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**INSTITUTIONS AND CONFLICT INFLATION IN OPEN ECONOMIES: A POST
KEYNESIAN INSTITUTIONALIST MODEL**

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Post-Keynesian literature on functional income distribution identifies distributive conflict as a critical determinant of economic dynamics, especially in open economies where external shocks amplify tensions between social classes. Since the 1970s, advanced economies have experienced profound institutional transformations characterized by union weakening, abandonment of full employment policies, and acceleration of financial globalization. Concurrently, a notable macroeconomic anomaly emerged: the exchange rate pass-through coefficient – historically, a crucial channel for transmitting external shocks to domestic prices – declined significantly in recent decades.

The general objective of this study is to analyze how exchange-rate pass-through dynamics in open economies have been shaped by institutional changes that systematically eroded workers' bargaining power since the rise of neoliberal capitalism.

To this end, the paper first builds a theoretical framework by (i) integrating social conflict into the standard post-Keynesian open-economy model and (ii) documenting stylized facts on institutions, inflation, and functional income distribution. It then moves to empirical analysis, (iii) estimating panel-econometric models to test the theoretical predictions, and (iv) interpreting the findings through a post-Keynesian institutionalist lens.

The framework is built upon Rowthorn's (1977) conflict-inflation model and Blecker's (2011) open-economy extension. A system of differential equations was developed that formalized how workers and firms react in their distributive claims in response to distributive deviations and exchange rate shocks.

Panel data covering OECD economies for the period 1973-2019 were used, capturing the transition to neoliberal political structures. The main variables included wage share, unemployment rate, core inflation (core CPI), union density, real effective exchange rate, and energy prices variation. Annual data were obtained from OECD for union density, AMECO for main macroeconomic variables, Couharde et al. (2018) for effective exchange rates, and Ha et al. (2023) for inflation data.

The results demonstrated that the magnitude of exchange rate transmission to inflation results directly from the intensity of distributive social conflict. The econometric analysis established a significant relationship between institutional arrangements affecting workers' bargaining power and inflationary dynamics in response to exchange rate shocks.

For OECD economies, the results showed that economies characterized by weaker labor institutions, specifically those with lower union density, demonstrated lower inflationary responsiveness to exchange rate depreciations, even when controlling for other relevant macroeconomic factors. This pattern confirmed that when workers' bargaining power weakened, exchange rate depreciation was absorbed through real wage compression rather than nominal price increases, thus reducing inflationary pressure.

The mechanism operated through the differential capacity of workers and firms to defend their distributive positions. The findings indicated that when firms responded more aggressively to international competition than workers could defend themselves against depreciation, distributive conflict systematically intensified against workers. The analysis revealed important heterogeneity across countries, with economies that maintained stronger labor institutions exhibiting greater transmission of exchange rate shocks to inflation. Additionally,

time series analyses indicated that the timing of institutional reforms correlated with structural breaks in exchange rate transmission dynamics, providing robust evidence for the causal mechanism proposed in the theoretical model.

This research established a theoretical and empirical connection between the erosion of workers' bargaining power and changes in the transmission of exchange rate shocks to inflation, offering an alternative explanation based on distributive conflict for phenomena conventionally attributed to monetary credibility.

For post-Keynesian theory, the study demonstrated how institutional factors shape adjustment mechanisms in open economies. For economic policy, the results suggested that changes in the balance of power between capital and labor fundamentally alter mechanisms for transmitting external shocks.

The findings confirmed that labor institutions constitute fundamental determinants of inflationary dynamics in open economies, with significant implications for designing macroeconomic policies that consider distributive aspects and social conflict.

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Palavras-chave: post-keynesian institutionalism; exchange rate pass-through; functional income distribution; inflation.