One idea we’ve heard batted around repeatedly of late is how the current high inflation environment might compare to the last major inflationary impulse in the 1970s.

It’s worth considering given the pain of high inflation and eventual brutal policy response that came during the long period of high inflation running from roughly 1973 to 1982.

In the table at right we show a range of key macroeconomic and demographic variables with some key similarities and differences to the 1970s.

We use the period of 1973 to 1982 and compare to the period of 2021 to current.

First, looking at major social and demographic factors, union membership was about a quarter of the work force in the 1970s, compared to just over 10% today; income distribution was also much more equal (lower Gini Coefficient) while population was growing dramatically faster.

Unemployment rates were higher in the 1970s, but so was the LFPR, and the labor force was growing somewhat faster.

Faster labor force growth and higher wage costs (more on that later) meant both nominal and real disposable income was growing significantly faster.

Policy was tighter, with Fed Funds higher than YoY CPI on average through the period and slower money supply growth; on the other hand, household debt to GDP was lower as the economy was less financialized.

Inflation was also higher and for a much longer period of time; that’s especially true with core CPI.

Finally, we note that consumption has been much stronger this time around (with lower income growth and higher household debt).

Nominal and real GDP growth was also slower, though the rebound from the COVID recession is a major factor in speeding rebounding activity this time.

Interestingly, investment rates (as a share of GDP) were about the same over the course of the high inflation period as it has been lately, though there’s less equipment investment now than there was back then.

Finally, we note that productivity is stronger right now than it was during the 1970s, while unit labor costs (spending on labor relative to real output) was much higher.

Further analysis follows on the subsequent page.
• One of the most important reasons to be cautious in extrapolating a relatively short snapshot of economic data (the past five quarters or so) with a longer-term range of exactly a decade is that many indicators are quite volatile, even over the course of a year.

• With that important caveat aside, we’d like to offer a cautious qualitative interpretation of the table we introduced on the prior page.

• First, we think it’s very important that instead of a rapidly growing population fueled by the aging-in of Baby Boomers to working age, the current population growth backdrop is much weaker as natural population growth slows sharply due to slower births, the population ages into higher mortality rates, and immigration (both documented and undocumented) crashes.

• While inflation can be driven by nominal income growth alone, the simple fact that the number of Americans isn’t rising as fast as it was is one reason to expect inflation to be less persistent this time around, all else equal.

• Another key difference is the growth in the labor force: it was up over 2% per year during the 1970s high inflation period, and while it’s near 2% now, the rate is much slower, suggesting an ultimately lower-pressure economy than back then.

• Third, income is growing much slower than it did during the 1970s period of high inflation, with disposable income up about 5% annualized (half the rate of the 1970s episode) and real disposable income down since the end of 2020; while income growth certainly could surge, for now the feedback loop of high demand to high income growth looks shakier than it did back then.

• Fourth, that slower income growth has come with much faster consumption growth: consumers are spending far faster than their incremental income, and they’re doing so from much higher debt levels that are 30 percentage points of GDP above where they were in the 1970s.

• That suggests that recent spending pressure is less sustainable because it will require additional debt (highly sensitive to monetary policy) without a material increase in the trend of incomes.

• Fifth, productivity is running much stronger than it did during the 1970s, which reduces the burden of higher wages on the business sector, an effect visible through unit labor costs running below 2% annualized so far in this high inflation period versus near 8% during the 1970s.

• Finally, a wage-price spiral of higher incomes driving higher spending and feeding back to higher incomes (all in nominal terms) looks structurally less likely based on the political economy of the United States today.

• Union membership was a quarter of the work force on average during the previous high inflation period and is barely above 10% today.

• Furthermore, the income distribution is much less equal today than during the 1970s; back then the 90th percentile of income earned about 9x the 10th percentile of income; now the number is near 13x, implying incremental income growth is much less evenly distributed and will catalyze less economic activity.

• Bottom line: while inflation rates are currently at levels similar to those seen in the 1970s, there are good reasons to think today and the 1970s are not terribly similar.