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The Elephant in the Room: Inflation Today

In the preface to a book published in 1978, Paul Mattick Sr., father of the author under review, opens thus: “Commenting on the proceedings of the 1977 convention of the American Economic Association, an editorial in The New York Times lamented the fact that ‘today’s economists seem mere dabblers in the sweep of intellectual history. They may be richly rewarded by business for their stabs at forecastings and their analyses of government regulation or floating exchange rates. But where are the attacks on the biggest problem of our time: achieving growth without spiralling inflation? Most economists were dismal scientists when they arrived. Despite the drinks and the chats, they were unchanged when they left three days later.’”[1]

The introduction to Paul Mattick's latest book, The Return of Inflation: Money and Capital in the 21st Century, written some forty-five years later, reads like a timeless echo of the above: “If the economy looks unclear to you,” an article by an economics reporter for the Washington Post began in early November 2022, ‘rest assured—it looks that way to the people in charge of stabilizing it too.... In an hour-long news conference on Wednesday, [chair of the Federal Reserve] Powell said ‘don’t know’ four times” (p. 9).

Over and above the remarkable prolongation of a common intellectual project across two generations, this juxtaposition underlines the extent to which the crisis of mainstream, post-Keynesian economics has hardly changed since the 1970s. Even in the establishment press, the incompetence of economists, the sheer unreliability of their chop-and-change predictions, is something close to received wisdom. “When professional economists openly confess their ignorance about the current dynamics of inflation, a non-professional may
as well weigh in on the subject," writes Mattick in a book defiantly written for the general public (but probably, one suspects, more for students), which starts, not from Marxist first principles, but from a critique of economic theory on its own terms (p. 12). Accessible and clear, this is a very different book from Mattick’s previous publication, the dense and challenging *Theory as Critique: Essays on ‘Capital’* (2019). What follows is a rough and ready summary of material which is already highly condensed.

The “science” of economics emerged in the attempt to understand the value of money, and to assure producers and investors that it would at least maintain its original value. In 1776, Adam Smith advanced a labor theory of value, which held that the value of a good was determined by the labor required to produce it. But Smith also confused labor values with prices; the former change with increases or decreases in the productivity of labor, whereas the latter are determined by the equalization of profit rates based on the quantity of invested capital and imbalances between supply and demand. Although modern economists no longer accept the labor theory of value, they do share Smith’s assumption that consumption is the sole end and purpose of production; the market economy, an unanalyzed given, is seen as a sort of complex barter system, in which values and prices, indistinguishable in this perspective, represent the right matching of supply and demand. Economic relations thus become a monetary relation between two exchangeable goods, which measure the value of each other, magically regulated by the “invisible hand” of the market.

For neoclassical economics, dominant at the end of the nineteenth century, the value of money (measured by what it can buy) was also determined by supply and demand. “The new approach,” explains Mattick, “centered on the exchange of goods and services among individual owners, regulated by those individuals’ subjective evaluations of owned and desired property.... Since each person’s goal is maximum satisfaction, if no factors external to the ‘real economy’ of production and consumption—such as bad weather, pestilences, wars and other sorts of government interference—disrupt its operations, it will settle over time into a state of equilibrium in which all individuals have made out as well as they can, given the resources at their disposal ” (pp. 53-54). Equilibrium requires that economic agents—producers, investors, workers, consumers—be mutually satisfied: wages cannot be too high as to make profits too low, prices cannot be too high as to be unaffordable, and so on. Equilibrium also requires that the quantity of money in circulation be stable, to avoid inflation. The economy is viewed as a mechanism (like an energy field) in which prices are set by a system of simultaneous exchanges, unified by the force of subjective choices. Both classical and neoclassical theories rely on highly unrealistic assumptions about the functioning of the market, seen as tending naturally toward an optimal equilibrium.

Neither of these theories adequately explained the periodic crises besetting the system. During the Great Depression of the 1930s, a steep decline in wages did not lead to full employment, and falling interest rates did not lead to increased investment. The Keynesian revolution in economics, a response to the manifest failure of neoclassical theory, broke with the latter by insisting that money, rather than being a simple lubricant for facilitating market exchanges, had a life of its own in the form of investment and speculation. But Keynes did not break completely with neoclassical theory, accepting the idea that the capitalist economy tends toward an equilibrium of supply and demand. Industrialization had brought a new problem to solve: the harmonization of the cycles of mass production and mass consumption. The Great Depression resulted from the sudden decline of investment; it followed, according to Keynes, that it was the duty of the state to stimulate consumption by income redistribution and...
debt-financed investment. This led to what was known as a “mixed economy” in which the state intervened to assure full employment and long-term equilibrium. For a time, Keynesian policies seemed to provide a way of successfully managing a modern capitalist economy. But in the course of the 1960s and especially in the 1970s, inflation grew to what were considered unacceptable levels, with rising prices, rising wages, and rising unemployment.

From the eighteenth century (if not earlier) to this day, the dominant conception of equilibrium (and the lack thereof) has been the “quantity theory of money,” the idea that prices are directly correlated with the amount of money in circulation: an excess quantity through the over-issue of credit produces inflation, and an insufficient quantity, deflation, both with deleterious effects. The monetarist Milton Friedman argued that the economic system self-equilibrated at a “natural” rate of unemployment, and that any attempt to lower joblessness would only cause increased inflation, further destabilizing the system. In keeping with this diagnosis, Friedman urged a return to the quantity theory of money as an antidote to the demand-induced inflation resulting from Keynesian policies. No longer constrained by any relation, however tenuous, to gold, money required some other principle to limit its quantity: this was to be the constant tinkering with interest rates. Put into practice by the chairman of the Federal Reserve Paul Volcker from 1979 on, monetarist policies did in fact lead to a fall in inflation, but at the cost of high unemployment and widespread business failure. The result was not equilibrium but deep recession. However, as Mattick argues, “neither the theoretical and empirical weakness of the Quantity Theory nor the practical failures of Monetarism—like those of Keynesianism—have inhibited the continued role of both approaches as shapers of economic theory and policy” (p. 74).

The title “The Return of Inflation” may seem somewhat untimely, given that the worldwide rate of inflation has superficially stabilized since 2023, after its initial burst in 2021. Mattick emphasizes that during the previous decade, when official rates of inflation were very low, there were huge increases in stock market and real estate values; rents and mortgages in big cities have become near unaffordable for essential middle-class professionals like nurses, tradespersons, and teachers. Inflation appears to be a natural phenomenon, but prior to the 1920s prices had generally undergone a steady decline. However, the period since the Second World War has seen a constant inflationary tendency, with occasional bursts. Statisticians at the Bank of England note that the index of prices tripled between 1694 and 1948, but has risen almost twenty-fold since. Most discussion of inflation today refers to a consumer price index (CPI), which oversees prices of a selected group of goods and services purchased by a selected group of consumers. What we have here is a good example of a statistical artifact, for such indices require decisions as to what sets of goods are comparable, in complete abstraction from real-world factors (market manipulation, kickbacks, etc.). In 1978, the CPI switched its focus from the prices of a basic set of products to the “utility” of consumer preferences (for example, pork instead of beef, imaginary rents instead of the real cost of owned houses), whose immediate result was to artificially lower the official rate of inflation. Mattick cites the classic work of Oskar Morgenstern to argue that statistical series are “highly approximative at best, and quite misleading for the most part” (p. 101).[2] More recently, economists have come up with the distinction between “low-level” inflation (tolerable) and “sustained” inflation (dangerous), which can set off positive (i.e., self-reinforcing) feedback between price and wage increases and which must be nipped in the bud at all costs (through layoffs, wage reductions, and cuts in public spending). A dismal science indeed!

In the absence of sufficient self-generated growth, capitalism has become dependent on debt-fueled state spending, in large part to assure
the continued existence of social provision for political reasons. According to Mattick, “a cessation of government spending—now responsible worldwide for at least 40% of economic activity as measured by GDP—would plunge the world into a depression of unimaginable depth. It was widely agreed, for instance, that a failure to expand government credits to bail out the financial system in the face of the 2008 crisis would have led to a general collapse of the world economy” (p. 112).

Price increases, the only means for firms to subsist in an economy of declining profitability, require increases in the supply of money, met not only by the constant expansion of government debt, but also by private credit, far beyond what can be issued by a central bank. Such an inflationary spiral was tolerable during the thirty-year post-World War II boom. But the twenty-first century saw an additional money supply in the form of “shadow banking,” carried out by highly leveraged pseudo-banks operating outside the constraints of government regulations. The result is the rise of “magic money” or fictitious capital that will never be valorized. Trillions of dollars of financial assets—as much as 32 trillion in some estimates—are stashed away in tax havens in the absence of profitable investment possibilities, while hospitals, schools, universities, subsidized housing, infrastructures, social services, and last but not least, the vital transition to decarbonized energy sources go without adequate funding, and inequality on a worldwide scale is out of control. For Mattick, the postwar regime of public debt and private credit has transformed capitalism into a sort of Ponzi scheme, leading to permanent crisis. In other words, the world economy is a ticking time bomb; those countries which have not yet degenerated into predatory gang warfare are increasingly resorting to repressive policing as a substitute for unsustainable state provision. Mattick concludes his short and pithy book thus: “Whether people will stick with acquiescence as the inherent limits of capitalist development shift the balance from credit-based social management to violence is an open question. The accelerating ecological effects of the unbridled quest for monetary gain ... may well be another factor prompting the abolition of a society that has made money its central mystery. Difficult though it still may be to imagine it, as this social order had a historical beginning, it can certainly be brought to an end” (p. 146).

One hesitates to invoke once more Fredric Jameson’s famous adage about the difficulty of imagining the end of capitalism (but not that of the end of the world), which has become a prevailing cliché. Nonetheless, Mattick’s open-ended conception of the end of capitalism is a common rhetorical flourish in the absence of an adequate theory of transformation and a viable revolutionary subject. Thus Tony Norfield, a former trader turned Marxist economist cited in the notes, after an impressively detailed account of the nefarious workings of international banking, cannot resist the following final sentence: “only a stake in the heart of the capitalist system, not simply in some of its financial forms, will be enough to see an end to the power of the beast.”[3] Easier said than done: the hydra-like vampire is both omnivorous and omnipresent, no longer vulnerable to a single stake in a single heart, still less to the storming of its winter palace. To the consternation of many Marxists, David Harvey went so far as to suggest that the future mission of the Left will be to shore up some form of capitalism if humanity is to survive.[4] In a postpublication interview, Mattick declared peremptorily: “I would say it is less utopian to call for the abolition of wage labor than to make ... left-Keynesian political demands.... [Social democracy] is not a viable position.”[5] But then what is?

After reading Mattick, it seems incredible that far-fetched fantasies lacking in any empirical grounding or explanatory efficacy should still rule the roost in institutions, government administrations, banks, and universities, and go substantively unchallenged among political actors, even
those on the left. One thinks uncharitably of mountebanks and charlatans like snake oil-selling “professors,” or blood-leaching physicians; if humanity survives into a postcapitalist regime, the quarrelsome guild of economists will surely be seen as such. But in the meantime, economics as a pseudo-science survives, not only because of its prime ideological role, but also because of the lack of convincing alternatives. Seen in this light, the crisis of capitalist economics and the crisis of socialist politics (in the broadest sense) are two sides of the same coin. In the introduction to his previous book, *Theory as Critique*, Mattick argues that “marxist economics shares with the rest of its parent discipline the absence of established, generally accepted theoretical principles and methods of data collection and analysis.”[6] For obvious social and historical reasons, Marxist thinking also lacks the sort of research program typical of an established science, and its practitioners still argue over the most basic concepts by way of competing interpretations of Marx himself.

In a rare theoretical reference to Marx in *The Return of Inflation*, Mattick speaks of “the elephant in the room of economic theory”: namely, “Marx’s prediction of the tendency of the rate of profit to fall along with the progress of the capitalist economy,” a ghostly presence throughout (p. 107). Mainstream economics lacks any theory of crisis (or even, more prosaically, of business cycles) other than the idea of unpredictable shocks caused by counternatural policies or accidental events like wars and natural disasters. The elephant in the room silently begs the question: Are we living through yet another (exceptionally long) periodic crisis of capitalism, or has the latter already entered into its final crisis, in which, at its hypothetical term of a zero profit rate, it can no longer create value? The key reference here is Henryk Grossman, whose breakdown theory, long relegated to the outer margins of Marxist theory and still awaiting complete translation, has recently seen a revival.[7] In a decisive chapter of *Theory and Critique*, Mattick largely validates Grossman’s argument of an inherent link between periodic crises and a final breakdown of capitalism, without resorting to the latter’s simplistic reproduction schemas. It is becoming increasingly clear that the future of Marxism as a political and economic theory lies with a more convincing elaboration of the long-term tendency of the rate of profit to fall and its articulation with other concepts like fictitious capital. The notion of breakdown has a sulfurous reputation because of its perceived determinism, but in no way does it imply some automatic transition to a postcapitalist mode of production. Rather, it suggests something even more terrible than capitalism itself: a total collapse of organized society into a Mad Max-like war of all against all. This would entail an entirely different perspective for the Left, namely confronting the ongoing consequences of catastrophic social decay, exacerbated by ecological factors.

Along with others like Fred Moseley and more recently Jason E. Smith, Mattick has long been working at the coal face of radical economic theory, from within orthodox economics (as here) and from within Marxist theory. His avowed project is to bridge the gap between Marx’s ideas and their application to present-day circumstances. Nothing could be more relevant, whether from inside or outside the academy.

Notes


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