigm, ultimately affect wage gains over the long term.

The intent of this analysis was to contribute to the growing critical political economy literature on the politics of low inflation policy. By analyzing how labour market reform policies enacted by governments sought to lower inflation we can extend our engagement beyond monetary policy and central bank independence. Furthermore, this positions controlling wage-led inflation, and all its distributional outcomes, at the heart of low inflation policy. Finally, examining the political aspects of falling retail prices includes the global dimensions inherent in realizing low inflation.

Yet, with inflation rates in Anglo-America currently rising, are the politics of low inflation a thing of the past? To answer this we must remember that low inflation policy emerged as a coherent set of objectives intent on guiding economies out of a stagflation crisis. The causes of which were laid at the door of organized labour and structural rigidities in labour markets that locked in a persistent wage/price spiral. Today, the political apparatus that supposedly caused this crisis has long since been dismembered and vigilance against wage-led inflation is firmly place. Nevertheless, the Anglo-American economies find themselves again in the same predicament. A protracted borrowing boom has now become a global credit crunch, but this time not as a result of government imposed credit controls. Fuel prices have been steadily rising, this time with no organized supply restrictions from OPEC. Investment has ground to halt. Economic growth is stalling while inflation rates, because of rising food and fuel costs, are progressively increasing.

How have the Anglo-American governments reacted? What is their solution? To make public declarations that wages cannot and should not rise in step with escalating inflation. Private and public sector employers must take a ‘long view’ on wage growth to prevent the further stoking of inflation. Wage-earners must take real wage cuts to ensure a rebounding of economic growth. For all intense and purposes, it appears the politics and vigilance against wage-led inflation is still relevant in Anglo-America, regardless of the actual inflation rate.

¹ The history of the term ‘non-inflationary growth’ evolved from a compromise between the three largest economic powers: United States, Germany, and Japan. The acrimony between these countries eventually led to the fall of Bretton Woods. Shortly afterwards, when the G7 was formed, the central concerns of these three countries were at the core of initial summit meetings. The wording of ‘non-inflationary growth’ was a compromise between competing policy priorities of Japan, German, and the United States: ‘Sustained is a code word for Japanese resistance to further stimulus to reduce Japan’s current account surpluses; ‘non-inflationary’ is a code word for German resistance to cutting interest rates; and ‘growth’ is the objective pushed by the Americans’ Webb, M. C. (1995). The Political Economy of Policy Coordination: International Adjustment since 1945. Ithaca, Cornell University Press.(188-89). But, the fact the term ‘non-inflationary growth’ was a compromise between the three leading economies at the time does not negate its political significance. Since how these governments implemented them was very different.

² This is only an approximation because determining the exact weights of these items is limited by the level of detail provided in the technical appendices for both the US and the UK varies because of their own idiosyncratic reporting criteria.

³ The lack of detailed information on both the specific weights assigned to individual items and the time series data for representative items prevents a precise measure of the exact influence the cheap consumer goods component to the all-items CPI measure. Nevertheless, the level of data available is adequate to observe the general influence the cheap consumer goods component has on the overall trajectory of CPI movements.

⁴ Beginning with the 1985 Plaza Accord, where the US and Japan negotiated a re-valuation of the Yen, Japanese firms began investing heavily in low-wage Special Economic Zones across South East Asia to retain profitability. This is seen as the seminal event in bringing about the emergence of the Asian Tigers. Ten years later, the 1995 Reverse Plaza Accord sought to protect Clinton’s strong-dollar policy which ensured America’s purchasing power of South East Asian imports. The 1997 East Asian Economic crisis had a profound impact on the levels of portfolio investment in the region, but did not affect these countries comparative advantage in low-cost manufacturing. Rather it was the rise of China, as the workshop of the world, which supplanted the Asian Tigers as largest exporter of consumer goods. China’s admittance into the World Trade Organization in 2001, did away with yearly Most Favoured Nation negotiations, and fully integrated China into the global managed trade regime. That being said, continual negotiations between China and its major trading partners, such as Bra Wars with EU and US pressures to re-value the Yuan, again demonstrate the power struggle between state export-led growth strategies and consumer-driven corporate growth strategies.

⁵ Average weekly earnings derived from Labor Force survey and estimates are derived by multiplying the average hourly earnings and the average weekly hours estimates. Remuneration (pay, wages) of a worker or group of workers for services performed during a specific period of time.

⁶ Usual weekly earnings are obtained from the Current Population Survey (CPS), which provides the basic information on the labor force, employment, and unemployment. The term ‘usual’ is as perceived by the respondent. Earnings are defined as before taxes and other deductions and include any overtime pay, commissions, or tips usually received (at the main job in the case of multiple jobholders.) Earnings reported on a basis other than weekly are converted to a weekly equivalent.

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Appendix One: Cheap Consumer Good Component

<i>2006 CPI Weights for selected items</i>		
United States		
<i>Expenditure Category</i>	<i>Item</i>	<i>Weight</i>
Housing		3.859
	Household furnishings	
	coverings and linens	
	Appliances	
	Cleaning supplies & tools	
Apparel and Footwear		3.726
Recreation		
	Video and Audio	1.719
	Televisions	0.124
	Audio Equipment	0.074
	Audio discs & tapes	0.09
	Sporting goods	0.674
	Photography	0.168
	Toys	0.245
Education and Communication		
	Information technology (hardware and services)	0.543
	Personal computers & peripheral equipment	0.203
	Telephone hardware, calculators	0.051
Other Goods and Services		
	Personal Care products: hair, dental	2.764
	cosmetics: perfume, bath	
<i>Cheap consumer good component</i>		<i>14.24</i>

Source: Bureau for Labor Statistics

<i>2006 CPI Weights for selected items</i>		
United Kingdom		
<i>Expenditure Category</i>	<i>Item</i>	<i>Weight</i>
Clothing		5.6
	Garments	
	Other clothing accessories	
Footwear		0.09
Household furnishings, equipment and maintenance		
	Furniture, Furnishings and carpets	3.2
	Household textiles	0.08
	Household appliances	0.08
	Glassware and utensils	0.07
	Tools and equipment	0.06
	Non-durable household goods	0.05
Communication		
	telephone equipment	2.4
Recreation and culture		
	Audio-visual equipment	2.7
	Games, toys	2.3
	Equipment for sport	0.04
Personal Care		
	Appliances and products	2.4
	personal effects	1.1
<i>Cheap consumer good component</i>		20.17

Source: *Office for National Statistics*