

Politics

By Jim-Beau Lieyeah

Sunday, Feb. 25th - Fumigation Day in Main Building. Nobody is allowed in because they are killing vermin of all kind. Wonder if they will get around to the student union? But fumigation, in a way, is kind of like cleaning pigeon shit off your car. Apply poison and scrub, it is bound to come off but the stink will always be there, and in a way that relates to what I want to talk about today, the effect of the rise on energy prices on consumers. Western economies are being severely impacted by this and are creating the right conditions for a recently coined economic phenomenon, stagflation?

That is right boys and girls, that is right... Stagflation. The biggest reason for this is lag time. Basically, this means it takes time to measure the impact of change as it filters through the system. The rise in energy prices is starting to affect the cost of goods. The price of oil has also risen gradually and, aside from its direct impact on motorists, is forcing the fixed price manufacturers pay per unit produced to rise as well.

As the price shock increase levels off, the price per unit for the manufacturer rises. With energy prices that means almost all goods and some service industries are impacted by this price shock. The rise in the prices of all of these goods leads to inflation. The economy is showing signs of slowing (we are producing less than we did) and is faced with the worst possible scenario when the present President of the United States believes we are in a recession (although he probably has his own reasons).

But whether stagflation will stick with the same impact it did in the 1980's is a different question or even a race, if you will. Back in the

80's, stagflation reared its ugly face through a lens that saw high rates of unemployment, high levels of inflation, high interest rates, and low levels of economic growth (relative to inflation). This combo had a devastating impact.

High interest rates mean that it is difficult to stimulate the economy because money is too expensive to borrow, so no investments are made. At the same time those high rates are driving people out of business as they can no longer afford the high cost of financing debt.

This leads to a rise in the unemployment rate. More people looking for jobs also impact the economy because competition arises for whatever work is left and the employers are in the enviable position of hiring from a large pool of candidates and possibly giving them less than the job deserves. This tends to freeze income growth for the public overall. Meanwhile, everything that is purchased is more expensive which means people are relatively poorer with the same amount of money they had before. Basically, an unattractive picture is painted.

How to get out of it? Reducing interest rates is the best way to do so, but again any reduction takes time (lag time) to filter through the system. Control of wages and prices is a good way to combat inflation but it takes the invisible hand out of its role as a guide to the economy. Further, freezing wages tends to aggravate the public, who always have the option of fleeing. Either way, things are not pretty.

Today's situation is starting to have scary similarities to the 80's. Rising energy prices are beginning to impact inflation.



The Bush boys.

Prices are rising yet wages are not keeping up. This means that we are relatively poorer than we were. The upside for some is that the government is imposing a serious tax cut with the hope that the cut will put more money into the economy and at least gloss over this loss of relative income by putting a few more dollars into taxpayers pockets (this is key because many who live below the poverty line do not get this benefit and the relative changes on prices impact those with the least money the most).

After a booming economic cycle, where we enjoyed some of the lowest unemployment levels in a generation, we are starting to see that numbers creep up again. While this is bad, it does usually create a reaction and at least one of them is positive. Basically, that is the number of those employed in entrepreneurial ventures increases, and these are the pistons behind an economy. The days of working for huge companies are over. For many, the best scenario is creating

your own job through entrepreneurship, and the more enterprises that come out, the better it is (in the long term) for employment.

But all of this is neither here nor there because all vitals signs seem to point to a possible relapse of the cancer known as stagflation. But one big indicator has not been discussed, the Bush factor. Some might wonder what I mean by this so let me clarify right away, simply, George W. Bush, 43rd president of the USA. He has been saying for almost a year that we are heading toward a recession. Talk about a self fulfilling prophecy. Why? The biggest reason was to get elected. How? Simple, people need massive tax cuts to avoid a possible recession because whatever is returned to them will go back into the economy. For Joe Q Taxpayer that sounds good. But when a recession occurs we can also call it a bad time, and when times are bad in a country, the best thing to do to unify the people is...