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Who Is Afraid of Inflation? The Long-shadow of the 1970s

Wolfgang Streeck makes a timely effort to revive the tradition of Marxist crisis theory that was interrupted in Germany in the 1970s. Streeck's argument begins where Habermas's *Legitimation Crisis* left off.[1] He returns us to the basic tension between capitalism and democracy which came to the fore as a central preoccupation towards the end of the long boom in the 1960s. He makes a bold and original effort to develop that schema for a new age of globalisation, spectacularly increasing inequality, financial crisis and post-democracy. Whereas Habermas left his readers with the sense of an insuperable impasse, Streeck highlights the sequence of expedients that were found to displace the tensions within capitalist democracy over time. His key metaphor is the idea of buying time so as to put off the moment of truth when the conflict between the expectations of workers and citizens and those of business became irresolvable. The first strategy of buying time was inflation, which was continued until the early 1980s. It was followed by an unprecedented peacetime surge in public debt. This gave way in the 1990s to private borrowing as the main driver of capitalist growth, privatised Keynesianism as Colin Crouch has dubbed it.[2] In the current crisis this series of makeshifts has reached its limit.

Where do we go from here? Though Streeck's opening analysis takes the United States and Britain as its paradigm, and though his three-phase scheme fits their history best, his final chapter outlining his own political agenda focuses entirely on the Eurozone. Friedrich Hayek first hypothesised in 1939 that Europe could be made safe for market capitalism by a self-limiting federation of highly heterogeneous states. Market Liberalism would emerge naturally as their common denominator.[3] In the enlarged and fiscally austere Europe of today, Hayek's moment has seemingly

1 J. Habermas, *Legitimationskrise*, Frankfurt am Main 1973.

2 C. Crouch, «Privatised Keynesianism: An Unacknowledged Policy Regime», in: *The British Journal of Politics & International Relations* 11 (August 2009) 3, 382–399.

3 F. A. Hayek, «The Economic Conditions of Interstate Federalism», in: F. A. Hayek (ed.), *Individualism and Economic Order,* Chicago, Il. 1948, 255–272.

arrived. Paradoxically, though it is the financial markets that have failed it is the national governments that have emerged from the Eurozone crisis hobbled and curtailed. Largely under the influence of Germany's conservative government, Europe has convinced itself that it faces a general crisis of public debt. After the *Schuldenstaat* we are now, Streeck argues, in a new epoch of the *Konsolidierungsstaat*, a deflationary stripped-down version of democracy. Bondholders call the shots not citizens. Independent central bankers not elected politicians hold the main levers of economic policy. Budgets across the Eurozone are subject to austere bureaucratic oversight.

Out of the European Strait-jacket into a new Bretton Woods?

Streeck argues that a progressive politics should beat a fighting retreat from this one-size-fits-all European strait-jacket. Rather than the rigidity of the Euro he favours a return to an adjustable peg foreign exchange rate system which he suggests might draw on the inspiration either of the post-war Bretton Woods system or the European Monetary System (EMS) of the 1980s and 1990s. This would enable national polities to choose their own economic policy path. As Streeck acknowledges, such a regime of national autonomy might well require the reintroduction of government controls on the free movement of short-term speculative capital. He makes this remarkable suggestion in an aside so fleeting that the reader is left uncertain whether he appreciates its true gravity.[4] Capital controls have remained in the arsenal of major emerging market economies. However, they are hotly contested by the advocates of the liberal orthodoxy. No advanced economy has conducted such an experiment since the breaking of the Mitterand experiment in France in 1983. Of late, there has been serious talk of a new Bretton Woods.[5] But a Bretton Woods with capital controls of the type in use in the 1950s and 1960s would be a truly bold step back to the future.

But if radical democratic experimentation is truly Streeck's ambition, why is it the eras of Bretton Woods and the EMS that he chooses as his historical inspiration?[6] Institutionally both currency systems were certainly more flexible than the Euro. But neither period was characterised by anything resembling adventurous economic policy. The Bretton Woods era is commonly characterised as the heyday of Keynesianism. However, a glance at the macroeconomic balances should be enough to dispel the aura of common sense that surrounds that familiar narrative. This was an era of low unemployment and high growth for sure, but nowhere was this an era of adventurous Keynesian deficit spending. Wartime debts and the costs of reconstruction had to be paid down. Despite the use of capital controls, the discipline of Bretton

4 W. Streeck, *Gekaufte Zeit. Die vertagte Krise des demokratischen Kapitalismus*, Berlin 2013, 253.

5 See for instance the «Stiglitz Commission» of the UN, Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, Sep 21 2009 United Nations, New York.

6 Streeck, *Gekaufte Zeit*, 250–255.

Woods was remarkably strict. Government expenditure increased but so too did taxation. In any case, given the extraordinary dynamic of capitalist growth in Europe and Japan there was little need for any deficit-fuelled stimulus from the government side. Even more implausible as a source of inspiration for a democratic economic policy is the era of the ill-fated «Snake» and the EMS in the 1980s and 1990s.[7] The EMS certainly did allow adjustments. But with the ultra-conservative *Bundesbank* at its heart and currency speculators like George Soros policing the laggards, the system was radically asymmetrical, exacting a heavy price from any deviation from its non-inflationary norm. It was precisely to gain at least some control over their monetary destiny that countries like France pushed for the introduction of the Euro, the system that Streeck objects to so vigorously. It may be a uniform one-size fits all system, but there is safety in size. And even through the opaque governance structures of the European Central Bank (ECB) they have had more influence than they did over the German-dominated EMS. Mario Draghi's adventurous policy-turn in the course of the current crisis and the howls of protest that it has triggered from German conservatives demonstrates that this was not without consequence.

Missing the true 1970s

But what is truly remarkable is the short shrift that Streeck gives to the decade that did in fact see the boldest and most wide ranging experiments in democratic economic policy – the 1970s, or to be more precise, the «long decade» stretching between the disintegration of Bretton Woods following the «Nixon shock» of August 1971 and the abandonment of the Mitterand experiment in France in March 1983. If we are looking in the historical record of advanced capitalism for a period in which there was a true plurality of national economic policy options, this is it. This was the high point of European social democracy and daring national Keynesianism. This was the era of large and unapologetic deficits and elaborate corporatist wage bargaining schemes, the true nightmare of the Hayekian neoliberals. Nor was this experimentation confined to the national level. Through the mediation of the G7 summits national Keynesianisms were articulated at the international level. If we want to see a relatively unconstrained encounter between national democracy and capitalism this would be it. But Streeck not only passes over this experience, he designates it as the first stage of his sequence of displacements. In his three-phase scheme, the 1970s stand for inflation. Rather than an era of creative policy experimentation it was a scene of illusory monetary validation of unsustainable claims. Inflation, according to Streeck, was a «trick» by which, through the medium of money, resources were fed into the distributional struggle that «were not, or were not yet, really available».[8] Not only is this a reductive reading of the historical experience of the 1970s.

7 Ibid., 253.
8 Ibid., 62.

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Streeck's treatment of inflation reveals a series of highly symptomatic tensions at the heart of his analysis of politics, economics and history.

Streeck's central metaphor of buying time is suggestive no doubt. In the German political lexicon it forms an antithesis to «*Nachhaltigkeit*» or sustainability. It suggests an apocalyptic conclusion, a final ending, the moment when time catches up and must be repaid. This is certainly suggestive, but at times one gets the impression that Streeck has become entangled in his own image.[9] It is not in fact possible for a society viewed in isolation to draw resources that are not yet «real» from the future into the present, neither through borrowing, whether public or private, nor through inflation. Of course it is possible to borrow from foreigners. But this implies a question that Streeck never poses. For every society buying time in this way there must be others willing to sell it. Indeed, Germany itself with its chronic export surpluses is just such a country. But these differences within the system of international political economy receive no systematic treatment by Streeck. He offers us no international political economy, no account of the uneven and combined development of capitalism that would account for the huge macroeconomic imbalances of the present. The problem is that this undermines his entire metaphor of «borrowing time». Because if debts are not contracted with foreigners, if funds are borrowed internally, what this does is not to borrow time, but to redistribute command of resources in the present. In the case of borrowing this is matched by an off-setting promise of repayment in the future. Inflation is more disorderly and chaotic. Rather than buying time it alters the terms of nominal contracts both in the present and the future. If anything, by destabilising long-term contracts it tends to increase the pressure of time, to increase anxiety about the future. It is also, therefore, a stimulus to action and not merely to illusory action. It brings about not an illusory but a real redistribution to those who aggressively assert their wage and price claim from those who do not. Nor is this neutral with regard to growth. What Streeck nowhere acknowledges is that the high inflation countries in the 1970s like France, Italy, the UK and the US in fact all grew faster than the two low-inflation stand outs, Germany and Switzerland. In fact, there is little or no econometric evidence to suggest that inflation at moderate levels around ten per cent is in any serious way harmful to growth, or that it must necessarily be short-lived.[10] Under the sign of his guiding metaphor of borrowed time, Streeck is far too willing to accept conservative politics at face value, to naturalise the neoliberal deflationary campaign of the early 1980s as an inescapable economic necessity.

What inflation certainly is, is a stimulus to distributional conflict. The 1970s were one of the great eras of social struggle throughout the industrial world. And it is hard to avoid the impression that this make Streeck uneasy. Despite the fact that

9 Ibid., 62–64.
10 M. Bruno / W. Easterly, «Inflation and Growth: In Search of a Stable Relationship», Federal Reserve Bank of St Louis. Review May/June 1996.

he advocates resistance and new era of democratic contestation, he seems remarkably wedded to the decorous political habits of the era of the «great moderation». Given the narrowness of modern policy debate, Streeck pleads for an open language. Against the blackmail of economic rationality he invokes a courageous refusal of responsibility. He is all for street protest and political outrage. He evokes the spirit of violent insurrection.[11] But when it comes to the distributional battles unleashed by an inflation, his embrace of irresponsibility has its limit. A return to the inflationary politics of the 1970s he argues is out of the question because of the «immense risk» of «political instability».[12] But to advocate more democracy under the current conditions of global political economy, as Streeck professes to do, is surely to risk more «political instability». What else could it mean? Deliberation will not be enough, but nor will demonstrators hurling paving stones *(Pflastersteine)*. It is precisely, open-ended distributional struggle that must be risked.

What Would Inflation Mean?

Streeck's most sustained discussion of the issues surrounding inflation comes in the final section surveying future options. Given the enormous levels of debt Streeck acknowledges that something must be done. He approvingly cites the work of the radical-chic anthropologist David Graeber. Streeck acknowledges that there is temptation to engage in inflation as an answer to the debt problem. It is an open secret that experts around the International Monetary Fund are eying four per cent as a new inflation target for the world's major central banks. It is no coincidence that a policy historian such as Carmen Reinhart has turned her attention to the era of financial repression between 1945 and the mid 1950s, when rapid post-war inflation helped to pay down the debts accumulated by Britain and the United States during World War II.[13] Their debt levels today are still modest by comparison with what they were in 1945. But in Streeck's historical schema this positive use of inflation as part of a socially equitable fiscal consolidation has no place. When it comes to inflation Streeck is a man of caution. An inflation embarked upon as a deliberate measure of policy, might soon accelerate to a canter and then to a gallop. Central bankers would soon find themselves in the position of the «sorcerer's apprentice». This would not be a return to the 1970s. It would be worse. One cannot dip twice into the same stream, Streeck tells us – ignoring his own proclivity for invoking Bretton Woods. Unlike in the 1970s this would not be a trade-union-driven inflation, but a bankers' inflation. A surge in prices would be dangerous, he argues, because workers today are not organised to defend themselves. The losers would be pensioners and welfare recipients. There is no doubt some weight in this argument. An infla-

11 Streeck, *Gekaufte Zeit,* 224.
12 Ibid., 234.
13 C. M. Reinhart / M. B. Sbrancia, *The Liquidation of Government Debt,* NBER Working Paper 16893, March 2011.

tion would certainly be a distributive struggle. But would it be harsher than the current deflationary repression? Even if it were a bankers' inflation it would serve the purpose of alleviating the dead burden of debt that presses so ruinously on the public budgets of the rich countries. And if Streeck's fears of a magical process run out of control were to prove true, would an accelerating inflation remain a bankers' inflation for long? Are inflationary surges and levels of trade union organisation not causally interconnected? Is the deflationary great moderation since the 1980s not one of the key factors undermining collective labour market mobilisation? Certainly in the 1960s and 1970s it was not simply that the trade unions drove inflation, but that inflation helped to stimulate collective organisation and class conflict. Cutting out this feedback loop from price instability to social mobilisation is presumably one of the unspoken pressures behind the deflationary consensus since the 1980s. A revived politics of inflationary struggle under the sign of inflation would no doubt be risky and disorderly but, to reiterate, for advocates of a new era of democratic policy-making that is hardly a reason to shy away from it.

If processes of social mobilisation of this kind were set in motion, it would however call into question the viability of Streeck's own preferred international financial architecture – his orderly vision of a new Bretton Woods with adjustable pegs. The irony of Streeck's position is that small country Keynesianism can only effectively shelter behind an adjustable peg, if domestic prices do not adjust to exchange rates. Only if domestic society is unresponsive to the shock of devaluation and accepts the reduction in the standard of living that it implies without protest or resistance, will it achieve the equilibrating effect that seems essential to Streeck's model of a multi-speed Europe. Once more we find that built into Streeck's historic vision is the paralysis of the distributional struggle which he professes to regret. Were organised distributional struggle to resume it would make a small country Keynesianism very hard to implement. Once again the 1970s ought to be a crucial point of historical reference. Maintaining a fixed exchange rate regime of any kind, whether adjustable or not, whether or not capital controls are in place, has historically offered not an open field for democratic experimentation, but a serious form of external discipline. If one favours democratic autonomy there are two choices. One is a regime of floating exchange rates, which implies its own risks which can be managed only with considerable discipline and good fortune. For the countries of Europe it is hard to see this as an option unless one is willing to countenance considerable disintegration. The alternative, as became obvious after the disintegration of Bretton Woods, is the formation of a truly large currency union, large enough to be relatively invulnerable to the most acute forms of financial market pressure.[14] That is what the Euro is.

14 H. James, *Making the European Monetary Union,* Cambridge, Mass. 2012.

The Euro, Germany and the European Project

Why then is Streeck so pessimistic about the Euro? For him the Eurozone is the logical outcome of a Hayekian strategy of neoliberal pacification. But that is only part of the story. It was in large part also a grand bargain between Germany and France over governance in Europe. It was in any case a highly political fix. The terms of that fix are not set in stone. Nor are they anchored in anything other than politics. Despite Streeck's repeated reference to this analogy, the Euro is not a return to the gold standard.[15] His intention in pushing this point is to invoke the famous critique made by Polanyi of utopian market liberalism and to highlight the conservative anti-democratic implications both of the Euro and Gold. But the analogy hides the true perversity of our situation. The Euro will never be able to claim natural foundations. It is not a metal-backed system. It is a pure fiat money system in which the expansion of the money supply is a techno-political decision. Furthermore, it is large enough on a global scale to give a European polity at least the scope for policy autonomy enjoyed by the United States or China. What gives the Eurozone its austere bias is the grand political bargain between Germany and the other members of the Union and the entrenched austerity culture that dominates the political scene of the Federal Republic. In the recent crisis, the chief opposition to a coordinated reflationary policy at the European level came not from capitalist business, or even the bond vigilantes. At the height of the Euro crisis, the opinion-shapers of the Anglosphere were howling for the ECB to act like a true central bank and to provide an unlimited backstop for public debt. Deflation not inflation was the great fear. The true opposition to such a policy came from within the German political class. What dominates Berlin as it did Bonn is a cross party consensus in which domestic restraint, mercantilist export orientation and pro-European politics are forged into an unshakeable iron triangle. It is a peculiarly German configuration that took shape around the *Bundesbank* in the era of the social-liberal coalition and the collapse of Bretton Woods in the 1970s.[16] Despite the passage of time, despite the very different political and financial conditions it persists down to this day. Polished in the light of record export surpluses and reinvigorated by Germany's privileged trade partnership with China, it seems a model that is future proof for a new century. In light of the challenges facing the European project today, the unwillingness to question or to modify this national vision of political economy is a failure of historic proportions, once more reaffirmed in the recent German elections. Against this backdrop, for Streeck to offer an alternative vision of Europe is an achievement in its own right. But in advocating the break-up of the Euro he in fact backhandedly affirms the unshakeable convictions of the German consensus. The others are different. They must go at their own less competitive pace. But if the goal is democratic autonomy in economic policy-

15 Streeck, *Gekaufte Zeit*, 238–240.
16 P. A. Johnson, *The Government of Money. Monetarism in Germany and the United States*, Ithaca, New York 1998.

making, Streeck's vision of a multi-speed currency system is surely a dead-end, most probably for Germany as well. For Europeans, to exercise any true democratic autonomy over economic policy they must do so at the level of Europe as a whole and to do so they must break with the policies of austerity-mercantilism first forged in reaction to the 1970s, the shadow of which still lies heavily over Streeck's book.

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