The Political Economy of Asset versus Consumer Inflation

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Introduction

From the financial crisis of 2008 until the Russian attack on Ukraine in February 2022, monetary easing had become the norm. The world's major central banks had significantly softened the criteria for debt purchases. Accordingly, their balance sheets have inflated. The willingness to severely increase government debt, already shown during the financial crisis, has become even more pronounced in the pandemic. Even earlier in 2017, drastic tax cuts in the USA had massively increased its government debt. This change of course was driven by the Republican Party that had previously advocated monetary restraint and fiscal austerity. Even in the traditionally fiscally conservative Germany, an increase in government debt in response to the pandemic was carried out under a Chancellor from a conservative party. While the quantitative easing by the European Central Bank (ECB) was much criticized by prominent German economists, the German government tolerated the ECB's loose monetary policies. However, as consumer inflation has accelerated in 2022, calls for fiscal and monetary restraint have gained strength again in both countries.

How can these reversals of positions by parts of the public and politicians be explained?

Given the rather arcane subject of central banking and the relative independence of central banks from governments, public and private attitudes toward central bank policy may not be an important topic for the study of central banks. Yet, they do influence central bank policy and its effectiveness in several ways. The strongest public influence is through fiscal policy, which is in the hands of governments concerned about their reelection. The impact of central bank policy depends on whether fiscal policy supports or counteracts it (Del Negro and Sims 2014). As the recent discussion of anchored inflation expectations shows, central bankers need to consider the public's expectations about future inflation rates when making decisions about anti-inflationary policies (Corsello et al. 2021). Moreover, central bankers are not hermits. Depending on the specifics of their country's constitution, they may have to justify their actions to elected policymakers, and of course they are in contact with expert audiences, usually composed of economists and financial market practitioners.

Our answer to the reversals of positions is based on a class-analytical perspective that highlights the differential distributional effects of asset and consumer inflation by class. Loose fiscal and monetary policies may foster increases in asset values or consumer price inflation, or both, depending on circumstances. While higher consumer inflation affects significant portions of the population, whether they own assets or not, , asset price inflation benefits those who already own assets and/or have access to cheap financing that allows them to buy assets on credit. Therefore, we hypothesize that the business community will generally support government spending, government debt, and accommodative monetary policy if its members are the main beneficiaries and inflation is mainly confined to assets. If one or both conditions are not met, resistance is to be expected from at least large parts of the business community.

This makes the analysis of class interests an indispensable part of the explanation of changing attitudes toward expansionary economic policies. However, "class in itself" does not equal "class for itself". Ideological, cultural and individual differences influence class position. Therefore, we do not exclude other factors like deeply rooted systems of meaning-making on issues of fiscal and monetary policy. Therefore, our contribution examines the plausibility of this hypothesis using the example of US and German attitudes towards the two types of inflation. Given the postwar tradition of

widespread fear of inflation and the recent political mobilization against the European Central Bank's low interest rate policy, the German case may contradict the hypothesis and support a cultural political economy perspective that emphasizes on a deep-seated concern about inflation independent of its actual occurrence.

The paper is organized as follows. We begin with a brief characterization of financialized asset capitalism and continue with highlighting the differences in asset ownership between Germany and the United States. Next, we discuss the distributional effects of inflation. We commence with an introduction of a class perspective on inflation and continue to differentiate the distributional effects between consumer and asset inflation. An analysis of the societal attitudes towards inflation, distinguished for consumer and asset inflation, follows. The empirical part ends with a presentation of the position on inflation by businesses and central banks. We conclude with a reflection on the differences between Germany and the United States in their attitudes towards the different forms of inflation.

Financialized asset capitalism

As the phenomenon of asset inflation is a typical part of financialization, we want to highlight the financialized aspects of today's capitalism. Financialization is understood to mean the vastly expanded role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international economies (Epstein 2005). Besides the significantly increased share of corporate profits by financial institutions (Krippner 2005), a conspicuous example for financialization is the securitization of loans taken out for the purchase of assets such as homes, automobiles, and financial products. While traditionally such loans were held in banks until they were repaid, they are now sold as bundles to investors around the world. The degree of financialization varies among countries (Becker et al. 2016; Kaltenbrunner & Painceira 2018).

Our study focuses on the United States of America and the Federal Republic of Germany because their economies are financialized to different degrees. On both dimensions—financialization and asset holdings—the US exceeds Germany. Therefore, the US is the more pronounced financialized country (Krippner 2005; Detzer et al. 2017; Jayadev et al. 2018). The balance of payment constraints of both countries are, however, comparably low which is insofar important since countries with strong constraints, mostly so-called developing countries, are likely to face a balance of payment crisis in case they pursue a strategy of externally funded public debt and loose monetary policies.

A key feature of a financialized economy are rising asset prices in an economic upswing. By the time the dot.com bubble burst in 2000, stock valuations had risen significantly. In the years leading up to the great financial crisis of 2008, real estate prices had risen massively. These rising asset prices had macroeconomic effects. Already in 2000, Barry Bluestone pointed out the role of rising stock prices for what he called the "Wall Street model" of economic growth. As owners of stocks feel wealthier, they would spend more. This extra spending would lead to higher output, investment, and employment. The precondition for rising asset prices is a low inflation environment allowing for low interest rates (Bluestone 2000). While direct stock ownership is limited to a small group of citizens (even in the United States only 15%; see below), homeownership is much more widespread. Therefore, when the prices for real estate accelerated in the early 2000, the wealth effect and, thereby, its contribution to economic growth was much more pronounced. Not only the demand for homeownership, but also the possibility of homeowners refinancing their mortgages at lower interest rates, thereby increasing their purchasing power, is driving economic growth. As ordinary homeowners have a higher propensity to consume goods and services than investors in stocks, the impact of overall demand is even higher than in the "Wall Street model" (Schwartz 2008, p. 268). The role of real estate for economic growth has led Adkins, Cooper and Konings (2020) to coin the term asset economy for those countries, where homeownership is prevalent. A key driver for real-estate appreciation was the financial innovation of securitizing mortgages besides low interest rates. For the critic of the "Wall Street model", Bluestone, the financialized asset economy is crisis prone. The financial crisis of 2007/8 has given credence to this critical assessment.

Nevertheless, the hegemony of finance capital survived the financial crisis; it diminished in the United States only slightly. Indicators for its hegemony, as in the Gramscian definition of a mixture of coercion and consent, are support by the business community, political class, its penetration of everyday life of citizens as measured by their debt levels for housing, education, health, and consumer items, as well as the prevalence of capital-based pension system. Except for the immediate aftermath of the financial crisis, no broad popular challenges to the position of finance capital have taken place (Scherrer 2011, 2015). The somewhat less pronounced position of finance capital in Germany can be explained by the presence of a significant public and cooperative banking sector, the comparatively higher number of family-owned businesses (Lehrer & Celo 2016), the pay-as-you-go public pension system, the comprehensive public health insurance and tuition-free higher education

(Beck et al. 2005). The financial crisis of 2007/8 weakened the German private banking sector. Correspondingly, the role of foreign investment banks and institutional investors, especially from the United States, increased (Nienhüser et al. 2016).

In their response to the financial crisis, the Federal Reserve System (the Fed) as well as the European Central Bank (ECB) initiated a new round of asset price appreciations with their ultra-loose monetary policies (Figs 1 and 2), providing the financial actors with huge liquidity which found its way less into investment for new facilities to produce goods and services and more into different asset classes (Jayadev et al. 2018).

Varieties of Asset Capitalism: US–Germany

Not only does the extent of financialization between the US and Germany differ, but also the spread of asset holding. The question is whether these differences explain variations in the attitudes toward economic policies in the two countries. We therefore look at Asset holdings are more widespread in the US than in Germany. While before the financial crisis of 2008, about 60% adult Americans owned stocks, according to Gallup surveys, it declined, thereafter, to 55% in 2020. Most of them own stock through their retirement accounts; only 15% own stock directly. For households with a yearly income of more than $100,000, direct ownership of stock is very prevalent (84%); only 22% of those below $40,000 own stock.[1]

In Germany, stock ownership is less prevalent. In 2020, 9.9% households owned stocks (Suhr 2020). The primary reason for this is that tax-exempted retirement accounts do not allow investments in stocks, but only in funds. Accordingly, ownership of mutual fund shares is more widespread: it increased from 20% in 2014 to 28% in 2021.[2] Another reason is that the generational cohort having the highest net wealth in Germany and comprising persons between 51 to 64 years, seem to be especially skeptical towards stocks. Two-thirds of them consider it to be too risky.[3] Ordinary Germans continue to entrust a significant share of their savings to the low interest-bearing savings accounts (the savings account is still the most used form of financial investment by a large margin; Suhr 2020).

Besides the skeptical attitude towards stock ownership, it is limited not the least by institutional factors. Unlike the United States, the German pay-as-you-go retirement system is not complemented by tax exempted 401(k) retirement savings and investment plans that allow investments into stocks. These 401(k) plans have greatly expanded the group of persons owning stocks in the United States. There is a minuscule German equivalent, the so-called Riester pension. Its rules exclude direct investment in stocks, they allow only contributions to investment funds (which amount to about 16% of the overall Riester funds in 2018).[4]

In the US, the homeownership rate of occupied units declined to 65.4% in 2021, somewhat from the high point of 69.1 before the financial crisis.[5] In Germany, the homeownership rate of occupied housing is considerably lower but slightly growing: from 45.7% in 2010 to 46.5% in 2018 (Statistisches Bundesamt et al. 2021: 262). Again, the German pay-as-you-go retirement system also lowers the propensity to own real estate. Instead of paying for a mortgage during the time of employment to

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[1]https://www.visualcapitalist.com/how-many-americans-own-stocks/
[2] https://de.statista.com/statistik/daten/studie/199639/umfrage/formen-der-geldanlage-der-deutschen/
[3] https://www.handelsblatt.com/finanzen/anlagestrategie/trends/anlegerverhalten-warum-die-deutschen-angst-vor-aktien-haben/23918372.html?ticket=ST-4645813-xAUoTYtCyaJoUbMJOEud-ap6
[4] https://de.statista.com/statistik/daten/studie/1256464/umfrage/beitraege-zur-riester-rente-nach-anbietertypen/
[5]Quarterly Residential Vacancies and Homeownership, Second Quarter 2021, U.S. Census Bureau

avoid paying rent at old age, the contribution of employed persons to the state pension system is comparatively higher (9.3%)[6] in Germany than that paid in the United States (6.2%; 2022)[7]. While the pension contributions leave less disposable income for paying a mortgage, for most retired persons they provide a sufficiently high pension to pay rent for housing. However, the proportion of tenant households with at least one member older than 65 years shouldering a rent burden of more than 30% of their household income increased sharply from 38% in 1996 to 63% in 2016 (Romeu Gordo et al. 2019, p. 468).

Another factor limiting homeownership is the comparably high transaction costs of acquiring a home (4.5% in Germany versus 1.9% in the USA for property/mortgage acquisition of total cost, Schwartz 2008, p. 271)[8] and the more prudent lending standards common among lenders.

Drivers of inflation

What drives inflation is a controversial issue (Minsky 2008, p. 2; Boissay et al. 2022, p. 3-4). We take the view that consumer inflation is primarily driven by supply bottlenecks and/or monopolistic market structures. When demand outstrips supply, it is easy for sellers of goods and services to increase the prices of the goods or services. Companies dominating the market can also increase prices in a situation when demand is not stronger than supply. The median markup can go up, as it has in the last decade (Boissay et al. 2022: 3). Demand can outstrip supply when wages rise quicker than productivity in a situation of full employment and/or the volume of credit expands faster than supply. The degree of indebtedness depends not only on the level of the interest rate and perceived future prospects but also on institutional factors such as the rules governing access to credit for public bodies, corporations, and households.

Through their policies on interest rates, refinancing conditions, and lending practices, central banks can influence the availability of credit and thereby inflation indirectly. The expansion of the money base faster than production does not necessarily show up as consumer inflation. The additional money can flow into assets which are not part of the consumer basket or into luxury items which are underrepresented in the consumer basket (Schnabl 2015, p. 255).

Furthermore, central banks' exchange rate policies can also influence the level of inflation. Government policies such as wage suppression, fiscal restraint, rigorous antitrust enforcement, and opening borders for goods and migrant labor may dampen inflationary trends, while opposite policies may foster inflation. In other words, many factors must be considered for any analysis of the movement of consumer prices.

Asset inflation is driven by some of these factors, but not all. Assets differ from consumer products by being less reproducible, either by their natural characteristics or actors' decision, and in the main more durable. Building houses takes time and may be limited due to the scarcity of land. Mining gold takes a lot of effort as well. Of course, being less reproducible is not a sufficient condition for being deemed to be a storage of wealth. Time-honored conventions of owning one's home and finding gold attractive secure the social demand for these assets and, thereby, sustain their exchange value beyond their use value. Financial assets such as stocks, bonds, and derivative contracts can not only be reproduced and multiplied easily but also kept in short supply. Their attractiveness depends on the income they are expected to generate and/or the expectation that they will gain in value because many other persons will also buy these assets that are limited by their issuers. In light of the recent

[6] https://www.deutsche-rentenversicherung.de/Rheinland/DE/Presse/Pressemitteilungen/2021/211208_rentenwerte.html
[7] https://www.ssa.gov › policy › trust-funds-summary
[8] Since 2008, transaction costs have increased faster than other building costs in Germany, especially the real estate transfer tax was significantly increased (Datenreport 2021: 266).

crypto currency boom, anything can become an asset as long as a sufficient number of people believe that it might function as a store of wealth.

Again, institutional factors influence the price of these assets. Looking at homes, policies such as zoning laws (which limit the number of units that can be built in a given territory), building codes, and infrastructural investments influence their supply. On the demand side, immigration and natalist policies, tax incentives, as well as credit access conditions have an impact on the demand for homeownership among other factors.

Besides the mentioned institutional factors, asset prices are also moved by monetary policy. Loose monetary policies, while intended to stimulate the productive economy, may accelerate investment in real estate and financial products. This has been the case in the aftermath of the financial crisis (Jayadev et al. 2018).

Asset prices and consumer prices are not completely independent of each other. Rising asset prices can stimulate consumer demand through the wealth effect described above. Inflation of consumer prices may incentivize the flight into real estate and other assets deemed to gain in value over time.

A class perspective on inflation

In their work on asset economy, Adkins et al. (2021) differentiate social classes along the line of asset ownership. They argue "that employment and wage-based taxonomies of class are no longer adequate for understanding a process of stratification in which capital gains, capital income and intergenerational transfers are preeminent" (Adkins et al. 2021, p. 548). In determining life chances, the ownership of assets seems to be more important than employment. Beyond the dichotomy of ownership and non-ownership they differentiate among the homeowners between those who are investing in real estate, those who own the house outright, and those who have taken out a mortgage to own a home. The group of those who do not own homes are separated in those who are renters and those who are homeless. This analytical class perspective on "class in itself" is a good starting point for theoretical considerations about the interests of these classes. However, one should be careful about any claims concerning the positions that are actually taken by members of these classes. Whether such a "class in itself" transforms into a "class for itself" (Marx 1847, p. 180-181) remains an open question in search for empirical evidence. In other words, the following deductive reasoning about these classes' interests on monetary issues needs to be complemented by an analysis of the positions taken by organized interests and in randomized surveys.

Distributional effects of consumer inflation

The main economic schools differ in their assessment of the effects of expansive monetary policies. While from a neoclassical perspective inflation is to be the expected outcome, Keynesian inspired new central banking thinking comes to the opposite conclusion—that without expansive monetary policies deflation will occur in an environment of not fully utilized capacities (Williams 2009). The distributional effect depends on the way the extra liquidity is being spent. If it is used for productive investments, then its benefits might spread throughout the economy. If the additional liquidity fuels asset inflation, then asset holders will be the main beneficiaries.

While galloping inflation is considered to be detrimental to economic growth by all economic paradigms, the Keynesian school views moderate consumer inflation as growth enhancing (Herr 2009). From that perspective, moderate inflation, in principle, is beneficial for employment seekers. Nevertheless, even moderate inflation can be harmful to the economic well-being of some parts of the population. The negative impact of inflation on households depends on the degree to which household income and assets adjust to inflation. Those living on fixed nominal wages, pensions, transfers, or interests on bonds, will see their purchasing power declining. Owners of companies that

cannot pass on higher input costs to consumers will equally lose out in real terms (Jayadev et al. 2018).

The impact of consumer inflation on owners of assets depends on the type of asset. In case of cash balances or saving accounts with low interest rates, inflation diminishes the value of these assets. A common reaction is a shift to less liquid assets such as gold, stocks, and real estate. If such a shift occurs on a large scale, it will lead to an asset price inflation.

For the households servicing a mortgage, consumer inflation carries the risk of interest rate hikes. The extent of the risk depends on the conditions of the mortgage. Households, which have taken out a long-term mortgage with a fixed interest rate, are protected against nominal interest rate hikes for the period of fixed interest rate, as agreed upon. In case their income adjusts to inflation or even exceeds inflation, they may even profit from consumer inflation, as their nominally denominated debt diminishes in real terms. However, in contrast to Germany, adjustable interest rates are common in the United States, though their share of mortgages fluctuates considerably (Moench et al. 2010, p. 2). These mortgage holders will quickly see increased interest payments.

From these considerations of the distributional effects of consumer inflation one can deduct preferences in relation to consumer inflation. Among the homeowners, the ones servicing a flexible rate mortgage are most likely to be inflation averse. They will therefore not only join the ranks of those with nominally fixed incomes but also financial institutions which fear that consumer inflation outpaces their ability to adjust interest rates in compensation of the losses on the principal in real terms.

Distributional effects of asset inflation

In case of rising asset prices, the “investing” households are better positioned to profit from the price rises as they can more easily realize the paper gains by selling their assets. The class of single unit homeowners are less likely to sell the home in which they live. Even if they want to sell, they will register a profit only if they are not planning to buy another home which of course would also have become more expensive.[9] As homes require maintenance, the paper gains might be diminished by increased maintenance costs in line or above general inflation. In case property taxes are calculated based on periodically assessed market values, as it is common in the United States (Bell & Kirschner 2009, p. 112), real estate inflation will cut into current purchasing power.

Nevertheless, one clear benefit of real estate inflation for homeowners exists, that is, access to a second mortgage becomes easier since the collateral for the mortgage, their home, turns out to be more valuable. They can use it for consumption purposes or for buying a second house as an investment or for their children. It thereby facilitates the intergenerational transfer of wealth. At the same time, it limits the access of the offspring of families not owning homes to real estate. The result is increased inequality in wealth. For mortgagors, real-estate inflation comes with another benefit. In case they can service their mortgage no longer, they are relieved of the anxiety of losing their home and, at the same time, be burdened by debt because they can repay the outstanding sum with the proceeds of having sold their home.

In the US, the rising housing prices outstripped the usual median weekly earnings for the age group of 15 to 24 years at least since 1979 (Duarte & Schnabl 2018, p. 627). Thus, it is no surprise that homeownership rates are at 79.6% for those 65 years and older and only 37.8% for the ones under 35 (2021). [10] Households with a family income greater than or equal to the median family income display a homeownership rate of 78.9%; those with less than the median only 51.9%. The

[9] Exceptions apply: house flipping or moving to a bigger home with a new mortgage at lower interests.
[10] Quarterly Residential Vacancies and Homeownership, Second Quarter 2021, U.S. Census Bureau

homeownership rate of the historically disadvantaged group of black Americans is also much lower at 44.6% than the non-Hispanic whites at 74.2%.[11] The record-low borrowing costs of the 2010s should have made homeownership more accessible for young persons and people of color. Instead, the low interest rates pushed up the prices of homes (Gopal 2021).

In Germany as in the United States, household wealth comes mostly in the form of real estate. Those owning real estate have a much higher individual net worth than those paying rent: 10 times as much for those who have repaid their mortgages, six times as much for those still burdened with a mortgage (Statistisches Bundesamt et al. 2021, p. 252). Falling numbers of first-time buyers, a rising age of first-time buyers and an increase in the income of first-time buyers, indicate that as in the US, young people in Germany too are not benefiting from the favorable financing conditions. This is partly due to the increase in equity requirements in proportion to the steep increases in purchase price (Voigtländer & Sagner 2019). Furthermore, ownership of significant real estate not for own use is limited to the ninth and 10thdecile of net wealth ownership (Statistisches Bundesamt et al. 2021, p. 249).

Based on the Household Finance and Consumption Survey (HFCS) in the euro area of 2010, a study of the distributional effects of asset price inflation concluded that “the capital gains from bond price and equity price increases turn out to be concentrated among relatively few households, while the median household strongly benefits from housing price increases” (Adam & Tzamourani 2016)

In sum, asset inflation is beneficial for all those households who already own assets and their offsprings except those who face higher property taxation at nominal fixed incomes.

They are joined by the banks in their preference for asset inflation. Banks benefit from asset inflation in a couple of ways: higher loan volume, increased trading activities, more collateral for credit financed speculation. All of this translates into earning more bonuses, while the losses are borne by the owners of their institutions or the taxpayers (Schnabl 2015, p. 257) or are absorbed by the central bank.

Economic growth driven by asset bubbles also increases tax revenues. This serves as an incentive for government not to rein in on bubbles (Schnabl 2015, p. 258). Workers and their organizations will also not oppose asset inflation as long as it leads to more employment. The bursting of an asset bubble leads, however, to restrictive fiscal policies with negative impact especially on wages in the public sector (Ibid., p. 264).

This deductive reasoning suggests a fairly broad coalition against consumer inflation and a not so less broad coalition tolerating asset inflation in the US and Germany.

Societal attitudes towards consumer inflation

Multiple factors influence people’s attitudes towards inflation. Their objective class position, be it according to the Marxian or the above elaborated asset related definition of class, maybe only one among other factors. A key determinant seems to be one’s own experience whereby household expenditure items such as energy or transport whose use cannot be easily adjusted figure most prominently (Benford 2008, p. 153). As older people have experienced bouts of higher inflation, they are more likely to be apprehensive about inflation (Ehrmann & Tzamouranl 2012). In most countries, the perception of inflation differs markedly from the officially registered inflation. Respondents to an international survey estimated the inflation rate up to three times higher than the one announced by

[11] Quarterly Residential Vacancies and Homeownership, Second Quarter 2021, U.S. Census Bureau

the statistical offices. Exceptions are the highly educated and the people in managerial roles (European Commission 2009).

Distorted memories of the effects of high inflation (Haffert et al. 2021) and the inability to assess the inflation rate correctly indicate discursive influences on people's attitudes towards inflation. The way the media frames inflation seems to play an important role (Barnes & Hicks 2018). Elite consensus on inflation may contribute to widely shared frames on inflation in the media. While one finds a greater variety of views on inflation in the United States, in Germany, the parties in parliament share more or less an anti-inflationary stand in line with the Bundesbank (Howarth & Rommerskirchen 2013). The support for low inflation cuts across the political spectrum (ibid., p. 10). "Stability Culture" became deeply ingrained into the German political culture. The so-called "Wirtschaftswunder" of the 1950s and 60s in West Germany following the economic hardships and suffering during the hyper-inflations 1921-23 and the pent-up inflation 1936-48 was widely attributed to the ordo-liberal policies at the time of which low inflation was a core element (Kolinsky 1991). Therefore, there lies a certain continuity in the Stability Culture discourse that became present again in the course of the European Debt Crisis from 2009 onwards (Howarth & Rommerskirchen 2013).

Little data exists on attitudes towards inflation differentiated according to one's socio-economic status. An earlier study saw little relationship between inflation aversion and levels of income or education among US citizens over nearly four decades (Fischer & Huizinga 1982; confirmed by Aklin et al. 2022). Based on survey data from Eurobarometer between 2002 in 2009, Berlemann and Enkelmann determined that persons with a higher income and educational attainment are less likely to fear inflation then those with a lower income (2013, p. 5). However, for an earlier period of slightly higher inflation, an international survey revealed for 1996 that "a firm owner is about a fourth more likely to prefer anti-inflation to anti-unemployment policies" and that a person with a pro-business and anti-labor position was highly likely to be also averse to inflation (Jayadev 2008, p. 7). Unfortunately, the phrasing of the survey question posited inflation against unemployment. It is, therefore, to be expected, that those who were less likely to suffer from unemployment were more averse to inflation.

The long period of low inflation in both countries (see Fig. 3) seems to have left an impact on the public's fear of inflation (Statistisches Bundesamt 2022; U.S. Bureau of Labor Statistics 2022). In Germany, inflation remained below the 2% level in 23 of the last 30 years (Statistisches Bundesamt 2022, p. 5). Accordingly, in surveys between 2017 and 2021, the importance of fighting inflation in relation to other policy goals was ranked at the fourth place (ALLBUS 2018; European Commission 2021, p. 27). In the US, till 2021, inflation was the most important problem for an insignificant number of respondents only (Gallup 2021). However, in March 2022 this changed drastically. In the context of the Covid-19 pandemic and the first noticeable effects of the Russian war on Ukraine, high cost of living/inflation became the most important problem within the category of economic problems, mentioned by 17% of the respondents. Together with the rising fuel and oil prices (4%), roughly one in five Americans considered rising prices as the nation's top problem (Saad 2022). Even more pronounced were the inflation concerns of respondents to a German survey. From January 2022 to March 2022, the share of adult respondents becoming very concerned increased from 44% to 53%. In March, almost one in four respondents with a net household income of less than EUR 2,500 said that inflation threatens their livelihood.[12]

[12]Postbank/YouGov cited in https://www.business-on.de/hamburg/postbank-umfrage-die-inflation-kommt-in-der-mittelschicht-an.html

Figure 3: Consumer price inflation, annual percent, Germany and USA, 1989-2021

Source: https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?end=2021&locations=DE-US&start=1989&view=chart

Societal attitudes towards asset inflation

Concern about asset inflation shows up in worries expressed with regard to the cost of housing. A survey in the metropolitan areas of the US revealed that 64% of the respondents were very concerned and 22% were somewhat worried about the cost of housing; this concern topped all others that were included in the 2021 survey. The degree of apprehension depended on income. Among the households with an income below US$50,000 per year, 53% rated the affordability of housing as very poor/poor versus 42% of those earning more than 150,000. The difference between these two groups is even more pronounced with respect to the rating "very good/good": 23% under US$50,000 versus 39% above hundred US$50,000.[13] Younger Americans, urban residents, and those with lower incomes were naturally more likely to express concern about the availability of affordable housing in the survey by the Pew Research Center in October 2021.[14]

In Germany, the concern is more about the rising rents for housing than the prices for homes (Kohl et al. 2019; Thomsen et al. 2019). The increases in rents have benefited the top 10% of the income pyramid. Their rental income increased by 39% from 2010 to 2016 (Grabka et al. 2019). Nevertheless, there is also worry about ever more expensive real estate. A 2022 survey among 1,000 prospective real-estate buyers and purchasers revealed that for 65% respondents, high real estate prices act as a deterrent.[15] There seem to be no concerns about stock market appreciations in Germany as there is no recent literature on the issue, indicating lack of interest by those able to commission such surveys.

The position on inflation by businesses and central bankers

We find a marked contrast between the position of businesses on consumer inflation and asset inflation. The recent rising consumer inflation has led to widespread warnings among representatives of businesses (Krugman 2022; Kröner 2022).

In contrast to previous bouts of consumer inflation (Lubik & Schorfheide 2004; Arestis & Chortareas 2006), the heads of the Fed and the ECB were very hesitant in acknowledging inflationary tendencies and the need to rein in on them (Dabrowski 2022). They were not quite sure about the origins of the inflationary tendencies. Some argued that the inflationary pressures resulted from supply constraints and, therefore, were a transient phenomenon. However, when confronted with loud warnings about the possibility of an entrenched inflation, the Fed reacted with significant increases of the federal funds rate (Smialek 2022). The ECB reacted more cautiously out of fear for the economic health of some member countries of the Eurozone. The ECB wanted to avoid a recurrence of the euro crisis (Schnabel 2022). Of course, the German Bundesbank had warned about inflationary prospects already a year earlier in its critique of the loose monetary policies (Weidmann 2021).

There are rational grounds to favor anti-inflationary policies. Businesses which cannot pass on higher input prices will experience a profit squeeze, which is compounded in case workers are able to defend their real wages. Money holders or holders of bonds with a longer maturity will also suffer

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[13]https://www.manhattan-institute.org/metropolitan-majority-poll-costs-crime-classrooms, Table QRateAffHou Page 13.
[14]https://www.pewresearch.org/fact-tank/2022/01/18/a-growing-share-of-americans-say-affordable-housing-is-a-major-problem-where-they-live/
[15]https://www.interhyp.de/ueber-interhyp/presse/studie-zur-leistbarkeit-wohneigentum-halten-viele-fuer-einen-unerreichbaren-traum.html

losses (cp. Tooze 2022). Yet, these arguments do not explain the broad spectrum of support for such policies. Paul Krugman argues that the “monetary permahawks are motivated by politics — by the fear that flexible use of the printing press will give too much room for big government” (Krugman 2022).

The critique of asset inflation was much more muted, if at all existing. Famous is a dictum of the long-term chairman of the Fed, Alan Greenspan (1987-2006), that it is better to “clean up the mess” after the bursting of bubbles than to prevent asset price bubbles (Greenspan 1999). A former Director of Research at the Fed of New York, Stephen G. Cecchetti, together with a member of the Bank of England, Sushil Wadhwani, had argued already in the year 2000 in favor of adjusting a central bank’s policy instruments to asset prices (Cecchetti et al. 2000, p. xix). Ben Bernanke defended in a much-cited article the policy of not responding to asset prices (Bernanke & Gertler 2001, p. 256). Five years later, in 2006, Bernanke assumed the chair of the Fed, where a few years later he had to clean up after the bursting of the housing price bubble in the USA.

Thus, except for some contrarians (short-sellers betting on falling prices and a few academics), neither financial actors nor corporate elites and central bankers were alarmed about the rising real-estate prices and stock market appreciations before the great financial crisis of 2007/8 (Remmel 2011, p. 205-206; Brunnermeier & Schnabel 2016, p. 496).

After this crisis, central bankers became more attentive to the occurrence of asset price bubbles. A consensus developed that central banks must deal with asset-price bubbles in the framework of macroprudential policies with such tools as margins, reserves and credit limits (Blinder et al. 2017). Nevertheless, in their attempt to stabilize the financial markets and to avoid deflationary tendencies, the Fed and the ECB provided the markets with massive amounts of liquidity. It was no secret that much of that liquidity was funneled into various asset classes. While between 2009 and 2019 the S&P 500, the stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States, increased by close to 400% and US housing prices by about 40%, the consumer price index rose only by 19%. [16]

[16] The differences between asset and “real economy” price movements are well illustrated by: https://www.investing.com/analysis/where-is-inflation-hiding-in-asset-prices-200406994

Conclusion: Asset holders prefer asset over consumer inflation

There are no major differences in attitudes towards the two variants of inflation in Germany and the USA. The differences are more a matter of degree. Concerning consumer inflation, the German public as well as the economic policy circles are less tolerant even though the negative experience with inflation was more pronounced in the United States in the late 1970s, i.e., in a period that was personally experienced by the generational cohort that continues to influence policy and public opinion. The specific German postwar discourse about the economic crisis in the interwar period may cast a long shadow. Yet, inflation adversity seems to be reinforced by a higher savings rate as well as a higher propensity to save in interest-bearing financial products that are more likely to lose in real terms by inflation.

Similarly, German population, business community and policymakers were less supportive of policies conducive for asset inflation. Both home and stock ownership are significantly more prevalent in the USA. Institutional factors limit asset inflation in Germany, most importantly the pay-as-you-go state run pension system. On the one hand, it leads to significantly lower financial flows from households to pension funds investing in financial products, on the other hand, it lowers the propensity to own real estate. Attitudes towards inflation are more relaxed in the USA as asset inflation is beneficial for most households already owning assets and their offspring although there are also vast class differences within the US society.

Political culture remains salient for an explanation of the differences between the two countries concerning inflation attitudes. However, the influence of culture is difficult to measure. It also seems to be reinforced by institutional factors that lead to considerable differences in asset ownership. These differences need to be taken into consideration to explain the reversals of positions concerning government debt, monetary easing, and anti-inflation policies.

We showed that analytically, the differentiation between asset and consumer price inflation is necessary to make sense of changing attitudes and reactions towards inflation. Based on this distinction, we highlighted the importance of the different distributional effects of asset and consumer inflation, depending on class. This makes the analysis of class interests an indispensable part of the explanation of diverging (anti-)inflation policies. However, it is no less important for the understanding of class determined by ownership of assets as introduced in this paper that “class in itself” does not equal “class for itself”. Ideological, cultural and individual differences influence class position. Nevertheless, the persisting and eventually widening inequality highlights the essential role of central banks and their partisanship in class conflict which is connected to the differing attitudes and reactions of policymakers and the public towards consumer and asset inflation. Our analysis shows that class matters for making sense of central banking and political economy in general. Class is a question of both: ownership of assets and of production facilities.

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