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**Article**

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Editorial

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# Inflation, distributional conflict and just transition

## Editorial to the special issue

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After years of 'Great Moderation' and efforts by central banks to fight deflation, inflation returned with a vengeance in 2021 and continued to rise in 2022 before easing again in 2023 and 2024. At least this is true for the USA and Europe, less so for Latin America where developments have been more diverse.

Within a very short time, the causes of inflation, its impacts and how to fight it have come to dominate the discourse among academic economists, policymakers and social actors, in both advanced economies and the Global South. These themes interact in complex ways with medium- and longer-run issues such as distributional concerns and ecological transition. The causes of the latest inflation peak remain controversial. There are disputes about the relevant weights of supply-side constraints, particularly for energy, and thus the role of the Russian invasion of Ukraine, demand-side factors, specifically the impact of expansionary monetary and fiscal policies in response to deflationary risks and the COVID-19 crisis, and changes in profit markup rates.

This special issue focuses on the theoretical and empirical evidence on the interaction between these factors and the role of distributional conflict between societal groups, both in driving inflation and in responding to it. It also considers the ongoing transition from fossil fuels to renewables and discusses this shift as a possible source of inflationary pressure. A particular focus is on policy responses to inflation and on how to avoid putting adjustment pressure from higher energy prices on already disadvantaged sections of the population.

The first three papers analyse inflation from a theoretical perspective. The contribution by *Eckhard Hein* provides an overview of the post-Keynesian theory of inflation and distinguishes between different strands of this theory. He defends the view that inflation is always the consequence of a distributional conflict, i.e. that inflation is the result of income claims by societal groups that together exceed the given real output in an economy. This can be triggered, for example, by a rise in energy prices, as recently was the case in Europe.

*Marc Lavoie* argues that the popular interpretation of inflation after the COVID-19 pandemic as profit inflation overlooks the role of economic activity and input costs for profits. His conceptualisation of profit inflation considers overhead labour costs and imported intermediate goods. A rise in the profit share could be a consequence of a reduction of overhead labour costs per unit in a period of recovery and of a rise in the costs of imported intermediate goods relative to labour costs, and not necessarily of a rise in profit markups of firms. He cites empirical studies using data on the cost of goods sold in support of this view.

The failure of the New Keynesian theory to predict the recent rise in inflation is addressed by *Servaas Storm*. None of the New Keynesian core indicators of inflation – the output and unemployment gaps, inflation expectations and the New Keynesian Phillips curve – reliably indicated the huge rise in inflation in the period 2021 to 2023. This is problematic both from a theoretical and a practical point of view, as New Keynesianism guides central banks around the world. New Keynesians responded by changing and revising core indicators and concepts to better understand the sudden rise in inflation. However, Storm shows that neither the vacancy ratio as a replacement for the unemployment gap, nor the introduction of a non-linear Phillips curve or the insistence on wage–price spirals are sufficient explanations for the recent period of inflation.

Subsequently three papers focus on experiences with inflation in different regions, both in the Global North and South. *Lilian N. Rolim* discusses inflation and income distribution in Brazil, and in particular the influence of the foreign sector. Following Kalecki, she differentiates between cost-determined and demand-determined channels of inflation. The interplay between the period of 2004 to 2014, characterised by a redistribution in favour of the working class, and the more recent period of 2015 to 2020, with an increase in unemployment and the profit share, is crucial for understanding the distributional conflict in the Brazilian economy. As an open and emerging market economy, changes in foreign prices and the exchange rate also alter the distributional conflict in Brazil. Puzzling from a Kaleckian point of view is the negative relationship between foreign prices in domestic currency and the profit share in the industry sector. It might be explained by a growing dependency of the industry sector on imported inputs.

*Leila E. Davis* analyses firm-level data for the USA to contribute to the debate on profit-inflation post-COVID-19. She shows that non-financial firms' markups in the USA increase strongly in 2020, rise in 2021 at a much lower pace and finally decline again in 2022. In a detailed sectoral and distributional analysis, Davis demonstrates that profit inflation over this time period can be detected and is due to three factors: first, a concentration of sales in favour of firms that already had high markups before the pandemic (a phenomenon she coins 'winners' inflation'); second, a rise in the markups of firms with low pre-pandemic markups, who might have taken advantage of the inflationary environment; and third, sectoral specifics, with manufacturing, information services and retail being characterized by rising markups or a growth in their market share in the overall economy.

In the final paper of this special issue, *Christian Schoder* and *Remzi Baris Tercioglu* present projections for Türkiye that are consistent with net-zero emissions by 2053 – a target the Turkish government signed up to when it ratified the Paris Agreement in 2021. Against the background of a slowdown in growth since 2015 and the recent high-inflation period in Türkiye, the authors place particular emphasis on putting together a policy package that supports low-income families and guarantees fiscal stability without severely hampering GDP growth. The projections are based on an empirical dynamic stochastic open-economy macro framework, which allows – among other features – the authors to model disequilibrium unemployment and the transition to a low-carbon economy. Derived from impulse-response functions of the Turkish economy, the authors estimate the required adjustment path and recommend a sequential combination of carbon taxes, stabilisation of public debt, subsidies for renewable energy and transfer payments. This should be accompanied by a credible commitment of the government to the net-zero emission target and institutional reforms to strengthen the rule of law.

The contributions to this special issue draw from the plenaries of the 27th Conference of the Forum for Macroeconomics and Macroeconomics (FMM), held in Berlin in October 2023. For more information on the FMM, see Coordination Committee of the Forum for Macroeconomics and Macroeconomic Policies (2022).

## REFERENCE

Coordination Committee of the Forum for Macroeconomics and Macroeconomic Policies (2022): Forum for Macroeconomics and Macroeconomic Policies (FMM), in: *European Journal of Economics and Economic Policies: Intervention*, 19(2), 183–185, doi: https://doi.org/10.4337/ejeep.2022.02.01.