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Inflation: Telling It Like It Really Is

Economist Milton Friedman is quite right when he observes in his Newsweek column that government officials and others are indulging in "soft talk" about inflation. But they are being aided and abetted by the press—which is so shocked out of its shoes by the level of inflation—that it fails to tell its readers how bad it really is.

Thus, The Washington Post and most other major newspapers could not bring themselves to tell the public that the annual rate of increase in the wholesale price index for the month of August was a mind-boggling 74.4 per cent.

Instead, readers were told that wholesale prices had risen 6.2 per cent and that farm product prices had soared 26.1 per cent within the month. Some added the adjective "astounding," or indicated the increase was "the biggest since Korea." The Post story had the helpful comment that the rise in the one month was "almost as much" as all of last year.

But the exact annual rate was essential to a full account of what has been happening. Some publications like the Wall Street Journal and the Washington Star-News took proper account of it.

To do otherwise feeds the suspicion that the press may have been "Agnewized" by Agriculture Secretary Earl Butz' complaint earlier this year that annual rates were giving a distorted view of food price inflation.

Annual rates are derived, of course, by multiplying a monthly result by 12. Thus, it is quite true that a special situation of any kind during a single month can give an exaggerated figure. And the August surge in part reflected the end of the food price freeze on July 18.

But the fact is that the average person has been trained to think of percentage ups and downs in annual terms. Thus, the rate of unemployment, now 4.8 per cent, is the annual rate of joblessness in any one month.

Wholesale Price Index

(Percentage Increases)

	Aug. 1972- Aug. 1973	March-Aug. 1973 Seasonally adjusted annual rate
Wholesale price index	19.0	27.5
Industrial materials	7.5	10.8
Farm products, processed foods and feeds	49.0	71.2
Farm products alone	66.4	108.1
Processed foods and feeds alone.....	37.4	47.7

When the administration talked hopefully of reducing the rate of inflation to 2 to 3 per cent, it was talking of the annual rate.

In December, 1972, when the consumer price increase rose only 0.2 per cent, the administration was happy to annualize the rate, saying—correctly—that inflation for the moment was running at an annual rate of only 2.4 per cent, within the overall goal. Sadly, the administration shortly after that junked Phase II, and bought itself a peck of trouble.

To focus only on the 6.2 per cent wholesale price bulge in August, therefore, was a kind of deception. It appears, without further elaboration, to be high, but vaguely respectable, somewhat in the ballpark of figures we have heard before. But the 6 and 7 per cent figures we have been used to are annual rates.

The hard fact is that taking a longer span than just the month of August, it is easy to see that annual rates in the high double numbers give a closer approximation of the real impact of wholesale price inflation than is conveyed by the 6.2 per cent for the August index.

Thus, official Bureau of Labor Statistics numbers show that for the whole year—August 1972 to August 1973—the wholesale price index jumped a phenomenal 19.0 per cent, and farm products, foods and feeds rose 49.0 per cent.

In the six months ending August, 1973, the annual rate of gain in the overall index was 27.5 per cent, and farm products, foods and feeds rose 71.2 per cent. These figures are among the highest ever recorded.

So who is kidding whom? For the year as a whole, it is easy to see that the wholesale price index, assuming that things get better instead of worse, could rise 20 to 25 per cent. For farm products alone, a reasonable guess might be 75 per cent or more.

There is no sense in trying to hide this terrible price performance, or the administration's inability to cope with it. Aside from pushing for higher interest rates, Mr. Nixon's only new anti-inflation tactic was the veto last week of a higher minimum wage bill. As AFL-CIO President George Meany snapped the other day, the President has chosen to zap the least well-paid workers in the nation for the failure of his economic policies over the years.