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Inflation Governance in the Post-Pandemic Era under Diverging Policy Logics

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Abstract. The COVID-19 pandemic has triggered a global economic crisis of unprecedented scope, prompting governments worldwide to adopt large-scale fiscal and monetary stimulus measures. While these interventions initially stabilized markets and supported demand, they also laid the groundwork for a new wave of inflation driven by both cyclical and structural forces. This study investigates the complex nature of post-pandemic inflation and examines the theoretical foundations and policy responses that have emerged in its wake. Drawing on monetarism, new Keynesian economics, and modern monetary theory (MMT), the paper argues that inflation in the current era is shaped by an interplay of supply-side shocks, policy legacy effects, and global uncertainties. The analysis highlights the limitations of monetary tightening in addressing structural inflation, the divergence of fiscal strategies across advanced economies, and the growing controversy over macro-policy goals, tool selection, and distributional equity. While policy makers continue to weigh short-term effectiveness against long-term reform imperatives, the study concludes that a flexible, coordinated, and inclusive approach is essential for sustainable inflation governance. Limitations of this study include the lack of quantitative cross-country econometric evaluation, pointing to future research directions involving empirical modeling and deeper institutional analysis.

Keywords: Post-pandemic inflation, macroeconomic policy, monetary tightening, fiscal strategy

1. Introduction

The COVID-19 pandemic is the most extensive and systemic global crisis of this century. It has not only caused serious public health challenges, but also profoundly changed the logic of global economic operation. In the early days of the pandemic, in order to avoid economic collapse, countries launched unprecedented monetary and fiscal stimulus measures. According to estimates by the International Monetary Fund (IMF), the total scale of fiscal support launched by countries around the world to fight the epidemic in 2020 exceeded US$12 trillion [1]. These policies stabilized the financial market in the short term and supported household consumption and corporate financing. However, as the pandemic gradually eased, demand rebounded rapidly, and the supply side did not recover quickly, inflation around the world began to rise significantly, becoming the core problem of policy regulation in various countries.

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Inflation in the post-epidemic era is different from traditional demand-driven inflation, and its causes show obvious complex and differentiated characteristics [2]. On the one hand, supply-side factors such as supply chain bottlenecks, structural energy shortages, and declining labor force participation rates continue to drive up costs; on the other hand, continued policy stimulus and rampant liquidity have also created pressure from excess aggregate demand. Against this backdrop, relatively synchronized high inflation has occurred around the world, but due to differences in economic structure, policy space, debt levels, and political systems, inflation paths and regulatory strategies vary greatly among countries. Inflation governance is not just a single technical issue, but also involves multiple aspects such as theoretical choice, policy trade-offs and distribution effects. Faced with the new situation of structural and cyclical inflation, how to intervene effectively has become an important issue in macroeconomic governance in the post-epidemic period. This article aims to explore the theoretical foundations and practical effects of mainstream inflation control approaches by combining theoretical review with practical analysis. It also analyzes the main manifestations and underlying logic of current policy differences, in order to provide theoretical support and policy guidance for future inflation governance.

2. Theoretical framework

In order to analyze the theoretical roots of global inflation governance paths and policy differences in the post-epidemic era, this article selects three most representative macroeconomic theories that have shown significant differences in post-epidemic policy practices: monetarism and inflation expectations management theory, the new Keynesian perspective, and modern monetary theory (MMT). These three theories represent different paths of understanding the causes and response strategies of inflation, and have caused widespread controversy in current policy practices.

2.1. Monetarism and the theory of inflation expectations management

Monetarists believe that inflation is a monetary phenomenon at all times [3]. The theory holds that as long as the growth rate of money supply is controlled, the price level can be stabilized in the long run. Under this framework, the central bank should guide the total demand of the entire economy by controlling the issuance of base money and adjusting the interest rate level, thereby achieving the goal of price stability. In the post-epidemic era, major economies (such as the United States) implemented unprecedented quantitative easing policies during the epidemic. The large amount of money supply led to asset price inflation and rising consumer demand, triggering high inflation. The Federal Reserve has entered a continuous interest rate hike cycle since 2022, and its policy logic is based on the "tightening to control inflation" proposition under the monetarist framework [4]. Although post-pandemic inflation is partly driven by monetary expansion, it is also closely linked to supply-side factors such as energy crises, supply chain disruptions, and geopolitical tensions. A singular focus on monetary tightening risks overlooking the structural roots of inflation and may result in policy misjudgment or ineffective responses.

2.2. Price rigidity and structural shocks from a New Keynesian perspective

New Keynesian theory emphasizes that there is "stickiness" in the adjustment of prices and wages, that is, there is usually a time lag in the economic system's response to policies or external shocks. Therefore, even if monetary policy changes, price levels and actual output will not adjust immediately, but will show strong inertia for a certain period of time. This characteristic means that

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the efficiency of the monetary policy transmission mechanism is constrained in the short term. In addition, if the economy faces supply-side shocks (such as rising raw material prices and labor shortages), it may trigger "cost-push inflation", which is manifested as continued price increases and weak economic growth, that is, a typical "stagflation" phenomenon. In the post-epidemic era, this analytical framework of New Keynesianism has received increasing attention. Global supply chain disruptions, sharp fluctuations in energy prices, and declining labor force participation rates all constitute typical structural supply shocks. These factors not only lead to a significant increase in production costs, but also inhibit the recovery of corporate production capacity, thereby driving up inflation while exacerbating employment pressure and the risk of slowing economic growth [5].

From this perspective, it is believed that relying solely on monetary tightening to suppress demand is difficult to effectively solve the inflation problem, but may instead exacerbate economic slowdown. Therefore, policies should pay more attention to the coordination of fiscal and monetary policies, and guide the optimization of supply structure through fiscal expenditure, such as investing in infrastructure, providing energy subsidies, and restoring labor market supply. However, the continued expansion of fiscal policy may conflict with the central bank's tightening goals, forming the so-called "policy mismatch". On the one hand, monetary policy interest rate hikes curb inflation, while on the other hand, fiscal expenditures are still stimulating aggregate demand, weakening the effect of inflation control.

2.3. Modern Monetary Theory (MMT)

Modern Monetary Theory (MMT) proposes that in the context of countries with monetary sovereignty, the government does not need to be subject to the traditional fiscal deficit constraints [6]. As long as domestic resources have not been fully utilized, the government can stimulate economic growth and achieve full employment through large-scale fiscal spending without causing inflation [6]. This theory regards money as a controllable policy tool within the country, emphasizes the dominant position of fiscal policy, and advocates that the central bank cooperate with fiscal spending to achieve social welfare goals.

In the post-epidemic era, many developed countries have implemented unprecedented large-scale fiscal stimulus plans by directly distributing cash to residents and supporting enterprises and the public sector with deficit financing. This series of policies is regarded by many scholars as an attempt to apply MMT theory in reality. However, as the impact of the epidemic gradually weakened, these countries experienced significant inflation levels, triggering widespread doubts about the practical feasibility of MMT. Critics argue that MMT exhibits significant theoretical and practical limitations. One key concern is its neglect of inflation hysteresis—while fiscal expansion may not generate immediate inflationary pressure, it can lead to structural inflation over the long term [7]. In addition, MMT theory underestimates the risk of imported inflation caused by fluctuations in the balance of payments and exchange rates in the context of globalization. For developing countries, due to limited monetary sovereignty and debt pressure, the hasty adoption of MMT may lead to capital flight and economic instability. Therefore, although MMT provides a new approach to breaking through traditional fiscal constraints, its theoretical framework still needs to be carefully adjusted in combination with national characteristics and global financial structure in practical application.

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3. Policy impact analysis in the post-pandemic era

Against the backdrop of rising global inflationary pressures in the post-pandemic era, countries have adopted a variety of policy paths to regulate prices and stabilize the economy. Among them, developed economies represented by the Federal Reserve and the European Central Bank have implemented aggressive tightening monetary policies, including continued interest rate hikes and balance sheet reductions. These measures have suppressed demand and inflation expectations to a certain extent, but have also brought negative impacts such as slowing economic growth and pressure on the job market, highlighting the significant lag and uncertainty of the post-pandemic policy transmission mechanism. At the same time, fiscal policy also plays an important role in regulating inflation. Under the pressure of the energy crisis, the European Central Bank has also accelerated its tightening pace [8]. Although it has suppressed price increases to a certain extent, the economic growth rate of many countries has slowed down, reflecting the lag of monetary policy and the cost of economic growth.

In terms of fiscal policy, the strategies of various countries show obvious differentiation. Countries such as Germany and the Netherlands emphasize fiscal discipline and implement austerity policies to control fiscal deficits. France, Italy and other countries have alleviated the pressure of people's living costs through expansionary measures such as energy subsidies, consumer vouchers and inflation subsidies. Although these policies have stabilized consumer expectations in the short term, they may also exacerbate demand-side inflation. The United States has passed the Inflation Reduction Act to promote green transformation and industrial chain reconstruction, showing a trend of structural fiscal expansion [9]. In the long run, it may increase potential production capacity, but short-term fiscal pressure and resource allocation risks still exist. The continued appreciation of the US dollar has exacerbated global imported inflation. Under the pressure of currency depreciation and capital outflow, developing countries are forced to passively raise interest rates to maintain financial stability, especially Egypt and Argentina. Meanwhile, the surge in energy and food prices due to the Russia-Ukraine war has intensified global inflation and complicated policy adjustments. In summary, monetary tightening, fiscal measures, and external shocks intertwine, creating multi-dimensional challenges for inflation control in the post-pandemic era. Countries continue to balance effectiveness and costs, underscoring the need for coordination, flexibility, and deeper structural reforms.

4. Controversies and challenges in inflation governance

4.1. Debates on macroeconomic policy objectives

In the post-epidemic era, global inflation pressures are complex and diverse, and both monetary tightening and fiscal policies face significant time lags and uncertainties, and the structural components of inflation are becoming increasingly prominent. Against this background, the controversy surrounding macro-policy objectives is particularly intense. Some developed economies, led by the Federal Reserve, prioritize “fighting inflation first” as their core objective, implementing aggressive interest rate hikes and tightening measures such as balance sheet reduction, despite the potential short-term slowdown in employment and economic growth. This position is based on the importance of monetarism to managing inflation expectations and the theoretical basis of controlling overheated demand to prevent the continued spread of structural inflation. On the other hand, many high-debt countries and developing countries advocate a more balanced policy that not only controls inflation but also ensures economic growth and social stability. Especially when

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structural factors such as supply chain bottlenecks and rising energy prices drive inflation, monetary tightening alone may have limited effects and may even trigger stagflation, that is, economic growth stagnation and high inflation, which increases the difficulty and social cost of policy making. This controversy highlights the gap between theory and reality, emphasizing that post-pandemic inflation management must balance short-term stability with long-term structural reforms.

4.2. Controversies over policy tool selection

There is widespread controversy over whether monetary policy should still be used as the main inflation control tool. Interest rate hikes have limited effects on structural inflation factors such as supply chain bottlenecks and energy prices, and there is a time lag in the transmission of monetary policy, which may have an impact on the more vulnerable sectors of the economy. At the same time, the role of fiscal policy in inflation governance is also controversial. On the one hand, reasonable fiscal spending, such as infrastructure construction, investment in scientific and technological innovation, and subsidies for low-income groups can alleviate supply bottlenecks and promote economic structural transformation and long-term growth; on the other hand, excessive fiscal expansion, especially stimulus on the demand side, may aggravate aggregate demand pressure and lead to continued or even intensified inflation. In particular, expansionary fiscal measures such as energy subsidies, consumer vouchers and living allowances can alleviate residents' living cost pressure in the short term, but if the scale and duration are not effectively controlled, they may increase the fiscal burden and inflationary pressure.

In addition, the selection of policy tools also involves issues of timing and coordination. Improper coordination between monetary and fiscal policies may weaken their respective effects or even cause conflicts. For example, if fiscal policy remains expansionary while monetary policy is being tightened, the overall effectiveness of macroeconomic policy may be reduced and the risk of economic volatility may increase [10]. At the same time, global uncertainties such as geopolitical conflicts and raw material price fluctuations further complicate policymaking.

4.3. Distributional effects and equity concerns in inflation policies

In the process of inflation control, there are obvious differences in the impact of different policy measures on different social classes, and the issue of fairness has caused widespread controversy. Monetary tightening policies such as interest rate hikes and credit tightening help to curb inflation, but they often have a greater impact on middle- and low-income groups. Rising financing costs not only reduce the consumption capacity of ordinary families, but also threaten the survival of small and medium-sized enterprises, thereby affecting employment and income distribution. The cooling of the real estate market has also put pressure on the middle class whose main asset is real estate.

Fiscal tightening policies also face similar challenges. In the context of cutting fiscal spending and controlling deficits, public services such as education, medical care, and social security that are vital to vulnerable groups may be the first to be affected, weakening the stability of the social security system. At the same time, some large companies are able to pass on costs to consumers and maintain or even expand profits in an inflationary environment, resulting in "profit-driven inflation" being ignored and exacerbating income and wealth gaps [11]. In addition, poor policy communication and insufficient expectation management can also undermine public confidence. This diversified cognitive structure makes it more difficult to achieve a unified and fair policy response, and also places higher demands on policymakers.

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5. Conclusion

This study explores the theoretical basis, practical operation and main controversies of inflation governance in the post-epidemic era. Starting from the three macroeconomic perspectives of monetarism, new Keynesianism and modern monetary theory, this study reveals that inflation in the post-epidemic era is no longer driven solely by demand, but is shaped by the interaction of complex factors such as structural supply shocks, policy legacy issues and global uncertainty. Although monetary tightening policies have played a central role, their limitations are becoming increasingly apparent, especially in dealing with supply-side inflation and reducing social costs. Fiscal policies show significant differences, which also reflects the different political and institutional backgrounds under different economic structures. The debate on macro policy priorities, tool selection and distributional impacts highlights the growing contradiction between short-term stability and long-term structural reforms, and between economic efficiency and social equity.

However, this study also has certain limitations. Due to data availability issues, this study failed to conduct a quantitative econometric assessment of the effectiveness of policies in various countries. Future research can include more empirical data, adopt cross-national modeling methods, and explore in more depth the role of institutional trust, governance capacity and global cooperation in shaping inflation outcomes.

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