

Article

Is inflation real or nominal?

L. E. Steininger *^{1,2,3}

¹Economics Department, University of Leeds, Leeds, United Kingdom

²Vienna University of Economics and Business, INEQ Research Institute, Vienna, Austria

³London School of Economics and Political Science, European Institute, London, United Kingdom

*Corresponding author. Economics Department, University of Leeds, Leeds, United Kingdom; London School of Economics and Political Science, European Institute, London, United Kingdom; Vienna University of Economics and Business, INEQ Research Institute, Vienna, Austria. Email: l.steininger@lse.ac.uk

Abstract

In this article, I study the ontological claim that is price instability as “inflated value” or, simply, “inflation,” from the perspective of monetary theory. I argue that the inflation hypothesis derives from the commodity money form, is an oversimplified, analytically naïve account of price stability, and therefore has limited explanatory power. Strikingly, as I show, the inflation hypothesis functions more as a causal *theory* of monetarist currency value than an objective description of a rising price level. By complicating the notion of the general price, I proceed by arguing that if money is a “creature of law” and thus political, then its value must also have a political dimension. Building on scholarship that has demonstrated how consequential this macroeconomic indicator is, I ponder the success of the inflation hypothesis and ask: why do we conceptualize all types of CPI increases as currency debasement? I conclude by sketching out a constructive pathway for economic stability and monetary governance beyond general price level targeting.

Key words: inflation; theory of money; price stability; monetary governance; metaphysics of mediation.

JEL classification: E31, E42, B22

There are as many ways to study a price series as to read a text.

– D.H. Fischer (“The Great Wave”, 1999, p.XIV)

Inflation is a messy phenomenon.

– G. Lorenzoni & I. Werning (“Inflation is Conflict”, 2023, p.1)

1. Introduction

Despite much evidence and experience, economic modelers still debate the origins, precise mechanisms, and definition of price stability (Lorenzoni and Werning 2023). Symptomatically, in 2017 a US Federal Reserve senior official stated that “*the Fed has no working theory of inflation*” (Tarullo 2017). Five years later, Chair Powell (2022) doubled down on this assertion, admitting publicly that central banks across the globe have not only struggled to consistently define but also to successfully meet their mandates of price stability. As Paul Krugman (2023) put it about inflation a couple of months ago: “[...] *there’s so much disagreement among economic modelers that I don’t think appealing to model results will persuade anyone.*” Not least, a number of established economists claim that recent interest rate hikes—incidentally the sharpest and most synchronized in five decades—have not significantly contributed to stabilizing post-pandemic consumer prices at historically tight labor markets (Krugman 2021; Galbraith 2023; Sahm 2023; Stiglitz 2023). Since the cost-of-living crisis of 2021, the academic discipline economics, so it seems, is in a paradigmatic crisis over inflation as the cleavage between empirics, theory, and policy response widens. I aim to address this intellectual predicament by (i) challenging a naïve and overly simplistic theory of inflation, and (ii) providing an outlook for an alternative thesis of price stability.

Inflation refers to the sustained increase in the general level of prices for goods and services in an economy over time (Frisch 1983; Orphanides and Solow 1990; Galí 2015). It posits that, on average, the prices of goods and services tend to rise, and, accordingly, the purchasing power of money decreases. In economic theory but also virtually everywhere else, inflation thus implies that money is uniformly “losing its value” and that this is a macroeconomic (currency) phenomenon of the aggregate economy or currency-wide area. This inflation hypothesis is rarely fundamentally challenged in academic or policy debates as it is taken as self-evident, a description or definition rather than a theory, that it must somehow be true. Notwithstanding the alleged self-evident nature of this phenomenon, it may be advisable to revisit the foundational axioms of the inflation hypothesis since they turn out to be shakier than one might expect given the near-universal importance of the concept.

Meanwhile, a bulk of empirical literature that studies the price mechanism shows that (aggregate) demand and supply curves do not make the (general) price (Means, Samuels, and Lee 1994; Lee 1999; Jo 2016; Weber and Wasner 2023; Weber et al., 2024). Consequently, these authors refute the idea that price stability is best managed by central banks or at the macroeconomic level. Analytically, however, they do not move beyond the inflation hypothesis. Another interdisciplinary but disconnected strand of literature studies the social ontology—and non-neutrality—of money (among other, Braun (2016); Desan (2014); Feinig (2022); Ferguson (2018); Gabor and Vestergaard (2016); Murau and Pforr (2020, 2025); Zelizer (1989). Yet, oddly, there exists no theoretical research on the implications of money’s long-term non-neutrality for price stability theory. It is for this relative neglect as well as the scientific potency of taking this route that I choose to focus in my analysis on the latter.

While there are a number of established theories of money (Murau and Pforr 2025), for the purpose of price stability theory, money may be conceptualized very broadly into two approaches (see Section 2). One is that money is a private, finite, and alienating technology that facilitates barter transactions while it does not itself materially impact relative prices of goods and services in the economy (a relative price is the price of a commodity such as a good or service in terms of another; i.e. the ratio of two prices). This theory is most known as the *Commodity theory of money* (Fisher 1911a,b). In stark opposition exists the notion that money is everything but neutral, a political instrument and “creature of law” (Desan (2017: 5) that “governs the market it sets out to measure” (p. 4). According to this theory, money is indeed a medium of exchange but certainly not reducible to this function as it is able to mobilize labor and resources, thus changes relative prices (especially in the long-run),

and—via accounting—even names what is valuable in the first place. This historically and anthropologically well-documented approach (Graeber 2011; Feinig 2022) has been popularized most recently by Desan's (2017) *Constitutional approach to money*.

It now appears that, if taken seriously, the constitutional approach has multiple implications that are problematic for the scientific operability of the inflation hypothesis. First, if money does not merely reflect the market but changes it, market price changes cannot be used to inform about money's value due to endogeneity issues. Second, if money has a qualitative—as in, governance—component to it, its value must also at least in part be of political nature. Third, if money is capable of changing relative prices in the long-run and indirectly shapes a plurality of markets, its management may require micro- or meso-economic policy tools, rather than macroeconomic ones that target the equilibrium price level. Lastly, if scarcity is not driving money's value (and prices) in the sense of a quasi-material property, prices cannot be relied upon as coordination signals and there might be unaccounted idleness/mutually beneficial outcomes as well as positive sum configurations within money creation and the economy.

This article addresses these issues and thereby consistently accounts for the following economic puzzles: (i) the problem that inflation is an unobservable variable that can only be approximated by the measurement of various price indices; (ii) the contradiction that money is thought of as neutral yet appears to be a lurking destabilizing force in the economy; (iii) the problem of the conceptual inability to distinguish between relative price changes and general price-level changes and, similarly; (iv) the issue of incorporating qualitative enhancement into price measurement (Mügge 2016; Arbogast, Van Doorslaer, and Vermeiren 2024); (v) the asymmetry that inflation is said to *debase* the currency but deflation doesn't reverse such currency debasement; (vi) the contradiction that inflation occurs when the economy is “overheating” yet such scenario makes everyone poorer.

In this spirit, I investigate the ramifications of the constitutional approach to money for price stability more closely in a theoretical setup. The goal is to establish a firmer footing for the claim that price stabilization cannot be reduced to inflation-targeting and to yield a generative framework for reconsidering and stimulating scholarship toward more effective critique and analysis (Storm 2024). This study hence contributes to the institutional and ontological debate over pricing and commensurability.

In doing so, the argument proceeds in four steps: I first depict the genealogy of the general price in economic theory. Second, I demonstrate how the theory of inflation is derivative of the neoclassical understanding of money. In a third part, I draw on sociological and media studies scholarship to explore the puzzle of inflation's pervasiveness in Western modernity. Lastly, I suggest that a credit approach to money warrants a novel account of monetary governance and disaggregated price-level targeting with respect to sectoral and regional stability. A final section concludes.

2. Money and pricing in economic thought

Historically, monetary theory dealt with—in its own words—the demand and supply of money, the general price level, and interest rates. The *Quantity theory of money* (Fisher 1911a) attempted to treat price destabilization as a more or less purely monetary phenomenon and quickly became economic orthodoxy. Economists even today are going so far as to building into the definition of said phenomenon a particular theory of its causation when they define inflation as an increase in the supply of money (and vice versa for so-called deflation), rather than as an increase in the general price level which leaves a bit more room for interpretation. Importantly, the quantity theory, though it does not speak the language of metaphysics, assumes money as an expression of otherwise “apolitical private

commodity exchange” (Ferguson (2018: 34). Or as Fisher (1911a) puts it himself in *The Purchasing Power of Money*: $\gg$ *Commodities include all movable wealth [...]. There is one particular variety of commodity—a certain finished product—which is of especial importance in the subject of which this book treats; namely, money. Any commodity to be called “money” must be generally acceptable in exchange, and any commodity generally acceptable in exchange should be called money. The best example of a money commodity is found to-day in gold coins.* $\ll$ (p.2; emphasis in original.)

Two significant developments in monetary theory, emerging around the same time as the quantity theory, merit attention. First, the German historian Knapp developed the *State Theory of Money* (Knapp 1924), which explicitly rejected the metaphysical assumptions underlying the orthodox view of money. Second, the English diplomat Innes independently arrived at similar conclusions, publishing two largely overlooked papers in (Innes 1913) and (Innes 1914) – *What is Money?* and *The Credit Theory of Money*. Both theorists emphasized the political and juridical foundations of money. Though these works were not widely accepted or widely read, they paved the way for Keynes, who cited them early in his career. While Keynes addressed the role of public authority in anchoring money in his *Treatise on Money* (Keynes 1930), it wasn’t until the *General Theory* (Keynes 1936) that he fully challenged the commodity-money myth (Ferguson 2018). The implications of Keynes’ insights will be left open for now.

By the early 1920s, the quantity theory was slightly reformulated (Marshall 1923; Fisher 1926) to also consider money as a store of value, thereby no longer assuming that money was *only* a medium of exchange (now it could also serve as a means of postponing the decision to spend) (Means, Samuels, and Lee 1994). These developments were considered in the context of monetary theory; macroeconomics as a recognized field with a particular central problem—the determination of employment, income, and output—did not exist until the 1940s. For this reason, also Keynes in his *Treatise on Money* treated the motives for holding money largely in a context where money was essentially reduced to aforementioned *functions* (Colander 1984; Means, Samuels, and Lee 1994).

During the 1930s and beyond, another line of reasoning emerged, building on ideas first introduced by Knapp and Innes: the importance of liquidity. One of the key consequences of Keynes’ *General Theory* was that economists could no longer assume equilibrium always meant full employment. In the quantity theory framework, flexible prices for goods, inputs, and labor were assumed to be ubiquitous. This assumption eliminated the need for counter-cyclical fiscal policies, since in a world without money, equilibrium prices would reflect the “true” value of barter relationships. However, in the *General Theory*, the focus shifted to the determination of effective demand (Means, Samuels, and Lee 1994). Keynes argued that employment is primarily determined by effective demand, which is influenced by monetary systems, rather than by market forces that automatically drive maximum employment.

Modern macroeconomics as we know it thus emerged when economists broadened their scope beyond both monetary theory and microeconomic laissez-faire doctrine to include macro-analysis, as presented by Keynes. However, one notable exception to this development was Keynes’ use of especially Innes’ insights—that the money relation is enforced by human governance, rather than being the product of an automatic price mechanism—was largely set aside (Jo 2016; Ferguson 2018). This period in the 1940s, often referred to as the birth of modern macroeconomics, is known as the *Neoclassical Synthesis* (Hicks 1940; Samuelson 1948).

Its conservative interpretation of Keynes’ work paved the way for the rise of Monetarism, Neoclassical economics, and New Keynesianism. The theoretical core uniting these schools of thought—which has remained largely unchanged for over 120 years—is the assumption that money continues to be viewed as a private, finite, and alienable medium of exchange (see Figure 1 and Fisher

§ 2.		
In Mechanics.		In Economics.
A particle	corresponds to	An individual.
Space	“ “	Commodity.
Force	“ “	Marg. ut. or disutility.
Work	“ “	Disutility.
Energy	“ “	Utility.
Work or Energy = force × space.		Disut. or Ut. = marg. ut. × commod.
Force is a vector (directed in space).		Marg. ut. is a vector (directed in com.)
Forces are added by vector addition.		Marg. ut. are added by vector addition.
(“parallelogram of forces.”)		(parallelogram of marg. ut.)
Work and Energy are scalars.		Disut. and ut. are scalars.

Figure 1. Fisher’s translation from mechanics to economics.

Notes: The figure depicts I. Fisher’s (1926) analogy between mechanics and economics that serves as the topological basis for the modern theory of inflation (pp. 85–86).

(1911a,b)) (despite their otherwise irreconcilable differences, both Austrian and Marxist schools treat money in the same way.).

Another major reason that money is assumed neutral despite the Keynesian intervention is somehow, convenience: As Krugman (2015) puts it, “*Dealing with monetary economics this way lets you address monetary and fiscal policy in terms of lucid, elegant little models.*” Rather pessimistically, he comments on the resulting equilibrium solutions: “*Still, there’s a bit of sleight of hand involved in the way we handle money itself [...]. And you could imagine that this sleight of hand might lead you badly astray, that the predictions of those lucid little models would be all wrong*”. For instance, in the New Keynesian model, money is assumed to be neutral only in the medium- and long-run to allow for a variety of nominal rigidities (market frictions) in its models in the short-run. However, longer-term monetary neutrality implies the existence of (at times, multiple) equilibria to return to after short-run fluctuations in economic activity. Note that this nuance in the treatment of money’s politics, which is now assumed to change relative prices in the short-run, but not in the long-run, shifts the assumed origin of inflation from monetary aggregates (in the Neoclassical model) to aggregate demand in the New Keynesian model (Lorenzoni and Werning 2023; Weber et al., 2024): because now money “does something” in the short-run to the economy other than just bubble up instantaneously to increase the general price-level, the key kernel becomes the question of the price setting process. That is, the price mechanism, which postulates that supply and demand make the price, is aggregated to the macro economy, serving more of a tractable mathematical purpose than a practical purpose. In these approaches, inflation is defined as an increase in the general price (of typically more than 2 per cent) when, at the same time, the average relative price change is equal to zero by construction. It is both important and exciting that breaking with this core assumption opens up the possibility of studying price stability theory in a world without equilibria, as this essay is attempting to do.

Meanwhile, the post-Keynesian economics tradition has emerged from Keynes’ and fellow Cambridge economists’ intellectual legacy. Developed by H.P. Minsky, M. Kalecki, and A. Lerner, the school has been operating under the assumptions that money is neither neutral, nor that there exists an intrinsic antagonism between price stability and employment. Post-Keynesians have rejected fears over hyperinflation as spurious and emphasized that in a well-functioning economy, prices tend not to fluctuate rapidly (Ferguson 2018). Notwithstanding their “*impeccable arguments*” J. M. Keynes in Colander (1984: 1574), however, post-Keynesian economics has been widely excluded

from both the policy arena and the academy. Notable exceptions are product-specific and price-specific theories that were developed in the second half of the 20th century: [Andrews \(1964\)](#), [Means, Samuels, and Lee \(1994\)](#) and [Lee \(1999\)](#) refute the Neoclassical notion of a monolithic “general” price, which was also recently evaluated empirically by [Moudud \(2012\)](#) and [Weber and Wasner \(2023\)](#), [Weber et al. \(2024\)](#). Notwithstanding their invaluable contributions to the profession, this strand of heterodox economics literature is primarily concerned with alternatives to the price mechanism and only implicitly considers the topology of money. However, these scholars have paved the way for the theoretical contribution proposed in this article in a substantive way. My argument thus builds on, and extends, their work by considering more thoroughly a strand of interdisciplinary literature and by explicitly bridging money’s capacity to change relative prices in the medium- and long-term ([Desan 2017](#); [Feinig 2022](#); [Polanyi 2002](#); [Steininger 2025](#)) with a novel approach to price stability, as such articulations are virtually non-existent ([Kaldor 1985](#)).

3. Problems with the inflation hypothesis

The inflation hypothesis originated in Neoclassical-monetarist economic thought, but it is, with some variation, accepted rather univocally by New Keynesian, Marxist, and post-Keynesian schools (see Section 2 above). Indeed, the inflation hypothesis has been taken so much for granted over the last few decades that many people inside and outside of academia do not even notice that it is just that: a hypothesis. And it was not only taken for granted, it became definitional. The concept of inflation thus defines the value of money as changes in a general price level: “*Inflation is the process of continuously rising prices, or continuously falling value of money.*” ([Frisch 1983](#): 2). But a definition does not—or rather, should not—matter for science, and the claim of the equivalence can (and will) be tested.

The further implications of the inflation hypothesis are well-known but summarized here for clarity and completeness: according to the inflation hypothesis, (i) the value of the unit of account may be benchmarked against its purchasing power (assuming that the latter is a coherent notion); (ii) the general price level, albeit not directly observable, corresponds to the amount of money in the economy—abstracting from economic activity—by virtue of money’s assumed inability to influence relative prices; (iii) price stability is necessarily macroeconomic, thus cannot be sector-, good-, or industry-specific (inflation is about increases in the *general* price when the average relative price change is equal to zero by construction since money is assumed incapable to affect relative prices); and (iv) prices are “scarcity signals” in the sense that they serve as an expression of productive capacity.

Equating the price level with money’s value unwittingly yet rather explicitly reifies an erroneous commodity theory of money. Its foregone conclusion suggests an in-built causal analysis, as increases in the general price level are the direct result of “too much money chasing too few goods”, incapacitating money of its ability to affect relative prices ([Steininger 2025](#)). “Inflation”, besides its metaphorical use, is therefore a question-begging definition of a make-believe economic phenomenon.

3.1 The value of money

What is the value of money? The inflation hypothesis has settled this question along the lines of privacy and from the perspective of individualized market participants faced with a *fait accompli* basket of consumer goods and who bemoan that, after some time, seemingly, one can buy less of the *same* stuff with the *same* quantitative number of hypothetical coins in their pocket. In a rather straightforward way, the public good that is a legal currency must thus have lost its (uniform) value due to an alleged imbalance between the (aggregate) amounts of goods and services in the economy and the (aggregate) “amount” of money. Therefore, in this view, the value of money is undermined by

issuing new money, holding all else constant, and is to be found in the general price level as captured by the CPI.

This imagery misses a couple of issues. For one, every balance sheet has two sides. That is to say, how much more expensive something from a consumer perspective will have become depends crucially on this persons' change in income. Put differently, "affordability" is most meaningfully thought of on *relative* terms insofar as the unit of account establishes a ratio (i.e. a proportion: *ratio* in Latin means "account") between assets and liabilities (Quattrone 2004). The inflation hypothesis, however, like so much of economic theory, considers only one side of the balance sheet (Mehrling 2017) and hence portrays widespread price increases as an "absolute definition" of value: from a consumer perspective, "dearness" is relative to income; how expensive something is depends crucially on how it relates to one's earnings. For example, rising rent mainly becomes problematic if wages fail to keep up. Therefore, carefully selected ratios—such as housing price-to-income—are more meaningful than absolute prices, even from a limited consumer-focused view of the economy. Moreover, the concept of "purchasing power" is inherently static and fails to capture the contingency of market production and employment conditions (see Figure 2). Equating purchasing power with the value of money thus risks endorsing a reductive and overly individualistic view of the economy: consider the oft-repeated claim that money "loses purchasing power" each year due to inflation—leading to the odd conclusion that, as an example, after a century of 2.5 per cent annual inflation, money would have lost over 90 per cent of its value. The incoherence of this assertion becomes clear if one asks what a smartphone or a laser eye treatment (things that simply did not exist) cost a hundred years ago, back when money supposedly retained all its purchasing power. Was everyone better off then monetarily? How does this alleged loss of purchasing power due to inflation manifest? And, likewise, is so-called deflation reversing the currency debasement? The answers make clear that such comparisons of money's purchasing power over time are fundamentally flawed: price formation (and indeed, what has a monetary price in the first place) is a contested ground. It evolves alongside social, political, and technological change. The economy of a hundred, or even just one, year ago is not simply a "smaller version" of today's—it is structurally, politically, and qualitatively different.

Second, and more importantly, it is well-documented in the critical social-scientific literature outside of the economics discipline that money is a governance instrument and a "creature of law" rather than an apolitical invariant (see Section 2 and Mirowski (1991)). Anthropologically, it arises from, and is the manifest creation of, a centralized polity that deliberately designs its monetary architecture along contingent dimensions (Graeber 2011; Desan 2014; Braun 2016; Gabor and Vestergaard 2016;

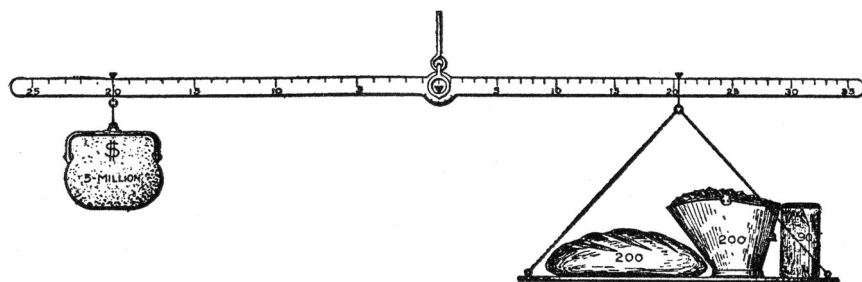


Figure 2. Money-goods equivalence.

Notes: The figure depicts I. Fisher's (1911) illustration of the equivalence between the quantity of money and the average price of goods (here represented as bread, coal, and cloth) (p. 21).

Ferguson 2018; Feinig 2022; Sahr 2022; Murau and Pforr 2025). Money is thus not only intrinsically social and hierarchical—thus should foremost be approached analytically from a collective point of view—, but also pre-conditions and even constitutes the market economy it measures (Desan 2014, 2017). From this perspective, what any given individual may be able to purchase with a number of coins in the pocket is ontologically preceded by a political infrastructure and governance decisions that are monetarily defined. That is, governments and legal systems play a crucial role in defining what constitutes money, establishing its legal tender status, and regulating its circulation. The value of money is therefore determined by the legal and infrastructural framework that supports it (as well as the collective trust and confidence in that framework). Denying money this qualitative component of its value is to participate in silencing the politics behind it. Money's value, by means of steering the economy, is hence more of qualitative and political character than of a neutral yard stick that quantitatively measures value "*like an inch measures distance*" (Gerdesmeier 2007). What is more, how can cause and effect (i.e. money and price) be distinguished under these circumstances? The inflation hypothesis cannot not answer this question.

Third, a money or currency cannot not have a uniform value if money is not itself a uniform thing. Given that monetary instruments such as central banks' notes and reserves, sovereign bonds or repurchase agreements (Gabor and Vestergaard 2016) exhibit varying degrees of so-called "moneyness" depending on the hierarchical position of institutions whose liabilities they are as well as on the intricacies of their specific legal design (Murau and Pforr 2025), money is characterized by non-uniformity. Money is moreover an entire ecosystem of financial relationships and credit contracts that are situation-dependent, complex, and highly heterogeneous. For instance, Mehrling (2012) and Ricks (2011) argue that what is considered money or credit changes over time and correlates with economic cycles but also that different money market instruments effectively function as forms of money, exhibiting varying degrees of liquidity. In this way, not only is our collective definition of "money" highly unstable, but is endogenous to various forms of crises and policy, including financial regulation. The premise that money's value is either homogeneous, quantitatively ascertainable, or lies in its "purchasing power" is a corollary of the indirect barter logic and hence not a very helpful guide to approaching price stability in the modern economies.

Lastly, if money is not a fixed and intrinsic store of value but rather a medium of exchange and a unit of account that is created and sustained through legal and political processes, its value(s) will fluctuate based on various factors such as government policies, economic conditions, public confidence, institutions, and legal regulations. For money to "lose its value" in a narrower sense, it would have to be incapacitated of its ability to steer and actively govern social reproduction (from the perspective of both citizens and the polity).

For the sake of completeness, it should be noted here that, colloquially, the value of money is sometimes attributed either to the interest rate (beautifully illustrated by the complementary currency experiment in Wörgl, Austria in the 1930s and as described in Keynes' *General Theory* with reference to Silvio Gesell (1938), where money was designed to lose its nominal value over time by imposing high negative interest rates to discourage money hoarding during the depression) or to the nominal tax value and public receivability of money (Tcherneva 2006). Both of these accounts correctly suggest that money's value is a policy variable. They are arguably much more informative than the purely market-based (CPI) approach to assessing money's value. At a higher level of analysis, however, they can and will be subsumed under the broader framework of monetary governance and constitutional design, as discussed further in Subsection 4.1.

3.2 The general price (level)

Lifting the assumption intrinsic to equilibrium theories that money cannot affect the allocation of labor or the substance of trade (Desan 2017), I consider the possibility that monetary design may alter relative prices, especially in the long run. This baseline assumption offers a way of thinking about price stability without assuming a law-like relationship between price and quantity: In Christine Desan's "Key to Value," one key example of how money can alter the relative price of labor lies in the role of state-issued money in early modern economies. Desan highlights how governments, by creating and distributing money, effectively shape the demand for labor and thus its price (Desan 2023). Furthermore, Desan illustrates how the introduction of standardized monetary systems—such as coins with state-imposed value—shifted the bargaining power between laborers and employers. By centralizing monetary issuance, states could regulate the supply and flow of money, directly influencing wage levels. When money was artificially scarce due to state-imposed austerity or tight monetary policies, the power of employers increased relative to workers, suppressing wages and altering the relative price of labor downward. Conversely, monetary expansion often gave laborers more leverage as wages adjusted upward in response to increased economic activity and decreased unemployment. These examples demonstrate that money, far from being a neutral facilitator of exchange, has a profound capacity to shape economic dynamics, particularly through its influence on *relative* prices (especially the price of labor).

Yet assumptions about the existence of a "general price" as such are derived from the Monetarist theory that money itself is solely a tool of (a limited idea of) mediation, an explicitly *neutral* medium of exchange. Within this architecture, the price system is conceived as a unified and internally consistent structure, such that nominal magnitudes can be decomposed into real magnitudes by dividing by a general price level index. The implication is the presumption of a coherent price field—a presumption that underlies the macroeconomic practice of computing "real" prices via "deflation" (Mirowski 1991). According to Monetarism, money has properties that are quasi-material and derivative of the goods and services involved in a barter transaction. It is, oddly, a physically limited input with—by this definition—*no power to affect relative prices* or the allocation of real resources and, similarly, has no intrinsic value (Fisher 1911a, 1919).

According to this latter conception, and in striking opposition to Desan's observation, money (the unit of account) serves as a neutral measure of economic value writ large just like an inch serves as a measure of distance, as discussed above. Value, in the commodity money view, strictly *precedes* the money relation, originates from (and is located in) the market. Importantly, the metaphysical existence of a general price (level) depends on money's mere reflection (measurement) of said value which is in turn *distinct and independent* from as well as prior to money (Mirowski 1991). Not only is money therefore homogeneous and alienable, it is a passive medium of "communicating vessels" that forms something between a "Monetarist veil" or a "Marxian superstructure" (Mehrling 2017; Steininger 2025) over a finite material substance. It holds that under this conception, and under this conception only, a uniform ("general") price-level, coupled with the flattening of different market structures into a physical totality, can be assumed as an overriding entity. The inflation hypothesis totalizes matter and homogenizes money into a monolithic general price. Notably, for this theory to operate, the origin of money and the causal order of economic relations as depicted above are necessarily settled along these lines. Yet despite the overall agreement among economists that high inflation is a threat to economic stability and thus should be one of the most important goals of macroeconomic policy, there is little agreement in orthodox accounts as to why inflation matters (Romer 1990).

There are hence multiple problems with the concept of the general price from this perspective. For one, because inflation construes money as a finite representation of a material world, it ascribes quasi-material properties to money as well. If money is instead *not* a naturally occurring object or a

commodity but is instead a socially and politically potent construct, it is nominally boundless (Grey 2019; Desan 2023) (acknowledging that there can of course be political/social/legal/productivity-related obstacles to radically expansive public money creation). It is hence a contradictory feature at the heart of this commodity money view that inflation itself does not have a material impact while at the same time may be severely destabilizing, causing real damages. However, there is unanimity in the orthodox view that unexpected changes in the price-level signal a problem because they imply that many people have expectations about the future that, after the fact, turn out to be wrong (Sargent and Wallace 1976). So while actual price-level changes don't matter in this view, confidence about the future of inflation matters because most important economic decisions depend on it (for instance, inflation expectations for the implied "real" interest rate of a 20-year mortgage loan may materialize in economic decisions about investment).

4. An inflation formation theory

The interesting question about inflation and, by extension, this article is: why has the general price and its incoherence received so little attention by scholars, at least not to the extent that they would write a full-fledged research article about it? Uprooting the inflation concept seems to be both analytically straightforward and extraordinarily relevant, given that it is a major—if not *the* major—dodge in the heart of equilibrium modeling, public spending impact estimation, and economic measurement.

This question about inflation's success requires a multi-layered response. In contrast to, say, the loanable funds mythology (Bibow 2000; Jakab and Kumhof 2015), the measurement issues of economic indicators like gross domestic product growth, public deficits, and unemployment (e.g. Mügge 2016) or money's social ontology, the inflation hypothesis has remained largely unchallenged across virtually all social science disciplines. Some plausible reasons for this striking gap in both the scientific literature and popular critique are detailed below.

First, the asymmetry of pricing—that is, corporations tend to strategically raise prices rather lower them because of the risk of price wars (Weber and Wasner 2023)—gives the impression that, over time, the uniform price level is increasing. In some part due to this progressive feature of administered price setting (administered prices are prices of goods set by the internal pricing structures of firms that take into account cost rather than the market forces of supply and demand and predicted by classical economics), price stability could be convincingly defined in terms of the general price level in the course of the 20th century after the Neoclassical synthesis (strictly speaking, in original 19th century Monetarist price theory, there is no price level as such (Mirowski 1991; see Section 2 above) as well as due to the increasing centrality of "countability biases" (Mügge 2022) of macroeconomic indicators in contemporary politics. What coincided with and arguably facilitated the rise of the inflation hypothesis was then a process of widespread "monetary silencing" (Feinig 2022): According to Feinig, monetary silencing refers to the historical and political processes that have depoliticized money—that is, how public discussion and democratic engagement with the nature, creation, and control of money have been systematically suppressed or sidelined. The pervasiveness of the inflation hypothesis can thus be understood as a symptom of societies' growing inability to conceptualize and democratize money as an answerable governance instrument that can be employed to actively and productively govern the economy. By analytically hamstringing money's political force, Western modernity cultivated both our present technological regime and neoliberal political economy, which lack the meta-physical support required to complicate the inflation hypothesis in the first place. The present incomprehension surrounding the inflation hypothesis traces these deep historical roots.

Second, and relatedly, inflation *feels* real. Critical media studies have shown that political economy is always also a matter of form and phenomenology (Honig, Gordon, and de Vries 2016; Ferguson 2018; Kornbluh 2019). For instance, these scholars argue that the way mediation (including moneyed mediation) is phenomenologically curtailed and related to in neoliberalism has the side effect of obscuring money's ability to create value through mediation and abstract form in our collective imagination: This mental and phenomenological "training" makes it difficult to understand political claims based on money's potential as a public fiscal tool. Instead, contemporary cultural and aesthetic preference for immediacy (Kornbluh 2024), effectively "crushes mediation" (p. 10), thereby helping forge the neoliberal cosmology that treats money as a commodified, finite object—a physically limited input that simply transfers "tiny bits of value" (Ferguson 2025) from one place to another, but between private individuals and without the public. These media (though of course themselves abstract tools of mediation) in this way train us in thinking that: (i) abstraction is bound by the material laws of physics (see Section 3.2 on the general price), and (ii) (moneyed) mediation is unproductive ("inflationary") and can be reduced to a direct exchange between individuated agents (note that this unproductive "nothing" that is mediation in mainstream mass media is, paradoxically, both governance and collectivity; see Section 3.1 on money's value and also Steininger (2025)). Because inflation reifies the commodity theory of money, it falls prey to the same cognitive training that restricts political theory to the laws of physics, reducing abstract relations to physical phenomena, reflecting the same cultural logic that confines political theory to the framework of immediacy (Kornbluh 2019). In short, if money feels like a tangible thing, so does inflation (i.e. "too much money" in the popular imaginary)—a force capable of overwhelming society, much like a menacing wave. To perceive price stability beyond the inflation hypothesis, we must thus unlearn a naïve and overly simplistic theory of money and expand our ability to feel and perceive abstractly (Ferguson 2018). In conclusion, political economy, after this critique, shapes our understanding of mediation at a distance and helps us conceive abstraction beyond the limited phenomenology imposed by the inflation hypothesis that has dominated postwar Western thought.

Similarly, and third, authors such as M. Callon (see, for instance, Callon 2009 2010 or Best 2019) have argued that monetarist prescriptions become self-fulfilling through the performativity of economics, whereby economic ideas actively shape the reality they claim to objectively describe. Neoliberal/monetarist ideas—such as inflation—are embedded into policies (austerity), institutions (see central banks and their mandates), and technologies (see commercial banking, debt-led growth, and scarce money designs), reorganizing economic and social life to align with these principles. In this way, Monetarism through the backdoor of the inflation hypothesis reshapes behaviors, expectations, and norms: individuals internalize market logic, organizations adopt profit-maximization and efficiency strategies, and public goods are increasingly managed through privatized mechanisms and the threat of inflation. Markets themselves are then designed and maintained in ways that reflect Monetarist assumptions. As these policies and assumptions take hold, they produce outcomes that appear to validate neoliberal theories, creating feedback loops that further entrench these practices and make them seem inevitable. Over time, the alignment of lived reality with Monetarist predictions gives these prescriptions the appearance of universal truth, when in fact they are the result of deliberate social and institutional engineering. In this spirit, the next subsection introduces novel yet very preliminary theorizing about price stability after the neoliberal order. The goal is to identify its key premises, albeit leaving their wider development to future projects.

4.1 Price stability after the constitutional approach

The considerations outlined above call for a novel approach to price stability, one that moves beyond the traditional notion of general prices (and increases thereof as monetary debasement). Recognizing that money is both political and historical—indeed, “central to how a polity constitutes itself” (Desan 2014: 4)—I argue that accounting plays a crucial role in structuring prices. However, these prices do not merely reflect a classical vision of finite material value or simple “scarcity signals.” Instead, monetary mediation functions as a dynamic organizing force, structuring collective economic reproduction through hierarchical, centralized mechanisms that extend beyond immediate transactions.

Under this framework, price stability (and money itself) is not confined to alienated movements or static, individualized interactions. Rather, markets emerge as a consequence of macroeconomic investment conditions and legal design, making them subject to micro- and mesoeconomic pricing dynamics, often administered and sometimes exchange-traded (Paul 2020). Instead of searching for a singular “true” index of inflation, achieving price stability should focus on developing a diverse set of market-specific (sectoral) and regional price stability indices. These indices can originate from different constituencies, with clear, transparent, and justifiable methodological choices.

Take, for example, the intuitive responses to various price crises. In the case of a housing cost crisis, both laypeople and experts (Wachsmuth, Cohen, and Angelo 2016) would likely propose some combination of building more (especially public) housing, implementing rent controls, and curbing speculation in real estate markets. Faced with an energy price surge, the response might include public investment in sustainable energy, price stabilization measures, and efforts to reduce dependence on fossil fuels (Weber and Wasner 2023). A currency crisis typically calls for carefully designed capital controls, central bank swap line assistance (Richtmann and Steining 2023), exchange rate adjustments (Kaltenbrunner 2015), or institutional reforms. Similarly, in response to a food price crisis, effective policy often combines immediate support for vulnerable populations (such as targeted cash transfers and food subsidies) with medium-term strategies to enhance domestic production, stabilize supply chains, and build food security (Weber et al., 2024). What all of these approaches share is that they are complex, context-dependent, politically contested, and require deep infrastructural expertise and careful indexation. A one-size-fits-all austerity program that targets the general price is unlikely to deliver sustainable or effective outcomes. Yet, the inflation hypothesis tends to collapse all these distinct price crises into a single explanatory frame—variants of “too much money” or “too much demand”—leading to an overly simplistic reliance on demand suppression as a universal solution.

Moreover, in the absence of a unitary force governing “general prices” as opposed to relative prices, there is no single, coherent value of money (as demonstrated). Instead, what exists is a shifting range of goods and services, each with its own price. Despite this, the CPI continues to be treated as a foundational metric to adjust wage contracts, rent, and other nominal commitments (Hafiz 2025a,b). Yet a 2 percent rise in the consumer price index does not necessarily reflect currency debasement; it may simply indicate that a handful of industries raised their target profit margins or that product quality changed in ways not adequately captured by the index. However, without a homogeneous underlying “real” substance that unifies all output, there is no solid theoretical basis for such uniform adjustments (Tankus and Herrine 2022).

Conceptually, the inflation hypothesis moreover functions not only as a flawed empirical (descriptive) account of price-level developments/currency value but also, arguably, as a (normative) theory—one that implicitly defines what counts as “real” in society. By drawing a sharp distinction between “real” and “nominal” categories at the currency-wide level, it asserts that productivity and social contribution (i.e. labor) must be valued on the assumption that money is intrinsically scarce, merely reflecting an underlying finite “real” substance. As a result, the inflation hypothesis promotes a

market-centric framework for valuation and governance. It further speculates that government-led full employment policies will inevitably produce (hyper-)inflation and systemic instability. The rationale behind these claims is that paying for labor not already employed by the private sector—barring some market imperfections—introduces “too much money chasing too few goods” (Lorenzoni and Werning 2023), especially when public (“nominal”) spending is directed toward labor perceived as lacking “real” output. One of the key strengths of post-constitutional theories of price stability is hence not only their rejection of this deterministic tradeoff relationship between unemployment and price stability but also of the primacy of the market in naming and identifying value (Steininger 2026).

This article thus not only rejects the inflation hypothesis but advocates for shifting economic stability management/measurement away from the aggregate toward sectoral prices at micro- and mesoeconomic levels. Stabilizing fiscal policy tools such as targeted price controls, public infrastructure investments, public option employment programs, supply chain improvements, taxation, and antitrust measures should be employed to actively govern and shape price developments. Correspondingly, a multitude of complementary, disaggregated price and economic stability indices should be constructed. By integrating corporate price-setting strategies with a structured prioritization of systemically relevant prices (Weber et al., 2024), including the price of labor, these indices provide a more adaptive and effective framework for maintaining price stability without painful recessions.

Importantly, rejecting the inflation hypothesis will allow us to mentally, esthetically, and ideationally move beyond the image of “the economy” as one homogeneous, monolithic “thing” of fundamental value with some exuberant (“inflationary”) governance on top (which also serves as the metaphorical motivation for interest rate hikes to counter economic “overheating”). What if, instead, we invite a kind of specificity about financial/monetary possibilities in vivid, participatory detail? The careful disaggregation of “the economy” into interlocking but non-identical domains of collective reproduction opens the door for improved policy making and informed assessments of various origins of crises and economic instability without defaulting to old tropes about budgets, bond markets, and currency debasements. In this way, price development formations can be reclaimed for democratic accountability and public answerability. Nothing about prices is natural; to the contrary, quite nothing is more political and cultural than prices are (Herzog 2023). Therefore, renewed democratic attention should be paid to how they come about, who sets them, what has a monetary price in the first place, and how systemically important, specific prices change over time.

5. Conclusion

By scrutinizing the precise topology of money underlying the inflation hypothesis, I offer an explanation of why the concept of the general price is confused and thus unable to explain real-world phenomena in a satisfactory manner. Specifically, I show that inflation is an incoherent metaphor that reifies the commodity theory of money (Murau and Pforr 2025) because it explicitly posits that the value of money (i) is driven by scarcity, (ii) is determined by the private market economy, and (iii) is homogeneous.

Moreover, I argue that the measurement of monetary value is not ontologically identical to something like utility, and money is not a representative invariant (Mirowski 1991); this implies that there exists a nonnegligible endogeneity issue with respect to the purely quantitative measurement of the market economy and general price level when money also, at the same time, shapes that very market. In other words, it is not possible to clearly separate cause from effect when it comes to changes in prices and monetary policy, either in theory or in practice. I proceed by viewing money as a mode of

governance and explain the pervasiveness of the inflation hypothesis by pointing toward insights from media scholarship and sociology.

This research project contributes to a larger research program on addressing an impasse in central banking and macroeconomic (demand) management. Policy makers and central bankers have increasingly considered a mismatch between the policy response, empirical evidence, and causal analysis in their interpretation of central banks' (often primary) mandate. This is particularly relevant in an environment of overlapping emergencies caused by the climate crisis (Weber and Wasner 2023), rising epistemic uncertainty, and an urgent need for a socio-ecological transition.

I argue that the cause for this rising mismatch may be found within the deep topological challenges that define what is thinkable in macroeconomic frameworks in the first place. To the best of my knowledge, my research is first to deal with these entrenched foundations in the realm of price instability. The findings of this project lead to a better understanding of how (macro-) economic stability may be achieved by considering a more realistic vantage point of the connection between money, pricing, and value.

Rejecting the inflation hypothesis opens up a disaggregated view of price stability and hence a new avenue for economic management that is irreducible to the separation of monetary and fiscal policy or real and nominal variables. The ramifications for institutional design, fiscal and monetary policy, and postneoliberal monetary governance are substantial: such a framework calls into question economic measurement and inflation-targeting as practiced and institutionalized today.

Acknowledgements

I thank my editor at SER Elvire Guillaud, Sanjay Jolly, Marc T. Beckmann, Yochai Benkler, Steffen Murau, Martin Höpner, Armin Haas, Aaron Sahr, Sebastian Huhnholz, Eva Weiler, Leonore Petrovic, and three anonymous referees for valuable comments.

Conflict of interest statement. None declared.

Funding

This project received funding from the German Research Foundation (DFG) under grant no. 546114750. All remaining errors are my own.

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