

Inflation - a result of poor economical policies or a part of global economic woes

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DAY  M  T  W  T  F  S  S

## Outline

### 1. Introduction

Thesis Statement

### 2. Understanding key terms

- Poor Economic policies
- Global economic policies

### 3. Inflation is more of a result of global economic woes

#### 3.1, Decreasing natural resources

- oil, Petroleum supplies
- Gas reserves

#### 3.2, Stagnant agricultural production and increasing population

#### 3.3, Global supply disruptions

- amid Russo-Ukrainian war
- key case of Russian gas supply to Europe

#### 3.4, Global revival of economies worldwide after Covid-19

#### 3.5, Global currency devaluation

- case in point of Pakistan

#### 3.6, Debt crisis worldwide

- case in point of ~~Strikes~~ developing countries

#### 3.7, Economic recessions

- increasing unemployment
- decreasing spending
- struggling businesses

## 4. Inflation fueled by poor economic policies - a counter perspective

### 4.1, Import restrictions

↳ - key case of Pakistan automobile industry

### 4.2, Long term detrimental agreements

- case in point of energy agreements of Pakistan

### 4.3, Subsidizing key sectors

- sugar

- Petrol

### 4.4, Free Floating exchange rates

- a comparative analysis of dollar during fixed exchange rate vs dollar during the floating exchange rate

## 5. Conclusion

### Essay

Forefathers ~~and~~ and ancestors always tell stories of their times. Among these stories, there is always or most of the times the story of inflation; where the elders tell surprising prices of the goods during their times and often state that inflation has skyrocketed.



Undoubtedly, inflation has soared to a greater extent. One wonders why is inflation so rapidly happening? what causes it? Is that a result of global economic woes or the result of poor economic policies? The answer to the question is prone to the global economic woes thought. It is because natural resources worldwide are ending, agricultural productions essential for humans do not meet the increasing population needs, global revival of economies after the pandemic shocks is under process and the disruptions in supply, too, adds to the inflation. Nevertheless, poor economic policies, too, contribute to soaring inflation, but not as much as global economic recession does. Poor economic policies as of import restrictions, long term agreements and subsidizing also fuel inflation. Therefore, it will be right to state global economic recession was a main reason for inflation and poor economic policies a contributing one. This essay will explore the ~~main reasons~~ <sup>reasons</sup> fueling of inflation amid global

Economic woes, and provide a counter perspective as to how poor economic policies, too, contribute to inflation.

Before jumping to the main essay, it is important to have a vivid understanding of the key terms of the essay - which are global economic woes and poor economic policies. Poor economic policies simply means the policies formed by the economists which to a larger extent do not benefit public at large. These policies are often labelled flawed and prove to be detrimental for a state. The detailed discussion over them will be in the latter part of the essay. Whereas, global economic woes means that economic challenges and difficulties that are faced by majority of states and not a particular one. These are economic woes of the globe wholly.

Succeeding paragraphs will thoroughly discuss and illustrate how global economic

woes are a major reason for inflation. Firstly, decreasing natural resources worldwide concern every state. It is a main reason for inflation. A simple lay man rule of economics say that when demand increases and supply decreases - the prices soar. Same is happening with oil; a major <sup>main</sup> resource for production, generation, and energy. Decreasing petroleum supplies have soared petrol prices increasing the production cost, eventually adding to inflation. Likewise, gas is a natural resource and a main source, which is decreasing. Therefore, the ending natural resources are main reason for inflation as the increase in their prices fuel inflation.

Secondly, the population worldwide is increasing. Whereas, the food required for the exploding population mainly comes from agriculture - which remains more or less same. United Nations Population Fund (UNFP) research state that number of people on earth is rapidly increasing - a

majority of which is supposed to be food insecure in the coming times. Globally increasing population trends require the agricultural production to increase at the same pace. Population mark has touched 8 billion and counting. There fore, an increasingly hared population is reason for soaring food prices and global economic woes.

Moreover, the Russo-Ukraine war is fanning the flames of inflation. Russia is a main supplier of gas world wide via the Nord Stream pipelines. It is the Russian gas that saves Europe from extreme winters and allow the European states to use it for cooking. The disruptions amid the tensions with Europe over war has worsened the inflation and continue to do so. Countries like Germany, France, United Kingdom are facing crises of sky-rocketing inflation due to disruptions. Thus, the global disruptions amid the Russo-Ukraine war are fueling inflation.

In addition to that, economies worldwide are recovering from the shocks of the pandemic; which shut the worldwide economies for almost 2 to 2.5 years inflicting economic pain. This revival of economies has burdened the population by increasing prices of products by almost five times. The loss bearers during Covid-19 aim to recover it now. This is not a case of a particular country, but the whole world. Therefore, the revival of economies has put public at large in testing times by fueling inflation worldwide.

Furthermore, global currency devaluations, too, has added the woes of inflation. Countries globally are facing depreciation of their currencies, which is making their economies bleed. Pakistan can be a good case in point; as the country faces a nose-diving rupee situation. U.S Dollar which

~~175~~ to 185 last year has jumped to all time high rating 300-315 suppees Pakistani for a dollar. As whole of the import is in dollars at the moment, the commodities prices have increased manifold following the currency devaluation. Hence, depreciation of currency contributes to the inflation to a larger extent.

more importantly, the globe is facing debt crisis. As majority of wealth remains concentrated in few countries.

The others are in a continuous debt crisis - taking loans to pay off previous loans and the cycle continues. A major

example of developing countries like Nepal, Sri Lanka, Brazil and Pakistan. All of these

are struggling hard to pay off loans, and for doing so, these countries put tough economic conditions in their countries -

pushing the inflation to heights. All of the debt to be payed off or minimized countries push inflation by imposing taxes and toughening economic conditions. Thus,



debt crisis is also a reason for the fueling of inflation worldwide.

Lately, the countries worldwide are going through an ~~in~~ economic recession, where rates of unemployment are mounting, peoples purchasing power decreasing, consumerism going downwards. All this impacts directly or indirectly to the soaring inflation.

Be it the businesses, which otherwise operate widely and profit a lot. All of those are struggling. Some economists are of the opinion that economic recessions and global economic slowdowns often occur in a decade or two. As the global financial crisis did occur during 2007-2008.

Therefore, economic recession, too, contributes to the inflation largely.

A counter perspective to this thought will tell that poor economic policies also contribute to the inflation - but not as largely.

As the global economic woes do. The poor economic policies include; firstly, import restrictions. Countries often impose bans on import aiming to achieve stability of current account deficit and balance currency devaluation. However, this has impacted negatively most of the times. As in the case of Pakistan; Pakistan has put restrictions on import of automobiles. This impacted negatively by soaring the prices of a Japanese alto to 32 lacs, which was otherwise of 20-22 lacs depending on the variant one gets. All of the economic plan backfired soaring inflation. As the country depends largely on imported products. Therefore, such miscalculated economic policies have fanned the flames of inflation.

Secondly, countries often enter into long term agreements without taking all factors into considerations. Again the case of Pakistan is best to prove the point, as the country largely has

entered into energy agreements in the past at the prices which are unfavourable and comparatively high. Take an example that a unit, due to multiple reasons, of electricity costs now 5 rupees, but at the terms agreed previously at price of 7 rupees. This largely lets the inflation swell. Therefore, long unfavourable agreements are detrimental for countries as they contribute to inflation.

more importantly, giving subsidies to key sectors like petroleum and energy. Subsidies on edible products like sugar and oil might seem an economic relief apparently, but these serve as a factor ~~shrinking~~ the economy. As government gives subsidies to everyone, even to a person who is highly rich and he does not need subsidy.

Instead, he should be taxed. These flawed economic policies serve as a contributing factor to inflation, as the

damage to the economy and  
the inflation in the long  
run.

Lastly, countries often  
put the exchange rates floating.  
Ostensibly, this serves the  
purpose of benefitting economy.

However, it also devalues  
the currency to a larger  
extent. As the free hand to  
dollars let it rise suddenly  
to heights and fall the  
same time. During the times

of Ishtaq Dar 2014-2018 dollar  
exchange rate was fixed

and inflation did not reach  
to its peak. Today, after

the same finance minister,  
when dollar is in free flow  
the rupee is in free fall,

and it is no secret that  
every thing in Pakistan relates  
to dollar. Rising of dollar

hurts the economy badly  
swelling the inflation to  
fueling new heights.

To conclude, it can  
be said that inflation, which  
is increase in average price  
of a thing, is more in

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impact of global economic woes. As the decreasing natural resources, stagnant agricultural production, global supply disruptions and debt crisis with economic recessions are all majorly fueling inflation. On the contrary, poor economic policies also has impacted inflation by putting import restrictions, entering into giving subsidies and making unfavourable agreements. However, global economic woes remain largely the reason for the sky-rocketing inflation that has burdened the common men, and has made life challenging.

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(Mam, essay count is around 1900 or more excluding outline. wrote it in 2 hours and 53 minutes.)