



Fast

FACTS

CANADIAN CENTRE FOR POLICY ALTERNATIVES - MANITOBA

there is an alternative.

March 18 , 2022

Policy Alternatives in the Face of Rising Prices: Who will Bear the Burden?

Previously published in the Winnipeg Free Press, March 18, 2022



Media headlines and price tags alike are sending the message loud and clear: The cost of living is increasing, with inflation higher than we've seen in decades. The most recent data shows an annual increase of 6.1% in Manitoba, when compared to the price level in February of 2021. Rising prices of goods and services can be particularly stressful for those with low and fixed incomes and limited savings. Given this burden on often already struggling households, how and when to respond to higher inflation is an important public policy question.

Higher inflation is often portrayed as a problem for everybody, but inflation can have mixed and complex impacts across the socio-economic spectrum. For example, fixed income households are most at risk of not meeting their basic needs due to affordability issues, but inflation can also reduce the high debt burden facing lower income households and help reduce wealth inequality. Many income-tested benefits

these households rely upon increase automatically with inflation, including federal seniors and child benefits, and Manitoba's Rent Assist program. But other important programs, like the basic needs allowance for social assistance recipients, do not.

Higher inflation also can be a side-effect of a booming economy and a tight labour market, which increases the bargaining power of labour. This improves the ability of workers, even low-skilled workers, to extract real (inflation-adjusted) wage gains from employers, reducing economic inequality. Since the start of the pandemic, wage increases have increased more than enough to offset higher prices, on average.

There are multiple sources of the higher inflation we are observing. Some are related to longer term trends, such as climate change and increasing corporate power; but most are consequences of the pandemic, global in scope, and likely temporary. The higher annual inflation numbers we are seeing are partially due to prices catching up after a year of very low inflation in 2020. Over the span of the pandemic there has also been a dramatic collapse of economic activity (partially due to overly pessimistic cut backs in production) and a rapid resurgence of demand, with people shifting spending away from services to goods. This has

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created serious supply chain issues. Additionally, workers have been less able and willing to work, especially for low wages, during the pandemic. For the most part what we are seeing are supply side issues due to the pandemic driving higher prices.

Instead of addressing these supply side issues, Conservative economists and business pundits are focused on a few simple “solutions” to the higher inflation we are experiencing: scale back support from the Bank of Canada that is keeping interest rates low, and cut government spending. This approach can be economically painful, particularly for working class households, with the consequences of such an approach being reduced demand in the economy, increased unemployment and downward pressure on wages. These “solutions” will also not address production and supply side issues and are likely to be ineffective in the short run, while jeopardizing the economic recovery from COVID-19.

There are several alternative, more targeted government policy interventions that will help mitigate the negative impact of inflation on those most at-risk. Many of these are under provincial jurisdiction and could be initiated immediately, such as indexing provincial income benefit programs, which for the most part, do not automatically rise with inflation. Fiscal policy support, when targeted at meeting important social and environmental deficits in areas such as health, childcare, education, and climate change mitigation, can help reduce the cost of living, while addressing pressing social challenges. Public ownership and provision of services in these areas, to keep prices low, such as telecommunication and public transportation can also be part of an inflation mitigation strategy. For public sector workers who are currently under repressive collective agreements negotiated under the shadow of the Manitoba government’s wage freeze legislation, the government could use the additional revenues generated by higher inflation to make up for lost ground and build in cost of living increases for workers.

There is significant scope for civil society

organizations, including labour unions, consumer groups, and community-based organizations to advocate for progressive policy change to address inflation. These changes will not only help address short-term concerns regarding the cost of living, but will lead to sustained affordability and equity improvements, while enhancing economic efficiency. The labour movement in particular faces an important balancing act advocating for additional wage increases for its members to meet the higher costs of necessities, while keeping public policy advocacy focused on progressive measures that will improve the standards of living for workers and modest income households. Opposing regressive monetary and fiscal policies will help ensure that wage and benefit gains that workers have achieved in the pandemic period are not lost, and the decline in inequality continues. Making progress on reversing the extreme increase in inequality over the last 40 years has only just begun.

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References available upon request.