

# Inflation Is No Accident

## Christopher Caldwell

President Biden is hanging on to Vladimir Putin for dear life. Earlier this month, he estimated that Vlad the Invader was responsible for 70 percent of the latest wave of inflation to roll over the United States. Back in December, the administration blamed “the greed of meat conglomerates” for Americans’ waning purchasing power. In November, it was the “anti-consumer behavior” of two oil companies. Annual inflation is 8.5 percent now, the highest rate since 1981, when Ronald Reagan replaced Jimmy Carter. Annual wage growth is 5.6 percent. The average American is losing ground.

Allegations of Russian culpability are unconvincing. Inflation was already 8 percent when Biden announced he would ban the import of Russian oil and gas. Yes, gas prices have risen to an average of \$4.17 a gallon, a 15 percent hike since February’s invasion. But they were already at \$3.62 when the tanks started rolling—up 47 percent from the \$2.46 Americans were paying when Biden assumed

April 27, 2022



COMPACT

“The Biden stimulus was wildly out of line with anything his predecessors had tried.

NETTY

the presidency. Certainly America isn't the only country affected by

the Ukrainian unpleasantness.

There has been a *flambée* of inflation in France and an *Anstieg* in Germany, the latter dependent on Russia for a third of its oil and half its gas—yet inflation is higher here than there.

The case that Biden is to blame is close to airtight. Inflation was at 1.7 percent when he came to office. The country was poised for a boom, with unemployment at 6.4 percent and falling rapidly. Biden's proposal to turbocharge the economy with his \$1.9 trillion American Rescue Plan (ARPA) raised alarms. In recessions and depressions, stimulus is supposed to fill an “output gap.” If struggling Business A can't pay otherwise healthy Business B, Business B might go bankrupt, leaving Businesses C, D, and E unpaid and creating an avoidable contagion. Usually, policymakers are cautious about using stimulus. Progressive economists, for instance, often say that Barack Obama's \$900 billion stimulus didn't cover the whole output gap of the 2009 finance crisis. True. But that doesn't mean

The Biden stimulus was wildly out of line with anything his predecessors had tried. The macroeconomist Olivier Blanchard, who led the International Monetary Fund during the Obama years, tweeted that Biden's ARPA stimulus, on top of Trump's, would add "four times the upper bound on the output gap." Clinton Treasury Secretary Larry Summers warned that the stimulus would be "on a scale closer to World War II levels than normal recession levels" and that it would "set off inflation pressures of a kind we have not seen in a generation." Summers hearkened back to what he called the "guns and butter collision," Lyndon Johnson's attempt to wage both a military war in Vietnam and a "war on poverty" in America's ghettos without raising taxes. The excesses involved were on the order of 1-2 percent of GDP, sufficient to stoke inflationary pressures that the Federal Reserve would still be fighting in the 1980s, a decade after LBJ's death. Blanchard was incredulous: "If this increase in demand could be accommodated, it would lead to a level of output at 14

percent above potential” he wrote.  
Masthead About Account  
“This would not be overheating; it  
would be starting a fire.”

Something interesting seems to have happened: The macroeconomic hotshots of the Biden administration, with their academic credentials and long executive-branch résumés, have presided over a deterioration of macroeconomic competence relative to the Trump administration’s business meatballs. Obama adviser Steven Rattner asked, “How could an administration loaded with savvy political and economic hands have gotten this critical issue so wrong?”

They didn’t, really. Inflation is seldom an error—it’s usually a policy, if an unavowed one. This was the conclusion of one of the great social-science collaborations of the 20th century, led in the mid-1970s by the late Warwick economist Fred Hirsch and the Oxford sociologist John Goldthorpe, the findings of which were published in a book titled *The Political Economy of Inflation* (1978). Goldthorpe marveled at the “large array of emotionally colored terms [and] synonyms for ‘irrational’” that

policies: *inconsistent, woolly-minded, ostrich-like*. Fixing inflation looks easy if you are an economist. Just remember that it is “always and everywhere a monetary phenomenon,” as Milton Friedman put it, and cut the money supply.

“This response,” Goldthorpe wrote, “is intellectually safe, but at the same time intellectually feeble.” To say that inflation is a matter of too much money chasing too few goods is an account of *how* inflation happens. But what society desperately needed in the 1970s—and needs now—is an account of *why* inflation happened, of which political forces insisted on flooding the economy with money in the first place.

It is almost impossible to think our way back into the world of 45 years ago, when many serious people considered inflation a threat to Western civilization. It was evidence that democracy could not protect itself. It was a “doomsday machine,” economist Samuel Brittan warned, eroding value and values, and sapping economic and non-economic motivation. Certain

**“Inflation has always signaled a deficit of legitimacy.”**

adjustments, overregulation, and, above all, trade unions, especially in the United Kingdom. Fighting inflation is the main thing Margaret Thatcher and Ronald Reagan were elected to do, and inflation back then is the main reason that we don't have a lot of things we wish we had today. An industrial sector, for instance.

Inflation has always signaled a deficit of legitimacy. It arises when the government has an agenda it cannot declare. Wars, for instance, are notoriously inflationary. It is hard enough to levy taxes for uncontroversial projects, hopeless to do so if the project you are proposing endangers the lives of taxpayers' children. For Hirsch and Goldthorpe, the '70s inflation reflected the transition from a traditional to a purely capitalist society. Old habits of deference, which had provided the “normative camouflage” for the status quo, no longer bound working men. Laborers were now ready to do battle against ownership. The conflicts were hard to resolve, because the two sides were arguing from irreconcilable bases of

were too strong to expropriate.

Inflation allowed each side to leave the bargaining table claiming (and for a while even believing) that it had done better than it actually had. Inflation was, Goldthorpe wrote, “the monetary expression of distributional conflict.”

As the old order broke down, the economist Peter Wiles deplored the spirit of spontaneity expressed in New Left slogans like “Do it!” and “We Want It All Now!” It is hard not to hear an echo of the slogan that guided the Biden administration’s first weeks, above all when it was working on passing the stimulus: “Go big!”

In the decades before Thatcher, the labor movement raised the hopes of workers. Trade unionism, as the sociologist T.H. Marshall put it, “created a secondary system of industrial citizenship parallel with and supplementary to the system of political citizenship.” Unions of that sort are long gone, but we have our own “secondary system” of ethnic-racial-gender citizenship. Now as then, an insurgent movement (sometimes called “wokeness”) is

supremacy”) under conditions of utter mutual misunderstanding.

In this light, it is worth remembering the embrace of “equity” thinking in the first days of the Biden administration. In the wake of George Floyd’s death, Biden was pledging to put race “front and center” in every decision the administration made. The American Recovery Plan included racially targeted relief, for black farmers and others. Despite subsequent setbacks in court, many Democrats still think of the bill as an instrument for racial justice. St. Louis Mayor Tishaura Jones gave a speech on April 19 that proposed using some of the half-billion the city will get to “reduce the racial wealth gap.” The Fed had already adopted similar incentives, aiming since 2020 to make more “inclusive” its 1977 Humphrey-Hawkins mandate to maximize employment. Fed governor Lael Brainard warned recently that raising rates—the most reliable inflation-fighting measure we have —“may curtail progress for racial and ethnic groups that have faced systemic challenges.”



The recklessness of the American  
Masthead About Account  
Recovery Plan is proportionate to

the gravity of the 2020 social crisis, as the Biden administration saw it. Whatever wokeness has been about, it has involved keeping two sets of books. One man's reparations is another man's 401(k). We don't have the resources to leave both sides feeling fairly treated, so we promise money that we don't have. That is what inflation is. You can speak of inflation as a "problem" if you like, but for the politicians who bring it into being, it looks more like a solution.



Christopher Caldwell is a *Compact* columnist, a contributing editor of the *Claremont Review of Books*, and the author, most recently, of *The Age of Entitlement: America Since the Sixties*.

#economics

#inflation

Related Articles

After the  
Clash of  
Civilizations  
Christopher  
Caldwell

The  
West's  
Hollow  
War  
Economy  
Malcom  
Kyeyune

