PSL Quarterly Review

vol. 77 n. 311 (December 2024)

Article

The post-pandemic inflation debate: A critical review

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Abstract:
This article offers a critical review of the post-pandemic inflation debate. The first section organizes the debate by categorizing the arguments into two broad perspectives: the neoclassical view and the critical political economy view, along with several subcategories. This classification is guided by the positions that participants in the debate took regarding the origins and propagation mechanisms of inflation, as well as the economic policy solutions proposed to address the current inflationary period. The second section highlights that the dominance of contractionary monetary policy as the primary response to contemporary inflation rests on weak foundations, with its theoretical and empirical justifications having been consistently and convincingly challenged by critical political economy circles over the past decades.

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How to cite this article:
Martins D. (2024), "The post-pandemic inflation debate: A critical review", *PSL Quarterly Review*, 77 (311), pp. 439-468.

DOI: https://doi.org/10.13133/2037-3643/18549

JEL codes:
E12, E31, E32, E52, E61, E64

Keywords:
inflation, pandemic, critical political economy, neoclassical economics, central banks, monetary policy

Journal homepage:
http: //www.pslquarterlyreview.info

For more than three decades, inflation was largely absent from the core of economic debate in major developed economies. A prolonged period of low and stable inflation, beginning in the early 1990s, pushed concerns about the social and economic impact of rising prices to the background. Within the dominant currents of contemporary economic thought, as well as among major national and international institutions, a broad consensus emerged. This consensus held that the institutional innovations adopted during this time, rooted in a new theoretical understanding within the discipline, had relegated inflation to a problem of the past. As long as these rules and institutions remained intact, inflation would not pose a threat to macroeconomic stability in developed economies.

Confidence in the permanent ability to control the instabilities of capitalism is not historically unprecedented. In fact, it is a common misconception throughout the history of capitalism. Between World War II and the late 1970s, during the golden age of the Keynesian consensus, many economists believed they had found the ultimate solution to involuntary unemployment. Similarly, during the 1990s, amid the Great Moderation, it was thought that economic cycles and

* The author would like to thank Gerald Epstein, Jayati Ghosh, Deepankar Basu, Isabella Weber, Evan Wasner, Jesus Lara-Jauregui, Mateo Hoyos and Guillermo Matamoros and two anonymous referees for comments and suggestions on earlier versions of this manuscript. The usual disclaimer applies.

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crises had been effectively neutralized. Yet, the stagnation of the 1970s and the financial crisis of 2008 quickly demonstrated that the triumphalism of those who believed they had mastered the inherent instability of capitalism was greatly overstated. This time was no different. After the pandemic, and with no central bank or major international institution having anticipated it, inflation once again became a macroeconomic concern in developed capitalist economies.

Following the unexpected surge in inflation, a vigorous debate has unfolded across academic and public spheres, engaging governments, central banks, politicians, and scholars. The key questions at the heart of this debate include: What is driving the inflationary process? Is it temporary or permanent? How should governments and central banks respond?

To address these questions, the article is divided into two main sections. The first section aims to map out the terms of the debate. To achieve this, it proposes to categorize the existing views into two broad perspectives – the neoclassical view and the critical political economy view – along with a few subcategories. The interpretations and policy proposals put forth by researchers and policymakers within each of these perspectives are thoroughly examined, resulting in a structured synthesis of the post-pandemic inflation debate. The second section scrutinizes the theoretical and empirical foundations of contractionary monetary policy as the dominant approach to addressing contemporary inflation. It is demonstrated that the majority of the theoretical assumptions and empirical arguments supporting the widespread rise in interest rates across the globe face significant shortcomings – issues consistently highlighted by critical political economists in both the contemporary debate and over the past few decades.

1. The post-pandemic inflation debate: a structured survey

In this section, we aim to frame the contemporary debate on inflation by defining two main interpretative perspectives: the *neoclassical view* and the *critical political economy view*. To capture important analytical distinctions within the former, we further divide the neoclassical view into three subcategories: the *monetarist (unconditional excess demand) view*, the *conditional excess demand view*, and the *central bank view*. These profiles and sub-profiles are derived from differing positions in the debate regarding the origins of the inflationary process, its propagation mechanisms, and the public policy solutions proposed.

Establishing well-defined profiles in an ongoing discussion, where the nuances of arguments may differ between authors, is always a challenge. Oversimplification is a constant risk, but creating classifications with too much attention to detail could lead to a complex and unmanageable discussion. Here, we aim for a balanced approach that best clarifies the terms of the debate and makes a valuable contribution to current knowledge.

2. The neoclassical-inspired view

For the purposes of this review, "neoclassical economics" is used in a broad sense, encompassing various syntheses and currents of neoclassical thought developed throughout the 20th century. The relevant characteristics of these currents for the present discussion will be elaborated later in the article. However, all these variants converge around two central and interrelated features, which allow them to be grouped into a single analytical category: (i) *Adherence to the classical dichotomy* (though in stronger or weaker forms), which entails a clear separation between the real economy – where relative prices are established and determine resource allocation – and the monetary sphere, which pertains to the money supply required for transactions. While the

monetary sphere may have real economic effects in the short term, in the long run, monetary and fiscal policies only affect the general price level. In summary, the long-run equilibrium is unaffected by aggregate demand. (ii) *The view that inflation propagation is reduced to two primary scenarios*, which may or may not coexist depending on the position taken in the debate: an excess demand or positive output gap scenario (driven by an over-expansion of actual output or a contraction of potential output), and/or a scenario where inflationary expectations become unanchored, which may or may not be related to excess demand.

2.1. Origins of inflation

Within the *neoclassical view*, both the *monetarist (unconditional demand*) and the *conditional excess demand* perspectives agree that the current inflation results from an excess of aggregate demand – meaning that *ex ante* consumption and investment intentions surpass the productive capacities of the economy, leading to a widespread rise in prices. However, they diverge on the causes behind this scenario of excess demand.

The Monetarist view

The strictest interpretation of the neoclassical perspective, which we term the Monetarist view, asserts that inflation in this context is the inevitable consequence of the significant expansion of the money supply in the preceding decade. This viewpoint is based on the Monetarist principle that while discretionary increases in money aggregates may have short-term real effects, they inevitably lead to a proportional increase in the overall price level in the long run. This logic underpins the famous Monetarist recommendation that central banks should allow the money supply to grow at a stable rate and avoid using monetary shocks as a tool for economic stabilization.

The Monetarist perspective is founded on a specific interpretation of the causality underneath the mathematical identity $MV = PY$, where M represents the money supply, V is the velocity of money (which measures how frequently money is transacted within the economy), P is the general price level, and Y is the real output of the economy. Assuming that the money supply does not permanently affect the productive capacity of the economy (money neutrality), that the velocity of money remains constant, and that the economy is always near full employment (so Y is also constant), the conclusion is that the growth rate of the money supply defines the growth rate of the overall price level – i.e., inflation. Thus, in this view, there is no meaningful role for monetary policy as a stabilization tool: any stimulus resulting from an increase in the money supply will inevitably lead to a general rise in price in the long-run.

Steve Hanke (2022) summarizes this position well in the current debate:

> There is only one cause of inflation, and that is excessive growth in the money supply. […] When the COVID pandemic hit in February of 2020, the Fed [Federal Reserve] put their foot on the gas pedal […]. They started creating a lot of money. This, in turn, led to the highest inflation in over 40 years in 2022.

A common extension of the Monetarist interpretation references the *fiscal theory of the price level* (Cochrane, 2023). Popular in the 1990s and early 2000s – partly because it provided theoretical support for fiscal restraint during the then-new inflation-targeting era – the core idea behind this theory is that fiscal expansions, unless offset by tax increases, will inevitably lead to inflation. Over time, the price level must adjust to allow governments to meet their intertemporal

budget constraints. While this theory presents a more sophisticated narrative, its causal direction aligns with the Monetarist view: fiscal expansions financed by discretionary monetary expansions will result in price increases, whether through a straightforward excess demand mechanism or the need to satisfy budget constraints.

The Monetarist stance is also here called the *unconditional demand view* because it argues that the actions of central banks and governments would inevitably lead to inflation, regardless of the economic conditions at the time. In this sense, the link between monetary/fiscal policy, excess demand, and inflation is unconditional. Advocates of this view believe that the current inflation crisis vindicates those who opposed unconventional monetary stimulus over the last fifteen years. This sentiment is captured by John H. Cochrane, a prominent advocate of supply-side economics, in his article titled *The End of an Economic Illusion*, where he asserts that the contemporary inflation crisis reveals the misinterpretation of secular stagnation as a demand-driven phenomenon. He argues that demand does not play a role in driving long-term growth, a mistaken belief that, in his view, has now been disproven: “The era of wishful thinking is over. Those who come to grips with that fact now will look a lot less foolish in the future” (Cochrane, 2022).

It is important to emphasize that the Monetarist interpretation represents a minority view within the neoclassical framework. It is not endorsed by the most influential contemporary neoclassical economists, nor is it reflected in the communications of major central banks. This perspective remains largely confined to a group of intellectuals who have remained faithful to orthodox Monetarist reasoning, even as the majority of the profession shifted toward some form of New Keynesian or New Consensus Macroeconomics. In the current debate, the Monetarist view has had only marginal influence on both public and academic discussions. However, this does not mean that the Monetarist emphasis on monetary aggregates has entirely lost its appeal. Take the example of Martin Wolf, an influential columnist for the *Financial Times*, who wrote: “[…] central banks have to reconsider some of their recent doctrines. Just as inflation showed that the financial system matters, the inflationary surge showed that money matters […]. Yes, you cannot run the economy through the money supply. But it cannot be ignored either” (Wolf, 2022).

The conditional excess demand view

The *conditional excess demand view* is one of the two primary competing perspectives within the neoclassical framework. Proponents of this view argue that inflation emerged because governments and central banks misdiagnosed the nature of the recession caused by the COVID-19 pandemic, leading to the implementation of inappropriate policies. Policymakers assumed that the recession would be slow to recover, similar to the aftermath of the 2007–2008 Great Financial Crisis, which was characterized by slow recoveries in output and employment. Consequently, they believed that the policies used in the previous crisis, including expansive monetary and fiscal interventions, should be replicated – especially since the economic contraction caused by the pandemic was even larger, suggesting more persistent recessionary effects.

However, the opposite occurred: developed economies experienced a faster recovery, resembling a V-shaped trajectory (a sharp drop followed by a relatively quick rebound), partly due to policies that supported employment and disposable income. This misjudgment led central banks and governments to continue implementing expansionary policies for longer than necessary, contributing to inflation. According to this interpretation, inflation was caused by these expansionist policies based on a faulty assessment of the recovery pattern.

This view is referred to as “conditional” in the sense it does not assume that demand created by monetary and fiscal policies is inevitably inflationary, as the Monetarist view does. Rather,

inflation is assumed to have occurred because the policies were based on a mistaken diagnosis of the economy's position relative to its potential. Had the diagnosis been accurate, inflation might not have occurred.

Ricardo Reis (2022, p. 6) articulates this position clearly:

> Perhaps influenced too much by the experience of the great financial crisis, many expected lasting scars from the COVID recession. Avoiding a sharp drop required a strong response. Instead, the economy quickly recovered even before the end of 2020. Between the end of the second quarter of 2020 and the end of 2021, real GDP grew by 14.9% in the United States and 17.5% in the euro area. […] Instead of scars and hysteresis, the economy showed intertemporal substitution capacity between production and consumption.

Similarly, Larry Summers (2022) contends that central banks kept stimulus programs in place for too long despite seeing the economy rebounding:

> We had an economy where income was running short by $50 billion a month because of the pandemic, and we injected $150 billion to $200 billion a month into that economy. It's perhaps not surprising that that's led to an overflow of demand, which has generated inflation that on the CPI [Consumer Price Index] measure has risen to 7 percent.

In the same vein, Ben Bernanke also supports the view that demand-side forces were primarily responsible for the inflation surge. Drawing parallels to the 1970s, he notes that inflation in both periods began after a time of generally low inflation, with heavy federal spending fueling demand:

> The inflation of a half-century ago, like today's, began after a long period when inflation was generally low. In both cases, heavy federal spending (on the war in Vietnam and Great Society programs in the 1960s, on the response to COVID-19 in 2020 and 2021) added to demand. And shocks to global energy and food prices in the 1970s made the inflation problem significantly worse (Bernanke, 2022).

While Bernanke acknowledges the role of supply shocks, he sees them as amplifying rather than causing inflation, which he attributes mainly to excessive demand generated by fiscal and monetary expansions. Jason Furman expresses a similar view, emphasizing that while supply-chain issues exist, they are not the main cause of inflation:

> the point is not that there are no supply-chain issues. […] But this is not necessarily evidence of an adverse change in supply. If we gave every household millions of dollars, that, too, would lead to pileups at ports and overloaded manufacturers. The fact that quantities are up so much […] suggests that our problem is not mainly reduced supply but increased demand (Furman, 2022).
>
> A central argument in this interpretation is that central banks misread the nature of the shocks. They believed the inflationary pressures from global supply chain disruptions and energy price spikes were temporary and cyclical, leading to brief adjustments in firms' markups. Ricardo Reis (2022, pp. 8-9) explains: The diagnosis of central banks was similar in all advanced economies. In Phillips curve terms, policymakers interpreted all shocks as temporary margin shocks […]. That diagnosis was doubtful, both at the time and in hindsight. Many of these shocks can also be interpreted as potential output shocks. For example, the problem of global supply chains affects the actual technology used to produce goods, not just the market power of companies.

Instead, in this view, the inflationary pressure resulted from a positive output gap – where actual GDP exceeded potential GDP – caused by two interrelated factors: the demand increase due to expansionary monetary policy and a fall in potential GDP from supply chain constraints and energy shocks. Empirical support for this view can be found in the work of Comin et al. (2023), which attributes roughly equal responsibility (50%) to both capacity constraints and monetary

policy for the inflation surge. Additionally, studies like those of Rivera-Torres and Salas-Fumás (2023) offer evidence countering the hypothesis of rising markups as a cause of inflation, showing that price increases were cost-absorbing, with competitive markets experiencing larger price hikes than monopolistic ones. On the theoretical side, Bilbiie and Känzig (2023) present results from a New-Keynesian model that suggest demand amplification may occur under procyclical profits, but that this phenomenon is more related to the investment channel rather than directly to increased profits.

The central banks' view

The second major interpretation within the neoclassical field, referred to as the *central banks' view*, is here represented by the Federal Reserve (FED) and the European Central Bank (ECB). This view plays a crucial role in understanding the diversity of opinions within neoclassical economics and highlights the bold narrative shift made by central banks during the inflation debate.

This perspective diverges from the Monetarist and conditional excess demand views in two key areas. First, it rejects the idea that the expansionary fiscal and monetary policies implemented after the pandemic were responsible for triggering inflation. Instead, proponents of this view argue that these policies were vital for aiding the economic recovery following the 2020 recession, preventing the negative hysteresis effects seen in previous downturns, where economic contractions lead to long-term damage to potential output and employment. Second, this interpretation assigns the most relevant cause of inflation to persistent constraints in post-COVID production chains and the rising costs of key raw materials, particularly exacerbated by the war in Ukraine. In other words, inflation is seen as being driven by supply-side disruptions, rather than excessive aggregate demand.

In November 2021, when inflationary pressures were beginning to emerge in the Eurozone, Christine Lagarde, President of the ECB, explicitly rejected the notion of excess demand as the root cause: “At present, the Eurozone is experiencing strong ‘catch-up’ demand, but we do not see excess demand. Aggregate demand is currently below its pre-crisis level” (Lagarde, 2021). Lagarde also dismissed the argument that inflation resulted from a drop in potential output, arguing that the expansionary monetary policies were crucial for preserving potential output: “[…] the extraordinarily successful policy response in the euro area was designed precisely to preserve our supply capacity” (ibid.).

The FED took a similar stance, rejecting the idea of generalized excess demand and interpreting the inflationary surge as the result of a narrow group of goods and services directly affected by the pandemic and the subsequent economic reopening. The FED emphasized that the labor market's strength was a sign of the effectiveness of its policy response to the COVID crisis, rather than an indicator of excess demand. In a 2021 communication, the FED noted:

> The spike in inflation is so far largely the product of a relatively narrow group of goods and services that have been directly affected by the pandemic and the reopening of the economy. […] The economy is on a path to […] a labor market with high levels of employment and participation, broadly shared wage gains, and inflation running close to our price stability goal (Powell, 2021).

Despite a notable policy shift as inflation became more persistent, both the FED and the ECB maintained their initial view on the origins of inflation, firmly rejecting the claim that their monetary policies were to blame. Instead, they pointed to supply-side disruptions as the primary factor. The shift in central bank policy was centered on inflation's propagation mechanisms – how

inflation spread through the economy – and on finding solutions to control it, rather than revising their original interpretation of its causes.

In conclusion, the central banks' view remains distinct in the ongoing inflation debate, as it underscores the importance of external supply shocks and the critical role of fiscal and monetary stimulus in mitigating the pandemic's economic effects, countering arguments that focus solely on excess demand.

2.2. Propagation mechanisms

The neoclassical debate on inflation propagation mechanisms was divided into two main intellectual camps, often colloquially referred to as "team transitory" and "team persistent". In brief, team transitory viewed post-pandemic inflation as a self-correcting process with weak propagation mechanisms. They believed that the inflationary period would fade away naturally once the shocks that caused it had dissipated. Notable figures in this camp include Paul Krugman, who was a vocal advocate of this view in his New York Times columns, as well as major central banks during the early stages of the inflation debate. In contrast, team persistent viewed inflation as having strong propagation mechanisms, capable of extending beyond the original exogenous shocks. According to our classification, team persistent includes those who subscribe the conditional excess demand view, central bankers during later stages of the debate, and Monetarists – though the latter had a reduced influence in the discussion. Nevertheless, we argue that the debate within the neoclassical camp is more nuanced than the simple division into two teams suggests. Introducing additional criteria for differentiation and relating them to the theoretical assumptions behind the debate's more visible positions provides a clearer understanding.

On a theoretical level, the key to unraveling these nuances lies in developments in NAIRU theory, the related specifications of the Phillips curve, and their influence on inflation theory in the neoclassical camp. Since Milton Friedman (1977) first introduced the concept, the natural rate of unemployment has moved beyond Monetarism's boundaries and become the cornerstone of inflation theory across the neoclassical spectrum. Despite minor conceptual differences (Stockhammer, 2008), New Keynesianism and the later New Neoclassical Synthesis incorporated its essential features. This influence explains the focus on labor market tightening as a primary source of inflation propagation. According to NAIRU theory, when unemployment falls below NAIRU, conflicting claims on output arise, with inflation serving as an ex-post remedy to reconcile the competing demands of capitalists and workers. In the early models with adaptive expectations, inflation follows an accelerationist pattern, meaning that efforts to keep unemployment below NAIRU quickly result in unsustainable inflation.

However, research on NAIRU theory and the Phillips curve has been far from monolithic in recent decades. While there is widespread agreement in the neoclassical camp that Phillips curves are vertical in the long run due to an exogenous and demand-invariant NAIRU, there is significant dissent regarding the role of supply shocks, the importance of backward- versus forward-looking expectations, and the relationship between expectations and central bank credibility (Gordon, 2011). Incorporating forward-looking expectations allows for short-term deviations in inflation levels without necessarily embedding these deviations into inflation expectations. Thus, central bank credibility and the duration of deviations become crucial factors in analyzing inflation. To illustrate, consider a price shock that pushes inflation up due to supply constraints. Forward-looking expectations may not immediately raise NAIRU as long as central banks can anchor inflation expectations. However, if the shock persists, agents may eventually adjust their

expectations, increasing the disinflation costs (i.e., the unemployment needed to bring inflation back to target) and thus raising NAIRU.

Understanding these developments is essential for framing the differences within the neoclassical camp. Team transitory, for instance, held that the supply-side shock that triggered inflation would not lead to persistent inflation because the propagation mechanisms were weak. This view was based on two factors: first, they rejected the excess demand perspective, dismissing the idea that unemployment below NAIRU was driving inflation persistence; second, they argued that the price shocks from supply-side constraints were insufficient to unanchor inflation expectations, given the accumulated credibility of central banks and the expected short duration of the shocks. As Krugman (2022) wrote:

> The big concern about the inflation spike between 2021 and 2022 has been that inflation expectations might lose their anchor, making it much harder to get inflation back down once supply chains and all that are back to normal […]. Medium-term expected inflation has come down recently, but the larger point is that it never rose nearly as much as short-term expectations […]. All of this suggests that we should be optimistic about the possibility of a relatively painless end to our current inflation episode.

This was also the view of central banks from the onset of the pandemic until March 2022 (in the case of the FED) and May 2022 (in the case of the ECB). In late 2021, an ECB press release asserted the absence of strong amplification mechanisms:

> […] we do not see the conditions in place – either at the economy-wide level or at the sectoral level – for inflation rates above our target to become self-sustained. […] an economy-wide "amplification mechanism" is typically required, where output rises persistently above its potential level, with wages and then prices following. But we do not see these dynamics at work today in the euro area today (Lagarde, 2021).

This tone persisted until just before the abrupt policy shift. In April 2022, barely a month before the narrative changed, Christine Lagarde reassured that wage growth remained contained and inflation expectations were under control: "So far, wage growth has remained muted […] and inflation expectations in the euro area stand around our target" (Lagarde, 2022a).

On the other hand, *team persistent* can be divided into three subgroups based on their views regarding the role of expectations and labor markets in inflation propagation. The first consists of Monetarists, who typically maintain a labor-market-based view of inflation, arguing that excess demand – driven by government actions – brought unemployment below the natural rate, causing inflation to follow an accelerationist pattern due to agents' adaptive expectations.

The second group consists of New Keynesian authors who emphasized that the labor market tightness unanchored inflation expectations early in the post-pandemic stage. Lawrence Summers is a representant of this subgroup, prominently influencing public discourse and academic debates. He argues that inflation originated from an overheated labor market caused by excess demand. In line with other authors, he focuses on the job-to-vacancy ratio as a measure of labor market tightness. However, consistent with his New Keynesian roots, Summers emphasizes that the labor market tightness unanchored inflation expectations early in the post-pandemic stage (Domash and Summers, 2022a). He further criticizes fiscal and monetary policies for failing to recognize this in time, allowing inflation propagation without an adequate policy response.

The third subgroup differs from the other by asserting that (i) labor market overheating was not responsible for the initial propagation of inflation, and (ii) inflation was not destined to have strong amplification mechanisms. However, unlike *team transitory*, they argue that the prolonged duration of supply-side shocks eventually led to unanchored inflation expectations. Labor market

overheating only became a factor later in the inflationary process and played a minor role in their overall narrative. For this group, central banks acted appropriately given the information they had at the time, as the duration of the shocks – especially those related to the Ukraine war – was difficult to forecast. Blanchard and Bernanke (2023) provide one of the most influential analytical illustrations of this perspective. Their simplified model includes four behavioral equations: a wage equation, a price equation, and two equations defining inflation expectations (short- and long-run). Similar to Summers, they use the job-to-vacancy ratio to measure labor market tightness, arguing that it is better suited for the post-Covid macroeconomic environment. Their model, estimated using a SVAR model on U.S. time-series data, finds that product market shocks, such as supply-chain constraints, reallocation of demand from services to durable goods, and fiscal expansion, were the most significant drivers of inflation. However, they argue that these shocks cannot explain the persistence of inflation after the pandemic: "Although shocks to prices given wages played a central role in the pandemic-era inflation, in the absence of strong indirect effects or renewed shocks, the portion of inflation accounted for these shocks should largely (although not fully) dissipate over time, even without policy action" (Blanchard and Bernanke, 2023, p. 39). They attribute later inflation persistence to a tight labor market, cautioning that it will not subside without policy intervention: "[…] even as the effects of price shocks have waned, the effects of tight labor markets have begun to cumulate. […] The portion of inflation which traces its origin to overheating of labor markets can only be reversed by policy actions that bring labor demand and supply into better balance" (ibid.).

In a subsequent paper (Bernanke and Blanchard, 2024), they applied their model to eleven countries, finding that while their results were generally consistent across countries, notable differences emerged. For example, they concluded that in some European countries, such as Germany and Belgium, labor markets played a negligible role in inflation propagation, even in 2023.

This subgroup's view aligns with the shift in the policy stance of the central banks by mid-2022. From that point onwards, central banks argued in favor of rising interest rates due to the risk of decoupling inflation expectations, while still rejecting excess demand as the root of the propagation mechanism. For instance, in May of 2022, the ECB announced it would raise interest rates in the first quarter of 2023 but explicitly rejected the excess demand narrative: "[…] we do not have excess aggregate demand in the euro area – consumption and investment are both still below their pre-crisis levels – and the war is creating a challenge for monetary policy by tempering growth rates and pushing up inflation further" (Lagarde, 2022b). The need to increase interest rates to curb expectations only intensified from that moment onwards. Only one month later, in June, the ECB set a date for its first interest rate hike (July 1) (severely anticipating the date announced in the month before) and signaled consistent rate increases in subsequent meetings. "We expect to raise the key ECB interest rates again in September. […] beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate. In line with our commitment to our two per cent medium-term target" (Lagarde, 2022c). In September, the ECB reinforced its stance, signaling the need for accelerated rate hikes: "Ultimately, the terminal rate at which our hiking cycle ends must be compatible with inflation returning durably to our target […] And moving faster at the start of the hiking cycle clearly conveys our commitment to bring down inflation to our medium-term target" (Lagarde, 2022d).

In sum, all strands of the neoclassical-inspired view evolved to a convergence on the importance of unanchored expectations as the main risk of propagating inflation in the long term, but they kept differing in the interpretation of what gave rise to this propagation and the

responsibilities of fiscal and monetary authorities in the process. They also converge on the perspective that unanchored expectations are, in this context, a macroeconomic threat to be avoided at all costs, since this mechanism increases not only the level of inflation after the initial shock, but also its pace of evolution through a wage-price spiral. That is, the inflation mechanism is accelerationist, a result directly derived from the neoclassical assumptions regarding the existence of a supply-determined natural rate of unemployment and its interactions with expectations and bargaining power.

Finally, the sudden shift of central banks from viewing inflation as 'temporary' to 'persistent', while striking, should be understood within the context of their recent behavioral pattern. As Louçã et al. (2021) demonstrated, abrupt narrative shifts – often driven by pragmatic motives and sometimes at odds with the theoretical principles of independent central banking – were common in the aftermath of the Great Financial Crisis.

2.3. Solutions

Unsurprisingly, the heterogeneity observed in the mechanisms of inflation propagation also directly translates to the space of solutions.

From the aftermath of the pandemic until the first quarter of 2022, central banks opposed the idea that raising interest rates (contractionary monetary policy) and implementing contractionary fiscal policies were necessary to address inflation. Conversely, those aligned with the Monetarist and conditional excess demand perspectives supported contractionary monetary and fiscal measures from the start.

Central banks argued that such policies would not only cause social harm but also reduce the productive capacity of the economy, which could slow the resolution of the supply constraints that originally fueled inflation. As Powell (2021) stated, "If a central bank tightens policy in response to factors that turn out to be temporary […] such a mistake could be particularly harmful. We know that extended periods of unemployment can mean lasting harm to workers and to the productive capacity of the economy".

However, similar to the shift in thinking about inflation propagation, by May 2022, the neoclassical camp had largely reached a consensus on the need for a rapid increase in interest rates to curb inflation and bring it back to the medium-term targets set by central banks.

What was the rationale behind this decision? There are two central mechanisms through which central banks consider that they can lower inflation expectations. The first mechanism operates through an immediate effect on aggregate demand and workers' bargaining power: by restricting access to credit, the central bank reduces consumption and investment, causing output to fall below its potential level. This, in turn, reduces economic activity and raises unemployment. The second mechanism is related to the central bank's credibility: assuming that agents base their decisions on expectations about the future and incorporate changes in monetary policy into those expectations, they will start to anticipate lower inflation in the long term. As a result, there will be less pressure on real wage demands in the present, potentially preventing the emergence of an inflationary spiral. It is important to note that the first mechanism operates through backward-looking expectations, while the second operates through forward-looking expectations. This distinction has interesting implications for a deeper characterization of the neoclassical view's heterogeneity.

The first key observation is that proponents of the Monetarist and conditional excess demand perspectives emphasize both mechanisms, asserting that the second mechanism cannot function without the first. This is consistent with their belief that excess demand is the root cause of

inflation. On the other hand, central banks stressed the second mechanism, focusing on anchoring expectations to their medium-term targets through interest rate hikes, without emphasizing the need for contractionary effects on output and unemployment. This is consistent with their view that inflation was driven primarily by persistent supply shocks rather than excess demand. The second insight from this distinction is the differing perspectives on the social and economic costs of disinflation. Those who believe that excess demand or an overheated labor market is the main problem are skeptical about controlling inflation without costs to employment and output, a position known as the "hard-landing" scenario. As Blanchard noted, "The sad truth is that there is no such thing as a slowdown [in economic activity] without an increase in unemployment. The hope of decreasing job vacancies while leaving unemployment the same [...] is a vain hope. Vacancies will come down; unemployment will go up" (Blanchard, 2022).

Interestingly, despite it may seem counterintuitive, contractionary monetary policy is often advocated even in countries or regions where labor markets played a minimal role in inflation. However, the reason is logically consistent: as Bernanke and Blanchard (2024) pointed out, flatter Phillips curves imply that labor market conditions have a lesser impact on inflation propagation but also imply higher disinflation costs in terms of unemployment: "Tight labor markets had not contributed very much to the increase in inflation in most economies, but, symmetrically, looser labor markets would not reduce inflation very quickly" (Bernanke and Blanchard, 2024, p. 33).

Conversely, those who believe that central banks can primarily manage inflation expectations through credibility and forward-looking expectations are more likely to think that contractionary monetary policy can achieve a "soft landing". In other words, they anticipate that inflation expectations can be lowered with minimal costs to employment and output.

In addition to restrictive monetary policy, there has been a consensus within the neoclassical camp on the need for governments to adjust fiscal policy in tandem with the new restrictive cycle to help contain aggregate demand and support central bank efforts (De Guindos, 2023). Social transfers aimed at mitigating the impact of inflation on the cost of living should be surgical, parsimonious, and targeted – intended only for the most vulnerable families.

3. Critical political economy perspective

3.1. The origin of inflation

Critical political economists argue that the analysis of the post-pandemic inflation surge should depart from the neoclassical focus on excess demand and inflation expectations. Instead, they suggest shifting the focus to the microeconomic and sectoral structure of the economy, examining how supply constraints led to price surges through input-output linkages and changes in firms' pricing behavior. Although there is debate about the importance of this sectoral dimension for inflation propagation (see section 3.2.), there is widespread agreement among critical political economists on its role in the origins and early stages of inflation. Thus, it was unsurprising that the debate revived concepts, methodologies, and authors who emphasized the importance of sectoral interlinkages for understanding capitalism, such as Piero Sraffa and Wassily Leontief.

In this line of inquiry, studying relative price changes is crucial not only for understanding allocation problems across sectors but also for gaining insights into macroeconomic aggregates, particularly the aggregate price level.

The input-output model proposed by Weber et al. (2022) was one of the earliest and most influential contributions to this debate. Their model aimed to demonstrate the role of systemically

significant prices – defined as the prices in sectors where a shock has the greatest impact on the Consumer Price Index (CPI). They acknowledged the influence of earlier literature, noting that sectors with systemically significant prices closely align with Sraffa's (1960) concept of *basic goods*, which are essential for the production of most commodities, either directly or indirectly. Based on simulations using their model, they concluded that these sectors include industries producing utilities, essential raw materials, and agricultural products, many of which are internationally traded commodities. These changes in systemically significant prices quickly spread through the economic structure due to strong intersectoral linkages, portraying post-pandemic inflation as a cost-push process originating from sector-specific price increases.

In a similar vein, Storm (2022) presented important arguments supporting the sectoral roots of inflation while critiquing the evidence provided by those advocating an excess demand interpretation. Storm's analysis focused on two key aspects. First, he provided estimates on the contributions of corporate profits and non-labor inputs, emphasizing the interaction between supply-side bottlenecks and market power. Using input-output data, he concluded that about 80% of the total price change between Q2 2020 and Q1 2022 was driven by rising non-labor inputs and corporate profits. Second, he critiqued the excess demand thesis, specifically the paper by Domash and Summers (2022b). Storm highlighted two main weaknesses. First, the coefficients they reported regarding the impact of the vacancy ratio (their measure of labor market overheating) could explain only a small proportion (around 20%) of the inflation observed, even if correct. Second, they did not account for supply-side constraints in their regression analysis. When controls for capacity utilization and a global commodity price index were included, the regression's explanatory power increased to 80%. These findings actually support the view that the primary driver of inflation was not excess demand from an overheated labor market but rather sectoral supply constraints.

Whether the supply-side constraints at the origin of inflation should be viewed as exogenous or partially endogenous to capitalist expansion remains a topic of debate within critical political economy. Most authors implicitly or explicitly attribute these disruptions to exogenous factors, such as the pandemic's effects on global supply chains. However, some argue that they should be seen as partially endogenous, pointing to the vulnerability of global supply chains due to capitalist globalization and declining profitability as an internal factor (Lapavitsas, 2022).

Finally, while excess demand is rejected as the main source of inflation, this does not imply that the role of demand is absent from the narrative of some authors in this tradition. However, their interpretation of demand contrasts sharply with that of neoclassical economists. Neoclassical authors often highlight the role of expansionary fiscal and monetary policies during the COVID crisis in broad terms, whereas critical political economists argue that the issue lies not in the policies themselves, but in their impact on inequality. Specifically, they emphasize how large-scale monetary injections into financial markets increased asset values, thereby deepening wealth inequality among households. According to these economists, the post-COVID consumption boom was largely fueled by the wealthiest 10% of households, who drove spending by drawing on accumulated resources (Ferguson and Storm, 2023).

3.2. Propagation mechanisms

As previously noted, intersectoral linkages play a crucial role in transmitting changes in systemically significant prices throughout the economic structure. However, explaining the persistence of inflation requires the identification of mechanisms that clarify how inflation propagates over time.

Three primary transmission channels can be distinguished: the oligopolistic channel, the financialization channel, and the conflictual claims channel. These channels should be understood as complementary, with different authors assigning varying weights and interactions to these mechanisms in their analyses.

Oligopolistic channel

The oligopolistic channel posits that the persistence of inflation results from the interaction between supply shocks and the concentration of market power in capitalist economies. In this view, the price increases during periods of supply constraints were amplified by firms' profit claims, allowing them to raise markups due to their market power. This amplification mechanism was notably highlighted in the early discussions surrounding the inflationary shock, including Isabella Weber's article in *The Guardian* (Weber, 2021), and subsequent academic works employing input-output data for the U.S. economy (Bivens, 2022; Storm, 2022; Weber et al., 2022) and a sample of European countries (Cucignatto et al., 2023). Proponents of this channel acknowledge that supply bottlenecks and intersectoral transmission initiated the inflationary process but argue that increased markups exerted additional pressure on prices, exceeding what would have occurred had average markups in sectors with systemically significant prices remained constant.

A natural consequence of this conclusion is the need to explore the reasons that allowed firms to increase their markups during the current inflationary period.

One potential reason is *the emergence of temporary monopolies in industries experiencing capacity constraints*. When demand exceeds production capacity, firms can increase prices relative to costs without fearing loss of market share. This situation mirrors what Joan Robinson described as a "seller's market". The British economist noted that

> moderate swings in demand generally affect output, leaving margins unchanged, but a sharp increase in overall demand [...] creates a seller's market for a number of industries, in which the output that could be sold with the normal margin is greater than can be produced with existing capacity. Some meet this situation by lengthening delivery dates, but some meet it by raising prices (Robinson, 1966, p. 17).

This phenomenon can occur following a sharp increase in overall demand for a given production capacity, as Robinson highlighted, or from significant reductions in productive capacity for a given level of demand, as observed in the post-pandemic period.

The second possible effect relates to how *inflation can facilitate collusion*. Implicit collusion often manifests as price signaling among competing firms. Periods of moderate inflation can enhance this coordination mechanism, as prices change more frequently and visibly. This aspect may have been particularly relevant following a prolonged period of near-zero inflation in most developed economies.

The third factor concerns *consumer reactions to price changes*. In periods of very low inflation, any price adjustment is highly noticeable and typically met with resistance from consumers. Conversely, during a period of rising inflation, such as the current post-pandemic environment, consumers expect continual price increases. This expectation reduces resistance to price adjustments made by firms, allowing them to implement increases that would otherwise face a pushback from consumers. Thus, inflation can lead to more rigid price elasticity of demand among consumers, enabling firms to exploit this dynamic (Parramore and Singer, 2022; Acharya et al., 2023).

Finally, it is essential to emphasize that, unlike neoclassical models, the critical political economy tradition analyzes market power within a historical and political context, highlighting the trend toward concentration in capitalist economies. Rather than viewing the rise in profit margins as a rational decision within a politically neutral framework, it is understood through the lens of power relations within capitalism, which can and should be changed.

Financialization channel

The financialization channel emphasizes the dominance of financial derivatives in commodity pricing, particularly for goods such as food, gas, and oil, and their role in amplifying the inflationary process. It is argued that the intersection of geopolitical uncertainty and highly financialized markets has caused the prices of these goods to escalate far beyond what would be predicted by supply and demand fundamentals (Ghosh, 2022, 2023). In this context, the actions of hedge funds and over-the-counter (OTC) operations are highlighted as exacerbating commodity prices, particularly taking advantage of the uncertainty stemming from the war in Ukraine. Jayati Ghosh notes that "blaming big commodity-price spikes on supply shortages caused by Russia's war in Ukraine does not capture the full truth. […] Frantic speculative activity, mainly by financial companies like hedge funds that dominate trading, has made matters much worse" (Ghosh, 2022).

To assess the significance of this channel, Breman and Storm (2023) applied the model developed by Knittel and Pindyck (2016) to post-pandemic data. They concluded that 24% to 48% of the changes in oil prices could be attributed to speculation in oil markets, contributing 0.75 to 1.5 percentage points to U.S. inflation. Furthermore, they argued that speculation in oil markets also has indirect effects, amplifying inflation through its impact on the future markets of other commodities, namely food and gas.

Conflictual claims channel

In contrast to the initial emphasis on market power and rising markups, other authors have argued for a more comprehensive analysis of class conflict in the propagation of inflation. Beyond considering market power and its effects on prices across the economy, they advocate for the inclusion of class and labor market outcomes in the study of inflation persistence. This approach aligns with a long-established tradition in Post-Keynesian and neo-Marxian circles, which maintains that regardless of the initial trigger for the price surge (such as increased markups or intermediate input costs), inflation propagation is fundamentally rooted in conflict. To comprehend inflation persistence, it is necessary to analyze how the initial price increase triggers a conflict over income shares between capitalists and workers in the production process. Matias Vernengo was among the early voices advocating for the importance of this analytical angle. In his piece in *Catalyst*, he summarized: "In this view, whether inflation accelerates or not will depend not only on the source and size of the shock, whether it has been a demand or supply shock, and how these can be tackled, but, more importantly, on the social and institutional conditions related to the class conflict" (Vernengo, 2022).

The centrality of conflict over income shares in the labor market bears evident similarities to the NAIRU-based theory of inflation previously reviewed. Therefore, it is relevant to briefly outline their differences. While there is heterogeneity in modeling conflictual claims within the critical political economy tradition, they converge on three fundamental features that distinctly

contrast with neoclassical perspectives (Hein, 2024; Hein and Hauser, 2024):[1] (i) *NAIRU is not exogenous*. Even in modeling strategies that assume a single unemployment rate compatible with stable inflation, that rate is endogenous to the economic system, influenced by factors such as aggregate demand, income distribution, and capital stock evolution. (ii) *Changes in the bargaining power between workers and capitalists affect functional income distribution*. This contrasts with the neoclassical view, where movements away from NAIRU only influence inflation, leaving distribution unchanged. Moreover, these distribution changes create an endogeneity channel within the economic system, dependent on the demand growth regime (profit or wage-led); (iii) *In periods where worker bargaining power is subdued (as observed in the post-pandemic context), higher nominal wage claims are a consequence rather than a cause of inflation*. Workers attempt to resist real wage devaluation, but they do not trigger the propagation process. The accelerationist view of inflation based on a wage-price spiral is also rejected. While such a phenomenon may occur in a market capitalist economy, it would be due to increased bargaining power for workers in a context of full employment or strong pro-labor legislation. In such cases, capital could use inflation as a strategy to restore its profitability and the labor discipline necessary for the wage-labor system. However, contemporary inflation is characterized by the opposite dynamics. Parallels with the 1970s are misplaced: "Today's economy is very different from the economy of the 1970s. It would be the height of foolishness to graft 1970s solutions onto the problems facing us in 2022. The economy is very different: globalization is more far-reaching, and unions are significantly weaker" (Stiglitz and Baker, 2022).

The debate on the relevance of the propagation mechanisms: dissension and synthesis

In the previous section, we analyzed each channel of inflation propagation independently. This segmented approach facilitated a more systematic examination of the positions taken by different authors during the early stages of the debate. However, it is essential to recognize that these channels are more complementary than mutually exclusive. Over time, critical political economists have increasingly sought to integrate these channels into a cohesive framework. Nonetheless, notable moments of dissension regarding conceptual and empirical aspects of the debate persist. This section clarifies the evolution towards synthesis while highlighting areas of disagreement.

Arguably, the most significant attempt to propose a unified analytical framework for post-pandemic inflation comes from Weber and Wasner (2023). Initially aligned with the oligopolist channel, these authors advanced a model of seller's inflation that incorporates all previously discussed channels. Their framework unfolds in three stages: (i) Several sectors with systematically significant prices face supply constraints, leading to price increases beyond what market fundamentals would dictate. This phenomenon is driven by the market power of firms and speculation in financial markets, reflecting the oligopolist and financialization channels. (ii) The higher prices from the first stage are transmitted through the economic structure as they become incorporated into the cost structures of sectors with forward linkages. This means that even sectors lacking significant market power experience the effects of the oligopolist and

[1] Hein and Hauser (2024) provide an in-depth analysis of various approaches to modeling conflictual claims within the Post-Keynesian tradition. They specifically compare the models developed by Blecker and Setterfield (2019), grounded in Dutt's seminal work (1987), with those formulated by Hein and Stockhammer (2010), which draw on Rowthorn's foundational contribution (1977). While these models exhibit notable differences, particularly regarding the stability of the Phillips curves, this review will set aside those distinctions, since these internal differences are not fundamental to describe the different positions in the debate about post-pandemic inflation.

financialization channels. (iii) Finally, the aggregate price level increases due to the preceding mechanisms, resulting in a decline in real wages. In response, workers seek to restore their bargaining position by demanding higher nominal wages, thus triggering inflation via the conflictual claims channel.

Two other influential contributions followed a similar path toward synthesis. Wildauer et al. (2023) proposed a model of price-wage inflation, contrasting it with wage-price inflation, based on a three-sector model calibrated with US sectoral data. Hein (2024), on the other hand, creates a model that adds the role of an inflation-targeting central bank. Both articles follow causality steps close to Weber and Wasner (2023) in their modeling strategies.

Despite this trend towards synthesis, significant disagreements and heterogeneity persist within the critical political economy sphere. Marc Lavoie has emerged as a leading figure in this internal debate. His initial arguments, articulated through a series of blog posts (Lavoie, 2023a, 2023b) and later in an academic journal article (Lavoie, 2024), contend that the evidence for an active role of profit-led inflation (characterized by increasing markups) is unconvincing. He suggests that post-pandemic inflation should be primarily analyzed through the lens of conflict inflation in the Post Keynesian tradition, emphasizing the conflictual claims channel.

Lavoie's critique is anchored in both technical and conceptual considerations. Technically, he argues that rising profit shares do not necessarily indicate increasing markups in the context of cost-plus pricing. Profit shares can rise even if markups remain constant or decrease due to factors such as an increase in non-wage costs, overhead labor costs, and the relative importance of wage versus non-wage costs in firms' cost structures[2]. Consequently, he advocates for a focus on conflict inflation rather than profit inflation attributed to market concentration during the early stages of inflationary surge.

This viewpoint was contested by Nikiforos and Groethe (2023), who argue that major developed economies were already operating above pre-trend levels, with profit shares remaining high. They assert that while Lavoie's concerns about the cyclical component of profit shares are valid, they do not apply to the current economic context. Furthermore, they present studies indicating evidence of increasing markups in recent years to support the relevance of the oligopolistic channel. They defend the concept of profit-led inflation even if the initial price increase does not stem from an increase in firms' markups, noting that firms can impose price increases to protect their margins, placing the initial burden of distribution on real wages – a scenario they characterize as price-wage inflation (following Wildauer et al., 2023).

In a subsequent response, Lavoie (2023c) adopts a more conciliatory stance, acknowledging the potential for increased markups in certain sectors and the relevance of the oligopolistic channel. However, he maintains that rising profit shares do not convincingly demonstrate the channel's significance. He aligns with the notion of price-wage inflation described by Weber and Wasner (2023) and Nikiforos and Groethe (2023) but prefers the term "conflicting claims inflation triggered by a negative supply shock", without attributing a decisive role to rising profit claims in the propagation mechanism. Hein (2024) summarizes this position, asserting that "inflation is thus always and everywhere a conflict phenomenon", emphasizing that distinctions among various inflation types only pertain to the initial trigger, not to the essence of inflation itself.

Empirically, attempts to validate the relevance of the oligopolist channel have incorporated Lavoie's conceptual concerns. Storm (2023) acknowledges the importance of Lavoie's points but argues that evidence supporting profit inflation remains robust. He redefines profit inflation as an

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[2] In this context, the profit share is given by: $h = 1 \,/\, \left[1 \,/\, \big(m(1+z)\big) + 1\right]$, where h represents the profit share, m represents firms' markup and z the ratio of unit material to unit labor costs.

increase in gross output prices caused by rising profit markups while holding other unit cost items constant. Using a revised model that includes data for intermediate inputs from the BEA, Storm concludes that, from Q2 2020 to Q4 2022, average firm markups in the US increased by 15.7%, accounting for two-thirds of the total variation in profit shares. Thus, he asserts that the contribution of the oligopolist channel to inflation amplification is significant. Matamoros (2023) presents mixed evidence from a sample of six industrialized countries, concluding that while markup inflation was evident in 2022, it was not present in 2021. Inflation in 2021 stemmed primarily from rising unit material costs due to supply-side bottlenecks. In 2022, however, markups contributed to inflation amplification in most countries, although the significance of this result varies based on the index used to measure markups and is not uniformly robust across all countries. Matamoros (2023) acknowledges that empirical evaluations of profit inflation's relevance in the post-pandemic context remain open questions, particularly outside the US economy.

Summary

The complexities and nuances of this internal debate may obscure the critical political economy's perspective on inflation propagation mechanisms in the post-pandemic context. Does critical political economy present a unified framework with a degree of internal consistency to offer a competitive alternative to neoclassical-inspired interpretations, or is it merely a collection of incoherent interpretations – a common critique leveled against heterodox economics in recent decades?
This analysis contends that critical political economy indeed provides a robust alternative to neoclassical perspectives. The ongoing disagreements reflect unresolved empirical challenges and conceptual debates that are inherent in any intellectual discourse, and the extent of internal dissension is not greater than that found within neoclassical economics.

In summary, the common elements within the critical political economy view can be encapsulated as follows:(i) *Inflation is rooted in class conflict, triggered by various historically contingent shocks*. Unlike neoclassical perspectives, which attribute inflation to wage-cost pushes resulting from excess demand and worker bargaining power, critical political economy posits that rising nominal wages result from workers' attempts to resist a cost-of-living crisis. In the current context, weak labor bargaining power in advanced economies renders the accelerationist inflation model unlikely without additional shocks; (ii) *The origins of inflation can be traced to a mix of shocks impacting firms' intermediate costs, exacerbated by pandemic-related disruptions in key sectors*. This situation facilitated rapid inflation transmission across the economic structure, influencing both direct cost increases in other sectors and indirectly extending the income share conflict throughout the economy; (iii) *Inflation must be understood as a consequence of the contradictions inherent in the capitalist system*, necessitating politically informed decisions to address its effects, which inevitably have asymmetric impacts across different classes. This contrasts with neoclassical emphasis on treating inflation as a politically neutral phenomenon that can be resolved through technocratic approaches.

Despite this shared foundation, two primary points of contention persist within the critical political economy framework: (i) *Relative importance of oligopolistic and financialization channels relative to the conflictual claims channel.* While there is consensus that these channels contributed to inflation propagation, significant disagreement remains regarding their relative significance in the post-pandemic episode. Some authors argue that these channels were central to the unique characteristics of post-pandemic inflation, while others contend that their impact was minor, with

conflictual claims serving as the principal mechanism of propagation; (ii) *The concept of profit-led inflation*. The definition of profit-led inflation is contested. Some scholars reserve the term for scenarios where increased profit claims lead to higher markups, while others argue that it should also encompass situations where strong capitalist bargaining power enables the transfer of non-wage cost increases to workers, even if that occurs alongside constant or declining markups.

3.4. Solutions

For critical political economy authors, post-pandemic inflation is not a macroeconomic problem in itself, as the conditions for an accelerationist inflation pattern that could threaten stability and economic growth were not present in the post-pandemic scenario (at least, in developed economies). Therefore, the focus of the responses advocated by critical political economy is not on curbing inflation at any cost but rather on proposing a set of policies and reforms that simultaneously favor fairer outcomes and mitigate the persistence of inflation.

In the realm of solutions, there is significant agreement among various authors within the critical political economy tradition. However, the emphasis placed on different solutions varies depending on their views about the causes and mechanisms of inflation propagation. Those who interpret inflation primarily through the lens of the conflictual claims channel tend to favor measures that ensure a fairer distributive conflict through sustainable wage growth. In contrast, those who focus on the oligopolistic channel assign a central role to price controls. Additionally, authors who examine the impacts of inflation surges on different economic regions often propose reforms to the international financial and monetary systems.

A strategy for sustainable wage valorization

Contrary to the policy advice advocated by neoclassical-inspired economists, a strategy of sustainable wage revalorization is endorsed by most critical political economists. Central to this contrast are two essential assumptions. The first, already highlighted earlier, relates to the perception that contemporary inflation is the result of conflictual claims within an environment characterized by unbalanced bargaining power favoring capitalists, following several decades of neoliberal reforms. Thus, implementing legal measures and institutional reforms that empower workers is seen as the only way to guarantee fairer outcomes in the presence of an inflation shock. The wide acceptance of this strategy is illustrated by how leading critical political economy authors from various schools of thought advocate for it. Hein (2024) argues in favor of what he terms a Post-Keynesian policy mix, which combines a strategy of sustainable wage valorization with a target of low and stable long-term interest rates. Likewise, a group of economists led by Costas Lapavitsas, a prominent Marxist academic, contends that a sustained strategy of wage appreciation is essential to prevent the inflationary shock (which does not constitute a crisis in itself) from transforming into a cost-of-living crisis (Lapavitsas et al., 2023).

However, for this strategy to be effective, it requires an additional assumption: prices must change less than proportionally to wages. This assumption – often implicit in policy discussions – finds support in both classical and contemporary references. The idea that empowering workers can increase their share (implying that price elasticity to wages is below unity) has deep roots in critical political economy, traceable back to Karl Marx himself. Although Marx's analysis and project were not primarily concerned with the possibility of workers achieving better economic conditions under capitalism, he advocated for the political efforts of social-democratic and trade unions aimed at improving working conditions. In *Value, Price and Profit* (Marx, [1898] 1910), he

argues that stronger labor bargaining power can indeed reduce the profit margins of the capitalist class. This idea reappears in *Capital* as an important part of the assumptions of simple reproduction, where increased labor bargaining power raises the wage share and erodes profitability (Marx, [1867] 2024, ch. 23). Another classical reference is Michael Kalecki's work. While Kalecki is often associated with the notion of a constant markup, he emphasized that markups could fluctuate in response to changes in the institutional framework, specifically regarding trade union power and market concentration. Furthermore, he provided seminal time series evidence that the degree of monopoly fluctuates along business cycles, suggesting that periods of low unemployment and stronger labor bargaining power can indeed exert downward pressure on markups (Kalecki, 1938).

In contemporary academic research, arguments supporting the effectiveness of a wage valorization policy are frequently presented by Post-Kaleckian authors such as Lavoie (2023a) and Hein (2024). The fundamental idea is that, in a context of cost-plus pricing, it is possible to achieve real wage gains after a shock in imported raw materials without decreasing firms' markups. This allows for fairer outcomes with less conflictual consequences than often suggested. Hein (2024) also references an additional microeconomic argument presented by Sylos Labini (1979), which highlighted the asymmetric capacity of firms to reflect wage changes in prices. According to Sylos Labini (1979), only firms with higher productivity growth can maintain their markups in a strong price-competitive environment, while those with lower productivity growth must contract their markups. Therefore, markups tend to operate contracyclically due to the sectoral composition of the economy.

Finally, the effectiveness of wage valorization in achieving a fairer response to an inflationary environment can be substantiated by growing evidence on monopsony power (Manning, 2021). This literature emphasizes that current capitalist economies generally exhibit rates of return on capital above the competitive equilibrium, due to market concentration that skews bargaining power in favor of employers. Crucially, these outcomes can be altered through economic policies that enhance workers' bargaining positions, such as increasing unionization or implementing full employment-friendly policies. In the context of the ongoing debate, prominent authors from this literature argue that the U.S. is not experiencing overheating in the labor market, but rather that the labor market is approaching competitive equilibrium, reversing a long-term trend of subdued bargaining power for low-wage workers in the U.S. economy (Autor et al., 2023). Low-wage workers have managed to achieve real wage gains despite the higher inflation rates. Therefore, the perspective that pushing for full-employment policies during a period of inflation is self-destructive (potentially accelerating inflation without achieving real wage gains) does not hold.

Strategic margin and/or price controls and taxation of extraordinary profits

The case for strategic price controls and taxation of extraordinary profits has been consistently made by advocates of the oligopolistic channel. The debate surrounding price controls gained significant prominence (and controversy) from the very early stages of the discussion. The initial impetus came from a widely discussed article by Isabella Weber in *The Guardian* (Weber, 2021), which highlighted several successful historical examples of price controls implemented to address temporary supply-side constraints, including in the U.S. during and after World War II. A key point emphasized by this literature is that price-control policies are much more complex and varied than the simple administrative definition of prices – a simplification often made by their detractors:

> Price stabilization policies can thereby take different forms ranging from strict price gouging legislation, automatic taxes on windfall profits for systemically significant prices that become effective in emergency situations, to strategic price caps. Strict regulation on financial speculation in systemically significant sectors and anti-trust legislation could also play an important role (Weber et al., 2022, p. 23).

Price control policies can be designed for specific sectors, particularly those where inflation was initially concentrated and which subsequently affected the cost structure of most other sectors, such as energy. This type of policy assumes that the price increases seen in certain sectors reflect not only the scarcity of supply in the face of directed demand but also the market power of companies when setting prices. They should not be viewed as the definitive solution to inflation but rather as mechanisms that can halt its progression and "buy time" to address the constraints in the supply of raw materials that originated the widespread price increases. Successful implementation of these policies necessitates the existence of efficient planning authorities equipped with up-to-date information on the current state of the economy. Given that the neoliberal era has been characterized by the dismantling of the planning capabilities of most states through externalization (Mazzucato and Collington, 2023), rebuilding these capabilities should be a primary objective to ensure more robust responses to future capitalist crises.

A recent comparative assessment of different solutions to address post-pandemic inflation presents a compelling argument for adopting windfall profits taxes. Wildauer et al. (2023) compare three distinct policy responses to inflation (wage repression, contractionary fiscal and monetary policies, and a windfall tax followed by the distribution of profits), concluding that the latter is "[…] the most effective in reducing inflation without reinforcing reductions in employment and labor shares" (Wildauer et al., 2023, p. 1).

However, it must be emphasized that the scale of implementation for these measures is crucial to their success. In support of this concern, Cucignatto et al. (2023) demonstrate, using input-output models, that implementing price controls at the Eurozone level would have effectively curbed the magnitude of the inflationary episode without significantly harming firms' profitability compared to pre-pandemic levels. Nevertheless, the success of this policy would heavily depend on the scale of its application.

Reform of the international financial and monetary system

At least three types of reforms to the international financial and monetary system have been proposed to enable a more effective fight against current inflation.

The first concerns *reforms in the international financial commodity markets*. Ghosh (2022) argues that (i) transactions must occur in regulated markets where rules are established to prevent speculative operations – such as limiting the number of short-term transactions participants can conclude; (ii) derivative products should only be tradable by agents with direct operational interests in the respective raw materials. Ensuring these conditions would help prevent increases in raw material prices primarily related to speculative activity in financial markets during periods of uncertainty, thereby curbing the rise in firms' costs and contributing to a lower propagation of inflation.

The second concerns *the reform of the international monetary system*. The current post-Bretton Woods era has been marked by systemic instability due to the absence of institutions responsible for counteracting macroeconomic imbalances between countries. The U.S. dollar continues to function as the international reserve currency, compelling developing countries to often borrow in dollars to finance their development efforts. This situation renders them

vulnerable to rapid changes in monetary conditions arbitrarily defined by the implicit hegemon of the dollar. This context imposes significant constraints on the development policies of several countries and aggravates existing inflationary pressures, particularly in import-dependent countries (Akyüz, 2021). Consequently, reforming the international monetary system – through the establishment of international institutions capable of regulating capital flows and overseeing the functioning of the international monetary system – should be an essential component of any strategy aimed at countering inflation.

The third proposed reform involves *a comprehensive agenda for enhancing the institutional framework governing the functioning of the international financial system*. The necessity of promoting coordinated action among central banks and financial authorities to provide liquidity in times of crisis is highlighted by several critical political economy authors (Ocampo, 2017). The liquidity needs of the Global South during crisis periods must also be prioritized. The weakening of the dollar's status as the global reserve currency will not be achieved overnight, but promoting the use of local currencies for trade and investment can be a long-term objective.

Rebuilding the planning capabilities of the state, accelerating green transition, and promoting reindustrialization

According to critical political economy authors, the pandemic has revealed the supply-side vulnerabilities of globalized capitalism. What many considered a robust economic setting ultimately proved to be fragile in the face of shocks affecting specific segments of global value chains. At least two sources of vulnerability became evident: the persistent reliance of global production on a set of commodities, many of which are fossil-based, and the excessive atomization of the production process worldwide, making disruptions in any global region easily transmissible across supply chains.

To overcome these vulnerabilities in the long run and reduce the likelihood of future inflation surges, authors have suggested at least three strategic paths. Firstly, accelerating the pace of the Green Transition requires rebuilding the planning and industrial capacity of states. State-led investments in green energy and coordinated planning with the private sector are fundamental – essentially, a true Green New Deal (Pollin, 2015). Mere implementation of financial incentives and subsidies for the private sector is insufficient and potentially harmful (Gabor, 2021). Secondly, and complementarily, rebuilding industrial capacity in developed countries can enhance the robustness of regional supply chains and foster an ecosystem of production and innovation centered on green technological sectors. Finally, the selective nationalization of the energy sector should be considered, both as a means of managing future price volatility in these sectors and as a strategy to facilitate the implementation of pricing structures aligned with the green transition (Cucignatto et al., 2023).

The significance of this strategy has been acknowledged, albeit partially, in many developed economies. However, its implementation has been heterogeneous, reflecting the different institutional constraints they face. In the United States, there has been a significant movement to rebuild an industrial policy strategy at the federal level, materialized in the Infrastructure Investment and Jobs Act (2021) and the Inflation Reduction Act (2022). The Eurozone has expressed intentions to follow similar paths; however, existing fiscal rules and their asymmetric effects on different member countries severely compromise a coordinated strategy for public investment and the development of new industrial capabilities (Febrero and Uxó, 2023).

4. Critical political economy and the opposition to contractionary monetary policy

A comprehensive review of critical political economy in this debate is not complete without examining the positions of its authors regarding contractionary monetary policy. Since mid-2022, contractionary monetary policy has become the principal response to inflation worldwide. Given the hegemony that this view has acquired in academic and public discourse, authors situated within the critical political economy tradition have devoted a substantial part of their contributions to debunking the proposition that increasing interest rates is the best strategy for addressing contemporary inflation.

According to these authors, this strategy has unnecessary harmful economic and social effects and is supported by fragile theoretical and empirical propositions. Throughout this section, we will review the weaknesses of these propositions. Ultimately, it will be demonstrated that these weaknesses are closely related to the conceptual and operational problems associated with inflation-targeting independent central banks.

The first major criticism is *that there is no strong empirical association between low inflation regimes and higher growth rates*. A common justification for prioritizing an economic policy that focuses on combating inflation through monetary measures, even at the expense of other economic and social dimensions, is the long-standing positive relationship between low inflation regimes (close to the 2% target) and economic growth and stability. Nevertheless, critical political economy authors have long argued that this empirical evidence is not robust. Many empirical studies identify inflation thresholds above which inflation becomes detrimental to growth, but these thresholds are substantially above the two percent target set by most central banks. For instance, Pollin and Zhu (2006) identified thresholds between fifteen and eighteen percent, a result that was confirmed in a more recent study by Pollin and Bouazza (2024). Therefore, this implies "[…] paying a significant penalty in terms of foregone GDP growth when policymakers set an inflation target at 2 percent as the central goal of macroeconomic policy" (Pollin and Bouazza, 2024, p. 472).

Secondly, *contractionary monetary policy incurs long-term costs*. Capitalism is portrayed as a persistent system characterized by hysteresis effects, where both demand and supply shocks significantly affect long-term growth. While this understanding has been a cornerstone for growth researchers within critical political economy for a long time (Lavoie, 2022; Hein, 2023; Skott, 2023; Girardi et al., 2020), the last decade has also witnessed a surge of empirical macroeconomic research conducted by neoclassical authors exploring the long-run effects of monetary policy on real output (Blanchard et al., 2015; Jordà et al., 2023). The long-run neutrality of money – a historical cornerstone of neoclassical economics – was being challenged even before the pandemic occurred.

Moreover, these effects are particularly harmful and counterproductive in a historical moment characterized by the urgent need to address the climate crisis, which requires a high level of public and private investment to build the necessary infrastructure for transitioning to green energy sources (Dafermos et al., 2018; Kedward et al., 2022; Dafermos, 2023). Central bankers are often seen as consciously silent about these short- and long-run costs. Referring to Jerome Powell, Joseph Stiglitz noted: "he blithely calls for these increases in unemployment (falsely claiming they are necessary to bring down the rate of inflation) without any appeal for assistance, or even a mention of the long-term costs. (...) [is a] totally unnecessary defense of pain" (Stiglitz, 2023).

A third important point is *that contractionary monetary policy cannot address the root causes of inflation*. This inflationary shock arose due to supply-side disruptions and rising trade margins.

Raising interest rates will not resolve these underlying issues. "Increases in interest rates, beyond normalizing levels, will do little to address the underlying problems and may exacerbate them, impeding effective responses to supply shortages" (Stiglitz and Regmi, 2023). As Louis-Philippe Rochon observed: "[T]he entire building of dominant policy is based on the impact on demand and therefore on prices. But what if inflation is not driven by demand?" (Rochon, 2022).

This does not imply that critical political economists deny that increasing interest rates may reduce inflation. However, such a goal is achieved only through a fall in demand, at enormous costs to economic growth and equity. Robin Wigglesworth, the unsuspected editor of the Financial Times, questioned: "If monetary policy has a limited impact on these systemically significant inflation drivers, should central banks overcompensate, raise rates aggressively and destroy demand to drive down all other prices – regardless of the economic cost?" (Wigglesworth, 2022).

According to Stiglitz, the operation of central banks is predicated on assumptions about events that simply do not occur. They are "bogeymen" that are nowhere to be found:

> To justify itself, […] the FED points to the usual bogeymen: runaway inflation, a spiral of prices and wages, and expectations of unanchored inflation. But where are these bogeymen? Not only is inflation falling, but wages are rising more slowly than prices (indicating no spiral), and expectations remain in check. The five-year forward expectancy rate hovers just above 2% – hardly without an anchor (Stiglitz, 2023).

Fourth, the *excess demand view relies on foundations characterized by empirical fragility and theoretical narrowness*. The hegemonic view of inflation as a macroeconomic event spurred by excess demand is closely tied to the NAIRU theory. There are at least two central caveats to this narrative.

The first concerns its lack of empirical support. The concept of a supply-determined NAIRU has been empirically challenged on two fronts. Firstly, there is no evidence that the rate of unemployment solely responds to supply variables in the long run. Utilizing a wide range of techniques and samples, several authors have found that actual unemployment rates respond to aggregate demand components in the long run (Stockhammer, 2004, 2008; Martins and Damásio, 2019). Secondly, it has also been shown that the NAIRU estimates published by institutions such as the OECD or the European Commission have a significant statistical relationship with demand components (Heimberger et al., 2017). This indicates that these estimates are not structural (in the sense of being only supply-determined) and that demand can indeed push unemployment below those levels without generating inflationary pressures. This creates a clear bias in output gap estimations, often distorting assessments of excess demand scenarios.

The second caveat pertains to the biased theoretical assumptions regarding bargaining positions in the labor market. The NAIRU narrative frequently implies that the "excessive" bargaining power causing inflation originates from the workers' side, while markups are seen as a power-free and cycle-invariant magnitude that depends on exogenously determined market structures. In other words, even if markups represent deviations from the rate of return to capital relative to competitive equilibrium, their reduction cannot or should not be a policy target for managing inflation. Instead, managing the evolution of unit labor costs through the disciplining of workers is perceived as the only way to achieve a stable inflation target.

Fifth, *contractionary monetary policy exhibits a class bias and amplifies inequality*. Contractionary monetary policy is neither socially nor politically neutral. Adjusting interest rates as a tool of macroeconomic management has distributional impacts that have been extensively researched by critical economists. At least three channels can be identified through which raising interest rates may create a structural tendency towards increasing inequality.

The first channel relates to its effect on workers' bargaining power. James K. Galbraith was among the first to highlight this issue in the debate. In January 2022, shortly after the FED signaled its intention to increase interest rates, he co-authored an article in *Project Syndicate* with the striking title: "The Fed's Target Is Workers" (Galbraith, 2022). Reducing future nominal wage growth is a crucial objective of the strategy aimed at contracting aggregate demand through a recessive monetary policy. This tends to lead to an increase in functional income inequality (between capital and labor), especially in sectors with high market power, where capitalists are less likely to reflect the deceleration of nominal wages in the slowing of final prices. This channel becomes particularly pronounced when inflation is driven by higher intermediate costs and/or increased commercial margins in specific sectors. A strategy aimed at reducing wages essentially attacks the only component of the cost structure of companies that did not originate the inflationary moment. As Matias Vernengo summarizes, "in reality, what matters [in this strategy] is the containment of workers' demands and the mitigation of the distributive conflict" (Vernengo, 2022).

The second channel operates through the impact of recessive monetary policy on returns to rentier capital. The increase in interest rates results in a rise in the real income of rentiers – those who derive income from interest and/or rents resulting from control over relatively scarce resources. This creates a trend towards increasing the share of rentier capitalists relative to industrial capitalists and workers. Since rentiers predominantly comprise individuals already positioned at the top of the income structure, this trend tends to exacerbate global economic inequality.

Finally, the third channel functions through the unequal distribution of unemployment across income groups. Workers at the bottom of the wage structure (often in precarious jobs on the labor market) are more likely to be affected by layoffs during a recession. Historically, economic contractions and the unemployment that accompanies them produce a systematic tendency to reduce labor participation among disadvantaged and vulnerable social groups, with young people, women, and racial minorities being particularly impacted.

Consequently, contractionary monetary policy not only leads to an increase in economic inequality but also perpetuates existing patterns of social and economic exclusion.

Empirical evidence supports these theoretical assumptions regarding the effects of inequality. During this debate, Medlin and Epstein (2022) published a study using data from the US economy and counterfactual analyses of the Federal Reserve's monetary policy from 2021 to 2022. They concluded that "this policy [raising interest rates] serves as a real net wealth protection policy for the 1% by restoring some of the lost wealth they would otherwise lose due to unexpected inflation" (Medlin and Epstein, 2022, abstract).

This discussion aligns closely with broader critical research on independent and inflation-targeting central banks. Since the late 1990s, New Consensus Macroeconomics has posited that an independent central bank focused primarily on inflation represents a more efficient and socially neutral means of stabilizing capitalist economies (Arestis, 2009). However, critical political economists have consistently challenged this notion. They argue that in the inherently contested nature of capitalist economies, a neutral form of stabilization does not exist; independence amidst conflicting interests is an illusion. Emphasizing price stability as a central objective implies an implicit class choice: "In a democratic society, there is no political independence. All institutions are political in nature and need political constituents to protect their authority and prerogatives" (Epstein, 2019, ch. 17). Price stability is not attained through some magical institutional property; rather, inflation-targeting regimes perpetuate continuously depressed demand and labor shares (Rochon and Rossi, 2006; Taylor and Barbosa-Filho, 2021),

with the rentier class being the primary beneficiary of this central banking regime (Epstein and Jayadev, 2005).

Sixth, *contractionary monetary policy constrains the policy space for peripheral countries, deepening the divergence between center and periphery*. For central banks in countries at the top of the international monetary hierarchy, the decision to alter interest rates largely hinges on discretionary judgment and the balance between policy objectives and domestic macroeconomic conditions. Critical economists point out that the international monetary system's hierarchical structure means that monetary power directly influences the solvency of sovereign states (Patricio Ferreira Lima, 2022). Central banks in lower positions within this hierarchy experience much more limited policy decision-making space. In a global economy increasingly characterized by unregulated capital flows, these central banks often feel compelled to follow the interest rate increases dictated by central country central banks, even when such actions may be ill-suited for their economic contexts. Many of these countries still grapple with significant recessions and unemployment, having been unable to finance projects to mitigate the pandemic's effects like their central counterparts. Consequently, the rise in interest rates by the ECB and the FED will have particularly detrimental effects on unemployment and economic growth in these countries, introducing an additional recessionary shock in an already fragile economic environment. Moreover, the repercussions of rising interest rates will reverberate through these countries via their external financing situations. Most peripheral nations are compelled to incur debt denominated in dollars or euros. The resulting increase in reference interest rates in these regions will predictably lead to a substantial rise in external debt servicing costs.

The extent to which the central banks of developing countries can resist mirroring the actions of developed country central banks remains contentious. Most views converge on the notion that such resistance is limited unless these countries implement robust macroeconomic management of their capital accounts. This situation reflects a broader perspective that the contemporary international monetary environment presents a dilemma (rather than a trilemma) (Rey, 2016). When countries opt for free capital flows, their exchange rate and interest rate policies become subordinate to the task of stabilizing financial flows.

In the context of Turkey, Orhangazi and Yeldan (2023) critique the Turkish government's strategy of maintaining low interest rates, arguing that it has resulted in increased macroeconomic imbalances and lower real wages. They contend that without a willingness to change the rules governing international integration, there is nothing "heterodox" about adhering to such policies. Ultimately, these strategies lead to new rounds of austerity, which they characterize as "a new chapter in neoliberal peripheral development." In a similar vein, Caldentey and Vernengo (2023) note that, for developing countries, the negative impacts of rising interest rates on growth and employment may be less severe than the adverse effects of currency depreciation linked to maintaining constant interest rates. In essence, contractionary monetary policy may be deemed a necessary evil. "While in the center there is a danger of overestimating the social evils of moderate inflation, in the periphery, the risk lies in exaggerating the drawbacks of higher interest rates and more stable, appreciated exchange rates. Higher inflation levels not only have significant distributive consequences but also may have a larger effect on relative prices and accumulation" (Caldentey and Vernengo, 2023, p. 16). Razmi (2023) offers a cautionary note aligned with this view, proposing a theoretical model in the structuralist tradition that addresses the challenges of a developing economy with both tradable and non-tradable sectors. He suggests that fiscal expansion reliant on seigniorage gains could lead to persistent inflation through the conflictual claims channel, particularly in economies with difficulties in tax collection and sovereign debt issuance.

However, it is crucial to emphasize that any necessity to raise interest rates in peripheral countries is viewed as a second-best option, arising from poor decisions made by central countries and reflecting an asymmetry of power within the international monetary system. If the central banks of core developed countries had not pursued these decisions, or if an international monetary order allowed peripheral countries to operate with greater independence from central country decisions, such increases in interest rates might not have been necessary.

Finally, *the risk of financial instability* must be considered. The relationship among finance, states, and central banks has undergone significant transformation in the decade preceding the pandemic. In developed countries, central banks extensively utilized non-conventional policies to counteract stagnant economic trends, predominantly through the state's de-risking of private investments by purchasing private assets in secondary markets (Gabor, 2021). This strategy has introduced notable financial fragility. As inflation surpassed central banks' targets, a fundamental contradiction emerged: central banks cannot simultaneously inject large amounts of liquidity into financial markets and contract liquidity by raising interest rates. The post-pandemic inflationary period corresponds to a crisis within this regime. This situation presents a dilemma for both the rentier class and central banks: "Condemned to contraction, finance must choose between apoplexy – a crash – or a slow decrepitude under the pressure of rising prices. The period ahead may, therefore, witness a long, slow-motion financial crisis" (Durand, 2022). According to Durand, central banks are attempting to navigate this potential crisis by pursuing a delicate balance: while raising interest rates to curb demand and liquidity, they also intervene or promise intervention whenever signs of financial stress emerge. This strategy was evident in the case of the SVB collapse, where a discreet bailout occurred by valuing US bonds at face value rather than their current market value. Another example is the ECB's creation of the opaque Anti-Fragmentation Mechanism, devised in response to signs of financial stress in the sovereign debt markets of Eurozone countries. The ECB is poised to inject substantial liquidity into secondary sovereign debt markets if needed while concurrently raising interest rates – a seemingly contradictory approach.

So far, it appears that central banks' efforts to manage a "slow-motion financial crisis," where hotspots are swiftly addressed through targeted interventions, have succeeded. However, there are no guarantees that this strategy will persist. The inherent contradiction between contractionary monetary policy and the commitment to guarantee liquidity when necessary remains a significant risk, resulting in a precarious and potentially unstable balance. At any moment, the goals of achieving price stability through interest rate policy may become incompatible with maintaining financial sector stability.

5. Conclusion

This article presents a structured review of the post-pandemic inflation debate, aiming to contribute to a more intelligible academic and public discussion on a topic that has recently garnered significant attention from economists across the spectrum and has become omnipresent in public discourse. Based on this review, we can extract three direct conclusions and a final remark.

Firstly, the debate is profoundly informed by theoretical differences among various schools of macroeconomic thought. Understanding these differences is essential for making sense of the discourse surrounding inflation. The most meaningful way to approach this debate is to trace the differing proposals back to the theoretical foundations of the schools of thought to which their proponents belong. This approach not only helps distinguish between the two main perspectives

in the debate but also clarifies the distinctions among each subcategory. For example, the excess demand interpretation of inflation advocated by many neoclassical-inspired economists is rooted in a theoretical framework that views inflation primarily as a monetary phenomenon. This perspective tends to overshadow any consideration of conflictual claims, operating within a system that is assumed to strive for full employment. In contrast, the view that interprets inflation as a real phenomenon resulting from conflicting class relations in the production sphere is closely tied to the theoretical foundations of critical political economy. Furthermore, the disagreements between advocates of hard and soft landings within the neoclassical camp are inextricably linked to the long-standing debate surrounding backward-looking versus forward-looking expectations associated with Phillips Curve specifications. Therefore, a comprehensive understanding of the contemporary inflation debate necessitates familiarity with the ongoing discussions in both mainstream and heterodox macroeconomics over at least the last forty years.

Secondly, the prevalent response to inflation, characterized by hard contractionary policies (notably steep increases in interest rates), lacks a solid empirical foundation. Many of the assumptions underpinning this response have been consistently challenged by critical political economists over the past decades, including during the current debate. The belief that contractionary monetary policy serves as an obvious, technically optimal solution to inflation is a myth. The adherence to this strategy can be largely attributed to a combination of theoretical bias and institutional persistence, particularly regarding the normalization of independent inflation-targeting central banks that primarily rely on interest rate policy as their (almost exclusive) tool.

Finally, these conclusions underscore the urgent need for increased pluralism in macroeconomic teaching and practice worldwide. Greater pluralism is essential for fostering clearer and more emancipatory democratic debates, in which participants understand the terms of the discussion and are not compelled to accept policy choices with significant political and class implications as if they were merely technical truths.

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