Bob Hancké Tim Vlandas December 11th, 2025

The politics of inflation and disinflation from the 1950s to COVID-19

What are the political effects of rising inflation? Drawing on a recent book, ***Bob Hancké*** *and* ***Tim Vlandas*** *show how the aftermath of the inflationary episodes of the 1970s can shed light on what has happened over the past five years.*

After three decades when it appeared tamed, inflation – a sustained rise in prices – made a dramatic reappearance during the economic aftershocks of the COVID-19 lockdowns. This not only reopened a debate about the causes and effects of inflation but also about the broader policy framework underpinning low inflation.

This model revolved around conservative, independent central banks targeting low inflation rates, as well as tight fiscal policy. It was supported by flexible labour markets where wages reflected market dynamics – "monetarism", as it became known, to distinguish it from Keynesianism.

History as a guide

In a recent book, entitled The Great Moderation Revisited, we try to make sense of the widespread adoption of such monetarist policy regimes between 1975 and 1990. This is far from a new question, and a vibrant debate has developed around it.

Many have emphasised the crucial role of ideas in that process. Once politicians were persuaded, rightly or wrongly, that low inflation was the optimal policy (and thus would not use interest rates as political instruments), they institutionalised a monetarist regime.

For others, international political-economic factors matter more. Since the central banks that were pivotal in the global and European monetary systems (the US Fed and the German Bundesbank) were very conservative, governments and central banks in other countries were forced to adopt similar restrictive policies.

A third group of authors have examined the broader shift away from centre-left policies and towards neoliberalism. Parties on the political right always cared more about inflation than unemployment, and the collapse of social-democratic parties in the 1980s, partly linked to weaker unions, implied the political demise of the Keynesian policy regime.

While we think all these explanations help us understand important parts of the story, they leave out, somewhat surprisingly in some cases, the politics underlying the process: the question of who gets what, when and how? Politics matters, because rejigging macroeconomic policy regimes always involves a profound redistribution of income, wealth and life chances. Those who benefited from the Keynesian regime are bound to suffer from its reversal and vice versa.

The political economy of inflation and disinflation

Politics has, in our reading, two crucial components. One is what we think of as its socio-economic basis. If average households depend primarily on wage labour for their income, and hold relatively few assets, they prefer economic policies that further growth and employment over policies that fight inflation – paraphrasing Bob Dylan, if you've got nothing, nothing can be eroded by inflation.

This stylised image roughly captures the 1950s, when inflation rose as a result of the Korean War but did not climb up the ladder of concerns. However, in the 1960s and 1970s, when job security increased, full employment became the norm and citizens received a decent replacement income through the growing welfare state, their relative preferences shifted. Not only was deep socio-economic insecurity a thing of the past for large parts of the population; higher real wages also implied accumulated savings. The rise in inflation in the 1970s suddenly made average households in many rich countries aware that they did have something to lose to inflation.

But policy rarely follows the preferences of average households (ie. median voters) directly. The second step in our argument therefore tries to understand the translation of that shift in life chances into the politics surrounding monetary policymaking. Left parties played, somewhat ironically, the central role in the institutionalisation of the new monetarist policy regime.

While the right always preferred inflation-fighting over employment-oriented policies, social democrats cared about employment first. For the new regime to become the new normal, therefore, left parties had to adopt both the policies and the policy regime as the new normal. And that was not an easy process.

The politics of monetarism in the UK, France and Germany

In the UK, Labour held on to the Keynesian consensus for a long time and only gained office after moving right under Kinnock and Blair. In France, the initial move left in 1981 was followed by a dramatic U-turn towards a strong currency policy – thus importing monetarism through a fixed exchange rate. And even in Germany, the supposed bastion of monetarism, the SPD first had to shed the Keynesian cloak it wore under Helmut Schmidt's leadership before adopting a restrictive fiscal and monetary policy regime.

In all three, that rightward shift of the left parties followed significant intra-party conflict between different ideological factions, and was framed by a crucial shift in the sociology of elites: leaders traditionally recruited from working-class backgrounds were replaced by new, university-educated cadres that had often risen as political advisers.

The institutionalisation of monetarism as we know it today was therefore a deeply political process. New ideas or structural power shifts certainly mattered, but without the domestic political processes that we examine, monetarism would likely not have found its new place in the world. Inflation is, as Martin Wolf of the Financial Times reminded us a few years ago, "always and everywhere a political phenomenon".

Where are we now?

What does this understanding of the shift in macroeconomic policy regimes four decades ago tell us about today? While it is probably too soon for a definitive assessment of the effects of the recent inflation spike, two preliminary insights seem pertinent.

First, the old doctrine of monetarism offered, for better or for worse, the guiding principles for the central banks' responses to the inflation shocks we have seen in the last few years. There is little doubt that the COVID-induced supply shock was at the basis of the recent rise in prices.

When economies all over the globe fell into a coma because of lockdowns, standard supply chains stopped working. Computer chips that were meant for cars, for example, were diverted into games consoles and tablets. When the economies reopened, those chip manufacturers needed to revert to chips for cars, not for consumer electronics. Because that did not happen overnight, in the (very) short run, demand outstripped supply and rising prices followed.

Yet despite the obvious supply-side origins of inflation, central banks all over the world reacted with measures to dampen demand, i.e. by raising interest rates. You can, of course, reduce inflation, even if it follows supply bottlenecks, by stifling growth. Fed chairman Paul Volcker did that in the early 1980s and the Bundesbank in the early 1990s in Germany – but it seems like a case of "when all you have is a hammer, everything looks like a nail".

There may, in all fairness, not be all that much else that central banks could have done besides sitting it out (inflation eased as soon as supply chains smoothened, and possibly regulatory interventions may have had similar effects), but the episode demonstrated the hold that monetarist thought has held over macroeconomic policy.

And politics today?

The second consideration speaks directly to the political mechanism at the basis of our argument. What sets the recent surge in inflation apart from previous periods is that it appeared on the back of four decades of falling socioeconomic security for, conservatively estimated, the bottom third of the income distribution, often concentrated in deindustrialising regions.

Compare that with the 1970s, when inflation appeared after average life chances had risen significantly and, as per our argument, nominal savings came under threat. By 2020, in contrast, the political-economic climate had changed dramatically after the pervasive political shift away from full employment, the increase in precarious and low-wage work in the bottom third, and welfare cuts and reductions in employment security that disproportionately affected poorer households.

For them, no doubt, life got tougher. In addition, the top third of the income distribution experienced an increase in the accumulation of inflation-proof assets such as housing, stocks and bonds (and human capital).

In such a situation in which life chances fell for many and effective protection against inflation rose for a few others, our model would predict that the underlying preferences of the median voter gently move to the left: the first group demands socioeconomic protection against increased uncertainty, but without a compensating counterpull at the top produced by increased assets that need protection against inflation.

A window thus opened for the left parties to redefine political priorities. But social-democratic parties have been extremely reluctant to move leftwards on the economy. One set of arguments suggests that the left's new constituency has changed to voters with sufficient human capital, who can handle shocks to life chances without too much public support beyond some basics like health and education.

Others claim, equally plausibly, that the newly professionalised leadership is socialised into orthodox economic policy and managerialism, which precludes a (re-)turn left. And, of course, there is always the basic argument by orthodox economists that there is really no alternative to fiscal and monetary discipline.

Yet, whatever the reason for ignoring it, the demand for more social protection is there, and since democratic politics abhors a vacuum, far-right parties that emphasise national(ist) solidarity, and occasionally left-populist parties with a similar but more universal programme of increased socioeconomic security, have occupied this terrain, expressed these concerns and capitalised on them electorally.

Once in office, they may well change their tune, but social nationalism, born out of a combination of falling life chances and political omertà on the topic, is a perfect vehicle to get there.

While the recent period of inflation may have been a temporary phenomenon, the political responses and effects are likely to cast a long shadow in ways that will reorganise our political systems. We suspect that the current political volatility, which jeopardises traditional party systems everywhere and has seen right and occasionally left populist challengers to the status quo, is here to stay.

This has been facilitated by the return of austerity politics, the unsettling effects of the digital and green transitions, a labour market that no longer produces stable well-paying jobs for working-class and lower middle-class voters, and the collapse of a social contract that dictated that children would be better off than their parents. As long as profound socio-economic uncertainty dominates the outlook of average households, political instability will remain a defining feature of many democracies for the foreseeable future.

For more information, see the authors' new book, The Great Moderation Revisited (Palgrave Macmillan, 2025).

Note: This article gives the views of the authors, not the position of LSE European Politics or the London School of Economics.

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