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The Cognitive Social Harm of Inflation in the Islamic Republic of Iran

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ABSTRACT

Inflation in economic literature is predominantly analyzed as a monetary and financial phenomenon. Nevertheless, its extensive social consequences indicate that inflation is not merely a macroeconomic variable; rather, it can be examined as a form of structural and self-reproducing harm within a system of governance. The present study, drawing upon the theoretical framework of social harm within the tradition of critical criminology and by developing the concept of cognitive social harm, seeks to explain chronic inflation in the Islamic Republic of Iran beyond purely economic analyses. The research adopts an analytical–theoretical methodology grounded in conceptual reconstruction and proposes a conceptual model explaining the relationship among cognitive biases of monetary policymakers, institutional distortion, liquidity expansion, and the reproduction of social harm. The findings demonstrate that chronic inflation is the product of specific perceptual patterns within the governance system which, through interaction with institutional structures, lead to the production and institutionalization of social harm. Within this framework, the concept of the state's cognitive responsibility is introduced as a complement to legal and economic responsibility. By extending the literature on social harm, this article provides a foundation for future empirical testing of the proposed model.

Keywords: *Inflation; Cognitive Social Harm; Critical Criminology; State Cognitive Responsibility; Monetary Policymaking.*

Introduction

Inflation is considered one of the most significant economic phenomena affecting the economic and social development of developing countries. When inflation becomes chronically embedded within a national economy, it represents not only an indicator of economic imbalance but also a driver of profound transformations within social structures. In Iran, chronic inflation in recent years—particularly following the intensification of sanctions and exchange rate volatility—has generated substantial effects on household welfare, income inequality, resource distribution, and the economic security of families (1, 2).



From an economic perspective, inflation reduces the real purchasing power of income, especially among low- and middle-income social classes, resulting in rising living costs, diminished incentives for savings, and increased relative and absolute poverty among households (1). Recent analytical studies indicate that inflation tends to exacerbate income inequality, a relationship that becomes more pronounced in high-inflation environments because inflation disproportionately affects consumption baskets of lower-income groups, thereby widening class disparities (1, 3).

From a social standpoint, inflation produces consequences extending beyond purely economic domains. Chronic inflation undermines predictability in economic life, weakens household economic security, and reshapes the distribution of social opportunities, thereby altering the social position of different groups. The adverse social outcomes of inflation include rising inequality, declining perceived welfare, heightened psychological stress, and growing social tensions, which may ultimately erode public trust in governmental institutions (2, 4).

Interdisciplinary literature further demonstrates a strong relationship between inflation and inequality across many countries. Comparative analyses show that under persistent inflationary conditions, income inequality tends to increase, limiting equitable access to public and specialized services. These patterns are consistently reflected in both economic and social indicators (1, 2, 5).

Although traditional analyses interpret inflation primarily as a monetary phenomenon explained by technical variables such as liquidity growth, exchange rate fluctuations, and monetary policy decisions, contemporary political-social scholarship indicates that the consequences of inflation are also rooted in social and cognitive structures. Inflation reshapes citizens' perceptions and expectations concerning welfare, livelihood security, and institutional trust, thereby contributing to the reproduction of structural harms within society (2, 6).

Within this context, the conceptual approach of cognitive social harm provides a framework for understanding the deeper dimensions of chronic inflation. This perspective moves beyond conventional economic variables and incorporates perceptual patterns and cognitive distortions in public policymaking. From this viewpoint, chronic inflation is not merely an economic problem but a structural social harm emerging from the interaction among policymakers' cognitive biases, institutional frameworks, and broader social structures, leaving extensive consequences for citizens' everyday lives.

Theoretical Framework of Social Harm and the Development of the Concept of “Cognitive Social Harm”

Transition from Economic Analysis of Inflation to the Social Harm Approach

In classical macroeconomic literature, inflation has largely been analyzed as a consequence of monetary imbalances, liquidity expansion, exchange-rate shocks, and fiscal deficits. Monetarist and Keynesian theoretical frameworks interpret inflation as the outcome of interactions between monetary and real variables, focusing primarily on monetary and fiscal policy tools for stabilization (7, 8).

However, recent research in political economy and social economics demonstrates that chronic inflation—particularly in developing economies—possesses deeper social dimensions that extend beyond macroeconomic indicators (2, 9). Within this emerging framework, inflation is no longer viewed solely as a monetary phenomenon but rather as a mechanism reshaping economic power, social opportunities, and class positioning. Empirical findings show that persistent and unstable inflation affects income groups asymmetrically, intensifying structural inequality (1, 10).

These findings suggest that inflation can function as a mechanism for the production of social harm, since its consequences are unevenly distributed across social classes, contributing to deepened poverty, reduced social mobility, and erosion of social capital. From the perspective of economic sociology, chronic inflation destabilizes expectations about future economic life and disrupts long-term planning. Studies indicate that high inflation is associated with declining institutional trust and heightened perceptions of economic injustice (4). Such conditions are particularly damaging in societies with weaker formal welfare and support systems, where social capital becomes increasingly fragile.

Domestic research in Iran also reflects this analytical transition. Qualitative studies demonstrate that the lived experience of chronic inflation among urban households is closely associated with feelings of economic insecurity, livelihood anxiety, and shifts in consumption patterns and decision-making processes. These findings indicate that inflation reshapes family relations, social hope, and symbolic capital in everyday life (11). Similar conclusions appear in international research showing that chronic inflation negatively affects perceived quality of life (2).

Moreover, empirical analyses using advanced computational methods reveal a significant relationship between the misery index (inflation plus unemployment) and income inequality in Iran, confirming that inflation deepens class divisions through declining purchasing power among lower income deciles and asymmetric wealth redistribution (12). These results align with cross-national evidence linking elevated inflation rates to increases in inequality indicators (3).

Inflation and the Reproduction of Structural Inequality

Recent political economy literature associates chronic inflation in developing economies with institutional weakness, fiscal dominance, and the dependence of monetary policy on structural budget deficits (8). Under such conditions, inflation operates as an implicit redistributive mechanism that disproportionately burdens fixed-income groups (9).

Analytical policy reports further emphasize that high inflation constitutes a significant obstacle to inclusive growth and the achievement of sustainable development objectives, as it weakens social protection policies and reduces the effectiveness of welfare programs (5). Accordingly, inflation transforms into social harm through three primary mechanisms.

First, inflation reduces the real purchasing power of wages. Nominal wages typically adjust with a time lag in inflationary economies, leading to a decline in real labor welfare (7).

Second, inflation facilitates wealth transfers from fixed-income groups to asset holders. Rising nominal values of real assets increase wealth inequality between capital owners and wage earners (1).

Third, inflation generates economic uncertainty and destabilizes expectations. Inflation uncertainty discourages productive investment, encourages speculative behavior, and undermines institutional trust (10).

Under these conditions, the social consequences of inflation manifest in declining public trust, erosion of social capital, and growing perceptions of distributive injustice. Discourse analyses of public opinion indicate that inflation is often perceived not merely as an economic challenge but as evidence of institutional inefficiency and governance instability. Consequently, inflation becomes embedded within collective cognitive narratives concerning state performance and distributive justice.

Therefore, a theoretical transition from purely economic interpretations of inflation toward a cognitive social harm framework becomes necessary. Within this perspective, chronic inflation is understood not only as an outcome of

economic variables but also as the result of decision-making patterns, policymakers' cognitive biases, and institutional deficiencies that reproduce harm simultaneously at structural and cognitive levels of society (6, 13).

From Crime to Mechanisms of Harm Production

Within the social harm approach, analytical attention shifts from individual criminal behavior toward structural mechanisms that generate harm. This perspective, increasingly influential in political economy and critical sociology, argues that many socially damaging phenomena are not necessarily classified as crimes yet produce extensive and enduring harm to public welfare (14).

Research demonstrates that social harm may arise from policy decisions adopted within particular institutional frameworks, even when such decisions remain legally legitimate. Consequently, analytical focus moves from formal legality toward the real social consequences of policymaking.

Chronic inflation—especially in developing economies—can be understood within this framework. Contemporary studies show that persistent inflation systematically reduces welfare among lower income groups, weakens social mobility, and intensifies inequality (8, 10). From this perspective, chronic inflation constitutes a **mechanism for the production of social harm**, since its consequences are structural, cumulative, and self-reproducing rather than accidental.

Domestic studies similarly reflect this conceptual transition. Empirical findings indicate that lived experiences of inflation in Iran are associated with economic insecurity, cognitive instability, and declining social hope (11). Additionally, evidence confirming the relationship between the misery index and income inequality further illustrates the persistent social consequences of inflation (12).

Theoretical Development: The Concept of “Cognitive Social Harm”

Building upon the social harm framework, this article proposes the concept of **cognitive social harm** as a theoretical extension. Cognitive social harm refers to harms rooted in perceptual patterns, cognitive biases, and interpretive frameworks of decision-makers that are reproduced through institutional mechanisms within public policymaking processes.

The literature on behavioral economics and public policy demonstrates that decision-makers, like all individuals, are subject to systematic cognitive biases. Macro-level perceptual errors can lead to persistent policy inefficiencies and long-term governance failures (13, 15). Research further shows that when policymakers' interpretive frameworks are constrained by short-term horizons or dominated by political narratives, the probability of structural policy errors increases significantly (6).

Accordingly, the concept of **cognitive social harm** developed in this article rests upon three theoretical components.

Policymaker Perceptual Error

Economic policymaking becomes prone to ineffective outcomes when it relies on short-term evaluations, denial of structural risks, oversimplification of complex economic phenomena, or excessive optimism regarding the self-correcting capacity of the economy.

Research indicates that optimism bias and confirmation bias in macroeconomic decision-making may delay necessary structural reforms and prolong economic instability (13). In the context of inflation, such cognitive tendencies may manifest as denial of inflation persistence or postponement of monetary reforms.

Domestic analytical studies of monetary policy in Iran likewise suggest that delayed policy responses to liquidity growth—often driven by short-term political and economic considerations—have contributed to the persistence of inflation (16).

Institutional Distortion

Cognitive bias evolves into social harm when it becomes embedded within specific institutional environments. Weak central bank independence, fiscal dominance, and limitations in regulatory instruments intensify the cognitive consequences of policy decisions (8).

Empirical studies demonstrate that under conditions of fiscal dominance, monetary policy effectively becomes subordinated to governmental budgetary needs, thereby reinforcing inflation persistence (9). Such institutional structures allow perceptual errors to translate into enduring inflationary outcomes.

Domestic research similarly emphasizes that the dependence of monetary policy on structural fiscal deficits constitutes a key factor behind chronic inflation persistence in Iran (16).

Normalization of Harm

When chronic inflation persists over time, societies gradually adapt to inflationary conditions, leading to the institutionalization of harm. This phenomenon is described in social theory as the normalization of crisis.

Studies show that in economies experiencing persistent inflation, inflation expectations become entrenched and adaptive behaviors compatible with instability emerge, which in turn contribute to the reproduction of inflation itself (3). This process results in declining public trust and erosion of social capital.

Domestic empirical findings likewise indicate that Iranian households facing chronic inflation adjust consumption and saving patterns based on expectations of permanent instability, reflecting the institutionalization of social harm (11).

Research Methodology

In terms of purpose, the present study falls within the category of fundamental–developmental research, as its objective is not to provide short-term policy solutions but rather to develop a new theoretical framework for explaining a structural phenomenon within Iran’s political economy. Methodologically, the study adopts an analytical–theoretical and explanatory orientation situated within interdisciplinary theoretical research traditions emphasizing conceptual reconstruction and the formulation of new explanatory frameworks.

Instead of relying on direct empirical techniques such as surveys, time-series datasets, or econometric modeling, the study employs a conceptual reconstruction approach. Conceptual reconstruction involves revisiting, comparing, and synthesizing concepts across different fields of knowledge in order to construct a coherent and innovative theoretical framework. This method is widely used in interdisciplinary theoretical research—particularly within political economy, social philosophy, and public policy—especially when the research objective is the development of a new conceptual model or theoretical construct.

Within this framework, the present research moves beyond purely economic analyses of inflation and seeks to establish an analytical linkage among macroeconomic literature, political economy scholarship, and social harm theory. Through this theoretical synthesis, the concept of cognitive social harm is developed. Although the study is not empirical in the conventional sense, it is grounded in systematic analysis of theoretical data and existing empirical research. The research materials consist of three primary categories:

First, the scientific literature of the past five years concerning inflation in Iran, including articles published in reputable international and domestic journals addressing the causes, persistence, and consequences of chronic inflation. This body of literature provides the structural analytical foundation for understanding inflation.

Second, empirical studies examining the social consequences of inflation, including its effects on income inequality, poverty, social capital, economic security, and institutional trust. These studies provide the empirical basis for conceptualizing chronic inflation as a harm-producing phenomenon (2, 5).

Third, theoretical scholarship on social harm, inequality, and institutional governance, encompassing institutional political economy and cognitive approaches to public policymaking, which together supply the analytical framework required for developing the concept of cognitive social harm (6, 14).

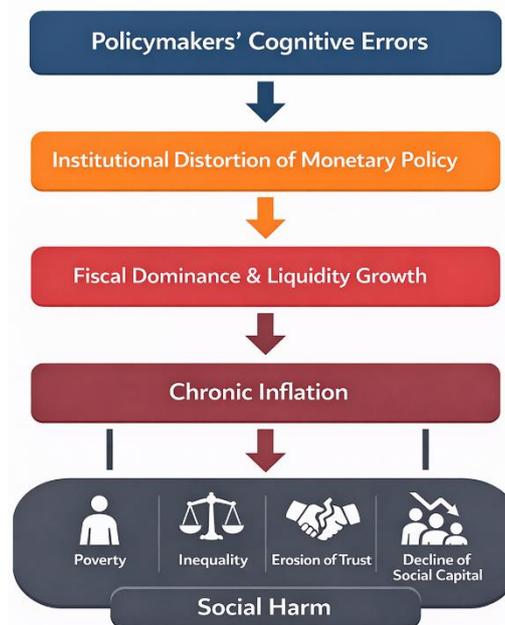


Figure 1. Conceptual Model of the Study

The proposed conceptual model examines the causal chain linking policymakers' cognitive errors to the social consequences of inflation. According to the model, economic decisions influenced by cognitive biases generate institutional distortions within monetary policymaking. These institutional distortions foster fiscal dominance and liquidity expansion, ultimately producing chronic inflation. Chronic inflation, beyond its economic consequences, generates significant social harms, including increased poverty and inequality, erosion of public trust, and decline of social capital.

The model highlights the interaction among cognitive, institutional, and social levels in analyzing the effects of monetary policy and demonstrates that careful examination of policymakers' cognitive and institutional failures may provide a key pathway for preventing the adverse consequences of inflation and strengthening social capital.

Findings: The Cognitive Responsibility of the State

The theoretical analysis conducted in this study indicates that the concept of state responsibility within governance literature requires redefinition and expansion when confronting structural phenomena such as chronic inflation. Classical governance theory typically conceptualizes state responsibility at two levels: legal responsibility, referring to conformity of governmental actions with laws and regulations, and executive–economic responsibility, focusing on efficiency, effectiveness, and achievement of policy objectives.

However, the findings of the present study demonstrate that these two dimensions are insufficient for explaining the cyclical reproduction of ineffective policies under chronic inflationary conditions. Based on the conceptual reconstruction undertaken, a third dimension of responsibility can be identified, which this article terms the cognitive responsibility of the state.

Cognitive responsibility implies that public decision-making systems are accountable not only for the objective outcomes of policies but also for their underlying perceptual frameworks, analytical assumptions, and cognitive biases. This interpretation aligns with contemporary public policy scholarship emphasizing the role of interpretive frameworks and cognitive biases in shaping macroeconomic outcomes (6, 15).

Within this framework, chronic inflation is no longer understood merely as the result of monetary variables or external shocks; rather, it is analyzed as a product of interaction between decision-makers' cognitive patterns and institutional structures that reproduce particular policy trajectories.

Components of the State's Cognitive Responsibility

The findings indicate that cognitive responsibility in monetary policymaking can be formulated at least at three levels. The first level concerns responsibility in problem diagnosis—namely, whether inflation is understood as a temporary disturbance caused by transitory shocks, or as a structural problem rooted in chronic deficits, fiscal dominance, and weak institutional independence. Recent development-economics research suggests that countries framing inflation as a structural problem have tended to progress more rapidly toward institutional reform (8). Domestic scholarship likewise emphasizes that the dependence of monetary policy on structural budget deficits in Iran reflects a weakness in the institutional diagnosis of inflation (16).

The second component of cognitive responsibility is responsibility for anticipating distributive consequences. Empirical evidence shows that inflation has asymmetric effects across income groups: it systematically reduces the purchasing power of lower-income deciles and intensifies income inequality (1, 3). In Iran, evidence based on advanced quantitative approaches indicates that increases in the misery index are directly associated with worsening income inequality, implying that monetary policymaking that fails to incorporate distributive consequences can effectively reproduce social harm (12). Related empirical studies similarly highlight that the combined effects of inflation and unemployment are substantially more severe for lower deciles than for other groups (12).

The third component is responsibility for correcting errors and revising ineffective frameworks. Contemporary governance and social-harm scholarship stresses that policy feedback mechanisms and institutional review are necessary to prevent the entrenchment of error (14). In the absence of such mechanisms, initial cognitive errors can become stabilized within institutional structures and develop into institutionalized cognitive social harm.

Iran Case Analysis Within the Proposed Model

A case analysis of Iran within the proposed model indicates that inflation in recent years exhibits the characteristics of a structural phenomenon. Empirical evidence points to the temporal persistence of inflation, the unequal distribution of its effects, and social consequences extending beyond the economic domain. Qualitative evidence suggests that inflation in the lived experience of Iranian citizens has reduced economic security, increased livelihood anxiety, and contributed to erosion in social relations (11). This finding is consistent with recent development-oriented analyses emphasizing the link between economic uncertainty and declining institutional trust (5).

Within the proposed model, the cycle of harm reproduction in Iran begins with the dominance of fiscal policy over monetary policy, proceeds through continuous liquidity expansion and the formation of persistent inflation expectations, and ultimately transfers inflationary pressure to low-income groups. The cycle is completed through deepening inequality and declining public trust. Research indicates that fiscal dominance is among the most important drivers of inflation persistence in developing economies (8). When this mechanism is combined with short-term oriented perceptual patterns in policymaking, the harm cycle becomes entrenched (6).

Reconstructing the “Cognitive Social Harm of Inflation” Model

The theoretical findings derived from a re-examination of political-economy literature on inflation and recent social studies indicate that reducing inflation analysis to a purely monetary–financial framework leads to neglect of its structural and social dimensions. Recent empirical evidence in Iran suggests that chronic inflation has not only disrupted macroeconomic indicators but also affected the structure of social opportunities, income distribution patterns, perceptions of distributive justice, and the level of social capital. In other words, within the Iranian experience, inflation is not merely an economic variable; it has become an intervening factor shaping social order. This outcome underscores the need to move beyond economic reductionism toward an interdisciplinary analysis in which macroeconomics, the sociology of inequality, and governance theory converge within a unified explanatory framework.

On this basis, the model of the cognitive social harm of inflation can be reconstructed across four analytical layers that bear a causal and sequential relationship with one another. The first layer concerns cognitive patterns in policymaking. Theoretical analysis indicates that short-termism in economic decision-making, normalization of structural deficits, and reduction of inflation to a temporary issue driven by external shocks collectively constitute the dominant perceptual framework guiding policy. Within such a framework, inflation is understood as a transient disturbance rather than as a consequence of persistent institutional disequilibrium. This cognitive layer is the starting point of the harm chain, because the definition of the problem determines both the scope and direction of policy intervention.

The second layer relates to institutional mechanisms. At this level, weak monetary-policy independence, fiscal dominance of the state over the central bank, and constraints on effective instruments for liquidity control provide the institutional basis for reproducing inflation. Development-economics research shows that under fiscal dominance, monetary policy becomes functionally subordinated to state budgetary imperatives, weakening the capacity to contain inflationary pressures (8). When coupled with short-term cognitive frameworks, this condition contributes to the stabilization of inflationary cycles.

In the third layer, the economic outcomes of this cognitive–institutional interaction become visible. Persistent liquidity expansion, the formation of entrenched inflation expectations, and instability in the general price level represent the economic manifestations of the process. Once inflation expectations become anchored within society, anti-inflation policies operate with greater delay and higher cost, because economic actors calibrate their behavior to the anticipation of continuous price increases. This dynamic indicates that inflation is not only a monetary variable but also an expectations-driven and perceptual phenomenon (7, 10).

Finally, the fourth layer encompasses social consequences. Rising income inequality, declining real purchasing power, erosion of social capital, and the spread of economic insecurity are among the most salient social outcomes of chronic inflation (2, 5). Empirical evidence in Iran indicates that inflationary pressure is distributed asymmetrically, imposing heavier burdens on lower income deciles and intensifying class divides (12). Qualitative and applied social research further indicates that inflation has increased economic anxiety, reshaped lifestyles, and reordered consumption priorities among middle- and lower-income groups, suggesting that inflation has penetrated economic culture and collective perception and has become a driver of change in social relations (11, 16).

According to this model, if inflation persists over a prolonged period, society enters a stage of harm institutionalization. In this stage, inflation expectations become entrenched, speculative behaviors expand, and household decision-making is structured around chronic uncertainty. Institutionalization of harm means that inflation shifts from being a periodic disturbance to becoming a behavioral rule to which economic actors adapt. Such adaptation makes inflation control more complex, because transforming social expectations requires simultaneous reform at both cognitive and institutional levels (6, 13).

Within this framework, the concept of the state's cognitive responsibility becomes central. Cognitive responsibility requires the state to be accountable not only for policy outcomes but also for dominant analytical frames, institutionalized policy assumptions, and mechanisms for error review. If inflation is attributed solely to external shocks while institutional reforms and revisions of perceptual patterns are neglected, the cycle of harm reproduction will persist. Therefore, cognitive responsibility demands institutional reflection in problem definition, distributive forecasting, and the correction of analytical errors.

Overall, reconstructing the model of the cognitive social harm of inflation suggests that the harm chain begins at the level of policymakers' perception, becomes stabilized within institutional structures, is reproduced economically, and ultimately becomes institutionalized socially. This framework enables movement beyond one-dimensional analyses of inflation and provides a theoretical basis for future empirical testing of relationships among cognitive, institutional, economic, and social variables.

Conclusion

The theoretical discussion presented in this article demonstrates that analyzing inflation solely within a monetary–financial framework is insufficient to fully explain its social consequences. Chronic inflation in Iran has reshaped the structure of social opportunities, income distribution patterns, perceptions of justice, and the level of social capital. Accordingly, inflation must be examined through an interdisciplinary perspective in which economics, sociology, and governance theory converge.

The reconstruction of the cognitive social harm of inflation model shows that the chain of harm originates at the cognitive level. Short-termism in economic decision-making, normalization of structural deficits, and the reduction of inflation to a temporary disturbance—combined with weak institutional independence and fiscal dominance—

lead to liquidity expansion and the stabilization of inflation expectations. At the social level, the consequences of this process emerge in the form of increasing inequality, declining purchasing power, erosion of social capital, and the expansion of economic uncertainty.

One of the major implications of this framework is that the persistence of inflation may lead to a stage of harm institutionalization, a condition in which inflation expectations become entrenched, speculative behaviors intensify, and household decision-making becomes structured around uncertainty. Under such circumstances, inflation penetrates everyday economic life and reshapes consumption priorities and social behavior, reflecting its influence on economic culture and collective perception.

Within this analytical framework, the concept of the state's cognitive responsibility introduces a new level of analysis in economic governance. This concept holds the state accountable not only for policy outcomes but also for dominant analytical frameworks, institutionalized assumptions, and mechanisms of policy error review. If inflation continues to be attributed exclusively to external shocks without cognitive and institutional reform, the cycle of harm reproduction will persist.

In summary, chronic inflation in Iran should be understood not merely as an economic indicator but as a socio-institutional process that, if prolonged, evolves into institutionalized harm. Moving beyond economic reductionism toward a cognitive–institutional analytical approach enables a deeper understanding of inflation persistence and facilitates the design of more effective structural reforms. The framework proposed in this study is capable of empirical testing in future research and may serve as a foundation for developing composite indicators of inflation-related social harm as well as for modeling relationships among cognitive, institutional, and social variables.

Based on the findings of the study, the following policy recommendations are proposed:

The first recommendation concerns the reform of monetary decision-making structures so that policymaking is designed with a long-term perspective and incorporates the social and distributive consequences of policies. The central bank should develop annual evaluation protocols assessing the impact of monetary policies on different income deciles and employ inflation simulation models and policy sensitivity analyses to reduce short-term bias and stabilize inflation expectations.

The second recommendation involves strengthening institutional independence and establishing policy feedback mechanisms. Through legislative measures, the central bank should be insulated from fiscal pressures imposed by the government, and a systematic framework for short-term and long-term evaluation of monetary policy effectiveness should be established. Instruments such as transparent monthly reports on liquidity indicators, inflation dynamics, and income distribution, alongside an independent policy review committee, can reduce political influence and prevent the institutionalization of chronic inflation.

The third recommendation emphasizes the implementation of targeted compensatory policies and the reinforcement of social capital. Support packages for low- and middle-income groups—including energy subsidies, food voucher programs, and short-term credit facilities—should be designed alongside transparent public reporting on policy outcomes and government performance. In addition, monitoring systems assessing inflationary pressure on households, public communication platforms, and consultative forums with civil society organizations can mitigate economic harm, strengthen public trust, and contribute to the reconstruction of social capital.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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