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Abstract

Recent inflationary episodes in advanced economies have reignited interest in Conflict Theories of Inflation (CTI), which attribute price level increases to conflicts over income distribution rather than monetary factors. These heterodox perspectives, rooted in Marxist and post-Keynesian traditions, emphasize the roles of labor-capital tensions, corporate pricing strategies, and broader sociological struggles. This brief note evaluates the theoretical foundations of CTI and examines their policy implications. It highlights how measures inspired by CTI historically result in higher inflation and lower economic growth. The analysis concludes with a critique of CTI's reductionist framing and a call for policies grounded in a balanced understanding of monetary and conflict dynamics.

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1. Introduction

The global disinflation cycle that concluded with the COVID-19 crisis brought newfound prominence to Modern Monetary Theory (MMT), which argues that monetary expansion can finance government spending without causing inflation (Ocampo 2020b). For MMT proponents there is no simple proportionate relationship between changes in the money supply and the price level. Therefore, central banks can expand the money supply to finance higher government expenditures without triggering inflationary pressures (Kelton, 2021; Wray, 2015; Mitchell et al., 2019, p. 263; Mankiw 2020; Ocampo 2020a). However, the inflation surge in G-7 economies by late 2022 dampened media enthusiasm for MMT and revived alternative explanations that challenge the orthodox emphasis on monetary factors.

Conflict Theories of Inflation (CTI), which date back to the beginning of the 20th century and long considered fringe, have resurfaced in academic, public, and policy circles. A subset of heterodox theories, CTI trace their intellectual roots to Marxist economic thought, enriched post-World War II by post-Keynesian and structuralist contributions. These theories posit that inflation arises from distributional conflicts, particularly between labor and capital.[1]

Two recent contributions to CTI stand out. In 2021, Isabella Weber (2021) introduced the notion of "greedflation" which attributes rising prices to corporate profit-seeking during supply constraints. Later Weber and Wasner (2023) introduced the concept of “seller’s inflation.”

[1] It is important to note that MMT should also be included among CTI, since it considers inflation is “intrinsic to the power relations between workers and capital (class conflict), which are mediated by government within a capitalist system” (Mitchell, Wray, and Watts 2019, 255).

The second notable contribution was by Lorenzoni and Werning (2023) (L&W) who argue that conflict causes inflation even if money does not exist. The number of academic works that support the notion that conflict is the main driver of inflation has grown in recent years (see for example Clavijo-Cortes 2024; Hein 2023; G. D. Lucas 2021; Martin 2022; Palley 2024; Skott 2024; Summa and Braga 2020; R. Rowthorn 2024).

CTI are also gaining traction in the media, public opinion, and policymaking circles. An April 2023 poll found that "nearly 2 in 3 voters say corporations have enjoyed increased profitability in recent years" (Snyder, 2023). A YouGov poll found that Americans' views on what causes inflation changed little since 2022 with one exception: "the share of the public who believe that large corporations seeking maximum profits" deserve "a lot" of the blame for inflation has risen 9 points, to 61% from 52%" (Bialik and Orth, 2023).[2] These results are in line with those of a survey by Stantcheva (2024), who found that "when respondents are asked in an open-ended way without priming them about specific causes", greed was second only to the Biden administration (respondents identified as Democrats tended to choose the former, while those who identified as Republicans, the latter). Binder (2024) notes that conflict has been part of the United States' view of inflation for a long period of time.

Even more worrisome is the attention CTI are getting in policymaking circles. According to an influential former Fed official, L&W's formalization of "the role of greedflation as an inflation driver" supports the conclusion that inflation in the US during the period 2021-2023 was

[2] One cannot derive definitive conclusions from these polls. Their results were conditioned by the way in which the questions were framed and the choice of answers given to respondents (see Bourne 2023). However, this methodological flaw remained constant, therefore an increase in the percentage of respondents that favored a particular response provides valuable information.

"largely attributable to firms' aspiring to low real wages" (Kocherlakota 2023). Building on L&W, a staff working paper by the Bank of England research department analyzed "how a central bank should resolve the 'battle of markups'" (van der Ploeg and Williems, 2024). And a recent IMF working paper (Hansen, Toscani, and Zhou 2023), claims that "rising corporate profits account for almost half the increase in Europe's inflation over the past two years." Although none of these pronouncements reflect official views, they clearly show that CTI are no longer considered as fringe.

In Congress, Senator Elizabeth Warren (D-Mass) has long been a proponent of the "greed-flation" narrative (Morrow 2021). Warren recently co-sponsored a bill in the Senate –the so-called *Shrinkflation Prevention Act*– to crack down on corporations that deceive consumers by selling smaller sizes of their products without lowering prices. The bill's sponsors claim it will reduce "the effects of corporate greed on product size and rising inflation" (Warren 2024).[3] Additionally, in February 2024, Warren, Baldwin (D-Wisc.), Casey (D-Pa.) and Schakowsky (D. Ill.) reintroduced the *Price Gaugin Act of 2024* (H.R. 7736).

The increased popularity of the idea that conflict explains higher-than-usual inflation rates in the United States and other advanced economies should not be dismissed lightly. CTI not only reject key policy prescriptions developed by mainstream economics over the last three decades of low inflation but also introduces a moral dimension into economic policy that could lead to a change in its priorities (The Economist 2024). CTI proponents call for a different approach to fighting inflation and seem to be persuading some voters. According to the YouGov poll mentioned

[3] Not surprisingly, in 2019 Warren was a sponsor of the Medicare for All (MFA) and a co-sponsor of the Green New Deal (GND). MMT offered a way out of the conundrum of how to finance both programs (Dmitrieva 2018).

above, the percentage of respondents who favor "fining companies for price-gouging" and "having the government impose limits on price increases" rose significantly compared to 2022 (Democrats are more likely to favor these policies). Such measures have been tried in several countries and failed. In fact, they contributed to making inflation a more intractable problem (Edwards 2019).

In this brief note, we discuss the theoretical background and shortcomings of the CTI approach to inflation and highlight their policy implications, which are likely to lead to higher inflation and lower growth.

2. An Overview of CTI

CTI are a subset of a broad group of so-called "heterodox" theories that include neo-Marxist, neo-chartalist (rebranded and relaunched as MMT), post-Keynesian, and structuralist.[4] In all of them, conflict over income distribution between labor and capitalists plays a crucial role in driving inflation. "Conflict over income shares arises in several social environments, between capital and labor, between landowners and peasants, between different groups of workers, and between producers in different sectors of the economy, such as those that produce tradables and those that produce for the domestic market" (Vernengo 2005, 17).

Although Marx did not fully develop a theory of inflation, CTI trace their ideological roots to the central tenet of Marxism: "all history has been a history of class struggles, of struggles between exploited and exploiting, between dominated and dominating classes at various stages of social evolution" (Marx and Engels 1848, 11). In other words, CTI draw on the Marxist assumption that class consciousness prevails and that the conflict between workers and capitalists over the

[4] Not all heterodox theories identify conflict as the primary cause of inflation.

distribution of wages and profits is the dominant conflict in a modern economy. For example, according to a leading proponent of New Keynesian macroeconomics, inflation "is fundamentally the outcome of the distributional conflict, between firms, workers, and taxpayers. It stops only when the various players are forced to accept the outcome" (Blanchard 2022).

This reductionism implies that many other dimensions of conflict, both economic (e.g., creditors versus debtors, old economy versus new economy, capitalists in the tradable versus non-tradable sector, capitalists in labor-intensive versus capital-intensive industries, central bank versus treasury, etc.) and non-economic (geographic, ethnic, religious, cultural, ideological, etc.) are irrelevant (or not relevant enough).

The renewed interest in Cost-Push Theory of Inflation is intriguing since plain data does not support its main thesis. In the absence of a direct measurement of conflict (as identified in CTI) one can observe the relative behavior of the Consumer Price Index (CPI) and the Producer Price Index (PPI). A CPI that grows faster than the PPI would be consistent with CTI (as it would be with other theories). Conversely, a PPI rising faster than the CPI would be inconsistent with CTI. In the US, yearly inflation grew rapidly between February 2021 and September 2022. During this period, the CPI and PPI indices grew by 18.3% and 30.8%, respectively. Rather than supporting CTI, this data suggests that firms acted as inflation absorbers.

CTI propose a rehash of the old struggle between the haves and the have-nots. They offer old, corked wine in new bottles. The underlying narrative is that corporate greed can only be satisfied at the expense of exploited workers and that inflation is one of the mechanisms through which such exploitation is accomplished.

CTI can be classified according to what position in the causality chain they assign to conflict, i.e., whether it is a proximate or a root or ultimate cause of inflation. A proximate cause is an event that is closest to, or immediately responsible for causing some observed result, whereas a root or ultimate cause can be one or more factors or events that gave origin to the proximate cause. In other words, a root cause is a necessary but not a sufficient condition for the occurrence of the proximate cause of an event, while a proximate cause is a necessary and sufficient condition for the occurrence of such an event.[5]

CTI can also be distinguished by whether they consider money to be active or passive (Olivera 1970). If money is passive, then the central bank "accommodates" the conflict by expanding the money supply. In this case, conflict is a root cause of inflation, and money growth is a proximate cause. On the other hand, if money is active, it can lead to an expansion of aggregate demand, which in turn leads to higher prices and labor union demands for higher wages giving origin to conflict. In this case, the causality chain is reversed.

The original passive money theories of inflation, as developed, for example, by Olivera (1960; 1970), made a distinction between proximate and root causes of inflation, and also allowed for the possibility of active money.

Although certain neo-Marxist CTI treat the money supply as exogenous, Marx in fact sided with the Banking School and considered money as being endogenous (Arnon 1984, 560, 568; Lapavitsas 1994, 141). Following Knapp, MMT proponents believe that a) outside money is a creation of the State and that its nominal quantity can be exogenously determined by a government-

[5] In a more complex analysis, the unfolding of an event may require the combination of more than one proximate cause, or the proximate cause becomes sufficient depending on the root cause. For instance, it can be argued that without bad monetary policy and financial regulation (root cause) the fall of Lehman Brothers (proximate cause) would not have triggered a financial crisis.

controlled monetary authority, and b) inside money can be unilaterally created by the banking system by extending credit.

In Rowthorn (1977), conflict is generated by excess demand, which in turn originates in an exogenous increase in the money supply. Within this framework, inflation arises only when conflict increases beyond a certain threshold (ibid, 1977, p.227). In contrast with Marx, the causal relationship goes from money to aggregate demand and from aggregate demand to conflict and prices. In other words, conflict is the proximate cause of inflation, and money supply expansion is the root cause.

Rowthorn admits that his explanation looks “monetarist” (ibid., p.235). It is worth exploring this statement. The modern quantity theory of money (QTM) makes a fundamental distinction between the nominal quantity of money and the real quantity of money. In a closed economy or under inconvertibility, it regards the former as primarily determined by conditions of supply and the latter as primarily determined by conditions of demand (Friedman 1983). It is usually assumed that the QTM implies that M is exogenous, but this doesn’t necessarily have to be the case. David Hume, who is by many considered to have provided the first clear exposition of the QTM (see for example R. Lucas 1996), assumed the money supply adjusted endogenously.[6]

Given that neither money demand (as measured by velocity) nor real output fluctuates sufficiently to explain inflation, only changes in the nominal quantity of money can account for continuously rising prices. The QTM makes two central long-run predictions regarding the long-run impact of the growth of the nominal quantity of money: 1) it is neutral with respect to output and

[6] As Glasner (1985) has explained, Hume “misapplied the quantity theory, which was relevant only to the case of an inconvertible paper currency, not to the case of a pure gold money” (p.56).

velocity, and 2) it has a proportional impact on the price level (Lucas, 1996). It is important to note that the previous analysis is US centric, i.e., it assumes a large open economy that enjoys monetary autonomy. It would not be applicable in the case of a small open economy with free capital movements and a fixed exchange rate.

The QTM is general enough to incorporate different root causes of inflation. CTI can identify conflict and money supply as either root or proximate causes of inflation. Finally, leaving the root cause of inflation undefined, provides a general framework that is compatible with theories that look at different root causes of inflation. Because of this, L&W's model competes with QTM in terms of how broad its applicability can, in theory, be: QTM vs conflict theory of money (CTM).

In Weber and Wasner, money does not play a role. The process of rising prices goes through three distinct phases: 1) commodity supply shocks or bottlenecks create "windfall profits" for "systematically significant upstream producers" 2) to protect profit margins from rising costs, "downstream producers" increase prices; and 3) in the "conflict stage", workers try to protect the level of real wages by demanding nominal wage increases. According to Weber and Wasner, "such sellers' inflation generates a general price rise which may be transitory, but can also lead to self-sustaining inflationary spirals under certain conditions."

In L&W's world, inflation cannot occur without conflict, but it can occur without money. Conflict is the proximate cause of inflation, with or without money as a root cause. However, L&W do not deny that money can have an impact on inflation. If it does, they simply question its position in the causality chain. The stated goal of their model is to provide "a framework to think about conflict as *the* proximate cause of inflation" (Lorenzoni and Werning 2023, 4 italics added), i.e., a necessary and sufficient condition for its occurrence.[7] Their framework can be incorporated into new-Keynesian or post-Keynesian models to "endogenize" conflict in alternative ways and thus lead to different conclusions "about the root causes of inflation." (see Wildauer et al. 2023 for an integration of L&W's model into a post-Keynesian framework). In other words, L&W admit that money, or some other factor, can be the root cause of conflict, which is the proximate cause of inflation. They reverse the causality chain proposed by mainstream and some heterodox theories of inflation.

In CTI passive money models, the monetary authority "accommodates" the distributive conflict. When firms increase their mark-ups or labor unions extract higher wages from employers, central banks respond by expanding the money supply. Such theories offer an implicit monetary explanation of inflation, i.e., without money, inflation cannot occur. In most CTI, distributive conflict can occur if the wage rises demanded by labor unions and workers exceed the rise in labor productivity (cost-push) or if companies try to "appropriate" the rise in labor productivity (greedflation).

Conflict can have an impact on the inflation rate through channels that are not considered by many CTI. Even if one were to take a fiscalist approach (Sargent 2013, 238), and argue that "persistent high inflation is always and everywhere a fiscal phenomenon, in which the central bank is a monetary accomplice", one could also argue that "underneath the disorder in public finances one typically does find a political system unable to resolve conflicts that are at bottom struggles over the distribution of income" (Heymann and Leijonhufvud 1995, 55). In other words, deficits are endogenous to conflict. Implicit in Hayek's (1978, 108) view of inflation was the notion that it

[7] L&W do not clarify what they mean by root and proximate cause.

would persist as long as the monetary authority acceded passively to demands by labor unions for higher wages.

Conflict can impact inflation through other indirect channels notably absent in most CTI. One example is populism, a political movement that has succeeded by promoting conflict between different groups. Its left-wing variety tends to focus mostly on the distributive conflict and has historically sought to resolve it through expansionary monetary and fiscal policies that have inevitably led to high inflation, which over the medium and long run disproportionally hurts lower-income groups. As Dornbusch and Edwards pointed out in their seminal study, populist policies "do ultimately fail; and when they fail it is always at a frightening cost to the very groups that were supposed to be favored" (Dornbusch and Edwards 1991, 9).

Another example would be conflict between incumbents and new candidates in a presidential election, leading to a political business cycle with higher inflation after the election takes place (MacRae 1977; Nordhaus 1975; White 1999, chap. 9; Meiselman 1986; Allen 1986; Wagner 1977).

A third example would be a conflict between creditors and debtors, where unexpected inflation benefits the former over the latter. For instance, a government that issues debt denominated in its currency faces the temptation to inflate to reduce the debt burden in real terms. Private debtors could also lobby the government to pursue inflationary policies to reduce the real value of their debts. When trying to explain inflation, these types of conflict are more realistic and offer more promise than the Marxist reductionism underlying most CTI.

Testing CTI also faces empirical challenges. First, if higher inflation is caused by more intense conflict, what drives conflict and how can we measure it? According to Rowthorn (1977) the source of conflict is an "aspiration gap" measured as the difference between the wages expected and obtained by workers. This gap is positive "if prices increase by more than was anticipated in the wage bargain." Rowthorn, Rosenberg, and Weisskopf (1981, 44) hypothesize that "the most important determinant of workers' real wage aspirations is their experience of real wage growth in past years."

However, this cannot explain inflation spikes after years of insignificant growth in real wages. Over what threshold does conflict trigger inflationary pressures? What levels of conflict can explain annual inflation rates above 100%? How do hyperinflations occur? Are they caused by hyper-conflict? Some research looks at income distribution as a proxy for conflict (Clavijo-Cortes 2024). Yet, income distribution is not a measure itself of conflict; other variables, such as relative marginal productivities, can explain it. Admittedly, "[e]mpirical investigation [on CTI], however, is meager" (Clavijo-Cortes 2024, 1).

3. Policy Implications of CTI

The idea that the main cause of inflation is a conflict between capitalists and workers has important policy implications. Underlying it is a Marxist worldview in which class struggle and consciousness prevail. Persistent inflation is not just an economic outcome, but a consequence of "social injustice." If there is no inflation without conflict, it follows logically: if we want to reduce inflation, we must reduce or eliminate it. Social justice becomes the main objective of economic policy. Therefore, eliminating or reducing inflation implicitly requires not only measures to mitigate distributive conflict but also penalties for the exploiters. If conflict originates in the free interaction of market forces, then the government must intervene to neutralize such forces.

What is the proper policy prescription under such circumstances? Mussolinian corporatism, in which the State mediates between organized labor and capital? Wage and price controls?

Government-sponsored accords between labor and corporate unions? Nationalization of big businesses? A socialist community where factors of production are jointly owned by all workers?

Following the logic of CTI opens a Pandora's box full of undesirable policies that are likely to exacerbate inflation and increase conflict. CTI cannot be divorced from their Marxist origins and ethical implications. Embedded in CTI is a mandate for the government to impose arbitrary notions of "social justice" and neutralize market outcomes through regulation and intervention.

The experience of many developed and developing countries shows that CTI inspired policies tend to be counterproductive, i.e., they are more likely to exacerbate inflation and increase conflict. Latin America, where unions are strong and central banks politically subservient, offers one of the most direct testing grounds for Marxist-inspired conflict theories. Historically, Latin America is not a region characterized by low inflation rates. For the last two decades, Argentina and Venezuela have been among the countries with the highest inflation rates in the world. Ironically, Latin America shows that policy measures inspired by CTI lead to more, not less inflation. Latin America does not only provide a historical lab of the economic, social, and institutional impact of moral implications of embracing the roots of CTI theories.

4. Conclusions

Despite its theoretical and empirical shortcomings, conflict theories of inflation have gained ground in public opinion, policymaking circles, and academic research. CTI not only offer a theoretical approach to inflation but also implicitly carry a mandate for policymakers to deliver "social justice" with a particular set of policy measures. The evidence from several countries suggests that such mandate and policies tend to increase inflation and aggravate conflict (Edwards 2019).

We do not deny that conflict is pervasive in any system of social organization, and we recognize that it can have a significant effect on economic behavior and outcomes. However, the causal relationship proposed by CTI is theoretically unsound and empirically untestable while the policies they prescribe have been counterproductive. In Latin America, in the name of "social justice" populist leaders have successfully promoted conflict to gain power and the exacerbated it with the type of policies that CTI proponents prescribe. The result has been high and volatile inflation and lower growth.

Whatever its root cause (i.e., populist conflict, fiscal deficits, wars, etc.), inflation cannot occur without money as a proximate cause, . The responsibility of central banks in generating inflation (actively or passively) cannot, and should not, be ignored. Almost a century ago, Hayek (1931, 3), who was very critical of very simplistic applications of the QTM, warned that "it would be one of the worst things which would befall us if the general public should ever again cease to believe in the elementary propositions of the quantity theory."

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