

Inflation and distributional conflicts



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A cura di Mario Pianta

L'inflazione in Italia

Cause, conseguenze,
politiche

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Indice

Introduzione, Mario Pianta

Capitolo 1. Inflazione, conflitti distributivi,
sistema economico, Mario Pianta

Capitolo 2. Le cause dell'inflazione: prezzi
dell'energia, mercati, politiche
Leopoldo Nascia, Mario Pianta, Giuseppe Simone

Capitolo 3. Le conseguenze dell'inflazione su salari,
redditi, disuguaglianze
Valeria Cirillo, Rinaldo Evangelista, Matteo Lucchese

Capitolo 4. Inflazione, salari e contrattazione collettiva
Vincenzo Maccarrone

Capitolo 5. La trasmissione dell'inflazione
nell'economia: un modello e simulazioni di policy
Guilherme Spinato Morlin, Marco Stamegna,
Simone D'Alessandro

Capitolo 6. Inflazione, finanza, distribuzione:
lezioni dagli anni settanta e ottanta
Claudio Gnesutta



What is inflation

- **A set of distributional conflicts**
- Capital-labour conflict (employees and pension)
- Industrial capital, protected markets, finance

Prime maker vs price taker firms, market power

Vicious circle of price increases for protecting profits

- Finance: debtors vs creditors (bank deposits)
- **Asymmetries** among economic actors matter
- Loss of consumers, employees
- Wealth effects



Winners and losers

- \$1000 bn, 1% of global GDP transferred to energy producing countries Little impact on production strategies
- International context: Western problem only, China has less than 2% inflation, E.Asia 4%
- High infl (Turk, Arg, Iran) countries go on
- No impact on competitiveness? No link to exchange rates (but euro is falling, compensating inflation?)
- Confused pattern of intl capital flows, intl change



Key ideas

- Kalecki in the 1930s
- Graziani etc, Italy in the 1970s, wage-profit
- Minsky, 1980s, finance, infl vs recession
- Flat Phillips curve



Inflation policy tools?

- Loss of policy tools for price and market controls
- No coherence of institutional setting with independent central banks in monetary, fiscal and currency policy
- No attention to real economy and energy policy



Inflation and monetary policy

- **The only response has come from the change of monetary policy: inappropriate tool**
- New context after QE and realignment of different interests; role of expectations
- A new EU recession? Crisis of finance? Debt?
- **A key political and policy issue**
- In EU: lack of institutional setting for addressing the issues, besides ECB power
- A short term inconvenience or a long term realignment of Neoliberal policies?



Lower prices from digital, globalis.

- Pervasive effect of digital tech on production, lower prices, 2005-2015: -0.5% per year
- Improved quality and ‘free’ digital services
- For G7 countries, 1982-2003 stable import prices, export prices +30%
- More imports/globalis: lower consumer prices by 0 to 0.25% per year since 2000
- As EU and US has about 2% inflation, prices of goods fell by 1% per year



Inflation and finance

- Compression of real economy, rise of finance
- Inflation of financial asset prices
- **Financial accumulation** through asset price inflation, and risk of related crises as in 2008
- Stock market rise matters more than profits
- From 1980 to today DJIA increased tenfold, Five times in relation to GDP, NY Stock market capitalisation from half to twice US GDP: speculative dynamics fuels inflation, inequality, reduces investment in real economy



Financial accumulation

- 1980s: rise of Neoliberalism, anti-inflation monetary policies, creating the space for the rise of finance
- Arrighi: phase of financial accumulation, profits made out of finance
- Levy: asset price inflation as model of US growth, driving incomes: Age of chaos

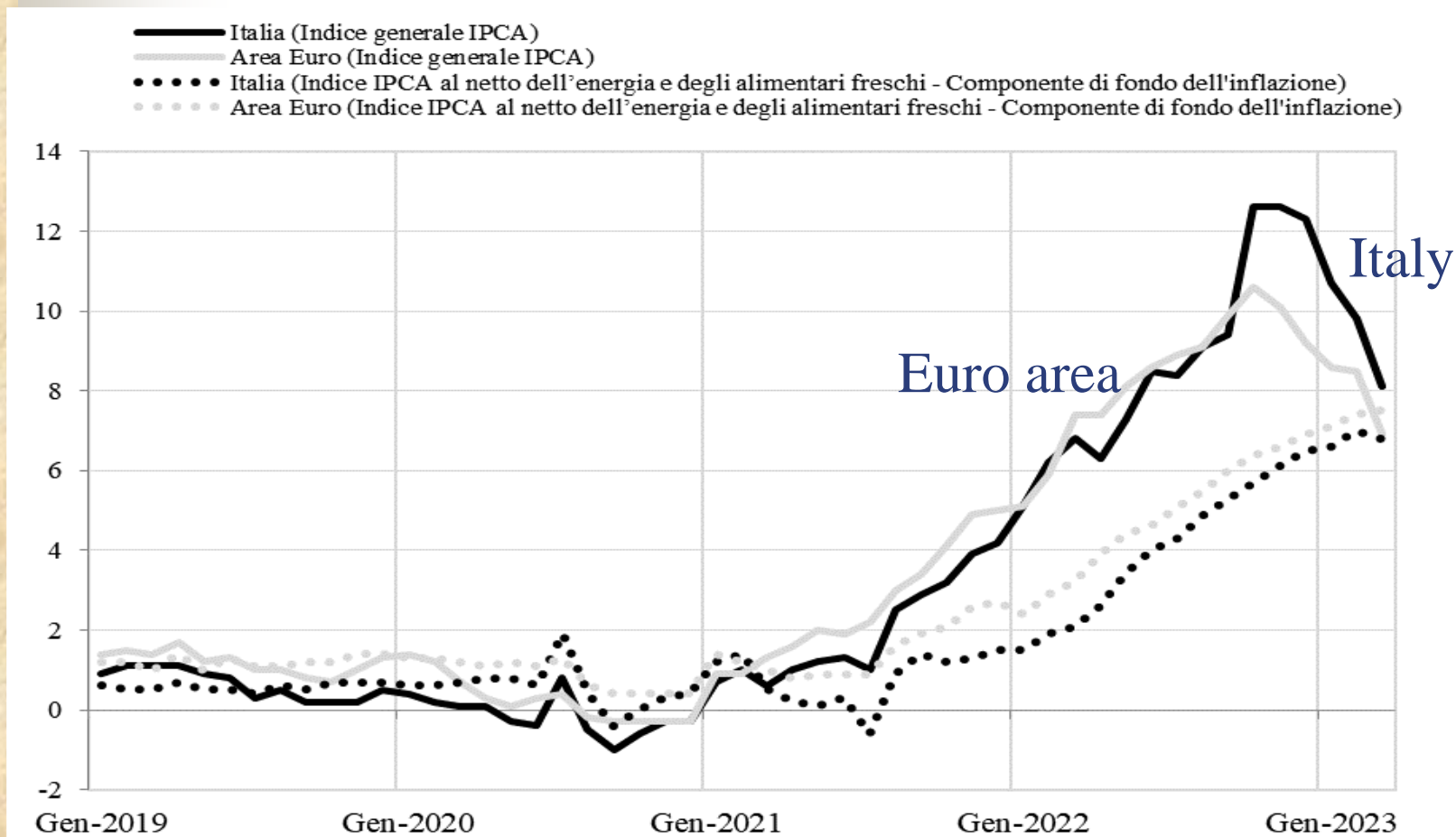


The case of Italy

- Italy: 8,7% in 2022, 6% in 2023.
- Driven by energy prices, supply problems after covid recession, Ukraine war
- Inflation now driven by profit raises where there is market power
- Lack of consideration of distributional impacts

Figura 1. L'inflazione in Italia e nell'Area euro, gennaio 2019-marzo 2023

(Indice generale armonizzato dei prezzi al consumo - IPCA - e Indice generale esclusi energetici; dati mensili, variazioni percentuali tendenziali mese su mese).

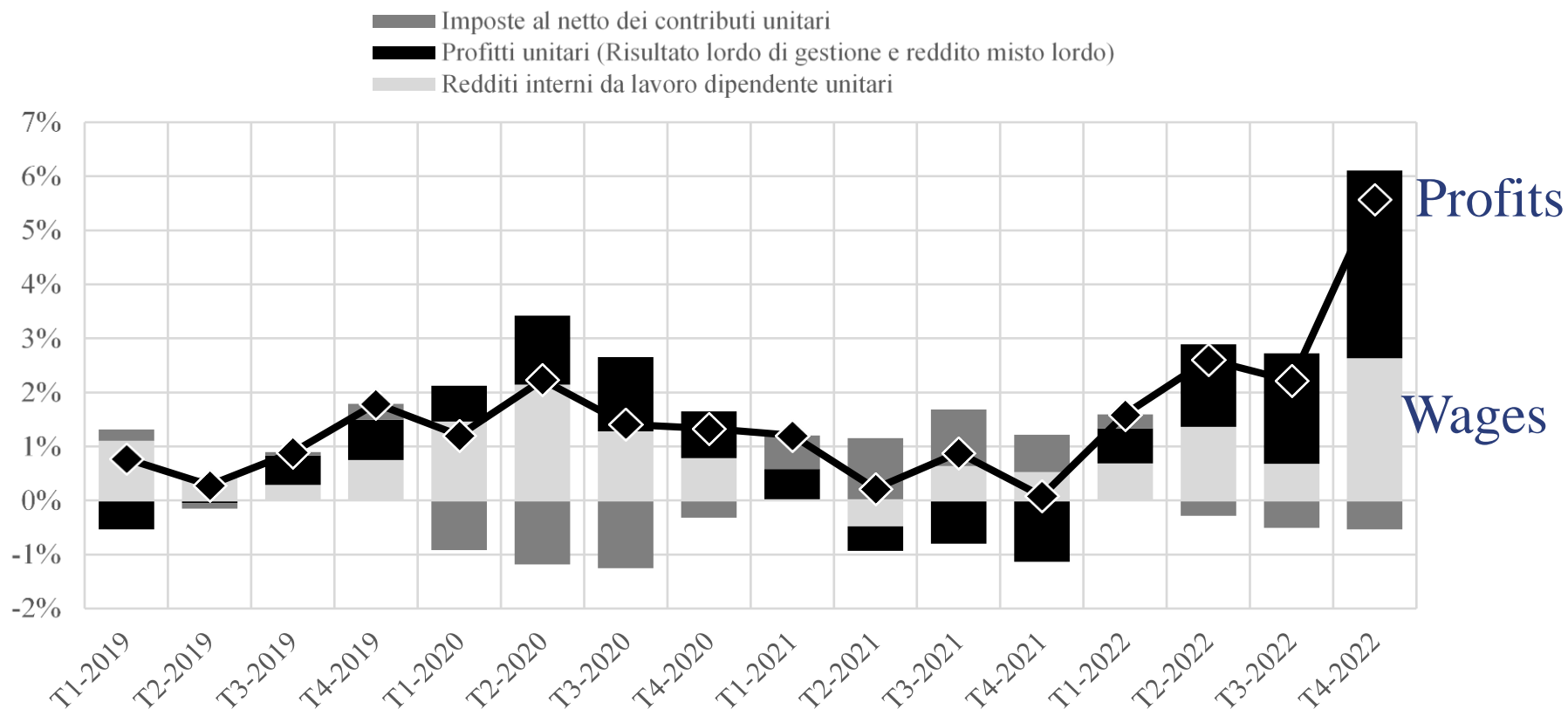


Fonte: Eurostat, Indice armonizzato dei prezzi al consumo (HICP)

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28/09/2023

Figura 3. Il “contributo” di salari, profitti, tasse e contributi all’inflazione in Italia: decomposizione del deflatore del PIL “dal lato del reddito”. Anni 2019-2022 (dati trimestrali grezzi, tassi di variazione tendenziali annuali t/t-4)



Fonte: Nostre elaborazioni su dati Istat, Conti Nazionali (versione aprile 2023).
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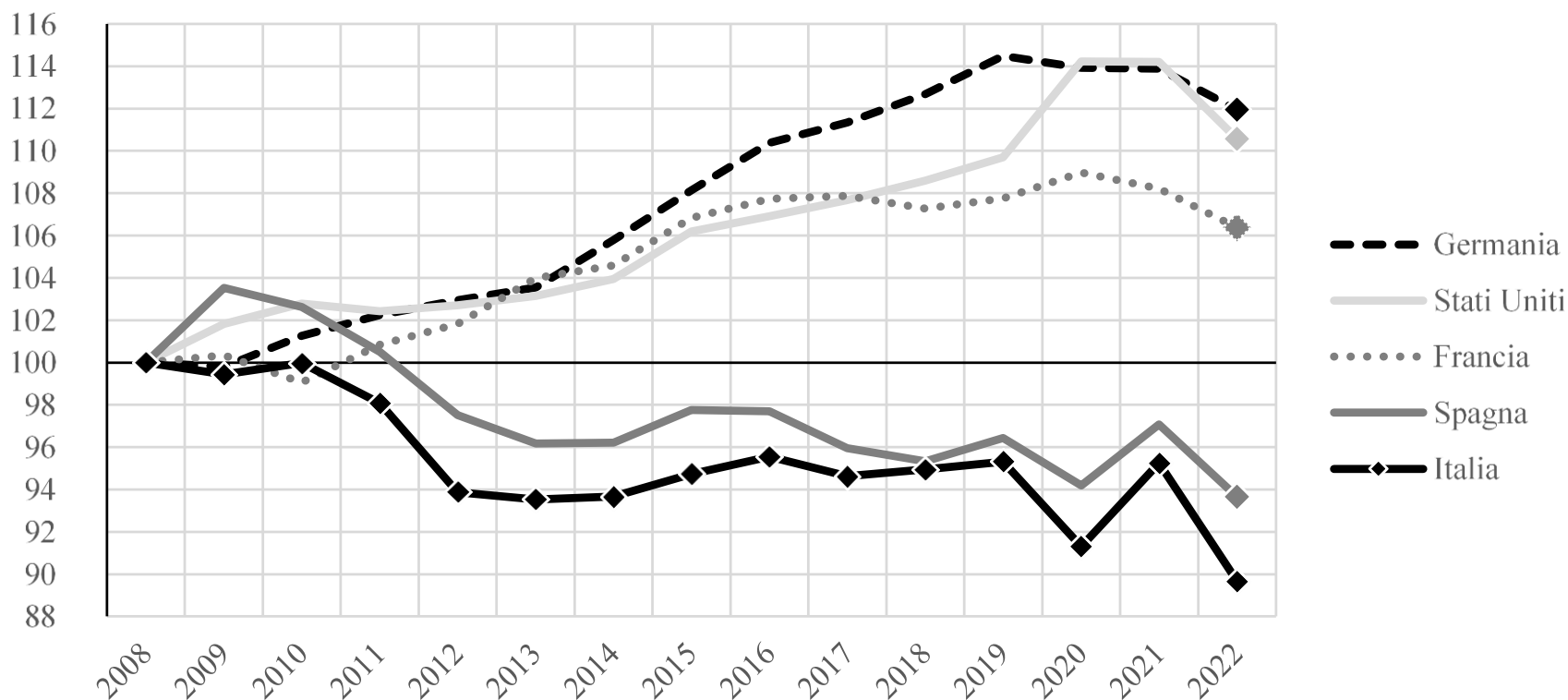
Inflation and wages

- Loss of 15% of purchasing power in 2 years
- Inequality, uncertainty
- 12% of employees at risk of poverty
- No incomes policy, industrial relation setting
- Bonus for the poorest

Figura 2. Indice medio dei salari reali in Italia, nelle altre principali economie europee e negli Stati Uniti. Anni 2008-2022

(Indice, base 2008=100)

The long term trend of real wages

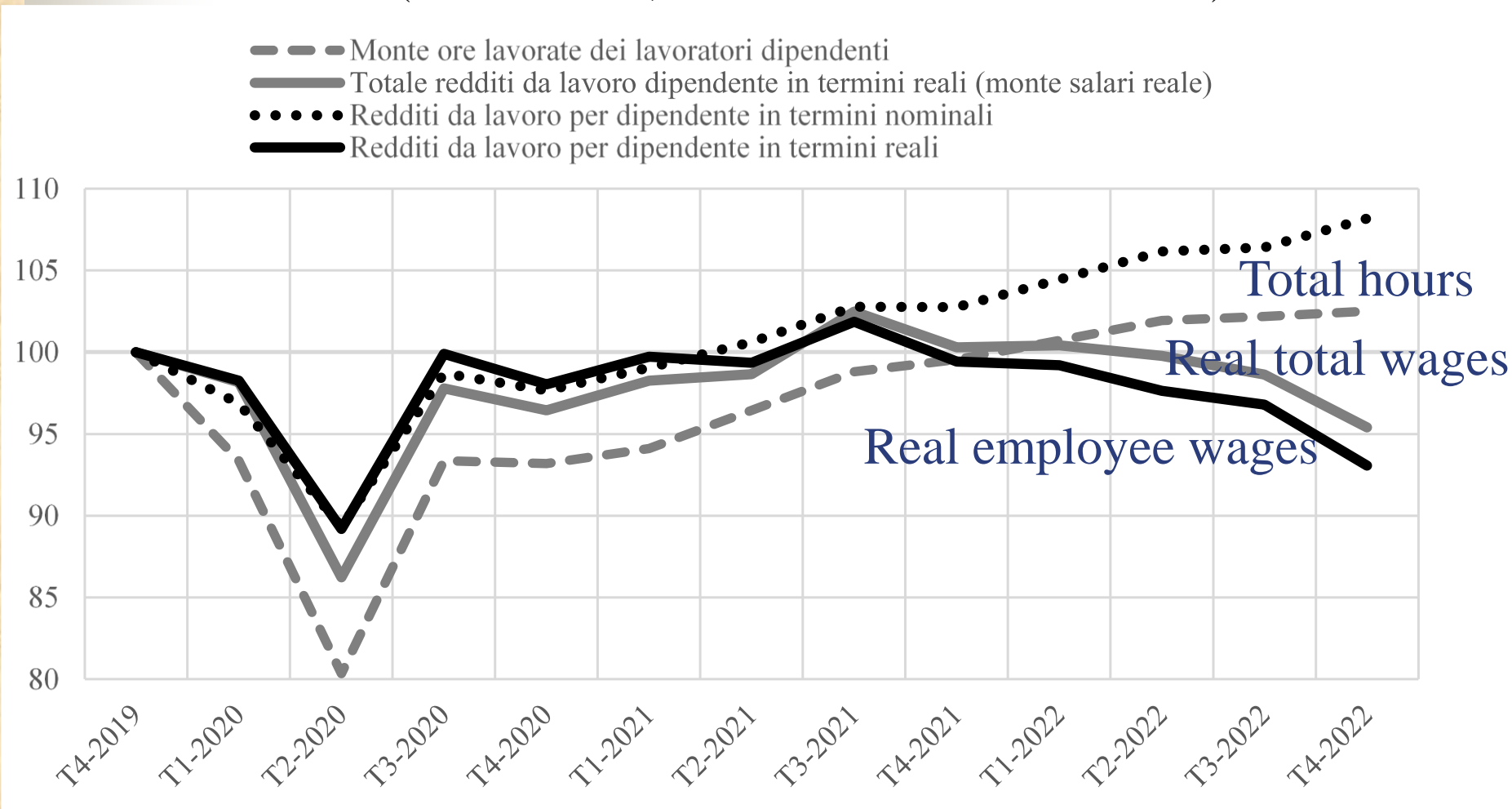


Fonte: Nostra elaborazione su dati Global Wage Report 2022-2023 - ILO Publications (<https://www.ilo.org/digitalguides/en-GB/story/globalwagereport2022-23#data>).

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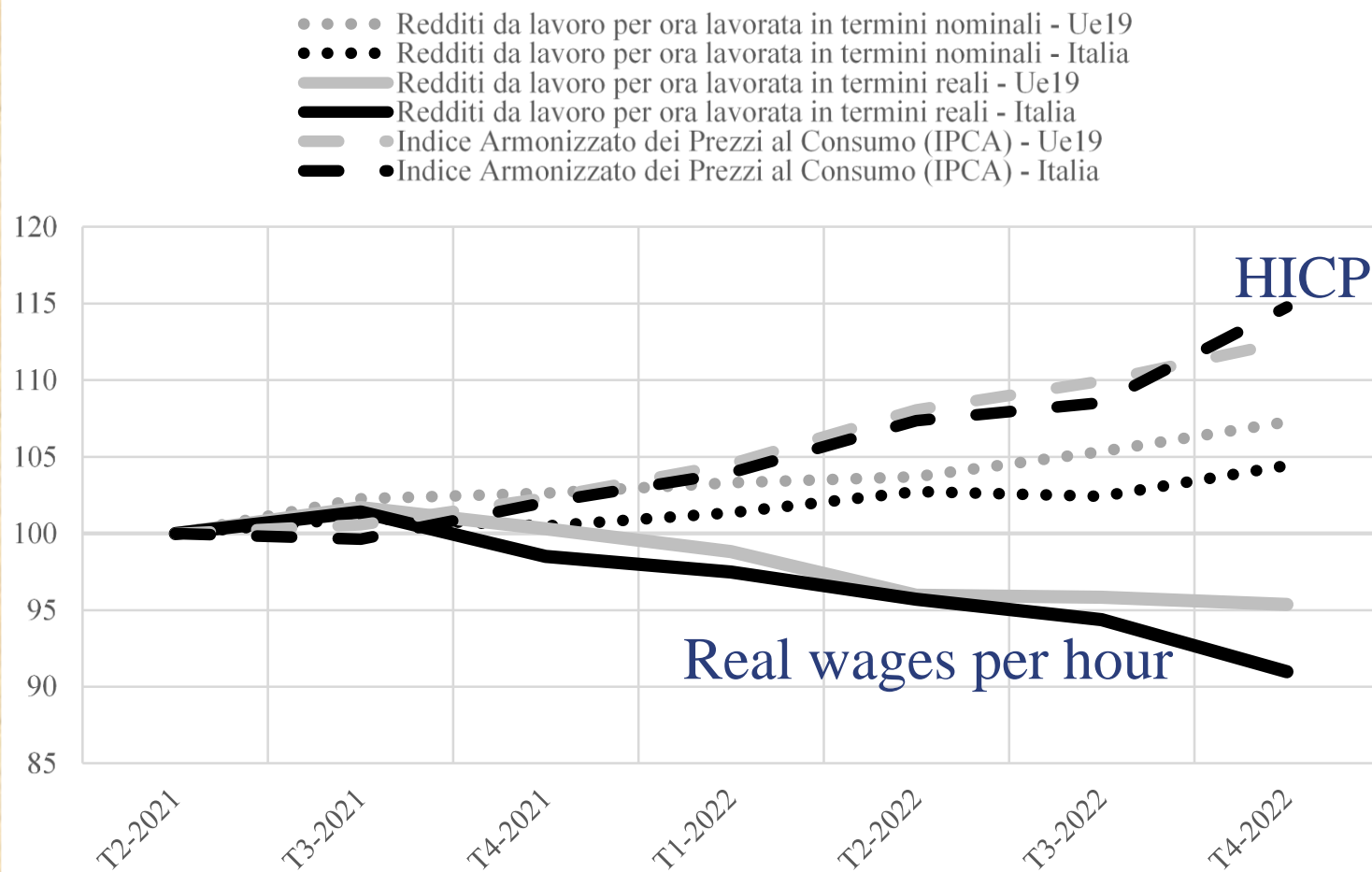
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Figura 2. La dinamica dei redditi e delle ore lavorate dai lavoratori dipendenti in Italia. Anni 2019-2022 (dati trimestrali, numeri indice base T4-2019=100)



Fonte: Nostra elaborazione su dati Eurostat, Conti Nazionali (versione aprile 2023).

Figura 3. La dinamica dei redditi dei lavoratori dipendenti e dell'inflazione in Italia e nell'Area euro. Anni 2021-2022 (dati trimestrali, numeri indice base T2-2021=100)



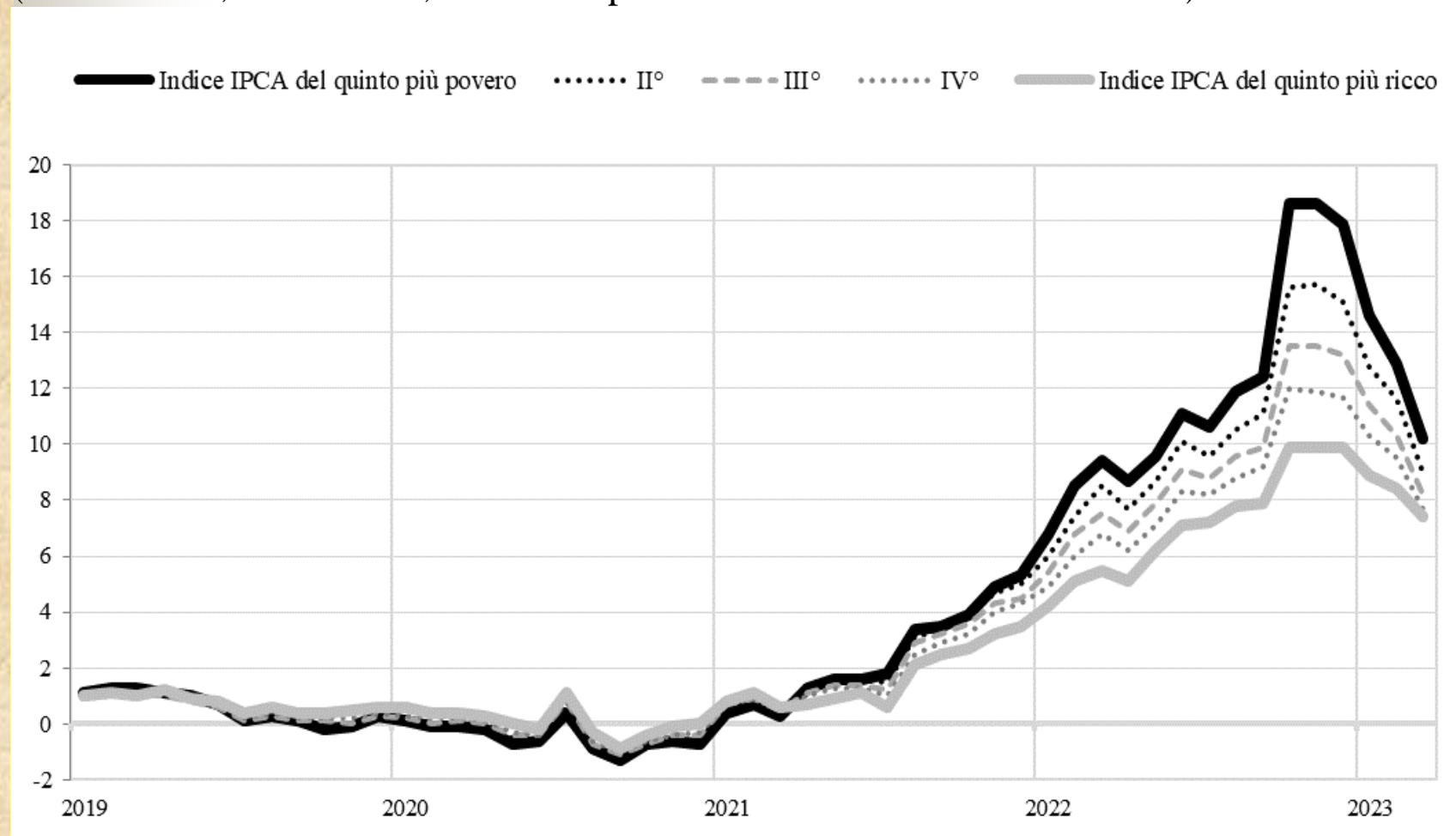
Fonte: Nostra elaborazione su dati Eurostat, Conti Nazionali (versione aprile 2023).



Inequality

- Poorer income groups are hit most as energy and food consumption has a greater importance for them

Figura 5. Inflazione in Italia per classe di spesa delle famiglie. Gennaio 2019-marzo 2023
(Indice IPCA; dati mensili, variazioni percentuali tendenziali mese su mese)



Fonte: Istat, Prezzi al consumo



What is to be done?

- Policies targeting the causes of inflation
- Policies protecting labour and real wages
- Coordinated macroeconomic (fiscal-monetary) and real economy (industrial-environmental) policies



Monetary policy and inflation

- **Monetary policy goals: a return to 2%?**
- **Better a 4% target**
- Higher interest rates slow down investment, production, jobs and wages, increase interest payment on debt, change finance
- How the scaling down of the finance bubble can be handled?
- Recession of Euro Area in spring 2023
- Zero growth



Fiscal policy and Europe

- So far national fiscal policy with deficit spending has offered some compensation to households and firms. No more.
- New Stability Pact? No follow up to Next Generation EU. New austerity? Risks of crisis



The econ policy of the Meloni govt

- The right is strengthened by the widespread sense of insecurity and the impoverishment of the middle and lower classes. Lack of growth prospects and uncertainty increase fears and the need for protection. The right offers answers more on the ideological level than with concrete interventions: fragmented measures and favorable treatment for target social groups. There is no overall response, but the consolidation of a fearful and conservative social bloc



Price and markets controls

- Italian governments have only offered compensations for price increases, reducing the taxation of energy goods, offering business support, and "bonuses" for households, especially low-income ones.
- Other European countries have also used energy price control instruments, regulated markets, or taken control of energy companies, slowing the transmission of inflation to the rest of the economy.



Conditionality for business support

- Public subsidies and incentives to business could be conditioned on 'virtuous' behavior in renewing labor contracts, wage dynamics, reducing the use of temporary and part-time forms of labor, and investment strategies, with the aim of increasing the quality of production and labor in the country.



Industrial, environmental policies

- Industrial, energy and environmental policy with large resources and new players
- Goal: Productive restructuring that increases efficiency (contains prices), productivity (and thus wages), technological level, 'quality' of the competitive model of the country
- Ecological transition of the economy: energy from renewable sources, sustainability of productions
- Missed opportunity of the NRPP