

THE POLITICS OF INFLATION: AN UNORTHODOX PERSPECTIVE

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Inflation is widely regarded as the single most important problem in contemporary capitalist societies. In one way or another it affects the interests of each individual member of these societies. Now one would have thought that a subject of such great importance would automatically attract the attention and concern of all the social science disciplines. But this is not the case. The truth is that inflation has been claimed as the exclusive concern of the discipline of economics and within economics itself, the subject is virtually monopolized by those regarded as specialist in the field of monetary and/or fiscal theory.

It is therefore quite strange to find a political scientist focussing on the problem of inflation. In fact, by so doing he leaves himself open to the charge of breaching certain accepted rules of the academic game. But this is the type of charge which he should be quite willing to stand and face. For it is clear that inflation is as much a political as it is an economic problem, and that by organizing a discussion from within the perspective of an explicitly political framework we might succeed in directing attention to aspects of the subject which might otherwise be ignored.

The political scientist is interested in the way power is acquired and once acquired how it is used and ultimately lost or maintained. Accordingly, political analysis always involves attempts to understand the nature and quality of governmental policies. It tries to answer questions related to why certain policies are adopted and where appropriate offers normative recommendations

for or against particular institutions and practices. Thus, for example, this essay directs attention to the problem of inflation as both a cause and a manifestation of governmental policies.

It begins from the premise that inflation can be seen as one expression of antagonisms between labour and capital within the political economy of advanced capitalism. Specifically, it tries to show how pluralist political institutions by seeking to mask class antagonisms actually serve as one of the pivotal factors responsible for generating and perpetuating the inflationary process. Altogether, it is concluded that inflation is a structurally inherent characteristic of both capitalism and the pluralist competitive system which services the needs of advanced capitalist economies.

In the strictly economic sense, inflation is a sustained, spiralling rise in prices. Generally, this phenomenon is explained either in terms of so called "cost push" or "demand-pull" factors. In the former situation, increases in the cost of production are countered by price increases as employers strive to maintain or improve the profitability of their establishments. Rising prices reduce the real wages of employees and hence generates increases in wages. Wage increases lead to further increases in costs, which in turn produces upward movement in prices with corresponding wage increases as the original process repeats itself in a circular and potentially self-perpetuating manner.

In the case of "demand-pull" inflation, price increases supposedly occur because effective demand for goods and services exceeds available supply, and for one reason or another production

cannot keep pace with continuously rising demand. This is the type of situation which is generally summarised in the popular definition of inflation as being "too much money chasing too few goods".

From the perspective of orthodox economic theory, solutions to the problem of inflation rest primarily on the discovery and use of appropriate monetary and/or fiscal strategies. These strategies might involve restrictions or expansion in the money supply, and fiscal methods might have to be employed to shift resources from consumers to producers or vice versa. Different theorists prescribe different remedies, but most of the literature on the subject begins and ends with the conviction that in terms of cause, effects and solution, inflation is an economic problem for which technical answers can be found within the basic demand versus supply paradigm which stands at the core of bourgeois economic theory.

The political scientist looks (or ought) to look on inflation in an entirely different way. What for the economist is primarily a technical problem emerges in political analysis as a problem of power and competition for power among social classes and groups. What is seen by the economist as variables which are manipulatable within an artificially self-enclosed equilibrium theory of demand and supply, the political scientist views as actual relationships, occurring in a real and complex world in which inflation can produce concrete benefits and rewards for some and corresponding misery and deprivation for others.

The way inflation is discussed by bourgeois economists

provides a good illustration of the type of mystification which capitalism generates. Struggles for power and control among and between conflicting classes are transformed into lengthy and often esoteric debates about adjustments in technical relationships. In this way problems are removed from the sphere of real world concerns and transformed into a series of highly abstract and often times superficial theoretical abstractions. And the economist instead of striving to solve the problems of society plays instead a critical role in the masking and disguising of reality.

(ii) Discussions of inflation should properly begin with the understanding that it results from inequalities in the distribution of wealth and incomes within and between nations. Inflation should be recognized as one important manifestation of on-going struggles between wage labourers and those who own and control the means of production. What bourgeois economic theory identifies as demand pull inflation usually represents in political terms an outright aggressive initiative on the part of the owners of capital to secure additional advantages for themselves at the expense of other groups and classes. And what is technically described as cost-push inflation occurs when the working classes are either initiating the struggle for social justice or defending themselves against efforts to withdraw or reduce some of the benefits which they have already managed to achieve. Support for these assertions will shortly be produced.

The political approach to inflation rejects the view implied in bourgeois economic theory that inflation is the result of mysterious technical forces against which there is either no defense, or

if there is a defence, this can only be operationalized by skilled technicians working in the field of fiscal and monetary theory.

Inflation is not produced by invisible market mechanisms. It is the result of calculated political activities undertaken by real people in the quest to secure desired goals and benefits. For example, it is not an "invisible" hand which causes the demand for commodities to sometimes exceed the supply and thereby generate increases in prices. Where demand is consistently greater than supply, this situation has more likely than not been sparked by efforts on the part of the employer class to unilaterally increase profits at the expense of the labouring class. Excess demand usually means that the owners of the means of production have conspired among themselves to reduce the rate at which certain commodities are produced. Extensive advertising and public relation campaigns are used to artificially force up the level of demand for particular goods and services while little corresponding efforts are made to increase on-going levels of production.

That these situations actually occur, but are nevertheless unrecognized in the standard theories of inflation, is largely the result of the continued reliance on irrelevant economic models which assume freely competitive markets in a real world which is characterised by the increasing monopolisation of supply by fewer and fewer firms which collaborate among themselves to maximise corporate profits.

If the so-called demand-pull inflation is primarily an initiative to increase profit margins, then cost-push inflation is frequently the result of efforts on the part of the working

classes to expand or protect their interests. Faced with economic conditions which are clearly perceived as unjust and inequitable, the working classes are forced to engage in remedial political actions. These political actions may range all the way from go-slows, to strikes or even to the physical intimidation of employers and the destruction of industrial equipment. Where the working classes succeed in obtaining increases for the price of their labour, the owners of the means of production will usually retaliate by increasing prices in order to maintain profits at constant or rising levels. Hence the need for a new initiative and in every case action produces reaction as each class struggles to maintain or improve its position.

It is these continuous political struggles which produce the familiar cycle of inflation → deflation → reflation → inflation in capitalist societies. In political terms, these cycles reflect stale-mated results -- or if you wish, wars with no clear cut victories. At certain periods one or another of the two principal classes might secure temporary victories, but these victories are eventually negated by subsequent defeats, and in the end the status quo remains basically unchanged.

#### PLURALIST COMPETITION AND INFLATIONARY POLITICS

One important reason for the stale-mated character of the political encounters between classes stems from the nature and functions of governmental institutions in capitalist societies.

Indeed, it is the government which usually umpires the struggle between classes, and it performs this umpiring function in ways which ensure that no permanent advantages are gained by one side or the other. An examination of the political institutions of advanced capitalist societies should help to illustrate how this process works.

The governmental institutions which operate in advanced capitalist societies are usually based on what has come to be known as the pluralist competitive political framework. The most salient feature of this model is the institutionalization of political competition as a means for selecting between various aspirants for governmental power. Competition is organized through mass multi-class or "catch-all" political parties. As the term "catch-all" implies, these parties seek to obtain support from all classes and groups. And because of this dependence on political support from all classes, no political party operating in this kind of system can afford to pursue policies which might alienate the support of either capitalist or wage-earners. The working classes must be courted because of its numerical size. And the employer classes must also be courted because it is from this class that the resources which political competition requires invariably comes. What this means is that a governing party under the pluralist model will use its political influence to balance and restrain rather than to heighten or aggravate contradictions and conflicts.

Thus pluralist governments will engage in those types of fiscal policies which are unlikely to produce permanent enemies



in any of the major camps. It should, however, be emphasized that pluralist policies by maintaining the status quo actually serve the interest of the employer class since it is this class which enjoys privileged positions under the existing system. Thus in "balancing" and "stabilizing" conflicts between classes, the pluralist system actually institutionalizes inequalities in capitalist societies. It is also quite obvious that in the absence of a balancing and restraining pluralist system, the political resources at the disposal of the owners of the means of production would not be enough to prevent the ultimate triumph of the working class.

But the pluralist competitive system does not merely respond to the manifestations of inflation by mediating between conflicting classes. As paradoxical as it might appear, pluralist politics also plays a critically independent role in the actual generation of inflationary conditions. For pluralist governments in their attempts to obtain multi-class support find it difficult to deny claims for resources regardless of the class from which these claims emanate. Hence in pluralist political regimes, governments are nearly always compelled to provide more resources than the society can afford.

Reluctant to make claims on the resources of its citizens while simultaneously forced to respond to a great many of the claims made on it, pluralist governments are inclined to spend more than they can afford. Thus another way of looking on the politics of inflation is to see it as the "debit-gap" between political imperatives and economic realities. And inflation in the

debit-gap sense of the term appears to be inseparable from the character of pluralist political competition.

Traditionally, the practice of imperialist exploitation has played an important role in keeping this gap within manageable limits. This is, of course, one reason why pluralist institutions have historically only been able to survive in societies which possessed the will and the capacity to expropriate the resources of other societies and then deploy these resources to meet domestic requirements. Thus pluralist democracy has emerged as a "perverted luxury" which only those countries which practice imperialism can afford to maintain.

In recent years the growing exercise of producer sovereignty by the so-called developing countries is making it increasingly difficult for Western industrialized nations to export their inflation by paying low prices for raw materials and charging exorbitant ones for their manufactured commodities. Hence what we have called "debit-gap" inflation is becoming one of the problems which places severe strains on the survival capacity of pluralist democracies.

In fact, the situation has now reached the stage where the capitalist classes are experiencing great difficulty in financing investment costs for new and more technologically sophisticated industrial equipment. As it becomes more and more difficult to use imperialist methods for obtaining investment resources, the owners of the means of production are reluctantly coming to the conclusion that the funds which are required to re-tool and re-finance capitalist development can only be generated

within the industrial societies themselves. Thus the capitalist class has become unwilling to either concede wage increases or to lower the prices of its commodities. It is this increased resistance to make concession on any front which has led to the condition frequently described as "stagflation". In political terms "stagflation" is a manifestation of a major crisis in capitalism. For what it means is that neither of the two dominant classes are willing to make even temporary concessions out of the fear that to do so will result in permanent damages to its interests. In terms of our earlier discussion, stagflation means that the class is simultaneously using both "demand-pull" and "cost-push" inflationary techniques as political weapons to curb the usual countervailing techniques traditionally employed by the working class.

Faced at one and the same time with both inflationary and recessionary conditions, pluralist institutions appear to be incapable of devising workable solutions for stabilizing the system. It is therefore not surprising to find more and more individuals indicating disillusionment with pluralist democracy. The truth is that it is being increasingly recognized that a political system which tries to be all things to all classes might no longer be able to perform effectively under existing conditions. Thus, there is growing urgency in appeals for the introduction of political arrangements with the capability to make and enforce binding decisions and settle what appears to be the intractable demands which are being made by conflicting classes. In short, pluralism

\* Cost push inflation is normally a working class weapon. But it can also be used by the owners of the means of production in the sense of autonomous actions on their part to force up the factor costs of all other elements of production except wages.

is becoming less and less attractive to both capitalists and wage-earners. The problem is that the catch-all character of pluralist competition forces decision-makers to keep straddling the fence even as the economic situation grows more chaotic and confused. Indeed, in North America and most of the Western Europe, conditions have reached the stage where realistic options under the pluralist system are seen as amounting to a choice between persistently high levels of unemployment or persistently high rates of inflation.

Confronted as they are with a shortage of badly needed funds for capital investment, severe pressures are being placed on pluralist governments to discipline the working classes in ways which will demand that they either accept reductions in real wages or face the threat of unemployment. Weak advanced economies such as Great Britain appear to have already made the choice to place governmental resources firmly on the side of the capitalist class while trying simultaneously to both coerce and persuade the working class to passively accept reduction in their standards of living. One can predict, however, that this type of strategy will not be pursued for long — at least not under pluralist government, which by their very nature lack the power which would be required to coerce the working classes into the type of submission which the present state of international capitalism apparently demands for its continued expansion. Already the view is gaining acceptance that if new life is to be injected into the international capitalist system then what is required are political institutions with a stronger authoritarian dimension than pluralist

competition normally allows.

This argument is reinforced by the recognition that the new phenomenon of stagflation cannot be solved by the use of the once-reliable Keynesian fiscal techniques. And that in the absence of any kind of new approaches, the choice might have to be made between pluralist competitive institutions and the survival of capitalism as a viable system of economic and social organization.

There can hardly be any doubt that pluralist political institutions are incapable of resolving the contradictions and crises of capitalism. Indeed, there is a sense in which these institutions are aggravating rather than aiding in the solution of critical problems. The pluralist system apparently lacks the dynamic for inducing change. It is, as we have said, a status quo oriented system. Increasingly, its role is being limited to attempts to control the problem of inflation - or what is another way of saying the same thing - of trying to defuse political conflicts between the capitalist class and the labouring classes. This struggle has nevertheless continued and has perhaps even intensified in recent years. Frustration with the pluralist system becomes more pronounced as the major classes appear tired of stalemate and anxious for things to move ahead in the direction of their particular class interests. Thus, we are witnessing a polarisation of classes, and what might be the first clear sign that the contradictions inherent in capitalism are about to generate intense struggles with a decisive result.