

Response to “Your pay is still going up too fast”

From *The Economist*, Weekly Edition

Ryan Cummings

The realities of publishing and marketing require attention-grabbing headlines and the occasional inflammatory sentence to keep readers engaged. This article is odd in that its headline and central theme are undercut by its conclusion. Additionally, there are some claims made in the article which deserve skepticism. My criticism is tempered by an understanding of the format. Short-form magazine articles are, by definition, not pedantically precise nor do they have the necessary length to place their subjects in full context.

The article opens with a discussion of one reason that, although significantly lower than the past few years, inflation is staying above the 2% target set by rich-country central banks. This is where a combination of slightly sensational statements and a lack of qualifying statements triggers skepticism. “[Central banks’ attempts at] getting inflation from 5.4% to official targets of around 2% - could be the most difficult. That is because labour markets are not co-operating.” That labor markets are not “co-operating,” is a statement without any real meaning. Labor markets don’t cooperate with central banks to bring about societal ends. Individual consumers and producers of labor act on their marginal utility by negotiating on behalf of their own interests. Again, I can excuse the semantic imprecision given the format, but as a reader I found it annoying rather than engaging.

Further on, the article’s claim is that rising wages cause inflation. This is the claim of which readers should be most skeptical. Under what conditions are producers of labor able to negotiate for higher wages in excess of the rate at which prices are rising across all goods and services in an economy? It seems at least plausible to me that this could be a case of mistaking the effect for the cause. I imagine that this is a heavily studied area of economics and one that does not have a universally accepted causal theory. An interesting exercise would be to tease out which details are relevant and have some way to show whether wage gains cause inflation or inflation causes wage gains. Perhaps it is more subtle and causality runs both ways.