

'Sellers' Inflation' and Monetary Policy Interventions: A Critical Analysis

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ABSTRACT

This paper analyses the phenomenon of 'sellers' inflation', that is to say, the increases in consumer prices as a result of firms' decision to increase their selling prices as much as possible in the aftermath of the war in Ukraine. This analysis focuses also on central banks' responses to such inflationary pressures, which monetary authorities have been trying to limit with several increases in their policy rates of interest. The paper explains the major shortcomings of this monetary policy strategy and its negative consequences for a number of economic agents. The last section puts forward an alternative economic policy stance, proposing in particular a series of 'green' monetary policy interventions to address these inflationary pressures in the general interest for the common good.

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1. Introduction

The war in Ukraine has induced the phenomenon of 'sellers' inflation' (an expression used by Weber and Wasner 2023), that is, a series of increases in consumer prices as a result of firms' decision to increase their profits as much as possible, exploiting thereby the shortage of some raw materials both in the food and energy sectors (see Matamoros 2023a, 2023b). To restrain these inflationary pressures, central banks have been putting into practice a restrictive monetary policy, increasing their interest rates rapidly and in different steps that have contributed to slow down economic activities across the world and notably in many so-called 'advanced' countries — as if these inflationary pressures were the result of excessive demand on the market for produced goods and services, where the mainstream of the economics profession considers that 'too much money chases too few goods', as argued by Friedman (1960) and claimed by Bernanke and Blanchard (2023) recently (see Rossi 2022 for a critical appraisal of this orthodox view).

The next section presents the orthodox conception of actual inflationary pressures, with a critical approach that points out the mainstream's failures on macroeconomic grounds. The third section focuses on post-pandemic monetary policy interventions, which in fact aggravated these inflationary pressures instead of avoiding them with an

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appropriate co-ordinated intervention with the relevant fiscal authorities. The fourth section expands on this, suggesting an alternative economic policy stance, co-ordinating fiscal policy with a green monetary policy in order to address several economic issues in the general interest for the common good. The last section concludes, summarizing the major points of our analysis from a political economy perspective.

2. The Orthodox Analysis of Inflation and its Major Flaws

The mainstream's view on actual inflationary pressures considers them as if they were largely the result of excessive demand on the market for produced goods and services, induced by expansionary fiscal policies that have been adopted to address the COVID-19 crisis, and also as a result of 'quantitative easing' monetary policies in the aftermath of the global financial crisis. This is indeed the view of Bernanke and Blanchard (2023, p. 38), who consider that, in the US economy, 'the inflation reflected strong aggregate demand, the product of easy fiscal and monetary policies, excess savings accumulated during the pandemic, and the reopening of locked-down economies'. This explanation has been provided also in regard of other Western countries, particularly the European economy: 'the dynamics of demand and supply in the euro area have been similar to those in the United States. Specifically in the post-pandemic inflation surge, also both strong demand and weak supply factors appear to have been at work' (Eickmeier and Hofmann 2022, p. 4). These conclusions are also reached by many other mainstream economists (see Guerrieri et al. 2022; Shapiro 2022; Cline 2023; di Giovanni et al. 2023). As a matter of fact, in both the US and European economy 'there was little evidence of a wage—price spiral, in that workers did not achieve nominal wage gains sufficient to compensate them for unexpected price increases' (Bernanke and Blanchard 2023, p. 38). This is what a number of heterodox economists have pointed out in the post-pandemic period: 'the fall in the wage share has been accompanied by a fall in real wages, as nominal wages have not (yet) managed to catch up with prices' (Lavoie 2023a, Internet). To be sure, since the end of the COVID-19 pandemic, notably after the various lockdowns of a series of economic activities, an increasing number of individuals have been consuming much more goods and services. This induced a rapid increase in aggregate demand, so that the gap with actual supply could be reduced if not closed, with a positive impact on firms' sales figures, hence on their profits. Further, the economic consequences of the war that began in Ukraine on February 24, 2022 affected the consumer price level, which showed a rapid and mushroom growth across the world, particularly in different Western economies, notably in Europe and in the United States. Critics of so-called 'unconventional' monetary policy interventions in the aftermath of the global financial crisis that burst in 2008 have been pointing out these interventions as the main factor of those inflationary pressures that have been observed since 2022 in 'advanced' economies — as if '*inflation is always and everywhere a monetary [policy] phenomenon*' in the Friedman (1987, p. 17, italics in the original) sense, that is to say, originating in central banks' expansionary policies.

Now, instead of analysing the macroeconomic effects of restrictive monetary policies in the current inflationary environment, the orthodox view focuses on estimating the costs of reducing the measured rate of inflation, taking it for granted that there is no seriously viable and practicable alternative to pursuing a restrictive policy that causes recession or a reduction in national income (see notably Bernanke and Blanchard 2023). The

results of this view are summarized in a statistical indicator, the so-called ‘sacrifice ratio’, which measures how many percentage points of produced output the government is willing to give up each year in order to reduce the inflation rate by one percentage point (see Rossi 2004). To date, there is no longer any debate about the size of this sacrifice or how to distribute it in a balanced manner across the economic system, particularly as regards the labor market. To be sure, for each loss of produced output, there is also a sacrifice in terms of employment — hence an increase in unemployment, even though this phenomenon is not captured entirely by any official statistics. Further, empirical evidence across a variety of countries shows that inflation-targeting central banks have not been in a position to reduce the ‘sacrifice ratio’ or, in other words, to observe lower output and employment losses, as compared to those losses recorded in those countries whose central banks do not have an inflation-targeting strategy (see Rochon and Rossi 2006 for a critical appraisal of such a strategy).

The current macroeconomic situation and its short-run perspectives are problematic and therefore raise the need to consider the effects of these inflationary pressures on income and wealth distribution, within as well as between the relevant countries. The questions that are relevant in this regard and that must be urgently addressed by policy makers are manifold: what is going to happen if the distributive conflict between firms and wage earners is left to the so-called ‘market forces’ of supply and demand in a situation of ‘sellers’ inflation? Does the combination of rising wages for the necessary economic recovery and increasing policy rates of interest provide the best solution to dispose of these inflationary pressures? Are there any real possibilities to constrain the power of financial institutions and profit-oriented corporations in a framework of economic stagnation? To what extent is it possible to make real wages fall below subsistence levels and increase households’ debt volumes, which to be sure are already problematic in different ‘advanced’ economies, particularly in a period where interest rates have shown an increasing trend, notably in the United States? Indeed, both in the United States and across the European Union, income inequalities — resulting from both the stagnation of real wages and job insecurity as a result of involuntary unemployment — have given rise to a mushroom growth of households’ indebtedness since the early 1990s (see for instance Foster and Magdoff 2009 and Kotz 2009).

As Tori, Caverzasi, and Gallegati (2023) explain, the financialization process (see Epstein 2021) fostered by financial deregulation, liberalization and innovation, has been and still is the pivot around which the endogenous dynamics leading to the Great Recession unfolded and that still limits the effectiveness of monetary policies aimed at combating inflationary pressures. Indeed, the innovation process of banks and non-bank financial institutions, particularly in the United States, transformed them into ‘financial commodity creators’ and ‘financial asset producers’. The somewhat ‘forced’ indebtedness of wage earners and consumers, as a result of increasing inequalities in wealth and income distribution, has been the lever to find ‘new ways of financing assets’ (Minsky 1986, p. 220), thus increasing the supply of credit with innovative approaches that allowed banks to expand their traditional role as credit providers and thereby become also ‘producers of financial commodities’ by not directly bearing their risks through different transfer mechanisms (the so-called ‘originate-to-distribute’ model). This expansion of the financial system has led to a surge in its level of

indebtedness, thereby reducing the power of monetary and fiscal authorities to counter inflationary pressures with the same instruments they used to address those analogous pressures that emerged during the 1970s in Western economies.

Now, the emergence of inflationary pressures in the United States and across European countries has different supply-side causes, namely, the large impact of the COVID-19 pandemic on the labor market and the economic consequences of the war in Ukraine, which have induced a relevant increase in energy prices, import prices, as well as profit margins of a number of firms (see Ferguson and Storm 2023). Indeed, the lockdowns during the COVID-19 pandemic and the subsequent rebound of economic growth, as a result of expansionary fiscal and monetary policies across Western countries, induced an unexpected retreat from globalization, with a reshoring of many activities that made some goods more expensive to produce — a trend that was already observed during the Trump administration, and that the Biden administration did not interrupt as regards the United States. The war in Ukraine reinforced this trend across the Western economies, which more recently has been exacerbated by firms' increased mark-up rates. Indeed, particularly in Europe, rising profit margins have been responsible for almost half of the inflationary pressures observed since early 2022, as many firms have raised their selling prices more than their soaring costs for both energy and raw materials (Hansen, Toscani, and Zhou 2023). Figure 1 shows it clearly, as regards the evolution of profits and wages since the outbreak of the COVID-19 pandemic across the European Union.

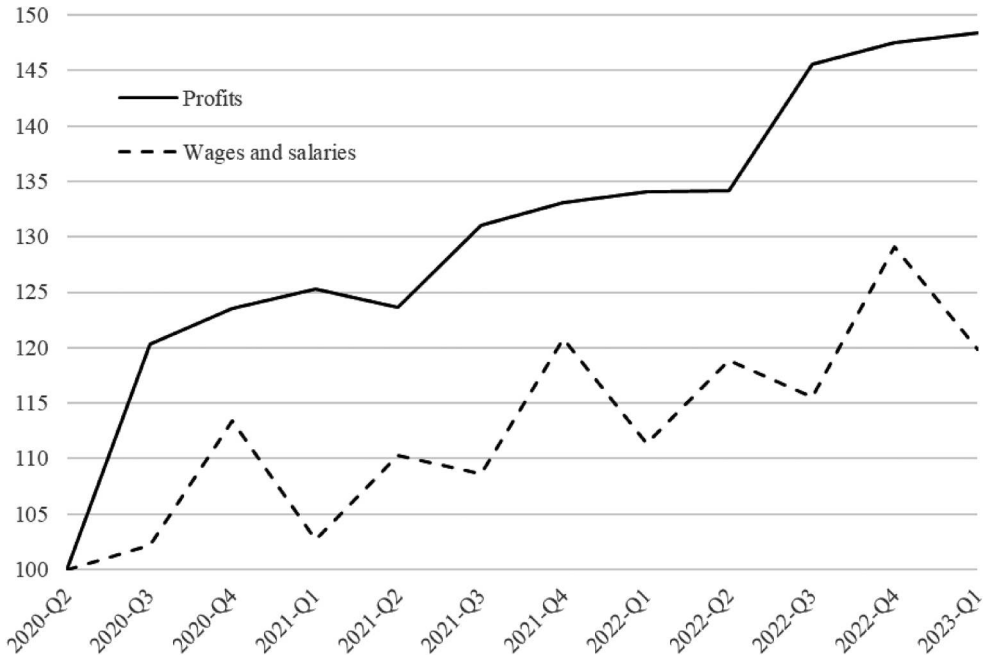


Figure 1. Evolution of profits and wages in the European Union (2020-Q2 = 100). Source: authors' elaboration on Eurostat data, available at https://ec.europa.eu/eurostat/databrowser/view/NAM-Q_10_A10__custom_7139707/default/table and https://ec.europa.eu/eurostat/databrowser/view/TEINA520__custom_7139662/default/table (last accessed on 29 December 2023).

In Europe (more than in the United States), no price—wage spiral has been observed as a result of the inflationary pressures mentioned above. As a matter of fact, the growth rate of real GDP has been low since the beginning of the war in Ukraine. If so, then how can one explain that profit margins have been increased, pushing up the price level despite a stagnating demand on the market for produced goods and services? To be sure, there are no increases in real wages across Europe that could justify an increase in prices as large as it has been observed since early 2022. Indeed, these inflationary pressures have been the result of firms' increases of their mark-up, particularly for those firms whose market power allowed them to exploit this situation in order to record a rapid increase in profits so much so that the profit share of non-financial corporations increased, too (see Bivens 2022a; 2022b). Figure 2 illustrates this phenomenon across the European Union, which was initiated by the COVID-19 pandemic and further expanded by the war in Ukraine.

The increase in profits and in the profit share, and the stagnation of real wages, can be observed in the whole European Union since early 2020. For instance, Ragnitz (2022) shows that in Germany companies in some sectors took advantage of price increases to increase profits. As Boitani and Tamborini (2023) point out, this phenomenon has been present for some time in most 'advanced' countries and manufacturing sectors since the second half of 2021, although it appears more pronounced in some countries (the United States and the United Kingdom) and in some sectors (notably, agriculture, energy, food, construction, catering, and tourism) once the war in Ukraine burst in February 2022 (see also Saraceno 2023c).

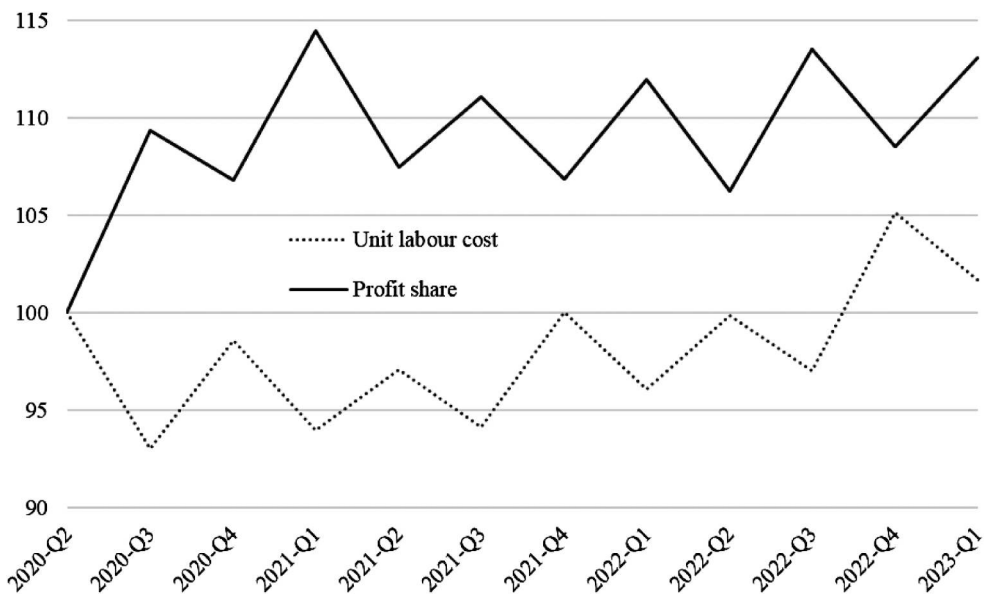


Figure 2. Evolution of unit labor cost and profit share in the European Union (2020-Q2 = 100). Source: authors' elaboration on Eurostat data, available at https://ec.europa.eu/eurostat/databrowser/view/TEINA520__custom_7139662/default/table and https://ec.europa.eu/eurostat/databrowser/view/NAMQ_10_LP_ULC__custom_7121733/default/table (last accessed on 29 December 2023).

To be sure, this ‘sellers’ inflation’ is not only a European phenomenon, as it has also been observed in the United States since the outbreak of the COVID-19 pandemic in early 2020 (Figure 3).

For instance, Konczal and Lusiani (2022) show that, in 2021, mark-up rates and profits skyrocketed to their highest recorded level since the 1950s across the US economy, as firms ‘increased their markups and profits [...] at the fastest annual pace since 1955’ (Konczal and Lusiani 2022, p. 1): in this country profits account for 9.4 per cent of the 14.1 per cent increase in the GDP deflator from the third quarter of 2020 to the second quarter of 2022, while wages account for only 4.7 per cent of this increase across the US economy. Storm (2022, p. 38) confirms this observation, as he points out that ‘[m]ore than 38 per cent of the rise in the US inflation rate during 2020Q2 – 2022Q1 has been due to fatter profit margins, with higher unit labor costs contributing around 19 per cent of this increase.’ Weber and Wasner (2023) agree, arguing that also in the US economy the post-pandemic inflationary pressures are predominantly ‘seller-induced’ and stem from the ability of firms with market power to raise prices. Such firms are price makers, but they actually decide to raise prices only if they expect their competitors to do the same. ‘This requires an implicit agreement which can be coordinated by sector-wide cost shocks and supply bottlenecks’ (Weber and Wasner 2023, p. 183). The most important sectors that have been adopting such a pricing strategy are chemicals, iron and steel, healthcare, and fossil fuels. Actually, the example of oil companies is really emblematic of this strategy: Breman and Storm (2023, p. 35) point out that speculative activity in the oil market ‘has been responsible for 24 per cent–48 per cent of the increase’ in crude oil prices during the period from October 2020 to

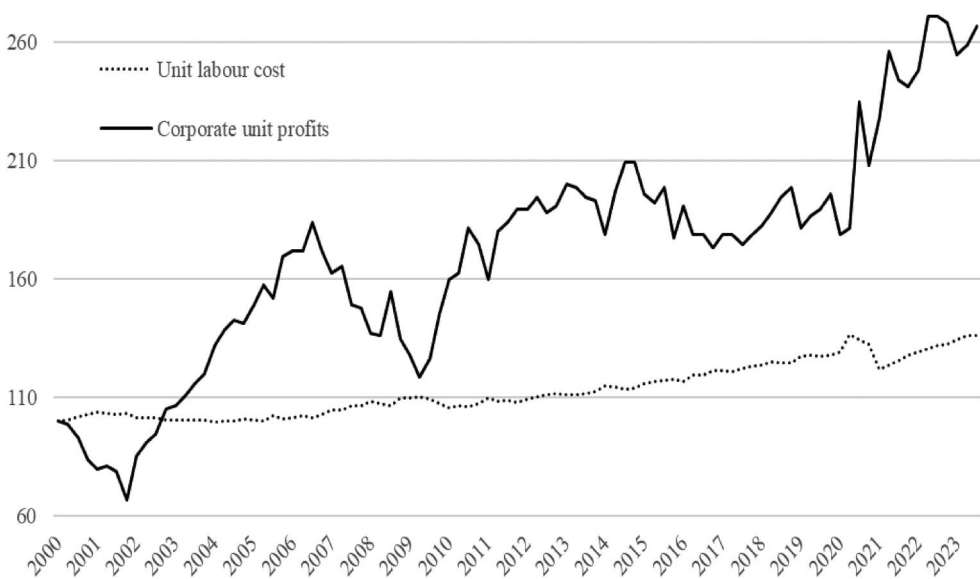


Figure 3. Evolution of unit labor cost and corporate unit profits in the United States (2000-Q1 = 100). Source: authors’ elaboration on Bureau of Economic Analysis data, available at https://apps.bea.gov/iTable/?reqid=19&step=3&isuri=1&nipa_table_list=56&categories=survey (last accessed on 29 December 2023).

June 2022. According to their own calculations, ‘these estimates translate into an oil price increase of around \$18–\$36 per barrel’ and into an increase in the measured rate of inflation for consumption expenditures in the United States of about 0.75–1.5 percentage points from October 2020 to June 2022 (Breman and Storm 2023, pp. 35–36). The authors further notice (p. 36) that rising oil prices drove up the price of fertilizers, thereby much increasing the prices of basic food commodities (corn and soybeans). Oil speculators were therefore indirectly responsible for the increase in several food prices. Hence, Breman and Storm (2023, p. 36) conclude that higher oil prices have reduced consumers’ purchasing power and disproportionately affected lower and middle-income households (who spend a larger share of their income on energy and food than richer households).

This framework of profit-driven inflation has been explained by Dögüs (2022), while the analysis of Weber and Wasner (2023) focuses on market concentration and firms’ power allowing them to increase their mark-up, originating thereby many inflationary pressures as observed since March 2022. Both in Europe and in the United States, an increasing number of firms are profiting from inflationary pressures since early 2022, because wages have been increased much less than consumer prices. According to the European Central Bank calculations, in 2022 the standard of living for a representative employee in the euro area was 5 per cent lower than in 2021 (Bodnár et al. 2022). This situation is confirmed by Janssen (2023, Internet), who notices that across the European Union ‘[o]verall nominal wages still increased by 4.8 per cent on average in 2022 and seemed to continue their recovery after the pandemic. But with consumer prices peaking at 11.5 per cent in the EU-27 in October 2022, nothing was left of any recovery gains. On the contrary. Due to the inflation shock, workers lost an astonishing amount of purchasing power last year: real wages plunged by 4.0 per cent on average in the EU — an unprecedented loss.’

This wage squeeze, in fact, is the opposite of the wage-driven inflationary pressures observed in a number of Western countries during the 1970s — a period that still inspires the monetary policy decisions of a number of central banks confronted since 2022 with a series of problematic increases in the price level on the market for produced goods and services, both in Europe and in the United States. As a matter of fact, the US economy well illustrates these discrepancies between the wage-driven inflationary pressures during the two oil shocks of the 1970s and the ‘sellers’ inflation’ observed at the time of writing (Figures 4 and 5).

As Figure 4 illustrates, during the first oil-price shock (1973–75) unit labor costs in the United States increased more than 20 per cent — from the first quarter of 1973 to the first quarter of 1975 — while corporate unit profits showed a reduction slightly higher than 10 per cent. A similar dynamics was observed in the second oil-price shock (1979–81) — as Figure 5 shows with regard to the US economy, where unit labor costs increased about 20 per cent while corporate unit profits were reduced by 20 per cent before coming back to their initial level in the first quarter of 1981. This historical evidence contrasts with the most recent statistics of the post-COVID-19 pandemic period in the United States, where the measured rate of inflation ‘rose to 4.8 per cent in the second quarter of 2021, [while] profit margins of non-financial US corporations (after tax) broke a new record and climbed to 13.5 per cent, surpassing the previous series high during the post-war inflation in 1947’ (Weber and Wasner 2023, p. 183).

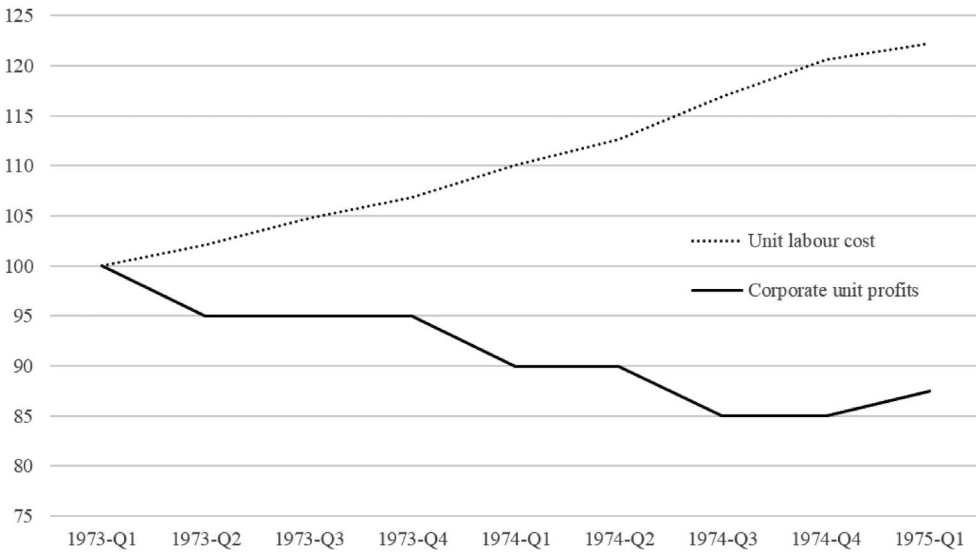


Figure 4. Evolution of unit labor cost and corporate unit profits in the 1970s first oil-shock in the United States (1973-Q1 = 100). Source: authors’ elaboration on Bureau of Economic Analysis data, available at https://apps.bea.gov/iTable/?reqid=19&step=3&isuri=1&nipa_table_list=56&categories=survey (last accessed on 29 December 2023).

This relationship between an increase in firms’ profits and in the general price level is a clear signal that those inflationary pressures observed since 2022 in the global economy are not the result of excessive demand on the market for produced goods and services. It

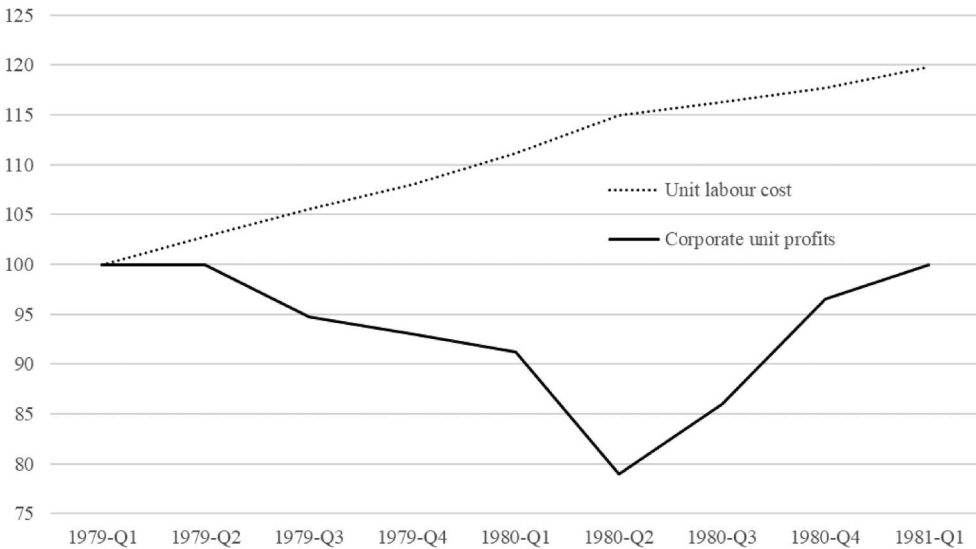


Figure 5. Evolution of unit labor cost and corporate unit profits in the 1970s second oil-shock in the United States (1979-Q1 = 100). Source: authors’ elaboration on Bureau of Economic Analysis data, available at https://apps.bea.gov/iTable/?reqid=19&step=3&isuri=1&nipa_table_list=56&categories=survey (last accessed on 29 December 2023).

also indicates clearly that these pressures do not result from central banks' expansionary policies, contrary to the monetarists' claim, and cannot be explained with the so-called New-Keynesian consensus that considers aggregate demand to be higher than potential output (see Weber et al. 2022 for analytical elaboration). In both these views, inflation cannot result from an increase in firms' mark-up or their power to set prices. However, the relationship between the strong increase in profits and the general increase in prices observed since 2022 cannot be ignored, while there are no good indicators of excessive demand or a wage–price spiral (see Bivens 2022a, 2022b; Glover, Mustredel-Rio, and von Ende-Becker 2023; Stiglitz and Regmi 2023). Leading central bankers in the United States and Europe have indeed clearly recognized the contribution of profits to inflation (see Brainard 2022; Schnabel 2022). This is so much so that inflationary pressures derived from firms' higher mark-up rates and market power are further increased by firms' compliance with the demand of institutional investors to demonstrate their ability to protect (and to increase) their respective market shares. 'If firms deviate from this price hike strategy, the threat of share sell-offs by financial investors can enforce compliance with such implicit agreements' (Weber and Wasner 2023, p. 186). As all firms want to protect their profit margins and know that other firms pursue the same goal, they may raise prices, trusting that other firms will follow suit. Indeed, if a firm deviates from this strategy of raising prices, the threat that a relevant number of financial investors will sell its shares may force it to comply with this strategy. This characteristic of the contemporary 'money manager capitalism' (Minsky 1993) is interesting, as it captures an element of the profit greed typical of our finance-led economic systems, so much so that it represents an additional opportunity for firms that was not present in the post-Great Recession stagnation period of 2007–2008.

A somewhat different perspective on current inflationary pressures has been provided by Lavoie (2023a, Internet), who denies the generalized existence of profit inflation. His argument is that '[w]hile one can certainly acknowledge that some industries such as the oil industry have benefitted from higher profit margins, [...], in general, the rise in profits and the profit share can be explained without resorting to an explanation based on firms taking advantage of the situation and raising markup rates' (Lavoie 2023a). Lavoie is indeed right in pointing out that, at the microeconomic level, '[f]irst, as firms produce and sell more units, their unit cost drops, and hence their realized profit per unit gets bigger, and secondly since they sell more units, they will make more profits.' Further, '[a]t the macroeconomic level, as the economy recovers, the presence of overhead labour costs explains that the profit share in value added will normally rise, despite constant markup rates' (Lavoie 2023a, Internet). This is what Nikiforos and Grothe (2023, Internet) have pointed out, explaining that profit-led inflation does not require an increase in markup rates. As Lavoie (2023a, Internet) observes — referring to Castro-Vincenzi and Kleinman (2023) — this occurs particularly in materials-intensive sectors. Further, 'in countries where there is a rise in the prices of materials and primary inputs, including energy, there is a rise in the share of profits in value added' (Lavoie 2023a, Internet; see also Lavoie 2023b, 2023c). In this regard, as Bellofiore and Coveri (2023, p. 26) point out, Lavoie's (2023a, 2023b, 2023c) writings have the merit to clarify four different magnitudes whose evolution can explain current inflationary pressures across the Western economies, namely: the total amount of profits, the share of profits in value added, the profit margin (that is, profit as a percentage of the total

value of sales), and the mark-up rate (to wit, the mark-up set by firms on their normal unit production costs that enter into the determination of selling prices). In this regard, at the time of writing, '[t]he *rate of change* of prices is going down, but their *level* is permanently higher. In the process, wage earners have lost purchasing power, while profit earners have been able to defend and sometimes increase their profit margins' (Gallo 2024, Internet).

Therefore, since there is actually no real danger of starting a price-wage spiral, why did all central banks in Western countries put into practice a radically restrictive monetary policy to counteract those inflationary pressures that essentially depend neither on wage earners' power nor on aggregate demand? Let us address this issue in the next section to point out the major flaws of this monetary policy stance.

3. Post-Pandemic Monetary Policy Tightening: A Fundamental Critique

Rochon (2022a, p. 21) emphasizes that the New Consensus model — according to which 'changes in the rate of interest lead to expected changes in output' — is flawed and not grounded in empirical support (see also Rochon 2022b). Indeed, at a theoretical level, the transmission mechanism of monetary policy to real variables within the economic system is conditioned by multiple breaks in the chain of causal relations (see Rochon and Vallet 2022; Rochon and Seccareccia 2023). At the empirical level, there are many analyses with mixed findings, at best, of relevant effects of interest rates on investment and consumption (see, for instance, Cynamon, Fazzari, and Setterfield 2013; Sharpe and Suarez 2015). Raising interest rates to tame inflation requires repeated interventions by central banks, until their cumulative effect risks leading to a collapse of the whole economic system (Rochon 2022a). This is so much so that monetary policy lags are long and relevant, as the empirical evidence shows in a number of countries. As a matter of fact, the meta-analysis of Havranek and Rusnak (2013) pointed out that, on average, it takes from 12 to 18 months to see the effects of a change in the policy rate of interest on the so-called 'real' economy, and the transmission mechanism takes about two and a half years to be complete. These lags are particularly long for those countries having a highly developed financial system, because in these countries the central bank has much less influence on banks' decisions to open new credit lines. As Saraceno (2023b) notices, this means that the impact of the monetary policy tightening started around mid-2022 cannot be really observed before the end of 2023, when the economic system of Western countries may be suffering from a recession, particularly in the European Union and notably in some peripheral countries of the euro area. These observations help explaining why the timing of inflation containment, especially when addressed without resolving the problems of income and wealth distribution induced by actual inflationary dynamics, is misaligned with the recessionary consequences of inappropriate monetary policies.

Recessionary forces, generated by a series of monetary policy tightening, could indeed result in a balance sheet recession, that is, an economic recession that occurs when high levels of both private and public sector indebtedness make individuals, firms and States to save in order to repay their maturing debts rather than spending for consumption or investment purposes, causing first a slowdown and then a decline in output and income (see Koo 2011). This scenario can also give rise to a self-reinforcing spiral, as falling incomes make the amount of maturing debts even less sustainable, leading to

larger reductions in both private and public spending. As a matter of fact, several collateral damages of monetary policy tightening were experienced in the early 1980s, when the drastic interventions to reduce the measured rate of inflation in the United States gave rise to a debt crisis in developing countries, which entered thereby in a lost decade for different Latin American and African economies. Now, as Storm (2022) notes, there is still a risk that the global recession triggered by a rapid and sharp rise of interest rates in the United States could permanently affect the growth and development processes in emerging economies, damaging the potential increases in domestic demand and capital accumulation in these countries, with a consequent drop in their ability to repay private and public debts. This is so much so that a number of other Western countries, beyond the United States, have been increasing repeatedly their rates of interest in 2022 as well as in 2023. These restrictive monetary policies, by the way, further increase the price level on the market for produced goods and services, since firms that need a new bank loan will have to pay higher rates of interest, thereby transferring to their selling prices these higher borrowing costs. This is the so-called 'Gibson paradox' (see, for instance, Levrero 2023). Hence, central banks will further push up their policy rates of interest, giving rise to a vicious circle that affects the whole economic system negatively as time goes by.

If an uncoordinated hike in the policy rates of interest, dictated by the desire of the US Federal Reserve to control inflationary pressures, were to lead to a global recession, it would raise serious questions about the workings of a system driven predominantly by the concerns of monetary authorities. It is true that a continuous increase in the price level on the market for produced goods and services induces the risk that inflation will become entrenched over time with expectations of an upward spiral, so much so that central banks will be forced to raise interest rates even more sharply. It is equally true that an over-intensity in the use of restrictive monetary policies would lead to a global recession without the certainty of averting this inflationary spiral. An entire generation of young people, whose education has already been damaged by COVID-19 lockdowns, will face therefore an increasingly problematic labor market. This situation is already a reality in the world's largest labor market, namely, China, where youth unemployment is around 20 per cent at the time of writing — similarly to the relevant figures for the so-called 'PIGS' countries in the euro area, namely, Portugal, Italy, Greece and Spain.

As Romaniello (2022) points out, the persistence of both high unemployment rates and inflationary dynamics is grafted onto an institutional context characterized by decades of weakening workers' power, thereby reducing the actual role of trade unions, and the precariousness of labor relations resulting from several 'structural' reforms. All these reforms, in fact, have not induced a reduction in unemployment rates, but have instead fully succeeded in weakening workers' wage claims. The unemployment rate aimed at by economic policies becomes only that which is compatible with a stable inflation rate, because it is the rate of unemployment necessary to weaken workers' bargaining power sufficiently to make them accept the wage rate reconcilable with the income distribution desired by corporations and global financial institutions (Romaniello 2022, p. 279). In this scenario, the anti-inflation recipe that finds majority consensus is precisely that of a strongly incisive and rapid monetary policy intervention to eradicate any expectations of further increases of the price level on the market for produced goods and services.

Now, as Weber and Wasner (2023) point out, conflict inflation driven by wage recovery could be the next stage in the current inflationary dynamics, and this could be exactly what central bankers want to avoid by continuing raising their policy rates of interest. However, such a monetary policy tightening affects both debtors and creditors with a series of negative effects: debtors are affected negatively as far as their income may be reduced across the labor market, while creditors could suffer from a reduction in the prices of their (real-estate and financial) assets. To be sure, borrowers have noticed a sharp increase in the variable rates of interest on their mortgage loans, which (together with a mushroom growth of consumer prices) have induced a reduction of disposable income to be spent on the market for produced goods and services, to support their living standard. These effects also impact on firms' investment negatively, since the level of aggregate demand on the product market is reduced thereby. Further, central banks' decisions to raise the policy rates of interest induce a redistribution of income from debtors to creditors, whose effect on total expenditure cannot be determined but probably is negative on macroeconomic grounds, considering that, generally speaking, the propensity to consume is higher for debtors than for creditors.

Now, these issues only concern income distribution. In highly financialized economies, where the prices of real-estate and financial assets have grown much more than income growth since the late 1980s, the monetary policy tightening that all major central banks have been putting into practice to curb inflationary pressures in the aftermath of the war in Ukraine could put financial stability at stake, with a series of dramatic effects across the 'real' economy, as a result of a sharp drop in the prices of real and financial assets. In this regard, Seccareccia (2017) points out that those quantitative easing interventions implemented by several central banks since the outbreak in 2008 of the global financial crisis deliberately sacrificed interest yields (driving interest rates to virtually zero) in order to preserve the market valuation of financial assets. As Wray and Kelton (2023, Internet) notice, '[g]radually, markets adapted to persistently low interest rates. In this new environment, leverage made sense. Holding long term assets made sense again. Financial markets bubbled.'

As Spanò (2023) explains cogently, in the conflict between creditors and debtors, rising the policy rates of interest implies that debtors lose real income, while creditors, even if they gain something in terms of income, suffer a price reduction of their financial assets. Generally speaking, economists focus on the former (income) effect, particularly since a large number of wage earners are affected by it. The latter (wealth) effect, however, is much more relevant for financial institutions, because a rise in interest rates induces a variety of them to sell their positions across financial markets, which can be affected by an increasing volatility, creating a framework of financial instability that could lead to a financial crisis eventually. This shows the need to rethink monetary policy interventions anew, integrating them into an appropriate policy mix that considers the general interest for the common good. Let us expand on this issue in the next section.

4. The Need of Rethinking Monetary Policy Interventions in an Appropriate Policy Mix

The COVID-19 pandemic has shown that fiscal and monetary policies must go together, to wit, should be co-ordinated to support economic activities, hence employment as well

as financial stability of the economic system as a whole. In spite of this, the inflationary pressures induced by the war in Ukraine have been considered by policy makers simply as a result of excessive demand on the market for produced goods and services, thereby inducing central banks to raise their policy rates of interest markedly and repeatedly. In fact, as Saraceno (2023a) lucidly notes, instead of increasing the policy rates of interest, which impacts all sectors similarly, fiscal policy should have been preferred, as it could operate in a more targeted manner. For instance, fiscal authorities may implement some temporary price controls in the less competitive sectors of the economic system and in those where there are rents, providing incentives in those sectors where bottlenecks are the result of insufficient production capacity, adopting an active labor policy when the problem is labor supply, and supporting disposable income of those consumers that are most affected by inflationary pressures on the market for produced goods and services (see also Bofinger 2024).

In this regard, Saraceno (2023a) points out that the only way to avoid that a minority of powerful economic agents are in a position to take advantage of the current situation to the detriment of all other stakeholders (thereby progressively undermining the Welfare state created after the Second World War, which originated around thirty years of both economic growth and prosperity; the so-called ‘Glorious Thirties’) is for public policies to prioritize collective interests. The instruments for this to occur exist and range from contingent measures such as price controls or the extraordinary and temporary taxation of extra profits — as advocated recently by economists from the International Monetary Fund (see Baunsgaard and Vernon 2022) — to those that eradicate the very foundations of income and wealth inequality in a more structural manner. For example, in the latter area, there might be a return to more progressive tax systems and greater international co-ordination to put an end to tax avoidance by transnational corporations and to avert a recessionary fiscal competition between countries. The recent decision by the member countries of the Organization for Economic Cooperation and Development to establish a minimum corporate tax rate and the obligation for transnational companies to declare their profits in the countries where the latter did originate (and not according to their tax domicile) represent an important step in this regard.

Indeed, the instruments of a policy mix different from the New Consensus are manifold, and monetary policy should provide incentives to both households and businesses for an appropriate ecological transition that guarantees price as well as financial stability in the economic system as a whole. Let us focus on these issues to illustrate the importance of monetary policy for the common good, moving away from the assumption of monetary policy neutrality, which has been influencing many central banks’ interventions in order for them to avoid distortions in financial markets (Dikau and Volz 2021; van’t Klooster and de Boer 2022). To be sure, as Rossi (2024) explains, no monetary policy decision is neutral, since it affects a number of variables across the whole economic system and alters both income distribution and capital allocation (see Rochon and Vallet 2022 for analytical elaboration on this). As a matter of fact, when a central bank carries out some asset purchase programs, it is not neutral as it supports the current capital allocation, thereby replicating existing market failures in a carbon-biased manner (Schnabel 2021; Kedward, Gabor, and Ryan-Collins 2022; Rochon 2022c). In particular, Matikainen, Campiglio, and Zenghelis (2017), Jourdan and Kalinowski (2019) as well as

Dafermos et al. (2020) have shown that the European Central Bank's interventions with quantitative easing instruments are biased in support of some sectors that are damaging the environment. Further, as D'Orazio (2021) points out, the macroprudential framework implemented by central banks at the time of writing does not really integrate ecological concerns, thereby further enhancing this carbon bias of any monetary policy decisions, which provide better funding conditions for pollutant activities in both the so-called 'real' economy and across financial markets (Couppey-Soubeyran 2020).

Let us propose, therefore, three 'green' monetary policy interventions to influence the banks' decisions to provide credit to firms, in order also to reduce current inflationary pressures due to 'profit inflation' in carbon-intensive activities such as the fossil-fuel sector (Solari, Le Bloc'h, and Rossi 2024).

First, central banks should differentiate the policy rate of interest applied in their own refinancing operations in regard of the volume of 'green' loans that banks provide in their domestic economy. This echoes the proposal by van't Klooster and van Tilburg (2020) about 'green' Targeted Long-Term Refinancing Operations (TLTROs) that the European Central Bank may put into practice to induce banks greening their portfolios. To date, these TLTROs aim at increasing banks' lending to support the 'real' economy, but without any consideration of the environmental consequences of these loans. These consequences could be mitigated by reducing the policy rates of interest for all lending operations that comply with some ecological objectives to be defined appropriately. In the current period of higher interest rates to curb inflationary pressures, this instrument could be used to protect non-harmful economic activities (see Monnet and van't Klooster 2023), supporting them in order to satisfy agents' demand so that no supply shortages or profit greed can exert an upward pressure on the price level in the market for produced goods and services. Similarly, any kind of refinancing operations carried out by central banks should have a policy rate of interest that integrates a 'climate premium' in light of the 'greenness degree' of the banks that are supported thereby, as Kempf (2020) has put to the fore to support a finance-led ecological transition. This premium has to be in line with the average degree of climate-related risk associated with the loans granted by a given bank. Such a penalty rate of interest would induce banks to look more carefully at the kinds of economic activities to which they provide credits, even though this must go along with the definition and implementation of an appropriate green taxonomy and rigorous verification of its compliance by all stakeholders (see D'Orazio and Popoyan 2022; Sawyer 2022).

Secondly, the list of eligible assets that central banks accept when they carry out any of their lending operations (rather than just for their repurchase agreements) should have a climate-related disclosure requirement and make sure that these assets are aligned with ecological targets (see Couppey-Soubeyran 2020). To date, as a matter of fact, central banks' lending has a carbon bias (Rochon 2022c), because their list of eligible assets is largely composed of bonds and equities issued by polluting firms (Pelizzon et al. 2020; Dafermos 2021). This allows these firms to maximize their profits, exerting thereby an upward pressure on the general price level when the factors summarized in the previous sections permit them to do so. In order to reduce these inflationary pressures at the time of writing, therefore, central banks or financial supervisory authorities should introduce a minimum share of 'green' assets that banks and non-bank financial institutions must respect when they need to borrow from the central bank (Oustry et al. 2020; Boneva,

Ferrucci, and Mongelli 2022). Greening the collateral framework of monetary policy interventions can thus contribute to price stability without damaging financial stability, provided that banks as well as non-bank financial institutions are sanctioned appropriately if they do not abide by the rules concerning the greenness of their portfolio. To support this framework, the relevant central banks could apply an (additional) haircut to all carbon-intensive assets, preventing ‘greenwashing’ strategies based on so-called ‘green repos’ (see Kedward, Gabor, and Ryan-Collins 2022).

Thirdly, central banks can intervene with a so-called ‘green’ quantitative easing, that is, purchasing huge volumes of government or corporate bonds issued to finance any kinds of climate-protecting economic activities. If so, then the carbon bias that, to date, affects monetary policy interventions would be much reduced (to disappear eventually), so that a number of carbon-intensive activities will be excluded from central banks’ portfolio — particularly those financial assets currently issued by fossil fuel companies that at the time of writing are a major factor of profit inflation as explained in previous sections. Further, central banks might also implement quantitative easing interventions aimed at holding only financial assets that are consistent with social and ecological priorities, as proposed by van’t Klooster and Fontan (2020). This monetary policy stance should also apply in the current period of quantitative tightening: ‘brown’ financial assets should be the first to be sold by central banks, to partially reinvest the relevant amounts in various low-carbon economic activities (Claeys 2023). This echoes Monnet and van’t Klooster (2023), who point out that in case of maturing securities, central banks could also invest the corresponding amount in purchasing green bonds, thereby reducing the inflation rate across the market for produced goods and services in so far as carbon-intensive firms do not receive any incentive from the loan market that allows them to maximize their own profits through an increase in their selling prices.

To achieve these objectives, policy makers must coordinate their interventions in order to stabilize interest rates without leading to recessions, through a variety of instruments such as price controls that most affect the consumption of the less well-off (like energy, foodstuffs and services of collective public interest, such as health and education), fiscal policy, and the various forms of concertation and incomes policies that make it possible to determine wages, profit margins and public tariffs in a co-ordinated and co-operative manner with the aim of keeping inflation under control. The post-pandemic inflation is actually pointing out the importance of returning to a policy mix, co-ordinating the use of multiple instruments to achieve objectives that are sometimes even contradictory to each other (Saraceno 2023a).

Now, unlike past experiences, reinforced State intervention in the economic system and new opportunities for public and/or private borrowing are no longer enough. We should also rethink the organization of societies, that is, what, how and for whom to produce in the general interest for the common good (see Robinson 1972). This, however, implies several distributional conflicts that should be solved through the mutual convenience of all stakeholders to work together, in order to distribute in a well-balanced way all those increases in prosperity that result from investments, technological progress and the fight against inflation, once its actual origins are properly identified on economic grounds.

5. Conclusion

The analysis presented in this paper has pointed out the origins of current inflationary pressures, which can be identified in the increases of firms' profits in many economic activities that have been largely affected by the COVID-19 pandemic and the war that burst in Ukraine on February 24, 2022. In this regard, the current policy choices do not provide an appropriate solution to counter this economic situation: increasing the policy rates of interest does not reduce actual inflationary pressures, since the latter come from the supply side and not from the demand side, as the orthodox view pretends it. Further, monetary policy tightening increases the measured rate of inflation, as firms must pay a higher rate of interest when they need to refinance their bank loans, thereby transferring to consumer prices these higher borrowing costs. Such a restrictive monetary policy, by the way, could push the whole economic system into a sharp recession — which is then likely to increase financial instability across the global economy, as banks and non-bank financial institutions have to manage higher credit risks in a recessionary framework. As a matter of fact, consumption and investment seem to be quite insensitive to incremental increases in the rates of interest (so much so when the magnitude of these increases lies between 25 and 50 basis points), but are indeed sensitive to their cumulative increases — even though at the time of writing we are not at this point yet. However, as regards the labor market and wage levels, increasing the policy rates of interest in this framework reduces both the employment and the wage levels of an increasing number of workers, creating thereby the pre-conditions for growing instability and social unrest. Indeed, as Michał Kalecki would say, pushing real wages below the subsistence level through a sharp recession as well as higher unemployment is against the interests of firms, as it would drag the global economy into another great recession with extreme, disruptive and unresolved conflicts across the world.

As the current inflationary pressures have been induced by the effects of the COVID-19 pandemic and the war in Ukraine, in a context of already high financialization, there is a need to search for alternative instruments that are able to affect, also through fiscal and industrial policies, the redistributive conflicts of inflation by protecting the most fragile categories of economic agents. This paper suggests therefore an alternative scenario to the mainstream's view — where monetary policy interventions make it possible to curb actual inflationary pressures and support economic activities with a view to ecological transition considering the general interest for the common good, so that there will be no further polarization of social classes and, most importantly, without imposing another reduction of well-being to the poor and middle class (Bibi 2023 expands on this). Only in this situation will 'sellers' inflation' represent an opportunity for a radical change in economic policies as well as activities in so-called 'advanced' economies disposing of income as well as wealth distributional conflicts when carrying out a properly defined ecological transition with the support of central banks. Let us hope that policy makers will have enough time to consider and implement this proposal, before the next global crisis occurs, because otherwise the future will be highly dramatic for an increasing number of economic agents across the world — which at the time of writing is already largely affected by the on-going polycrisis that creates so many fears and troubles for many stakeholders.

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