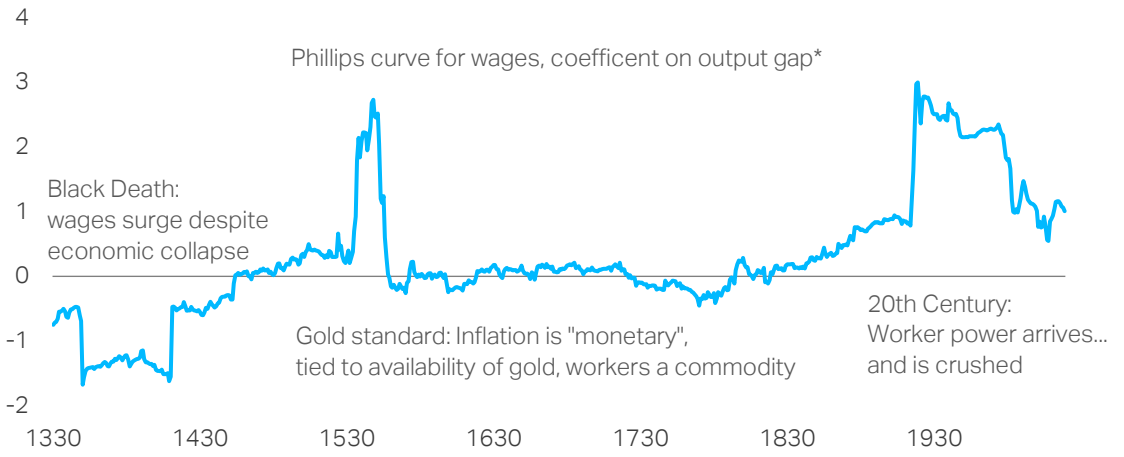
Macro Picture

INFLATION IS ABOUT POWER

Dario Perkins

COVID-19 has caused a burst of inflation. Ultimately, however, inflation is about "power". Can workers secure higher wages? Can companies keep raising their prices? For the first time in a generation, policymakers are looking to shift the balance of power back to labour. This could mark a gentle inflection point, though there are still secular forces keeping inflation relatively low.

Chart 1: Worker power emerged in 20th Century – then Neoliberalism crushed it



Source: Bank of England database, TS Lombard estimates, *50-year rolling coefficient

INFLATION SCARE

Neoliberalism crushed worker power, contributing to the broad macro trends we see today – low wages, fat margins, subdued inflation and wide economic dispersion (among both households and businesses). While COVID-19 has produced a temporary burst of inflation, it could also have a more permanent legacy – a new policy regime that begins to favour labour instead of capital.

POWER DYNAMICS

This policy regime – starting in the US, spreading elsewhere – will try to run the economy "hotter" than in the past. Over time, this could lift the wage share and reduce inequality. But given the flat Phillips curve (esp. for prices rather than wages), many investors seem unduly concerned about what this new regime means for inflation. Secular forces continue to favour capital over labour.

THE PRESSURE IS ON

The authorities hope higher wage growth will be matched with improving productivity, in which case expansionary fiscal policy could be good news for both financial markets and the real economy. But there are risking to bolstering "worker power", especially in a globalized and hi-tech world. Outside the "superstars", many smaller companies could struggle with rising costs.

INFLATION IS ABOUT POWER

For the first time in a generation, macroeconomists are beginning to ask questions about the balance of "power". Has the post-1980s collapse in trade unions gone too far? Does rising corporate concentration mean we need stronger antitrust legislation? Is the "fissured workplace" responsible for massive worker insecurity and low wages? Power dynamics should be fundamental to macroeconomics, as they shape the long "supercycles" we observe in inflation and interest rates. In fact, it is not an exaggeration to say inflation is ultimately about "power", not "money". With the current inflation scare, there is a debate about whether COVID driven supply bottlenecks – causing enormous pressure in international supply chains – will feed a more persistent inflation problem. Will companies be able to pass on these cost increases to their customers? And if they do, will workers have sufficient power to secure higher wages as compensation? The answers to these questions will go a long way to determining whether this latest spike in inflation is just another "transitory" move, or something that demands a more forceful policy response. We also know from history that those in possession of power tend to exploit it during times of international crisis, which is another reason to think COVID-19 could be transformative. Wartime inflation, for example, was often the result of monopoly profiteering.

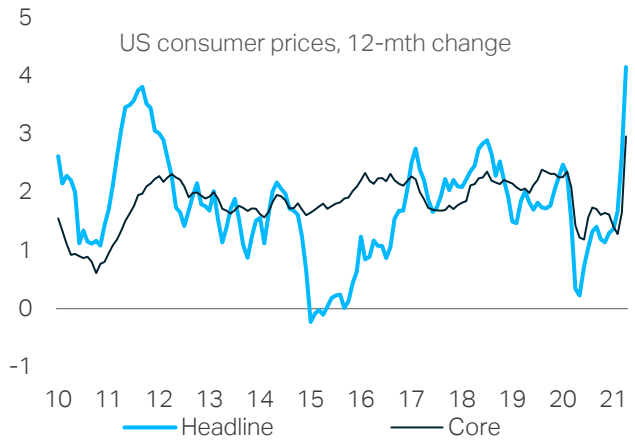
In textbook macro terms, the balance of power between labour and capital will influence both the slope of the Phillips curve and the relative shares of income (wages versus profits). When labour is dominant, wages will be high and profits low. The Phillips curve is likely to be relatively steep, because workers will demand faster wages as unemployment declines. But when capital is dominant, we should expect to see a larger share of income going to corporates and a flatter Phillips curve, as workers will be less successful in securing large pay rises (even when there is a smaller pool of unemployed workers). For more than three decades, the combination of neoliberal politics and powerful secular forces (globalization, technology and demographics) has crushed the bargaining power of labour, flattening the Phillips curve and ensuring wages couldn't keep pace with productivity (albeit to differing degrees across the developed world). Yet one of the more enduring legacies of the COVID crisis is that we might end up with a new macro policy regime that aims to challenge capital's supremacy. First in the US, then spreading to Europe, we are likely to see policymakers more determined to the reverse the secular stagnation of the last decade (i.e. to "build back better). They will deploy radical fiscal and monetary stimulus to run their economies "hot" and, in doing so, try to shift the balance of power back towards labour.

What impact will this new regime have? The most bullish scenario is that "hotter" economies will boost productivity and – even if labour captures a greater share of income – this will deliver a better macro environment for both Main Street and Wall Street. But, since productivity is hard to forecast, this is not something policymakers can take for granted. If, instead, productivity stays subdued, the battle between labour and capital is likely to become more intense. On average, we should expect tighter labour markets to strengthen the relative power of workers, which will raise the share of wages in GDP. Some of these cost pressures will leak into higher inflation, especially if price expectations continue to rise. Yet many companies (esp. SMEs) will not be able to pass on these cost increases and could instead face a dangerous margin squeeze. This is a reminder that any inflection point in the macro-financial "supercycle" is likely to be gradual and will require more than just a pivot away from neoliberal politics. Trends in globalization, technology and antitrust policy will also be decisive. After all, if "worker power" was the solution to secular stagnation, many parts of the world – especially those that have maintained strong unions – would not have suffered an even more sclerotic decade than the US. In a secularly stagnant world, the authorities have had to choose between crushing workers (US), crushing capital (e.g. France) or living with a persistent loss of competitiveness (e.g. Italy). There are no easy solutions.

1. INFLATION SCARE

Channelling Milton Friedman, many investors believe inflation is "always and everywhere a monetary phenomenon". Indeed, the huge expansion in the money supply over the past 14 months seems to be the number one reason many financial pundits think COVID-19 is going to cause a sustained acceleration in consumer prices. It seems intuitive – if the authorities are "printing more money", the purchasing value of this extra cash must decline, which inevitably means higher inflation. There is undeniably an element of truth in this, but when you look at all the high (and low) inflation episodes of the past, you see there is more to the story than what central banks are doing with interest rates and the availability of money. Presumably, companies would always raise their prices if they thought they could get away with it. And workers would always want higher wages, especially if they can see that the cost of living is increasing. There are times when these intentions/ demands are successful and times when they fail. Inflation dynamics depend on the ability of these agents to impose their will. Inflation is about "power".

Chart 2: Inflation scare starts in the US



Source: Datastreasm, TS Lombard

Chart 3: A secular inflection point?

Source: University of Michigan survey

Credibility test

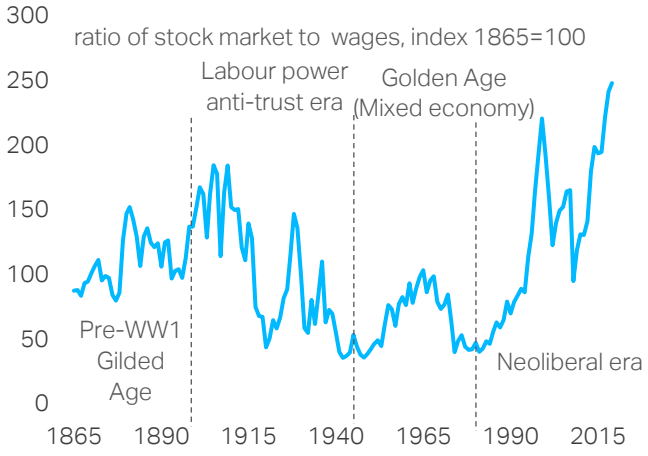
The outlook for inflation has been one of the most contentious issues since the start of the pandemic. The combination of rapid increases in demand, as the world "reopens" from lockdowns, "excess savings" and severe supply disruption/short-term bottlenecks has already caused a spike in traded goods prices. This will push inflation rates up everywhere – probably substantially – over the next 3-6 months. Such a move has seemed inevitable for a while, given the unprecedented magnitude of the swings in final demand and the way "bullwhip effects" can amplify these changes along supply chains, particularly in times of acute uncertainty. We have been warning about an "inflation scare" since December, when we argued the magnitude (and apparent breath) of the rise in consumer prices could unsettle financial markets and test the credibility of central banks. Yet, the more relevant question for investors is whether this burst of inflation is going to be transitory – as policymakers everywhere claim – or the start of a sustained acceleration in prices. The answer depends on how businesses and workers respond to it.

Crises are an inflation opportunity

We know from past international crises that those with economic power tend to take advantage of difficult situations to enrich themselves. JK Galbraith famously argued, for example, that this was the reason inflation always spiked during military conflicts. Companies with market power

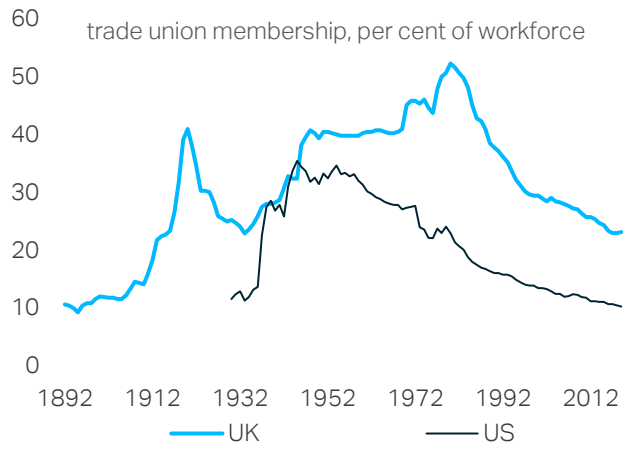
exploited their monopoly position to "profiteer", especially when there were shortages of specific goods. Yet such behavior has not been widespread during the COVID-19 crisis. Sure, people trying to sell pedigree puppies, or the latest Xbox, have been able to jack up their prices by several multiples, but most companies – even those that found themselves with total monopolies such as Amazon and online grocery services – resisted the temptation to hike their prices. With many consumers locked down or afraid to leave their homes, and traditional retailers closed, we might have expected more profiteering. Instead, most of the price increases we have seen during COVID-19 have been associated with subsequent "reopening", as companies faced large one-off cost pressures and a sudden surge in consumer demand[1]. It is hard to believe this will cause anything beyond a transitory inflation spike, unless something fundamental changes. The world has faced serious cost pressures in the past – including during recent energy crises – and these usually ended up being deflationary rather than inflationary.

Chart 4: Sign of shifting powers



Source: Bichler, Shimshon and Nitzan, Jonathan. (2016)

Chart 5: A factor in secular stagnation?



Source: National sources

Deeper legacy from COVID-19

Perhaps the more enduring legacy from the pandemic is that it has accelerated a "regime shift" in the way policymakers are trying to tackle secular stagnation. A change in the way macroeconomics treats "power" is a big part of this. In general terms, "power" is the ability of economic agents to extract "rents" over their counterparties. It can take various forms:

(i) Monopoly power – This is companies' ability to charge prices above their marginal costs, which will usually reflect a lack of competition, the sabotaging of low-cost rivals or the creation of barriers to entry, both implicit and explicit.

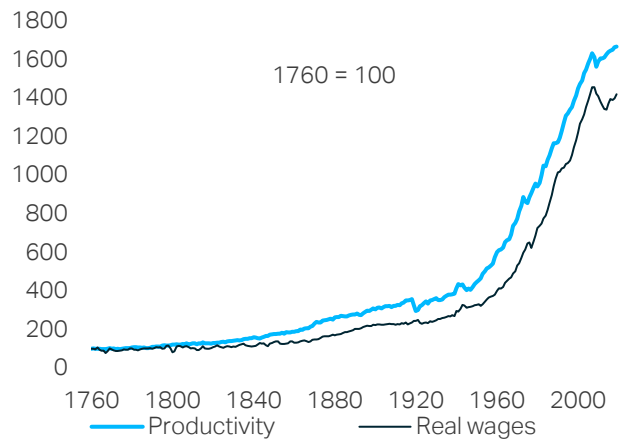
(ii) Monopsony power – this occurs where there is a single large buyer, or maybe an association of small buyers, which can dictate the prices they pay to suppliers, or control other aspects of the relationship that exists between themselves and their supply chains. The evidence of rising monopsony power is mixed.

(iii) Worker power - Employees might be able to extract higher wages – or other non-pay rewards – if they are able to organize themselves into trade unions or influence how the business is run in other (less confrontational) ways, including through efficiency wages and

[1] Our China economic team believes China's increasing dominance of global trade during COVID-19, especially while the rest of the manufacturing world was "locked down", is allowing Chinese producers more freedom to pass on their cost pressures to the rest of the world. This is another example of the link between "power" and inflation.

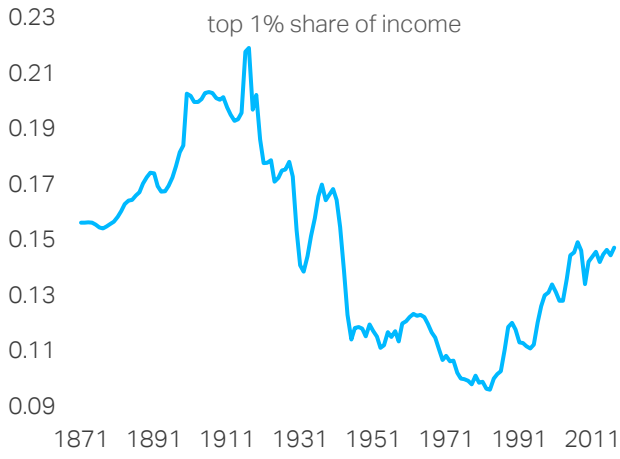
as direct stakeholders in the firm. Worker power can also come from indirect forces, which make the employed more confident demanding pay rises. Examples include generous unemployment insurance[2], minimum wages and high income taxes. These raise the "reservation wage", the lowest pay people will accept to seek work.

Chart 6: Some historical context



Source: Bank of England, TS Lombard

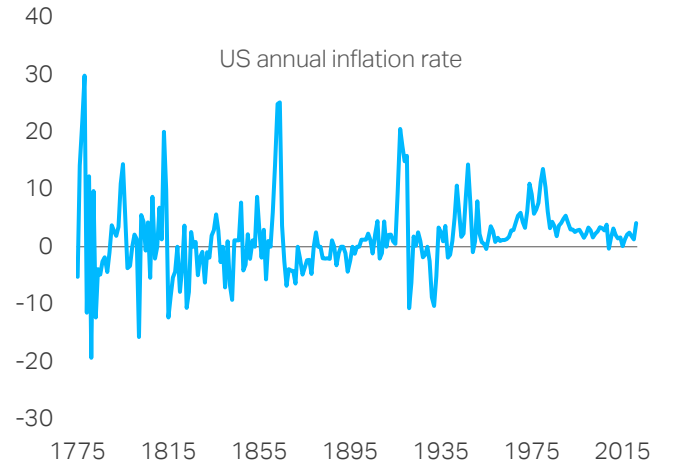
Chart 7: Neoliberal Inequality?



Source: Piketty Inequality Database

The relative power of workers and companies has a cyclical component – reflecting price expectations and the state of the economy – but it can also be "structural". For decades, the neoliberal consensus held certain assumptions about the most desirable configuration of power, which post-COVID, is suddenly under attack. There was an implicit belief that free markets were desirable, except where the authorities had identified specific "market failures". Conversely, anything that challenged the supremacy of markets – such as organized labour or collective bargaining – were invariably "bad". The majority of economists, for example, believed that powerful trade unions, generous unemployment insurance and government-imposed minimum wages would always lead to excessive wage demand and higher unemployment. Workers were effectively pricing themselves out of work, raising the NAIRU. But now the

Chart 8: The history of US inflation



Source: MeasuringWorth.com

Chart 9: Bond yields over the long term

Source: Bank of England historical database

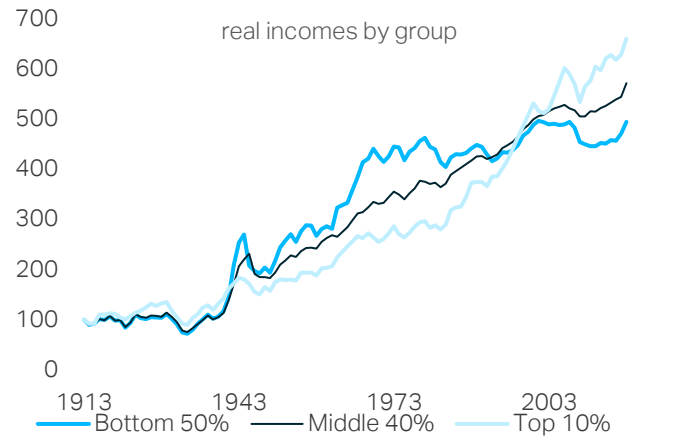
[2] There is evidence enhanced Unemployment Insurance has recently raised the reservation wage in the US. This should be temporary, another supply bottleneck, since the generosity of UI will decline as the economy reopens.

consensus is shifting. For the first time in a generation, economics is asking whether the balance of power has shifted too far against workers, and whether governments must play an active role in forcing a realignment. This attack on neoliberal economics could be the COVID-legacy most likely to affect medium-term inflation.

Chart 10: The end of globalization II

Source: Penn World Tables, TS Lombard

Chart 11: Stagnant incomes for the poor



Source: BEA, TS Lombard

Neoliberal economics is under attack

Questions that were once confined to progressive policy circles are gaining traction at the highest levels of government[3]. In the US, for example, the new Biden administration has expressed its intention to bolster union power, something that seemed unthinkable a decade ago. Mainstream economics is also warming to the idea that deregulation went too far, thanks to widespread recognition of rising industrial concentration, monopoly power and the dominance of superstar companies. Antitrust regulation and higher corporate taxes are back in vogue. Policymakers are also taking inequality more seriously, both as a cause of secular stagnation and as a growing threat to mainstream politics. Even the "future of work" is in play, with concerns about monopsony employers and the "fissured workplace" as drivers of worker insecurity and poverty wages. It seems mainstream economics is actively looking for a new social contract. The extent to which policymakers take these issues seriously and are successful in shifting the balance of power in the global economy could be the enduring economic legacy of COVID-19.

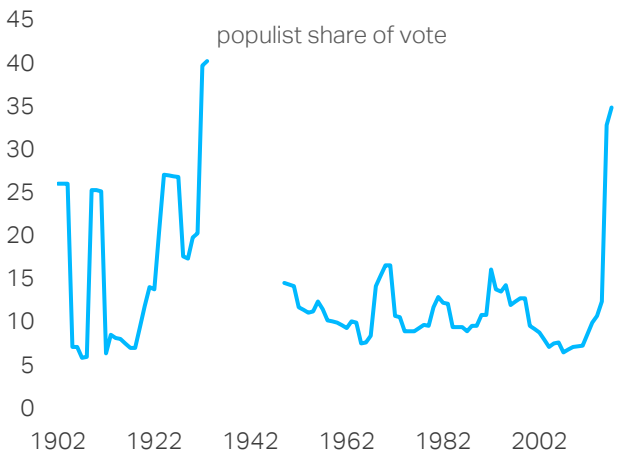
2. POWER DYNAMICS

In a previous Macro Picture, we explained how the balance of power between capital and labour was responsible for the long multi-decade "supercycles" we see in the macro-financial environment. This was based on Hyman Minsky's idea that the capitalist system was inherently unstable, which meant the authorities had to establish "thwarting mechanisms" – rules,

[3] Neoliberalism has advanced deregulation, non-intervention, privatization, lower taxes, and a reduction in the size of the state. These policies have been implemented around the world, starting first in Chile under Pinochet and garnering more attention when applied to the UK and USA – these two countries often considered as the most neoliberalized states in the world. In addition, on an international level the neoliberal agenda has promoted greater interconnectedness through trade facilitated by a reduction of barriers to trade.

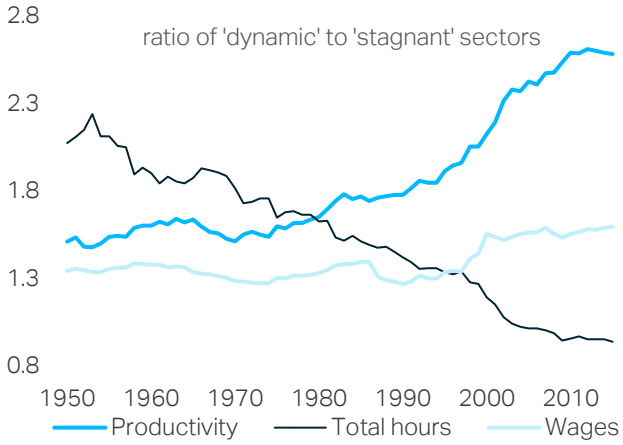
institutions and customs – to manage this instability. The nature of these thwarting mechanisms, in turn, reflects the relative balance of power between labour and capital. When labour is dominant (as in the immediate post-WW2 era), institutions would prioritize full employment over low inflation. When capital is dominant (as during the last 40 years), we would end up with the opposite configuration. Eventually, however, people would learn to game the system and since every new version of the "capitalist software" contains its own "bugs", the effectiveness of these thwarting mechanisms must naturally diminish over time. This is where the supercycle comes from – eventually the system breaks and we get a "regime change", which delivers another reconfiguration of our institutions, new software and a different set of macro conditions. Supercycles that favour labour usually end in inflation. Corporatist cycles tend to be deflationary.

Chart 12 The return of populism



Source: Bridgewater

Chart 13: The dual economy in the US



Source: TS Lombard

The return of worker power?

With neoliberalism under attack, we appear to be on the cusp of a new supercycle in the macro-financial regime. Indeed, there are now many policymakers who believe strengthening worker power could be the most effective way to deal with secular stagnation. An influential paper by Anna Stansbury and Larry Summers provides a compelling exposition of this view, arguing that only the declining bargaining power of labour – especially the post-1980s collapse in trade unions – can explain the modern economy's "stylized facts", namely: (i) persistently low inflation; (ii) a depressed wage share; (iii) high levels of corporate profits/margins; (iv) greater income dispersion among both businesses and households; (v) declining business dynamism (the process of new firms forming, growing, shrinking, and dying); (vi) weak productivity; (vii) low unemployment; (viii) rising concentration in product markets, and (ix) declining investment relative to corporate earnings[4]. Stansbury and Summers argue declining worker power is a better fit than other popular narratives, including globalization and monopoly power.[5]

Running the economy hot

While talk of "neoliberalism" and "worker power" seems abstract, it could have real consequences on macroeconomic policy in the 2020s. Starting in the US and spreading to Europe, it is clear governments are now more willing to use both monetary and fiscal policy to

[4] Several recent influential studies have tried to explain the same set of stylized facts, including two from economists at the Federal Reserve (focused mainly on the role of less effective antitrust policies). See here and here.

[5] Globalization cannot explain, for example, why profit margins have increased while unemployment has simultaneously declined. But a reduction in union power should reduce the NAIRU boosting profits and employment at the same time.

"run their economies hot". The fiscal component of this new regime is particularly important. While most central banks were already trying everything they could to reflate their economies, it is clear they are now more willing to "give growth a chance" rather than try to cut short the recovery by raising interest rates prematurely. There are various reasons why the monetary authorities have adjusted their strategies, but ultimately this is a conscious attempt to shift the balance of power between labour and capital. Officials hope that a policy regime that leans towards a tighter jobs market will, on average, generate lower levels of unemployment, higher wages, less poverty and a more equal society. Their evidence comes from the experience of the last cycle – especially in the United States – where a robust labour market had clear advantages in terms of inclusivity. Minority groups and the poorest in society benefitted disproportionately.

Chart 14: The flattening in the Phillips curve

Source: MacroHistory, MeasuringWorth.com, TS Lombard estimates

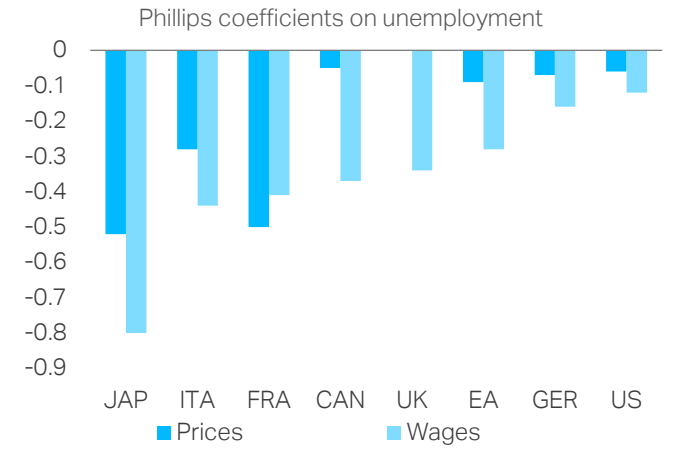
Chart 15: Workers can secure pay rises

Source: MacroHistory, MeasuringWorth.com, TS Lombard estimates

Power and the Phillips curve

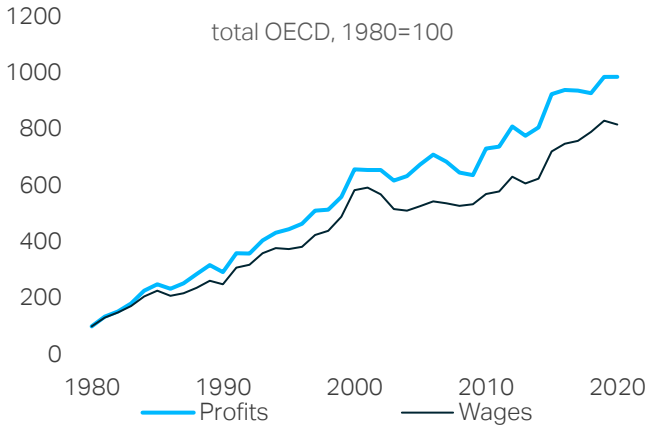
We can think about the authorities' desire to run their economies hot using the Phillips curve. In the textbook model, the Phillips curve is supposed to be an inverse relationship between inflation (or wage growth) and unemployment. The relationship should be inverse because, in theory at least, a larger pool of unemployed people will reduce the relative bargaining power of workers, capping their wage demands. Since wages account for around two-thirds of most

Chart 16: Variation across countries



Source: OECD, TS Lombard estimates

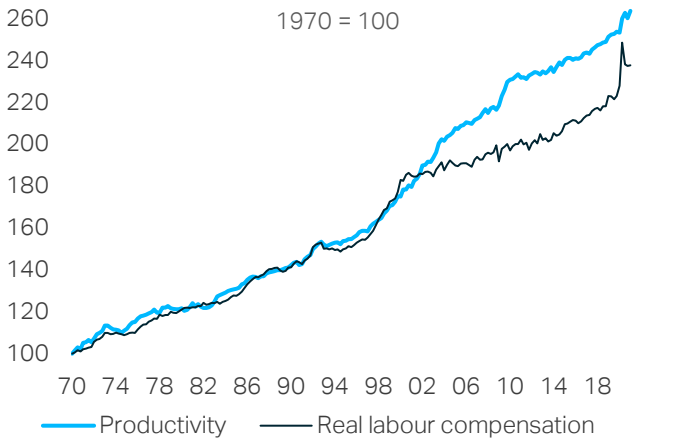
Chart 17: Wages and profits diverge in OECD



Source: AMECO database, TS Lombard

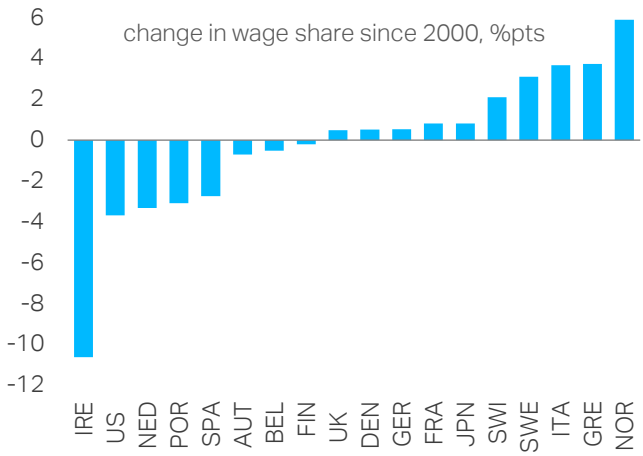
companies' total costs, subdued wages should be associated with smaller price increases. In reality, of course, the Philips curve is unstable and the link between unemployment and inflation (or wages) has generally diminished over time. Chart 14 illustrates this for the US. While there is considerable variation across countries, the recent "flattening" in the US Phillips curve is also something we observe everywhere else (Chart 16). Interestingly, both wages and prices have become less responsive to unemployment during the 2000s but the relationship with prices has become particularly weak. This means running the economy hot should – on average – raise wages by more than consumer prices, boosting the relative return to labour.

Chart 18: US workers have been losing out



Source: BEA, BLS, TS Lombard

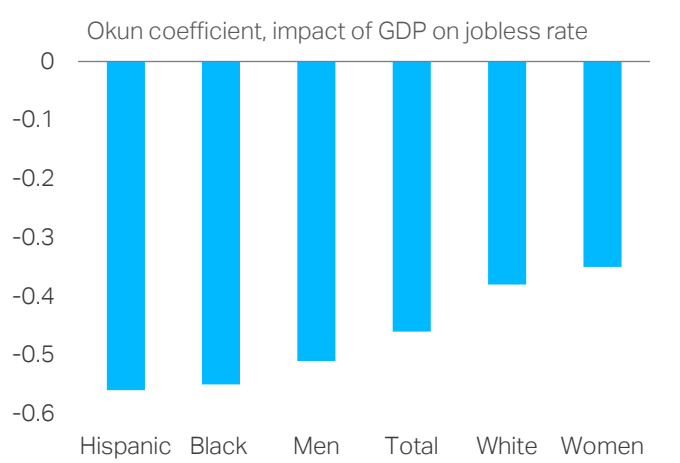
Chart 19: Variation across countries



Source: AMECO, TS Lombard

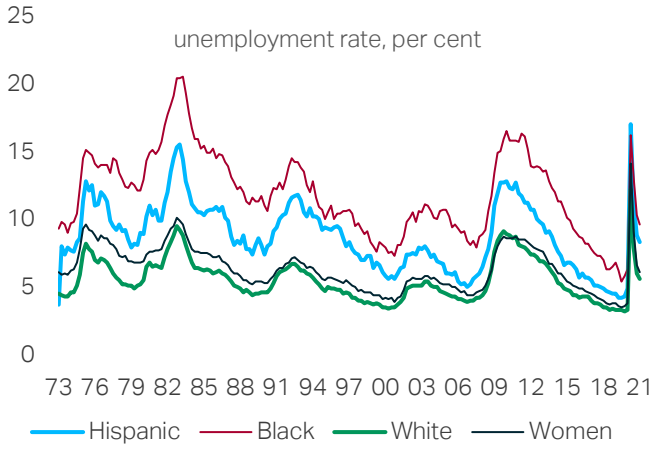
We see the similar trends when we look at wage shares. While again there is considerable variation across countries, OECD wages have generally failed to keep pace with productivity since the 1990s, which means the labour share of income has declined. Yet the wage share (which is also the inverse of corporate margins) is also cyclical and tends to rise as the labour market tightens, which is another piece of evidence to suggest running the economy hot could help to shift the balance of power in the economy. For a growing chorus of economists who, like Anna Stansbury and Larry Summers, believe excessively weak worker power, the growing influence of shareholders over management and neoliberal politics are the root cause of secular stagnation, it is easy to understand why policymakers want to use fiscal and monetary policy in a

Chart 20: Inclusive benefits from hot economy



Source: BLS, TS Lombard

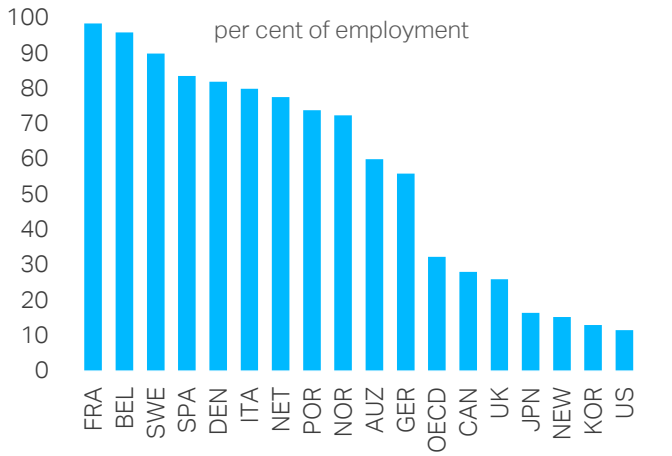
Chart 21: Long expansions tackle inequality



Source: BLS, TS Lombard

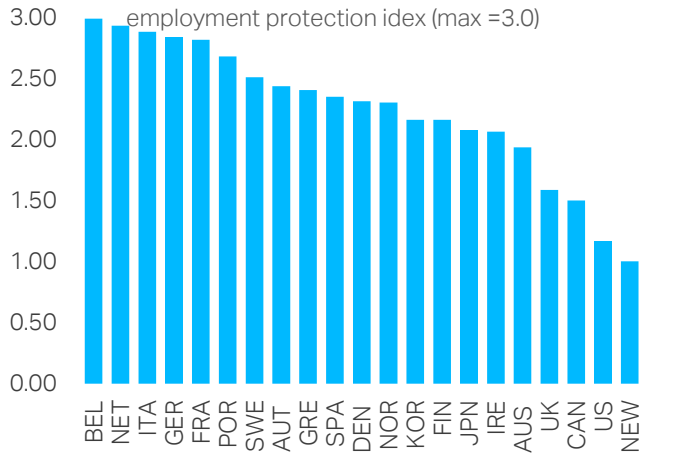
different way. But what are the potential risks of this new policy regime? Could shifting the balance of power back to labour cause a sudden steepening in the Phillips curve and a serious inflation outbreak? We suspect, because there are powerful secular forces keeping wages and inflation low, any historic inflection point in the macro supercycle is likely to be fairly gentle.

Chart 22: Not all countries became "neoliberal"



Source: OECD

Chart 23: Some workers were "protected"

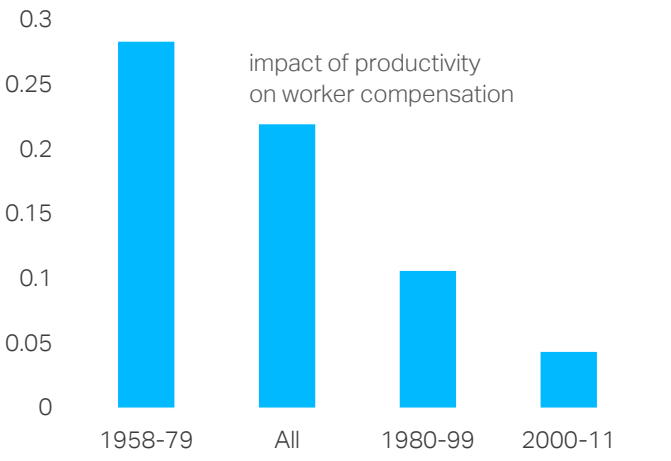


Source: OECD

3. THE PRESSURE IS ON

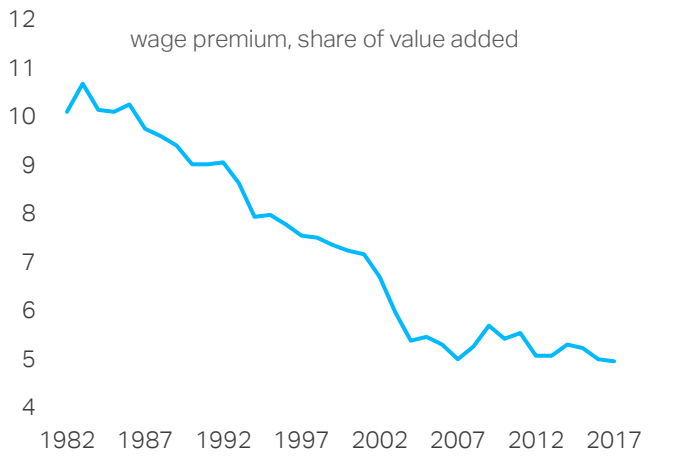
Given how flat the Phillips curve has become, it is a stretch to believe more expansionary fiscal and monetary policy is going to generate a serious/ sustained inflation episode. This is not the 1970s, where even a short burst of high inflation would automatically lift wages, causing a further acceleration in prices. Back then, wages were indexed to inflation, trade unions were all-powerful and many companies set their prices using "cost-plus" rules. These institutional arrangements guaranteed "second-round" effects. In contrast to the 1970s, it is also possible to imagine an extremely bullish scenario where big fiscal expansions – particularly public investment in infrastructure and smart technologies – help to reverse a decade of deficient demand and, in doing so, transform productivity. Labour efficiency was slowing in the 1970s, when a militant workforce refused to take this into account in their wage demands. If policy could now deliver a

Chart 24: Different wage regimes



Source: Stansbury and Summers

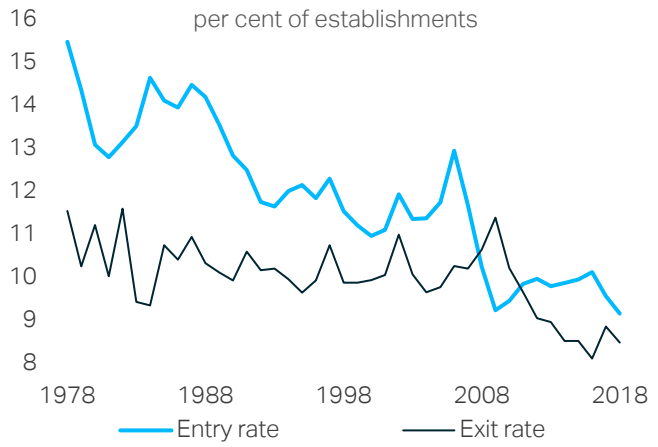
Chart 25: Workers lost power



Source: Stansbury and Summers

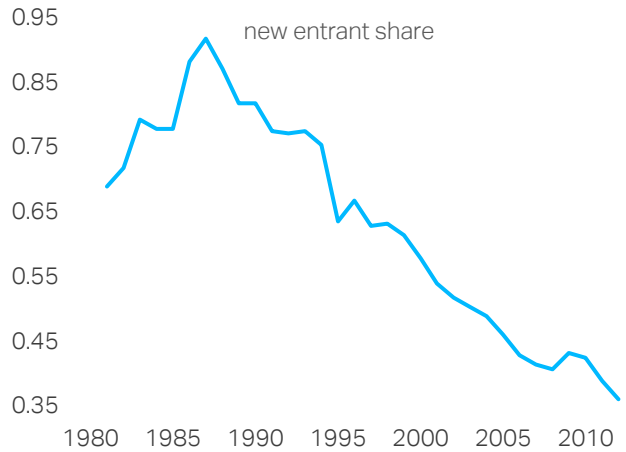
revival in productivity, inflation would stay low even if workers captured a greater share of income. The Phillips curve would steepen for wages, but not necessarily for prices. This is an environment where central banks could keep real interest rates low and both Wall Street and Mainstream could learn to co-exist (thanks to a major rotation within the equity market).

Chart 26: Slowing business dynamism



Source: Kansas City Fed (paper here)

Chart 27: Worrying patents trends

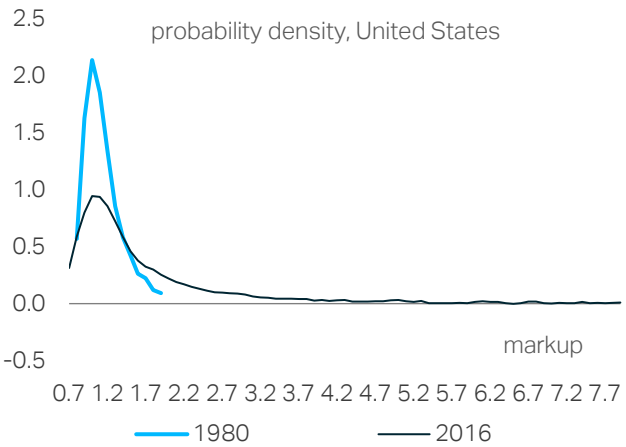


Source: Kansas City Fed (paper here)

Secular forces remain deflationary

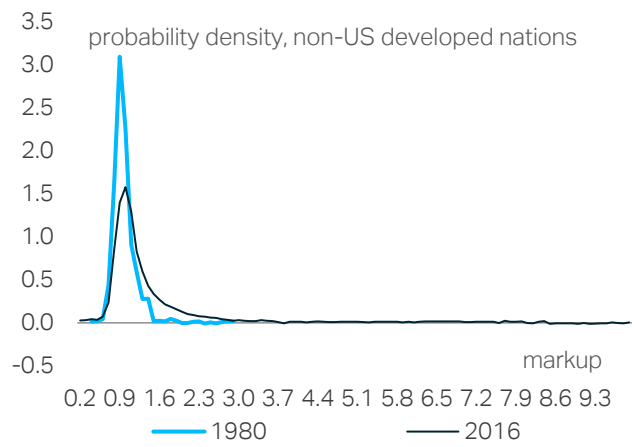
While a productivity revival is entirely plausible in the post-COVID economy, it is not something investors can rely on. Things get trickier in a situation where expansionary fiscal policy lifts wages but productivity stays subdued. Many companies would face a margin squeeze because their costs would be rising faster than their revenues (unless they also increased their prices). The important point, however, is that any acceleration in labour costs is likely to remain fairly gradual. Even if unemployment returns quickly to pre-COVID lows – which isn't guaranteed, since the pandemic could leave persistent scars – there are powerful secular forces that will continue to undermine worker's bargaining power. Globalization, though famously in retreat, is not going to reverse rapidly. Automation will also remain a drag on wages, with the pandemic accelerating the adoption of multiple digital technologies, making local geography less relevant to where firms can source their workforce. Put another way, there is more to capital's dominance over labour than just deficient demand and policy institutions that leaned too heavily against inflation. We should be realistic about how far expansionary policy can swing the balance of power.

Chart 28: US superstars



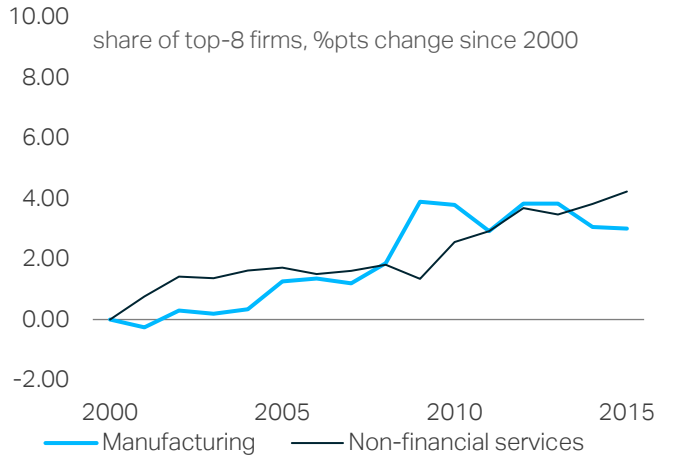
Source: IMF, TS Lombard

Chart 29: Not just a US story



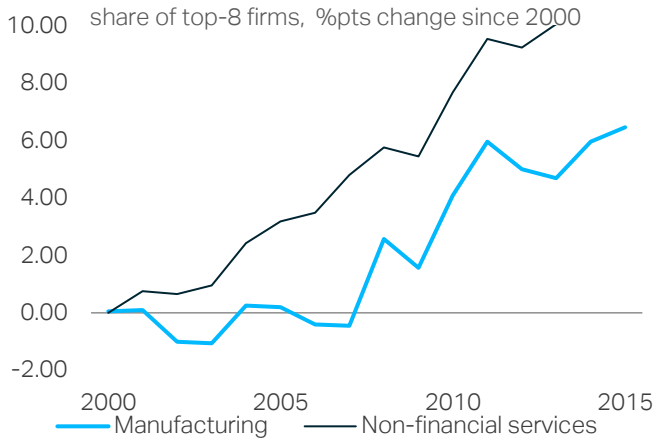
Source: IMF, TS Lombard

Chart 30: Rising concentration in EU



Source: Centre for Economic Performance (paper here)

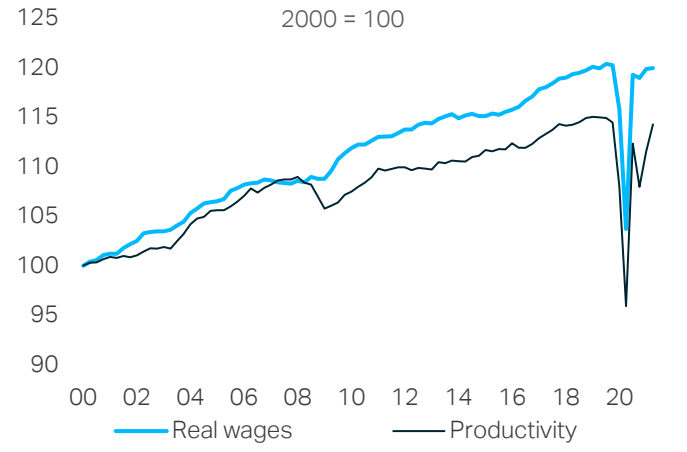
Chart 31: More pronounced in the US



Source: Centre for Economic Performance (paper here)

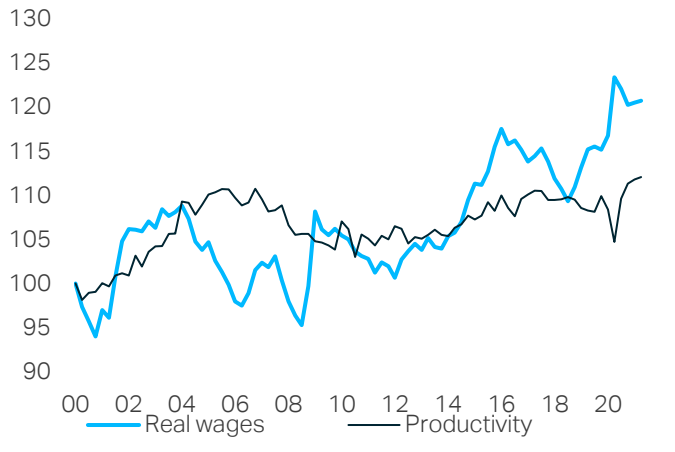
Andy Haldane, Chief Economist at the BoE, put the current situation in some historical context. Haldane points out "the move towards greater self-employment and less unionisation is, in some respects, a shift back to the future in the nature of work. Prior to the Industrial Revolution, and indeed for some years after it, most workers were self-employed or worked in small businesses. There were no unions. Hours were flexible, depending on what work was needed to collect the crops, milk the cows or put bread on the table. Work was artisanal, task-based, divisible. While the read-across to work patterns in the 21st century is far from exact, there are some parallels'. Chart 1(front page) plots the UK Phillips curve – where we have the longest historical database – to show striking similarities in wage/price dynamics between the pre-Industrial Revolution period

Chart 32: Endless French margin squeeze



Source: OECD, TS Lombard

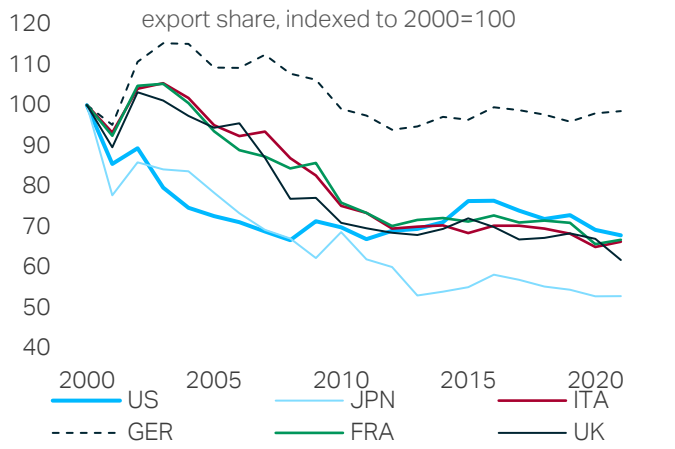
Chart 33: The experience in Norway



Source: OECD, TS Lombard

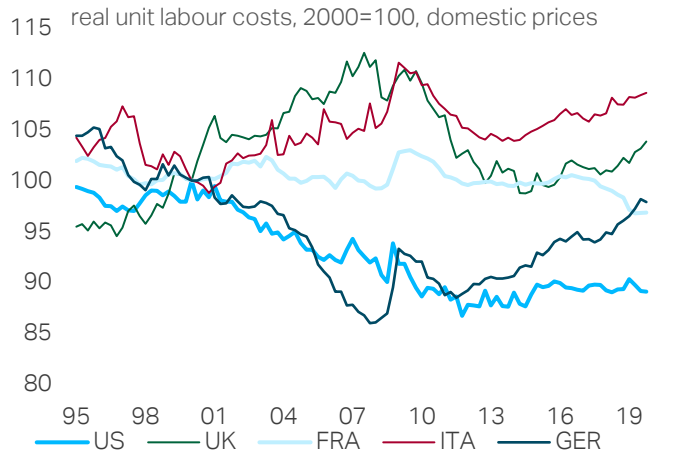
and the modern macroeconomic era. To a degree, the recent flattening in the Phillips curve is consistent with a shift in working practices, which in turn reflects deep structural changes[6].

Chart 34: All DMs have lost export share



Source: OECD, TS Lombard

Chart 35: Divergences in real unit labour costs



Source: OECD, TS Lombard

Worker power not the only solution

With neoliberal economics under attack, there is a chance post-COVID governments will try to shift the balance of power back to labour in more direct ways (beyond running the economy hotter). Some politicians – including in the new US administration – seem keen to strengthen trade unions, tax big corporations, or intervene in other ways, including direct public involvement in strategic industries. This would constitute a more serious attempt to erode corporate dominance, threatening profit margins. The question, however, is whether it is feasible to shift the balance of power in the economy without reversing some of the secular forces that have contributed to the current configuration. Trade unions, for example, didn't lose power just because neoliberal leaders such as Ronald Reagan and Margaret Thatcher disliked them. They had become a source of vulnerability in a world that was rapidly changing thanks to new technologies, mass immigration and the emergence of China/ Eastern Europe. Sure neoliberalism accelerated these trends by emphasizing the importance of free trade[7], but all supercycles are "reflexive". Neoliberalism wasn't just an ideological movement to crush worker power, it was also a perceived solution to the economic challenges of the 1970s and 1980s[8].

[6] What about technology? Since as far back as 1870, there have been only two episodes when the real pay of workers has fallen over a ten-year period. The other episodes were associated with seismic shocks in the labour market, often wrenching technological change or sharp cyclical downturns, which raised levels of unemployment and job insecurity. The past decade has bucked that historical trend, with a boom in job creation accompanying weak pay growth.

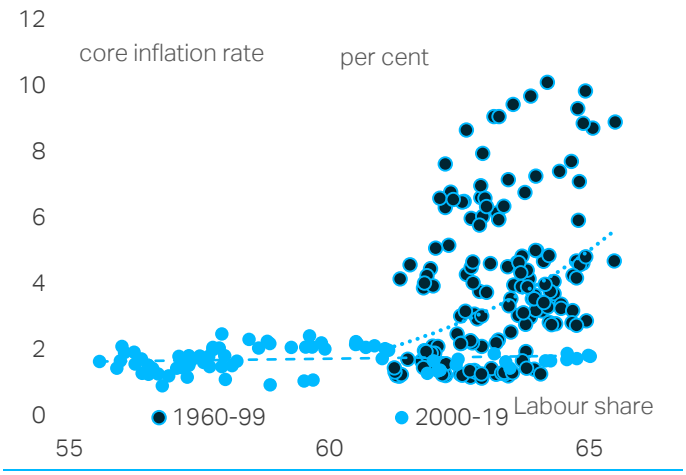
[7] Stansbury and Summers point out that unionization declined in both traded and non-traded sectors, so it wasn't just the result of international competition.

[8] For critics of the post 1980 regime, neoliberalism amounted to thinly-disguised corporatism. Instead of "free markets", we ended up with an oligopolistic situation. Large companies benefited from (i) an expanded scope for their activities (even crossing the boundaries of the state), (ii) tighter regulations on labour, (iii) continued receipt of corporate welfare, (iv) fair weather non-intervention, (v) deregulation that allowed them to grow to sizes previously considered anti-competitive, (vi) new global trade rules that allowed them to expand into new markets, (vii) enhanced rights domestically and through trade treaties, (vii) an uneven system of global rules.

Secular stagnation is more than neoliberalism

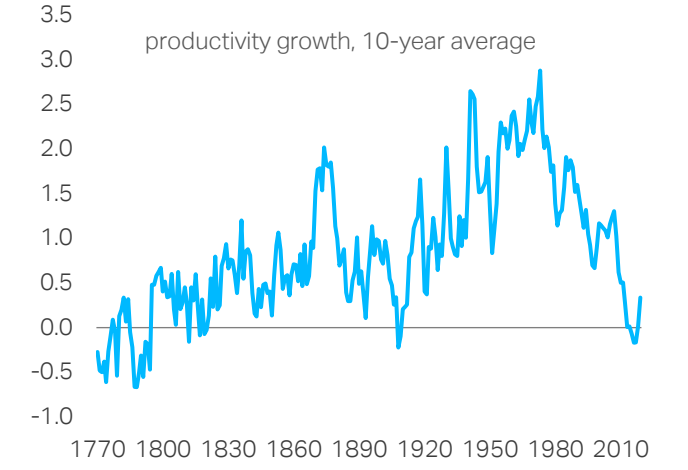
Bolstering worker power, either by running the labour market hot or via more direct government involvement in the economy, is not going to solve secular stagnation[9]. Looking at international comparisons illustrates this point Secular stagnation is not just a problem that has affected those economies (like the US and the UK) that embraced neoliberalism. Other parts of the world, which have actively tried to preserve worker power, have struggled even more. In Germany, where trade unions remain dominant, workers have had to accept real wage reductions in an effort to prevent jobs being reallocated to Eastern Europe or other low-cost countries. France and Italy – also heavily unionized – have allowed real wages to rise continuously faster than productivity, but have either lost international competitiveness (Italy) or suffered serious corporate strains (France), which have left these economies even weaker. Persistently poor growth, low inflation and increasing populism are problems common across the OECD, which suggests there are no easy solutions. There is only so much active fiscal policy can achieve.

Chart 36: Margins now absorb labour costs



Source: BLS, BEA, TS Lombard

Chart 37: Could a hot economy help with this?



Source: Bank of England historic database, TS Lombard

The risk to margins

There is also a more immediate risk from trying to strengthen worker power by running the economy hot and repowering trade unions. A higher wage share means lower profits. In aggregate, of course, this shouldn't be a problem – margins are at historically high levels. But average profit shares conceal big shifts in the distribution of earnings over time (see Charts 28 and 29). While the superstar companies are sitting on piles of cash, the majority of companies – especially SMEs – are operating with thin margins. Creating a situation where these businesses are forced to pay higher wages could undermine their viability, leading to a recession. There are lessons from previous economic expansions, where a persistent margin squeeze was the "late cycle" marker that always hinted at an impending downturn. Perhaps the next cycle will be different – maybe rising inflation expectations will make companies more comfortable passing on these cost increases – but since this is not how they have behaved in the past, the authorities should proceed cautiously. Even if challenging corporate power is the correct way to cure

[9] This 2021 paper by Jan De Loecker and Jan Eeckhout shows how changing market structure and technology shocks can combine to create today's macroeconomic conditions, with lower welfare overall. They find substantial output gains of 5 percent due to technological change (prices are lower, reflecting dominant firms' superior efficiency) but these gains are outweighed by a 15 percent output loss as these firms set higher markups. Due to technological change, firms are substantially more productive, but they do not pass on their efficiency gains to the customer.

secular stagnation and reflate the economy, it might be better to use targeted measures – taxes, regulation, efforts to boost tech diffusion – rather than blunt stimulus measures or unionization.

Bottom line

There is no doubt COVID-19 could mark an important inflection point for the macro-financial supercycle. With governments and their central banks willing to use more expansionary fiscal and monetary policy, GDP growth and inflation are likely to be higher in the 2020s. Part of the objective of this new regime is to shift the balance of power from capital to labour, a direct challenge to the neoliberal orthodoxy of the last 40 years. That said, we should be realistic about how quickly and radically this will alter the macroeconomic trajectory. There are still powerful secular forces – such as globalization, demographics and technology – that will continue to work in favour of capital, keeping wage growth and inflation structurally low. Remember, despite a wide range of labour-market institutions and policy "software" in place across the developed world (reflecting a spectrum of attitudes to neoliberalism) secular stagnation is a disease that has affected most of these countries simultaneously. Some governments have chosen to "crush workers", others have accepted weak corporate balance sheets or declining international competitiveness, but their underlying economic trends have been similar. This means there must be more to defeating secular stagnation than raising worker power, especially as excessive wage growth could undermine the profitability of many low-margin SMEs (i.e. the non-superstars). The current inflation scare is also likely to be transitory, rather than the start of a serious/ sustained acceleration in prices. There is no immediate route back to the 1970s.