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WAGES, PROFITS, AND INFLATION: AN ECB VIEW

Jeroen Thielens

An Analysis of the ECB's Perception on Post-Pandemic Inflation

Master International Politics – Ghent University[a]
Dissertation promotor: Prof. dr. Mattias Vermeiren

Inflation and unemployment are two critical and intertwined economic issues that policymakers must address. The decision to prioritise one over the other has profound implications across different segments of society: anti-inflationary measures typically benefit the wealthy, while the unemployment these policies bring along falls more heavily on the working class and economically vulnerable populations. This dynamic is closely linked with neoliberalism, a paradigm that emerged in the late 20th century advocating for free-market policies, deregulation, and minimal government intervention. Neoliberalism emphasises price stability and low inflation as key to economic growth, often at the expense of social welfare programs and labour market protections. This paradigm was dominant over the last decades, however, the post-pandemic inflation crisis presented a challenge for these neoliberal views. Traditionally, neoliberal economics linked persistent inflation with wages and wage spirals. Yet, recent data shows that "unit labour costs have been muted compared to previous inflationary episodes" (Stanford et al., 2023, p.4). Additionally, real wages have fallen in many industrial countries, while corporate profits have risen. Despite this, central banks, including the Federal Reserve and the ECB, chose to raise interest rates to historically high levels.

As said, inflation was often attributed to wage-price spirals. Michal Kalecki (1971) argued that inflation results from conflicting income claims between workers and firms. He and other academics like Korpi (2002) suggested that tight labour markets give workers more power to demand higher wages. Following Okun's law (Heylen, 2020; Prachowny, 1993), controlling inflation involved cooling the economy and reducing labour market tightness to weaken workers' bargaining power. Central banks used higher interest rates to achieve this, leading to lower investments and thus reduced labour demand. However, recent inflation was not solely driven by wage-price spirals. As said, real wages had declined significantly (Stanford et al., 2023), and unit profits increased, affecting the balance between wages and productivity. Addressing this kind of profit-driven (instead of the typical wage-driven inflation that is dominant in neoliberal views) inflation requires different measures, such as price regulations or fiscal policies (Stanford et al., 2023; Weber & Wasner, 2023). Rather than these alternative policies, the central bank's reliance on interest rate

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hikes unfairly burdens workers who are not the primary cause of the inflation surge after the pandemic.

The conflict between inflation and unemployment extends beyond wages versus profits. Choosing low inflation necessitates, in a neoliberal paradigm, raising interest rates, which increases unemployment. With the Phillips curve flattening (indicating a weaker link between inflation and unemployment), more rate hikes are needed to curb inflation, exacerbating unemployment (Kuttner & Robinson, 2010; Occhino, 2019; Seydl & Spittler, 2016). Higher unemployment increases demands on social security systems, but higher interest rates force governments to cut spending (Heylen, 2020; Korinek & Stiglitz, 2022; Vermeiren, 2023). Hence, hiking interest rates to combat inflation disproportionately impacts low-income workers, who are often the first to be laid off and last to be rehired. Vermeiren (2023) argues that central banks have weakened workers' bargaining power by prematurely raising interest rates during economic recoveries, and therefore workers vis-à-vis capital owners, have seen their bargaining power significantly decline over the last decades. As firms gain more pricing power, the central banks' interest rate policies are criticised for engaging in class warfare (Barker, 2023; Downey, 2022) by reducing inflation by cutting wage demand. Indeed, when looking at the numbers provided, unit profits increased by 9.3% year-on-year in late 2022, contributing more to inflation than unit labour costs (European Commission, 2023).

In conclusion, a significant gap exists between academic findings and central bank policies, impacting society profoundly. This research will explore the ECB's view on persistent post-pandemic inflation, assessing their view on causes of post-pandemic inflation and their justifications for rate hikes. By analysing the ECB's stance through speeches between 2021 and 2023, and studying its effects on low-income workers, we aim to better understand the implications for economic policy and social equity. In this particular paper, we challenge the current economic orthodoxy and advocate for a more equitable approach that balances inflation control with reducing inequality throughout our economies.

Bargaining power and the distribution of income

Firms and profit-price spirals

We already know how workers acquire bargaining power. This is through low unemployment and labour market tightness, allowing them to acquire a greater share of the income distribution. Firms, on the other hand, acquire bargaining power mostly through pricing power, usually through pent-up demand or market power through monopolies. But how does a firm gain a higher degree of monopoly? According to Weber and Wasner (2023), the most important factor here is the supply-side economy. Bottlenecks can create temporary monopoly power for firms with supply on hand, leading to protected profit margins and even increased profit margins (Antoniou et al., 2017; Franzoni et al., 2023). Market power is thus not constant, but changes dynamically through supply-side developments and exogenous shocks. Indeed, supply-side shocks can induce inflation, but it does not yet render this inflation persistent (Lavoie, 2023). What makes sellers' inflation persistent, are the stages that follow after the initial supply-side shock.

When an 'impulse' like bottlenecks happens in the supply-side economy, firms try to protect their profit margins by raising prices. In the next stage, this propagates through the economy. Unit costs rise, just as commodity prices, resulting from bottlenecks that give certain firms monopoly power (Stanford et al., 2023; Weber & Wasner, 2023). This monopoly power can then be used to raise prices above the rise of unit costs, resulting in higher profit margins (Acharya et al., 2023). Workers notice this rise in profit margins, and react through defending their share in income distribution by asking higher nominal wages. Since firms have monopoly power in that particular stage, firms can accept these higher nominal wages, only for them to hike profit margins even more. This phase can, in theory, go on forever, where labour tries to win back their share in income, asking for higher wages, and firms can hike profit margins through their monopoly power.

Notice how this looks familiar to a wage-price spiral, with one significant difference. In a wage-price spiral, workers are in charge due to their high bargaining power, and firms have to follow, trying to protect their profit margins. In this so-called profit-price spiral, firms now have the power to set prices, and workers are now desperately trying to protect their real wages. Firms can claim a bigger share in income distribution, and labour is trying to protect their share in income distribution. This decrease in labour bargaining power instils fear of wages lagging behind price hikes, rather than adjustments in wages and prices offsetting each other (Kouvavas et al., 2021; Nikiforos et al., 2023).

The imminent dark side of interest rate hikes

It is this fear of wages lagging behind that makes academics question policy actions to bring down inflation (Barker, 2023; Downey, 2022). The main instrument central banks use to release inflationary pressure is of course their interest rate, however, this mechanism involves certain social costs, as briefly discussed in our introduction. After all, low-skilled workers are the first to get fired and the last to be hired again (Mason & Melodia, 2021; Oesch, 2010; Vermeiren, 2023). Moreover, hiking interest rates can further exacerbate the problem of a decline in labour share, de facto facilitating firms in higher profit margins, resulting in even lower real wages (lower labour bargaining power) with higher profit margins (higher firm bargaining power) (Schäfer & Semmler 2024).

Additionally, because interest rate policies impact unemployment, they play a critical role in reversing the growth of inequality and narrowing the race, gender and education gap (Ferguson & Storm, 2023; Mason & Melodia, 2021). It is therefore important to know what instigates inflation and what makes it persistent. When, as described by Weber and Wasner (2023), inflation becomes persistent because of a profit-price spiral, interest rate hikes further deteriorate workers' bargaining position, fueling the distributional conflict even more in favour of firms. In other words, wage evolution will lag behind price hikes (Nikiforos & Grothe, 2023).

Therefore, when inflation persists because firms have more bargaining power, interest rate hikes might not be the ideal (cf. distributional conflict) or most efficient solution (cf. flattened Phillips Curve). Central banks should be concerned with lowering the bargaining power of firms and restoring the balance of labour in income distribution, so that the social costs of lowering inflation are reduced to the absolute minimum.

Post-pandemic inflation: a story of profit margins

Supply-side economy and post-pandemic inflation

But how did transitory inflation coming from supply disruptions during lockdowns become persistent after COVID-19? Keeping in mind the conflict model of persistent inflation, we notice an important trend among academics. As discussed, supply-side shocks might give firms monopoly power as a result of bottlenecks. During COVID-19, supply-side disruptions plagued our economies, effectively giving firms more power to potentially raise their profit margins. Moreover, after COVID-19, energy prices soared due to the war in Ukraine, strengthening the bargaining power of firms even further (Ferguson & Storm, 2023; Nikiforos, Grothe & Weber, 2024). This was further supported by high aggregate demand as a result of highly accommodative policies and built-up excess savings during COVID-19 (Bekaert et al., 2020).

Indeed, as Bivens (2022) states, price increases since 2020 can be mostly attributed to higher profit margins, with labour costs contributing to less than ten per cent of the increase in prices. Bivens (2022) continues by explaining that non-labour shortages (if there was a labour shortage, labour would have more bargaining power) like shipping capacity gave firms with supply on hand enormous pricing power to protect and increase markups vis-à-vis their customers.

Interest rate policy during post-pandemic inflation

In sum, as Mason and Melodia (2021) state, inflation was instigated by temporary mismatches between supply and demand. It was necessary to speed the recovery on the supply side, rather than trying to push spending down to match the lower level of production, resulting in lower aggregate demand. However, instead of resolving supply bottlenecks through public investment and policy changes to prevent restricted supply and excessive market power, central banks reacted by raising interest rates. This led to the further downfall of aggregate demand, while the problem located itself on the supply side. In this context, higher interest rates and fiscal austerity would not have addressed these problems, on the contrary: "[...] those policy decisions will turn today's temporary disruptions into a permanently weaker economy with higher unemployment and greater racial and income inequality" (Mason & Melodia, 2021, p. 18). Inflation after COVID-19 was hence a story of firms taking higher profit margins, while workers had to fight to see their wage share of surplus protected, or in other words, a shift of power from workers to capital.

Looking at the debate between academics, there is no question that interest rate hikes by central bankers are not the most ideal nor most efficient solution to combat this persistent inflation. Reading from Bivens (2023), Stanford et al. (2023), Mason and Melodia (2021), Storm (2023), Nikiforos, Grothe and Weber (2024) and more, we notice an important consensus forming that rate hikes should not be the main solution to combat post-pandemic inflation. Indeed, reading from these works, we learn that interest rate hikes might help relieve inflationary pressure by lowering inflation expectations, dampening demand and preventing interaction between workers and firms asking for higher wages and higher prices. However, reading from the previous section, these hikes are ideal for when labour has too much power and inflation persists because of wage-price spirals (Korpi, 2002; Stiglitz & Regmi, 2022). Considering the events during and mostly after COVID-19, we can conclude that we are dealing with a profit-price spiral, whereby workers try to protect their real wages and their share in income distribution (Weber & Wasner, 2023).

Considering the strict raising campaigns of central banks, it leads us to our research questions: Firstly, how does the ECB explain recent inflation? Secondly, How does the ECB justify their excessive rate hikes?

Methodological and theoretical framework: thematic content analysis

Our dataset consists of 130 public speeches given by ECB executive board members from May 2021 up until 2024. The speeches are selected through the keyword 'inflation'. We opted to start our analysis of speeches beginning May 2021, as this was the first time Euro area inflation peaked above the inflation target of the ECB. We deduct the categories for our first research question from our literature review, to which we will attribute codes that can be applied to speech sentences. The four categories we will use are expansionary policies, exogenous factors, wages and profits. The category expansionary policies means attributing inflation to generous monetary measures and generous fiscal measures of governments, as we derived from Bekaert et al. (2020), Claeys (2020) and Gharehgozli and Lee (2022). Exogenous factors describe shocks or developments from outside the economic system (such as supply disruptions, bottlenecks, geopolitics etc.) that have an impact on endogenous variables of our economic system, possibly leading to inflation. Our last categories, wages and profits, are what we described as the distributional conflict of income, whereas with wage-price spirals workers have more bargaining power and make inflation persistent by using this bargaining power to keep asking for higher wages. In profit-price spirals the bargaining power is distributed towards firms, where they have the power to set prices, and workers desperately trying to recover their share in income distribution, resulting in second-round effects. In this division of categories, both the category 'expansionary policies' and the category 'exogenous factors' tend to generate mostly transitory inflation. Our categories ‘wages’ and ‘profits’ tend to generate mostly persistent inflation, since they induce either a wage-price spiral or a profit-price spiral.

For the analysis of our first research question, we will follow the method of Arbogast, Van Doorslaer and Vermeiren (2023) very closely. After defining our categories, we will generate descriptive codes that could be mapped into each category described. We will develop our code both deductively from our literature review, and inductively from the speeches themselves. Codes can thus be modified, dropped, added or re-assigned in the process. The result of this first reading is a final codebook that will be used for the actual analysis in the final phase. The second reading will comprise the actual analysis of the fragments and is based on our final codebook which can be found in the appendix.

For our second research question, we opted for an exclusively inductive approach, where we developed the categories of our codebook in a first reading of the speeches. We decided to create three categories. The first category refers to trying to dampen demand through interest rate hikes, implying that demand is simply too high and needs to be lowered to bring inflation down. A second category entails the labour market and refers to the need for interest rate hikes to loosen labour markets to prevent wage-price spirals and workers asking for higher wages. The last category we created refers to the credibility of the ECB, its mandate and anchoring inflation expectations, whereby the ECB wants to uphold their status as an independent, credible and strong institution. After this initial reading to construct our categories, we continued with the same phases as our first research question, meaning a phase to construct our codes for our designated categories, and a phase which carries out the actual analysis of the speeches

Table 1: Categories and codes for RQ1: How does the ECB explain recent inflation?

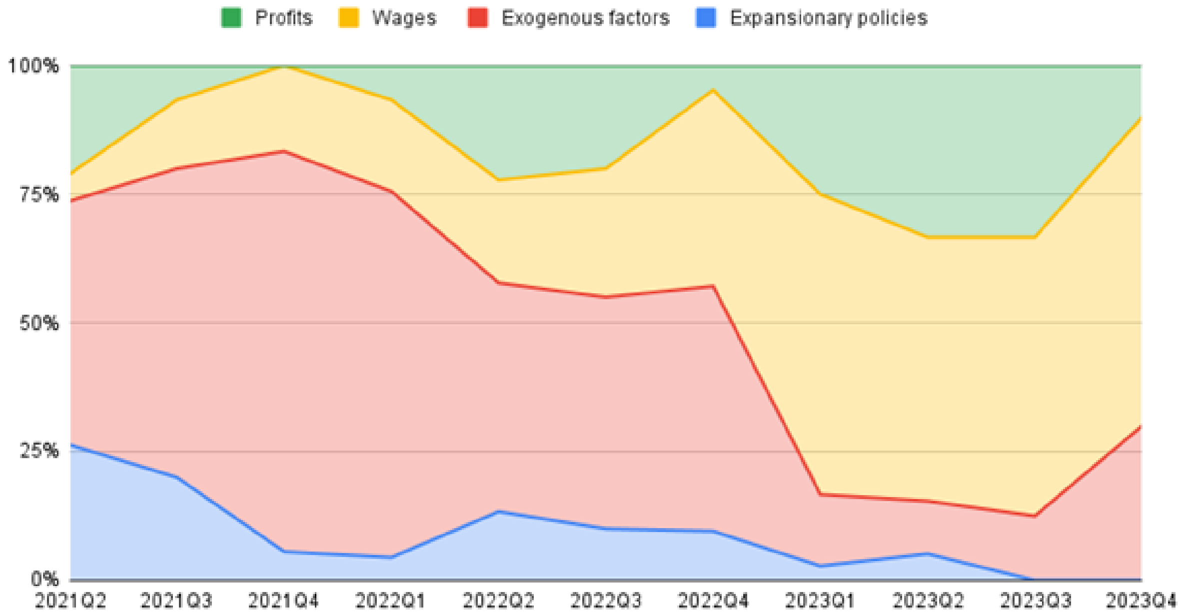
Categories	Codes
1. Accommodative policies	References to expansionary monetary policies, expansionary fiscal policies
2. Exogenous factors/ supply-demand imbalances	References to negative supply shocks, supply bottlenecks, commodity prices, geoeconomics/geopolitics, reshoring supply chains, climate change
3. Wages	References to tight labour markets, wage inflation (wage growth as a source of inflation), bargaining power of workers and unions, shortages of labour
4. Profits	References to profit margins and markups, firms having more pricing power (due to pent-up demand or due to market power)

Table 2: Categories and codes for RQ2: How does the ECB justify their rate hikes?

Categories	Codes
1. Demand is too strong	References to the need to dampen demand, expansionary fiscal policies, expansionary monetary policies
2. Labour markets are too tight	References to wage-price spirals, tight labour markets, wage inflation, bargaining power of workers
3. We need to keep credibility and anchor inflation expectations	References to the need to anchor inflation, credibility, mandate of the ECB

Results

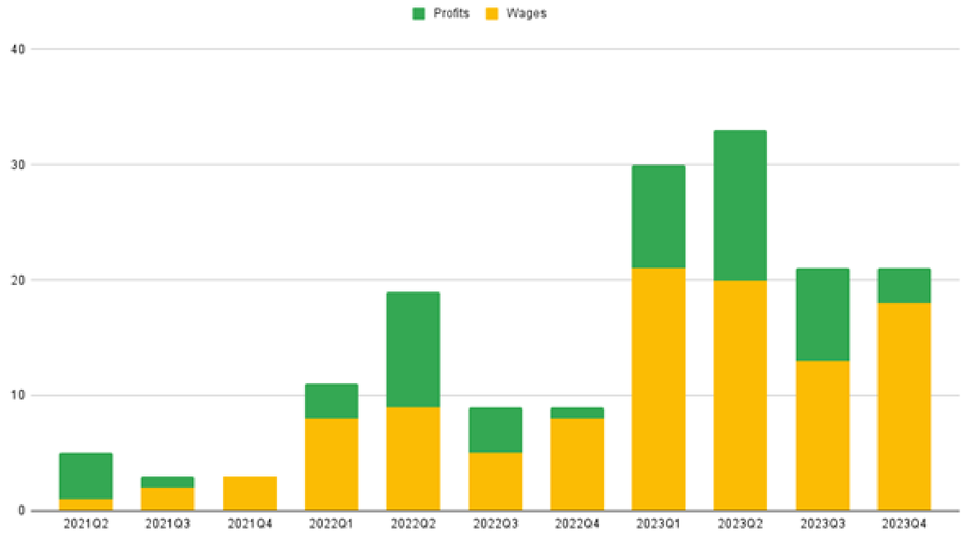
Figure 1: Mention of categories in speeches



We can draw some interesting conclusions from our analysis of the ECB speeches. First of all, when looking at the share of categories in total coded fragments, we notice expected trends. Beginning from the second quarter of 2021, mentions of exogenous factors, primarily mentions of commodity prices and supply disruptions accounted for almost 50% of total coded fragments. In addition, mentions of expansionary policies accounted for 25% of total coded fragments. During the following quarters, we notice a retreat of mentions in both of these categories, along with more mentions of profits and wages. This can be attributed to the loosening of pandemic lockdowns and the loosening of supply disruptions. This evolution stagnates during 2022 due to the war in Ukraine, resulting in the code *geopolitics and geoeconomics* being mentioned more, levelling the category of exogenous policies and taking hold of ECB board members' perceptions. However, at this time, the debate between profits and wages starts to emerge, as inflation becomes more entrenched and reaches levels of 5%-10%. After the initial shock of the war in Ukraine and as inflation evolves from transitory to persistent inflation, the debate of profits versus wages becomes more apparent, and the categories of exogenous factors and expansionary policies diminish. Mainly when the ECB started raising their key interest rates in the third quarter of 2022, we can see that the debate between profits and wages arose.

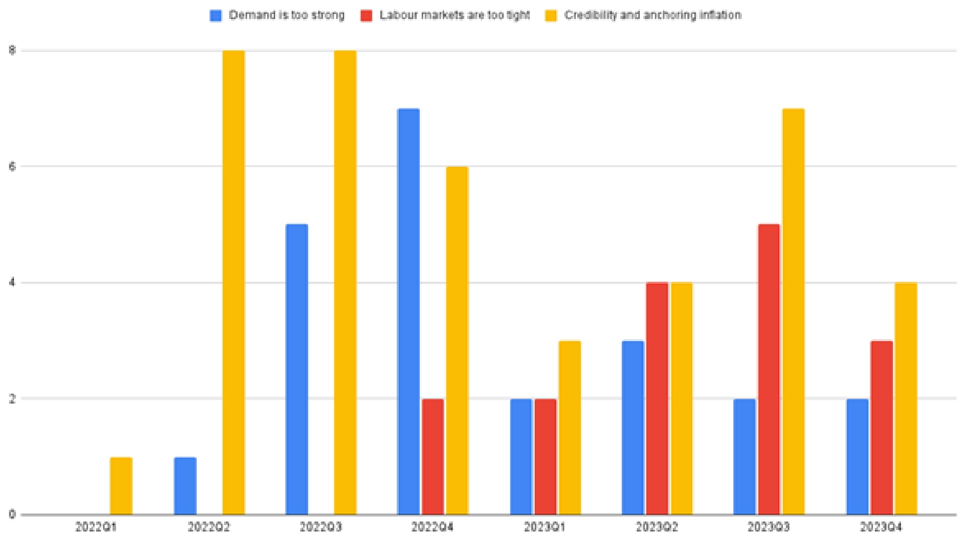
Secondly, the findings suggest that ECB board members tended more towards wages as a cause of inflation. Moreover, while wages are the most talked about factor in our coded speeches (see Figure 2), research of the ECB Economic Bulletin concludes that profits were the most dominant factor of rising inflation (Arce, Hahn, & Koester, 2023; Hahn, 2023). In other words, there is a discrepancy between what ECB board members say and what ECB researchers conclude. Mentions of wages in our coded fragments dip only once below the mentions of profits, which is in the second quarter of 2022. This was when most of the pandemic lockdowns were loosened and global excess savings started moving, while supply still was significantly constrained. This resulted in input prices being passed through to consumers more aggressively, and giving firms more pricing power (due to pent-up demand) to raise profit margins.

Figure 2: Wages vs. Profits



Thirdly, when looking at our second research question, we notice that these results coincide with the results from our first research question. Overall, the dominant category is credibility, whereby the ECB wants to keep credibility in financial markets to anchor inflation expectations. However, during the third and fourth quarters of 2022, we find that strong demand is an important factor to justify rate hikes. This is due to the perception that exogenous factors exacerbated supply disruptions, and highly accommodative fiscal and monetary measures after COVID-19 had strengthened demand, which resulted in an imbalance of supply and demand, leading to higher inflation. As supply disruptions were alleviated and accommodative policies dampened, our observation that the perception shifted to wages as the primary cause of inflation in 2023, as indicated by our first research question, is also reflected in the results of our second research question. Indeed, as shown by Figure 3, we see the importance of tight labour markets expand from the beginning of 2023, just as the debate between profits and wages starts to arise, which thus supports the general view of the ECB that wages are the main cause of inflation.

Figure 3: Justifying why interest rates should be raised



Discussion

2021: necessary inflation supporting economic goals

In 2021, inflation was not yet deemed a problem, since inflation was low due to lockdowns. Aggregate demand had fallen significantly and both central banks and governments had to interfere with accommodative policies to prevent deflation. When lockdowns were loosened, aggregate demand picked up due to these policies, and excess savings, built up during lockdown, came loose and reinforced stronger demand. This upswing led to higher inflation rates, which were considered necessary to offset the deflation impulses the year before. This inflation surge was largely seen as temporary, as ECB governors expected aggregate demand to fall back when tightening accommodative policies and when excess savings erode. In 2021, inflation could not yet become persistent as the output gap was simply too big, however, rising energy prices, supply bottlenecks and supply shortages led to more pricing power to firms, as described by Weber and Wasner (2023). 2021 can be seen as the impulse and amplification stage of sellers' inflation. Rising demand resulting from highly accommodative policies feeds into these price evolutions, and gives firms more market power.

2022: from transitory to persistent inflation

Coming to 2022, high commodity prices, climate change and geopolitics kept working through our economies, enforcing the idea of transitory inflation. Yet, reaching the second quarter of 2022, the debate of wages and profits as a cause of persistent inflation starts to arise. Slack in the labour market declined at a faster pace than projected, and the strong pent-up demand created a favourable environment for firms to protect and boost their profit margins. Firms were passing higher commodity prices on to consumer prices, and tight labour markets left workers to bargain for higher real wages. Reaching the second half of 2022, discussions about interest rate hikes started to arise amongst ECB board members. Considering their perceptions of rising profit margins, they concluded that interest rates had to be hiked to dampen demand, since high demand (resulting from the excess savings and accommodative policies) had exacerbated corporate pricing power.

Supporting this view of ECB board members to hike interest rates is the surge in tighter labour markets and lower unemployment, suggesting having entered the conflict stage as described by Weber and Wasner (2023). Mentions on wages rose in relation to profits, due to labour trying to regain real wage losses. However, although nominal wage growth was gradually picking up, the pace of the increase was not efficient enough to preserve or restore people's purchasing power. In other words, bargaining power is still in corporate hands, workers are simply trying to recoup their lost purchasing power, and even then not being able to do so, despite tight labour markets. In this view, while wages are not going to add to inflation, hiking interest rates is a way to anchor inflation expectations and keep credibility in their mandate. This ensures that workers can ask for higher wages while taking into account anchored long-term inflation expectations.

2023: Wages, wages, wages? Or profits?

In 2023, the ECB deemed it necessary to tighten its monetary policy to prevent second-round effects such as de-anchored inflation expectations or wage-price spirals. Despite tighter labour markets and reduced unemployment rates, the higher-than-normal nominal wage increases largely stem from a catch-up process following the decline in real wages since mid-2021. This decline results, as said above, from firms having more pricing power, leading to greater profit margins. This story of workers trying to recoup their income continues throughout 2023, suggesting a conflict stage as described by Weber and Wasner (2023), whereby workers try to restore their lost share in income distribution. However, although higher wage demand feeds into inflationary tendencies, real wages were still lagging behind profits.

These dynamics, characterised by workers trying to regain a share of income distribution and firms trying to retain their profit margins, contributed to persistent inflation in 2023, according to ECB board members. In light of this, the findings of our second research question align with these perceptions of ECB board members. Throughout 2023, we observe an expansion in the category of tight labour markets as a rationale for raising interest rates, confirming the ECB's stance that labour markets need to be loosened to mitigate persistent inflation.

However, profits also broadened in the overall distribution of codes. This increase can partly be attributed to the substantial decline in mentions of exogenous factors and expansionary policies. Nonetheless, there was also a notable rise in the absolute number of references to profits. Several factors account for this trend. Firstly, during this period, the research team of the ECB (see for example Arce, Hahn & Koester, 2023; Hahn, 2023) conducted studies on the role of profits in driving inflation. The findings of these studies indicated that profits could indeed serve as a significant factor contributing to inflation. Consequently, ECB board members increased their mentions of profits to maintain coherence between the research findings and their public statements. Secondly, with the decrease in commodity prices, consumer demand experienced an upturn, enabling firms to capitalise on the opportunity to increase their profit margins. This phenomenon can be attributed to sticky prices, where prices remain unchanged while input costs decrease, resulting in expanded profit margins. Lastly, the sudden surge in references to corporate profits can also be linked to the framework of Weber and Wasner (2023), particularly their concept of a profit-price spiral. As previously discussed, workers sought to reclaim their lost share in the distributional conflict towards the end of 2022. This initiated a new phase of propagation, where firms endeavoured to raise prices to safeguard their profit margins against rising input costs, in this case, higher labour costs.

The share of profit margins in total mentions deepens throughout the first three quarters of 2023, as higher profit margins propagate through the economy. As labour supply stays constrained, and demand resurges, firms raise their profit margins. Moreover, profits increased more strongly in certain industries than in others. Indeed, looking at the graphs provided by ECB governors' speeches, profits took a larger share in income distribution in sectors of low-skilled workers, such as agriculture, mining, manufacturing and construction, confirming our literature research that low-skilled labour lost a higher share of income than workers in other sectors. This was due to a combination of demand and labour supply being high, resulting in firms being able to boost their profit margins, without workers being able to bargain for higher wages due to less sectoral labour market tightness. In other sectors such as travel and hospitality, demand was high after the pandemic, but these sectors experienced tighter sectoral labour markets, resulting in workers being able to recoup their lost share of the income distribution.

The labour market tightness of certain sectors left ECB board members to tend more towards mentioning labour market tightness and the need to anchor inflation as a justification to hike interest rates. It was after all necessary in certain sectors to temper economic activity. However, in other sectors, workers with a weaker bargaining position saw their share in income distribution decline even further. Yet, because ECB board members saw inflation decline after their interest rate hikes, it seemed as if they had forgotten about the profit margins of firms. This left the category of wages in our first research question to expand to 60 per cent of total mentions, and the category of profits to fall back to only 10 per cent of total mentions.

Concluding remarks

When looking at the results of studies like those from Hahn (2023) and Arce, Hahn and Koester (2023), Storm (2023) or Bivens (2022), we notice that profits have contributed a lot more to the GDP deflator and inflation. This implies that over the past years, as firms could expand their profits, consumers have borne the brunt of the inflationary shocks, rather than shareholders. Moreover, this dynamic was even stronger in sectors regarding low-skilled labour such as agriculture, manufacturing and construction, leaving these workers as the ultimate victims of post-pandemic inflation. The real wages of these workers stay persistently low, while the profit margins of these firms have expanded significantly throughout the years (Bodnár & Mohr, 2023). While these developments were discussed a few times in speeches by ECB board members, the ECB never seemed to properly challenge this view both as a cause for inflation (see Figure 2) and as a justification to hike interest rates. Rather, they leaned more towards tight labour markets as a cause of inflation and a reason to raise interest rates.

In addition, as discussed in our literature review, low-skilled workers also suffer the most from rising interest rates, as it is mostly low-skilled workers who get fired first (Mason & Melodia, 2021; Vermeiren, 2023). Moreover, interest rate hikes fuel the distributional conflict even further by taking away bargaining power from labour. Thus, low-skilled workers see their share of income distribution decline twice: during the post-pandemic inflation (because firms are expanding their share in income distribution), and while combatting this post-pandemic inflation through interest rate hikes, further exacerbating inequality between labour and capital in our Euro area. Academics and ECB board members (Beaudry, Hou & Portier, 2024; Del Negro, Lenza, Primiceri & Tambalotti, 2020) also have mentioned that the Phillips curve has flattened throughout the years, making interest rate hikes not only unjust but also inefficient, as a flatter Phillips curve needs more interest rate hikes to stop inflationary pressures. The claims of Barker (2023) and Downey (2022) of central banks engaging in class warfare can thus be confirmed, in the sense that the ECB acknowledges the problems regarding low-skilled and low-income workers, nevertheless, the ECB does not seem to consider this when conducting anti-inflationary policies.

However, we cannot simply accuse central banks of further exacerbating inequality and the decline in the bargaining power of workers and unions, as central banks almost only have their interest rate mechanism to lower inflation. They need to do this to keep their institution credible for foreign investments. Credibility is key in a neoliberal world, to ensure foreign investments. It is therefore important to look at other ways to lower excess corporate profits that do not have an impact on inequality and the distributional conflict. ECB governor Panetta states that the appropriate response is not more fiscal support to compensate consumers for higher prices of goods and services. Rather, it is important to intervene to prevent any abuse of market power. Indeed, we can conclude that more fiscal support is not the right way, as it will only strengthen corporate pricing power due to pent-up demand. Next to that, workers and unions need to reclaim more bargaining power to ask for higher real wages. Due to globalisation, labour (and more importantly, low-skilled labour) lost a lot of bargaining power as they were faced with risks of offshoring. This led to unions having become more restrained with their wage demands, prioritising job security over higher pay. Deglobalisation and reshoring of supply chains can give some of the bargaining power back to labour. Moreover, deglobalisation can slope the Phillips curve back again, which would mean that fewer interest rate hikes are needed to lower inflation (Seydl & Spittler, 2016). European projects such as the Open Strategic Autonomy can further ensure this deglobalisation.

Ending this conclusion, we noticed throughout this research that the views and perceptions of ECB governors regarding the causes of inflation and reasons to hike interest rates do not align with the numbers and graphs from academics, even their researchers (Bivens, 2022; Arce, Hahn and Koester, 2023; Hahn, 2023; Storm, 2023). Moreover, we concluded that interest rates are unjust and inefficient in combating post-pandemic inflation. In our literature review, we discussed better ways to combat inflation induced by higher corporate profits. Examples of these solutions are allocated credit policies by central banks, but governments too must contribute by identifying and addressing supply bottlenecks and avoiding (temporary) monopolies through antitrust laws (De Santis et al., 2018; Mason & Melodia, 2021; Stanford et al., 2023). Notice that these policies suggest cooperation between central banks and governments, effectively questioning the independence of the central bank, and questioning an important characteristic of neoliberalism. Central bank independence is at the core of financial markets today and is an important key to conducting credible and stable policies in our economies. However, as stated above, leaving the central bank with almost only their interest rate mechanism, our central banks are almost required to combat high inflation by further exacerbating inequality. And even then, considering the flattened Phillips curve, it isn't efficient. Cooperation between governments and central banks can help inequality and recoup bargaining power to workers, but fighting inflation through political institutions has its well-known flaws. Nuancing neoliberalism is necessary to prevent inequality from being built up. In this sense, future research can look more in-depth at this profit inflation, and ask if central bank independence should be given up in the future to combat this new source of inflation, or even more, to what degree neoliberal ideas contribute to profit inflation and inequality.

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