

Keynote Address by Adam Tooze

“Inflation, Politics and Policy: How Do We Learn from History?”

With skyrocketing inflation rates, many Americans can not help but notice the limit of their dollar when buying groceries and filling up gas. On March 29th, Adam Tooze of Columbia University visited Kenyon College for the CSAD Biennial Conference: “What’s my Dollar Worth?” to provide historical context to this economic dilemma. Inflation, which he defined as a “general upward movement in all prices (including labor wages),” has exacerbated the anxiety that the economy brings into people’s lives. While high inflation is rare, it generally coincides with existential crises of the state, such as the COVID-19 pandemic.

In order to better understand our current moment, many people have looked back to the 1970s – the most recent period of stubbornly high inflation. Tooze’s address demonstrated how vastly different our present situation is from that of the 1970s, and therefore that comparing the inflation of the two time periods is a “complex, dangerous, and fundamentally misleading game.” He explained, for example, that policymakers had a completely different approach to controlling inflation in the 1970s. Then, they believed (based on the Phillips Curve) that inflation and unemployment always moved in opposite directions. Based on this assumption, policymakers would target a certain level of unemployment in order to maintain a desired level of inflation. But the simultaneous high inflation and unemployment (stagflation) of the 1970s prompted them to rethink their models, and led them to instead give central banks (like the Federal Reserve) the power to specifically target inflation by setting interest rates. This institutional shift was one of many included in the lecture that illuminated how different our current context is from the 1970s, and should, according to Tooze, give everyone pause from drawing equivalencies between the two inflationary periods.

Moving from the 1970s to the present, Tooze explained the causes of the current period of inflation. Due to the pandemic, we are facing both supply side and demand side inflation. The supply side inflation originates from the economy having suffered a war-level shock to the supply chain. On the other hand, the stimulus checks sent to citizens continued consumer spending despite the disruption to many Americans’ work, leading to demand side inflation. Given the current situation, some experts worry that we might experience a wage-price inflation spiral, similar to what happened in the 1970s, where wages and prices both increase and create a feedback loop. If this occurs, then inflation could accelerate at a worrying pace. To prevent this from happening, progressive economists are looking to the 1970s for inspiration. Tooze said this is a dangerous thing to do. He emphasized the limitations of looking to pre-neoliberal economic policies to deal with an economic system that remains altered from the market-focused economic reforms of the 1980s and 1990s, when Paul Volcker, chairman of the Federal Reserve, advocated

strongly for neoliberal reforms, including targeting organized labor. These reforms subsequently cultivated deep economic inequality, as corporations and wealthy individuals generated wealth and reaped the benefits of a capitalist economic system, leaving the working class behind. Because of this, looking to economic policy that worked at a fundamentally different time will not solve modern problems. Tooze demonstrated both progressive and conservative economists are perhaps out of touch and not adequately responding to the moment. He argues that our current moment demands economic innovation.

After his address, Tooze welcomed questions from the audience. One student asked him whether technology could be exacerbating some of the problems in the modern economy. While Tooze considered the question, another audience member jumped in and volunteered that perhaps the speed of withdrawals enabled by technology could have contributed to the stunning collapse of Silicon Valley Bank. Tooze interjected that this is not a new problem, though – Lehman Brothers collapsed just as quickly in 2008. Some back and forth continued as Tooze considered the question. This interaction was emblematic of so many interactions that this conference fostered; it was just one of many thought-provoking conversations trying to get at the biggest economic issues of our time.

Rapporteurs Joseph Ferrari and Ashita Wagh are CSAD Student Associates in the class of 2024.