

What can we do if inflation is back?



AN OPEN DIALOGUE

ABDULLAH SHIBLI

WHY talk about inflation in the midst of the pandemic, one might ask. The answer is simple, if somewhat unpleasant. Inflation may soon be making

a comeback! There is no question that while defeating the Covid-19 virus and cutting its hydra-like fangs are of utmost urgency, we might soon see a situation where the world is fighting multiple battles on several fronts. Some of the issues that policymakers are currently grappling with are a surge in the Delta variant or some other variant, a sluggish economic recovery compounded by unemployed and underemployed population, lack of skilled workers in developed countries, and inflationary pressures that might complicate the task of the central banks as they pursue expansionary monetary policy and keep interest rates low. To complicate matters, inflation is emerging as a major concern in both G7 and emerging market and developing economies (EMDE).

Fahmida Khatun, Executive Director of CPD, in reviewing the country's monetary policy cautioned that the Bangladesh Bank "will have to be vigilant in maintaining the stability of the financial market in such unusual circumstances to avoid any price bubble." (*The Daily Star*, August 2). Other economists knowledgeable about the Bangladesh economy, including Zahid Hussain and Ahsan H Mansur, are all unanimous that inflationary pressures unleashed by disruptions in the supply chain and the easy money flowing from the government's stimulus programmes are already evident in the price of food and other essential commodities. According to BSS, the average inflation in the just-concluded fiscal year was 5.56 percent, overshooting the government's target of 5.4 percent. June's inflation of 5.64

percent was the highest in eight months. The spectre of inflation has been on the minds of central bankers and policy analysts in developed countries for some time, and this is reflected in the public discourse as well as in the print and online media. Inflation is also a constant fear in developing countries. For example, in Bangladesh, the total stimulus packages given during this pandemic by the government so far amount to Tk 128,441 crore (4.59 percent of GDP). Prices of almost all the commodities, including rice, pulses, flour, onion, vegetables, fishes and meat, are on the rise. This can be partially attributed to disruptions in the supply chain due to the pandemic, floods and market manipulation. However, inflationary expectations are rising too. "In addition to these, the increased flow of money into market from the stimulus packages has created fears of further inflation," according to Mansur.

I was recently searching for a topic for my next op-ed for *The Daily Star*. I started with the *Wall Street Journal* which has over the years been a reliable source of current news as well as emerging business issues. During the last few weeks, US Congress and the financial markets have consistently expressed their worries about the prospects of inflation. The lead stories and the opinions pages have kept on chirping about inflation. Regardless of the constant denials from the Federal Reserve, the central bank of the USA, one can be sure that just as the US and the global economy appear to be bouncing back from last year's slowdown, the fear of inflation will be a dominant theme.

Inflation phobia is obviously the result of our past experience, and theoretical discussions about the effect of increased money supply on inflation. Inflation—or the rate of change in prices over time—is not a simple phenomenon to measure or interpret. In general, a swiftly growing economy, a tightening job market, and continuing supply-chain issues seem a ripe environment for prices to keep on rising.

The prognosis is in sharp contrast to

recent low inflation in most countries. Until 2020, inflation has averaged just above 0.5-1 percent over the past decade, well below the US Federal Reserve's target of 2 percent. Low inflation for such an extended stretch is quite unusual if we consider the post-World War II record. "With the current unemployment rate near historic lows, the persistent soft readings on inflation pose a puzzle and challenge for economists, financial market participants, policymakers, and the general public," according to Dan Sichel

as monetarists, believe that a higher rate of inflation is coming, and inflation will remain high in the coming years.

For Bangladesh, economists caution the government to remain alert in the face of rising commodity prices, including that of daily essentials, "in the face of already existing excess liquidity which has reportedly reached Tk 2.31 trillion." Experts everywhere are somewhat in double minds about the future inflationary trends, though. Central bankers are not sure and forecasters in some instances stand at

the high-income economies.

Some cautionary words

Inflation measures in both developed and developing countries have been found to have underestimated price rises during the pandemic. Spending on "food at home" is up and spending for "transportation" is down as a result of the pandemic, but the CPI weights of these categories are unchanged. Alberto Cavallo of Harvard Business School found that in 10 of the 16 countries, inflation rates during the pandemic were higher than the official rates.

The IMF suggests seven possible measures to curb inflationary surges. In its report "The Impact of Covid-19 on Inflation: Potential Drivers and Dynamics", the IMF suggests international coordination to secure food and medical supplies, especially for low-income and fragile countries, checks on speculative price hikes and hoarding, and "targeted transfers—like food stamp programmes—to address the needs of the most vulnerable populations at the country level."

It is possible that the rise in prices as lockdowns start to be lifted may be "transitory", as many central bankers are hoping. The government can reduce uncertainty and the extent of pent-up demand which fuels inflation by announcing a credible plan to open up the economy to mitigate both deflationary pressures due to lack of demand during the containment and the inflationary pressures due to a rebound in demand during the reopening.

Moreover, to avoid creating inflationary pressures, appropriate monetary and fiscal policy after the end of the pandemic should be data-dependent and based on the strength of the rebound in supply and demand. This calls for watchful eyes from the policymakers, economists, and statisticians alike.



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PHOTO: STAR

of Wellesley College, USA.

Let us now look ahead. The trillions of dollars of stimulus money that have been pumped into the global economy over the last 18 months are bound to trigger inflation. "Too Much Money Portends High Inflation. The Fed should pay attention to Milton Friedman's wisdom", write economists John Greenwood and Steve H Hanke.

According to Milton Friedman, an economist who won the Nobel Prize, the relationship between money supply and price level is captured by a simple equation, known as the Quantity Theory of Money. Friedman's disciples, known

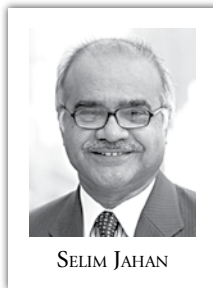
opposite ends of the spectrum.

One commentator jokingly quotes the poet Robert Frost, who said, "some say the world will end in fire, some say in ice". Robert Frost wasn't writing about the inflation debate, but he might as well as have.

Strong economic rebound and lingering pandemic disruptions fuel inflation forecasts above 2 percent through 2023, according to a survey of economists. Developing countries such as Bangladesh have managed to live with a higher level of inflation, as well as with a degree of uncertainty over inflation that would be politically unacceptable in

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How debate can help create a better world



SELIM JAHAN

FROM the beginning of human civilisation, people have loved to argue and debate. They argue on topics, trivial or important, and they debate on issues

which affect them personally or collectively. Sometimes, they just argue for argument's sake, but that is not a debate. A debate is a constructive way of substantive interaction, where people argue and counter-argue, using reasoning, objectivity, rational analysis, and facts. The idea is that through such processes, a society would have a better understanding of issues that affect it and possibly will find ways to encounter them. The ultimate objective of debate is to create sharpened, logical, and creative minds. Debating provides a platform for having discussions on critical issues facing the world and is thus an important means of creating a better world.

What constitutes a better world? In my view, a world that is equal, stable and sustainable is a better world. An equal world stands for human rights, human dignity, equal rights. A series of corollaries emerge from all these—being sensitive to other human beings, respect for other beliefs and views, tolerance, equal treatment of all citizens, remaining secular, and so on. The notion of an equal world is neither a utopia nor a rhetoric, rather a goal which we all can aspire to achieve. Equality implies the equality of capabilities as well as the equality of opportunities. Equality should be seen on different planes—between men and women, along the rural-urban



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divide, between various geographical regions and among different socio-economic groups. Equality also refers to inter-generational equality—the current generation should be sensitive to the needs and opportunities of future generations and, in that context, should be mindful of the use of natural resources and their consequences. With equality, there needs to be equity as well. Equality is an absolute

concept, whereas equity is a relative or proportional one. For example, everyone should be treated equally before the eyes of the law, but should be treated equitably in terms of taxes, where the tax burden should be proportional to the income of the person concerned. A better world would mean a stable world—a world without wars and conflicts, without human oppression,

without social unrest and communal riots, and last but not the least, without terrorism. Today, our world is beset with wars and conflicts, characterised by unrest and human oppressions, and human security all around is threatened by terrorist activities here and there. In order to settle differences of opinions or any other conflict, people often resort to force or weapons. There has been an increasing radicalisation or weaponisation of society of late, and reasoning and tolerance have taken a back seat as a result. The world would be stable when we can overcome these obstacles.

A better world would also imply a sustainable world, where there is peaceful and respectful coexistence of humans and nature. The present generation should not degrade the

environment as that would shrink the opportunities and potential of the future generations and would hurt inter-generational equity. As *Homo sapiens*, we must realise that we can exist and prosper when we are respectful and sensitive to our environment and nature.

Debates provide a critical means for the youth to better equip themselves for meaningfully participating in the creation of a better world. For such meaningful participation, debates prepare young people in five distinct ways:

First, debates provide a broader picture by exposing the pros and cons of the topic. As a result, the participants get a holistic view of concerns—a view which is needed for a constructive and balanced change in the world. For a changed world, such a broader vision is much-needed.

Second, since debaters are trained to approach issues in a logical manner, they can identify the priorities of societies in a logical manner. Identification of priorities and setting them in a logical manner is needed for any kind of change. Debates also equip young people to be focused and clear in their thoughts and approaches. Again, without a clear and focused approach, changes cannot be brought in. Furthermore, while making their arguments and counter-arguments, debaters depend on evidence. Their deliberations are fact-based. Evidence is also critical while making a case for a change and without facts, a blueprint for change cannot be formulated. Since they know how to use evidence in an objective manner, debaters can also effectively participate in the process of changing the world.

Third, debates teach people to be more sensitive to others, more respectful of others and more tolerant of opposing

viewpoints. In a world bedevilled by wars, conflicts and terrorism, one needs sensitivity, tolerance, and mutual respect to end conflicts and to stop terrorism. Such traits would also breed equality, communal harmony, and stability—all critical elements of a better world.

Fourth, debates give debaters confidence—confidence to speak out, to raise their concerns and to demand and seek solutions. All these are needed for effective participation in the process of changing the world. Furthermore, through debates, a sense of collaboration and cooperation develops among the team members. So, the debaters do not go for individual celebration, rather a collective approach to get their desired goal. Such a sense of collaboration and cooperation help young people understand the importance of collective actions, which are needed for changing the world.

Finally, changing the world is not a static process, rather a dynamic one. In such a process, priorities change, focus is redefined, strategies are revised. The change-makers must adjust to such shifts. Debating is also a dynamic process, which teaches the debaters to shift grounds as arguments and counter-arguments evolve.

I think at present, debates can contribute to changing the scenario in at least three specific areas—*first*, in areas of intolerance and conflict by bringing in reasoning, respect for others, and the desire to settle differences; *second*, by having deliberations on emerging challenges like environmental degradation, migration, and refugees; and *third*, helping the issue of mental health because of the Covid-19 pandemic.

Selim Jahan is Former Director, Human Development Report Office and Poverty Division, UNDP.

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QUOTABLE Quote

CHITRA BANERJEE DIVAKARUNI
(born July 29, 1956)
Indian-American author

Two great and terrible truths of war are these: War is easy to enter into, but difficult to end. And ultimately, in war there are no winners.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Goofs off
- 6 Painter Picasso
- 11 Permit
- 12 Cook's protector
- 13 "Robinson Crusoe" writer
- 14 Honking birds
- 15 Folded food
- 17 Director
- 18 Nuclear reactor inserts
- 22 Norway's capital
- 23 Sioux people
- 27 Plant anew
- 29 Singer Carly
- 30 Makes blank
- 32 Brussels-based org.
- 33 Atom orbiter

DOWN

- 1 Young fellow
- 2 Bullring cry
- 3 TV alien
- 4 Free of responsibilities
- 5 Take an oath
- 6 Asian temples
- 7 Gorilla, for one
- 8 Make coffee
- 9 Finish last

35 Place for a pint

- 38 Sub shop
- 39 Make a speech
- 41 Like gymnasts
- 45 Captain's superior
- 46 Smallest mammal
- 47 Schemes
- 48 Play setting

10 Wallet bills

- 16 Atlantic fish
- 18 Golf cry
- 19 Manual reader
- 20 "Frozen" queen
- 21 Far from baggy
- 24 Poet Khayyam
- 25 Dorothy's dog
- 26 Shortly, in poems
- 28 Construction site workers
- 31 Take in
- 34 School group
- 35 Pageantry
- 36 River of Russia
- 37 Mexican peninsula
- 40 Shipping weight
- 42 Lyricist Gershwin
- 43 Table part
- 44 Ram's mate

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YESTERDAY'S ANSWERS

C	A	R	O	B	S	E	C	T	S
A	R	O	M	A	A	V	A	I	L
M	A	T	E	R	D	E	L	T	A
P	R	A	N	C	E	D	E	L	T
E	A	T	E	V	A	D	I	N	G
R	T	E	L	E	M	O	N	S	
P	L	A	N	E	T	R	A	G	
F	R	I	G	A	T	E	A	R	R
R	O	E	T	R	A	N	C	E	
A	N	D	R	E	D	U	C	A	T
U	T	T	E	R	A	T	O	N	E
D	O	O	M	S	M	O	R	E	L

BEETLE BAILEY BY MORT WALKER

HOW IS THE SPEECH I DRAFTED FOR YOU? GOOD, BUT I WANT TO CHANGE THIS "A" TO "AN" WHY CHANGE THAT? SO I CAN TAKE CREDIT FOR WRITING IT

BABY BLUES BY KIRKMAN & SCOTT

BEFORE YOU SAY ANYTHING, JUST HEAR ME OUT. WE COULD RENT A MOTORHOME FOR OUR SUMMER VACATION! THE KIDS WOULD LIKE THAT. THIRTY-FOOT DIESEL PUSHER FORGING DOWN THE HIGHWAY, ANSWERING THE CALL OF THE OPEN ROAD. THIS IS FOR THE KIDS, RIGHT?