

## Extra Feature Story

### Stagflation Threatens U.S. Economy

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#### **Recent economic indicators point to the possibility of stagflation -- a slowdown in economic activity combined with rising prices not seen since the 1970s.**

As the U.S. economy slows in part from a lagging housing market, the rate of inflation, which is the rate of increase in the price of food, goods and services, is also rising.

So while many Americans are worried about keeping their jobs, they are also paying more for gas, food, clothing and services such as medical care, hotels and restaurants.

This potent combination has the potential to create a serious negative effect on both the U.S. and worldwide economies

#### **Recession already here?**

A recession, which is defined by at least a two-month period of negative growth in the economy, could already be a reality in some parts of the U.S., financial experts say.

"It's not coming, it's here," economists for UBS Bank said in a recent research report, Reuters reported. The bank estimates that the U.S. economy is in a mild recession.

Important economic indicators, like a rise in the number of people applying for unemployment benefits and a fall in production levels at factories, added to the evidence that the U.S. economy is shrinking

"The data together are mutually reinforcing that the economy is in recession," Eric Green, an economist at Countrywide Financial, told Reuters.

#### **Government reaction**

Concern in the business and government sectors about a possible recession have hurt overall confidence in the economy and spurred different arms of the federal government to take action to encourage new growth.

Congress and President Bush have already approved a \$168 billion economic stimulus package that will send out tax rebate checks to millions of Americans, in the hopes they will spend that money and help the economy rebound.

The other tool the federal government has been using is its control over interest rates or the rates banks charge to loan money. The U.S. Central bank, the Federal Reserve, can lower interest rates to encourage people to borrow money.

"Over time, (the Federal Reserve officials) hope that it will make it more attractive for people to borrow. Recently, for instance, mortgage rates have been coming down, and people have been refinancing again. And so they hope that, over time, this will stimulate borrowing, stimulate spending, and offset some of the depressing parts of the economy," Wall Street Journal economics editor David Wessel told the NewsHour.

#### **Inflation threat**

One downside of lowering interest rates to increase spending and putting more money into the economy is that prices can rise.

Consumer prices rose by 0.4 percent in January, led by increases in the prices of food, energy and health care.

Prices for vegetables, fruits, poultry and pork all showed big increases, in part because of the rising demand for corn, which is used to make ethanol, and is seen as an environmentally-friendly alternative for gasoline.

In addition this week, the price of oil hit record highs—a barrel cost more than \$100 for the first time in history.

Medical costs also spiked: prescription drug prices shot up by 0.7 percent, the biggest rise in a year, while hospital prices were up by 1 percent.

### **Economy and politics**

Rising prices have become an issue in this year's presidential campaign.

"Wages are flat, but health care costs are up. Gas and energy costs are up. Education costs are up. So people are running as hard as they can, but they're going backwards," Sen. Hillary Clinton, D-N.Y., said recently in a speech.

Sen. Barack Obama, D-Ill., also addressed the issue in a speech last week.

"I won't just raise the minimum wage every 10 years. I want to raise it every year to keep pace with inflation, because if you work in America, you should not be poor," Obama said.

The problem of inflation has been a potent political issue as far back as Dwight Eisenhower's presidential run in 1952. John F. Kennedy also criticized the rising cost of living in campaign ads in 1960.

Stagflation, the mix of recession and inflation, hit most of the developed world and the United States in the 1970s. President Richard Nixon was so concerned about 4 percent inflation in 1971 that he imposed wage and price controls to reign in it.

Stagflation continued through the decade, and the inflation was more than 13 percent in 1980. It became a powerful political tool for Ronald Reagan in his bid for the White House and helped him win his first presidential election.

**-- Compiled by Quinn Bowman for NewsHour Extra**

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