LONG-RUN DRIVERS OF INFLATION IN THE 21ST CENTURY

Assoc. Prof. Ivo Veselinov Yotsov PhD

Nikola Vaptsarov Naval Academy

Abstract: *The article makes a brief retrospective of global conditions that led to results predetermining negative trends in the development of global economic processes. A strategic framework for getting out of the deepening contradictions and severe crises is proposed.*

Keywords: *globalization, deglobalization, regionalization, inflation, structural reforms, sustainable development*

ДВИЖЕЩИ СИЛИ НА ИНФЛАЦИЯТА В ДЪЛГОСРОЧЕН ПЛАН ПРЕЗ XXI-ВИ ВЕК

Доц. д-р Иво Йоцов

ВВМУ „Н.Й. Вапцаров“,

Резюме*: Статията прави кратка ретроспекция на глобалните условия довели до резултати, предопределящи негативните тенденции в развитието на глобалните икономически процеси. Предложена е стратегическа рамка за излизане от задълбочаващите се противоречия и тежки кризи.*

Ключови думи: *глобализация, деглобализация, регионализация, инфлация, структурни реформи, устойчиво развитие.*

In 2008, two events marked the world's entry into a new geopolitical and economic era. These are the financial crisis in the USA, which grew into a global one and had an extremely negative impact on many economies, and the three-day war in August of the same year between the Russian Federation and the Republic of Georgia. It started the so-called "winter" from Kondratiev's big waves. The unipolar world with the dominance of one hegemon and the dominance of liberal and, in many directions, ultra-liberal political theories (Дугин, 2014) began to change. Today, the world is radically changed compared to a few decades ago (Вацев, 2022). Moreover, the analysis of multiple trends shows that the crises in international relations, the economy and social development will deepen because they are dialectically predetermined by the historical development of the world from the end of the 1980s to this moment.

The period after the Second World War is characterized by undeniable processes of the so-called globalization. Two political theories dominate and oppose each other (liberal-capitalist and communist), which also define the bipolar model in economic development. Regardless of diametrically opposed views on the development of society, both models are united in terms of economic integration. Even in many aspects, the administrative-planned economy in the CEE countries was ahead of the EEC countries by decades. A single currency (convertible ruble) was created, and a strict international division and specialization of labour ware achieved. After the collapse of the economic bloc dominated by the USSR, the liberal-capitalist model of development and, accordingly, the free market was established in the CEE countries. International trade become more and more important for the development of the global economy, reaching 60% of global GDP in the period 2010-2020 (see figure 1). The main economic result is high specialization, the global distribution of production blocks and logically – the development of global supply chains. Undoubtedly, this brings many advantages – global specialization and economies of scale of production, the export orientation of economies, etc.

Fig. 1 World trade as a share of world gross domestic product, source *(World Bank and OECD)*

At the same time, the global economy is becoming a "hostage" of international trade and, in particular, supply chains. In the context of a pandemic and border closures, supply chains are under pressure to the extent that supplies of consumer goods are hampered, and many industries such as automotive and pharmaceuticals are curtailing or halting production.

In the autumn of 2021, the coronavirus pandemic (Paulus, et al., 2021) is responsible for the high inflation rates in Europe and the US, and therefore lower inflation rates can be expected again when the effects of the pandemic disappear. At the beginning of 2022, supply chains are facing new challenges. On February 24, the Special Military Operation (SMO) of the Russian Federation (RF) in Donbas began. The European Union and the United States are imposing unprecedented sanctions on the Russian Federation. In response, the Russian Federation restricts the export of a number of raw materials (Reuters, 2022) (2022), which makes it difficult for production fundamental to the global economy (Cooban, et al., 2022). There is a shortage of basic consumer goods and a new wave of recession and inflation. (Pathstone, 2022) Mainstream political rhetoric blames the Russian Federation as the main culprit for all the woes associated with recession and inflation in the global economy (Sink, et al., 2022) (Gardner, 2022). Let's see if it is so; what are the factors that play a major role in the development of global economic processes, and what can be expected in the long term?

The first factor is deglobalisation. The processes related to it developed particularly dynamically after 2008. Alternative to the existing and dominated by the G-7 countries, global governance bodies - BRICS, SCO - were created. Cooperation within organizations such as Eurasian Economic Union, MERCOSUR, UNASUR, ASEAN, etc. is growing. The restrictions associated with the Cov-19 pandemic have brought to the forefront the vulnerability of global supply chains. The SMO in Ukraine also raised the question of their dependence on international trade (See Figure 2) and certain partners (Jungbluth, et al., 2022) (Отражение на конфликта в Кримския регион върху добива на нефт и газ в Черно море, 2019). Limiting global risks requires rethinking the global distribution of production blocks, which creates conditions for regionalization of production or even limitation within national economies. This leads to an increase in the capital costs of the main producers, losses from downscaling and a rise in labour costs as production is transferred to countries with high levels of income. Finally, the big economies – above all USA and China – are increasingly using the tools of trade policy to achieve foreign policy goals. All this is inevitably calculated in the prices of the final products. This process exacerbated another factor even more, having a negative impact on inflation - the demographic crisis.

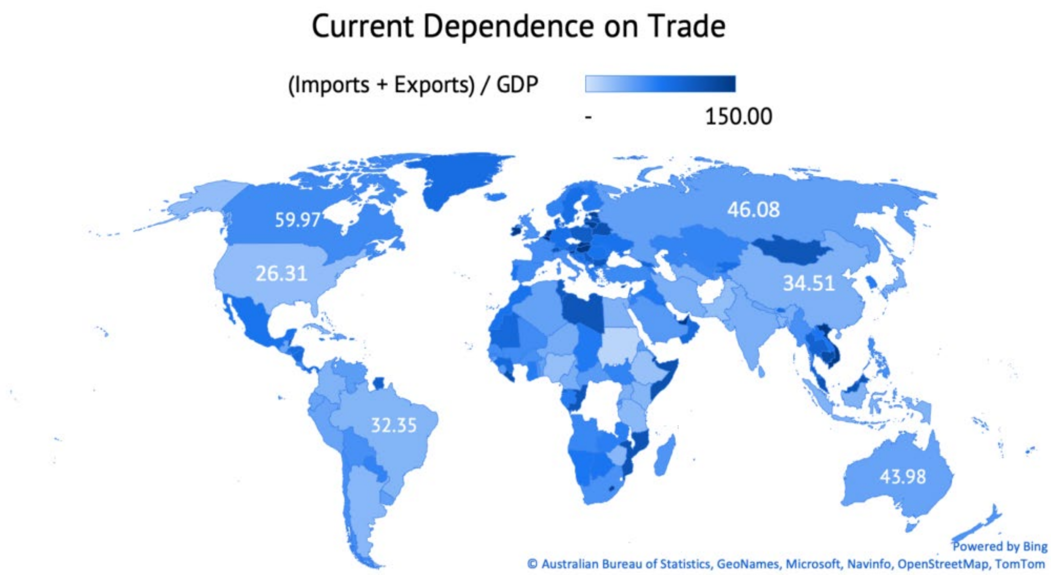

Fig. 2 Global Dependence on International Trade, Source *(Pathstone, 2022)*

The world's population continues to grow. According to UN estimates, it is expected to grow to 9.7 billion by 2050. (See Figure 3) This will cause an increase in demand for consumer goods.

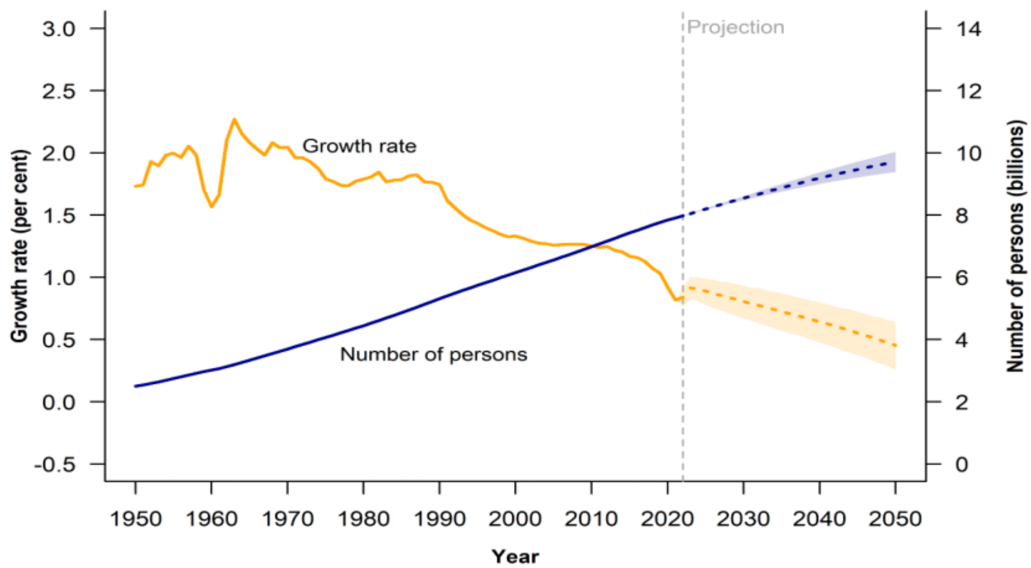

Fig. 3 Population and Annual Growth Rate: Projections, 1950-2022 and Middle Scenario with 95% Prediction Interval, 2022-2050, source *(United Nations Department of Economic and Social Affairs, Population Division, 2022)*

Since the natural limits of available resources do not allow unlimited expansion of supply, there will be excess demand and, therefore, inflationary tendencies. Above all, this applies to arable land, and from here to food production. (Paulus, et al., 2021)

In addition, global demographic changes are also characterized by an ageing population, which means that the ratio of people in and out of working age is decreasing. I.e. fewer people in the production process and more people consuming but no longer producing. The result is an excess of demand over the supply of goods. This again leads to higher inflation rates. This problem is especially acute in regions of the world that are ageing particularly fast - that is, in the first place in Europe.

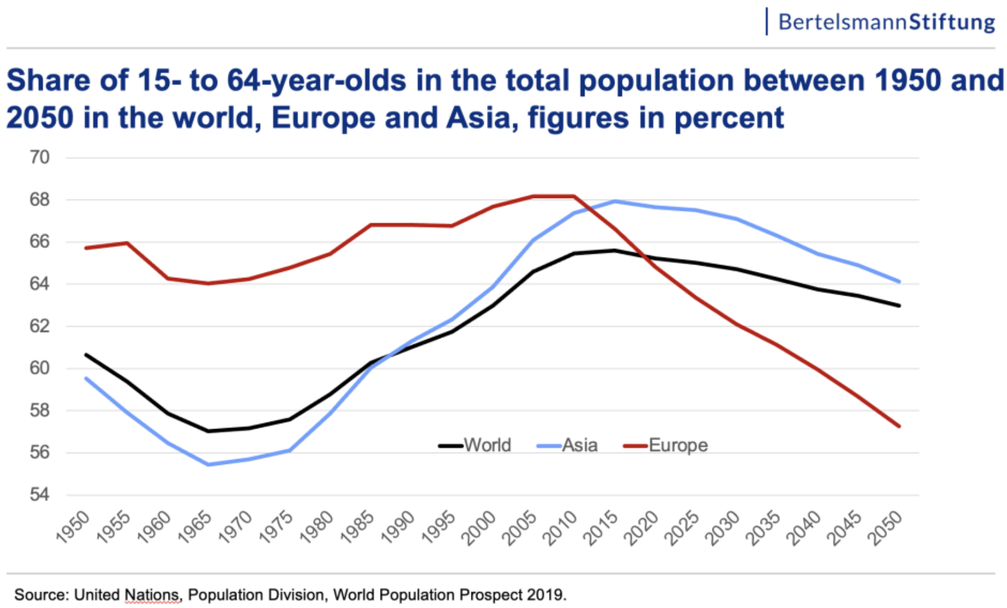

Fig. 4 Share of the population between 15 and 64 years of age relative to the total population, source *(Paulus, et al., 2021)*

However, the global decline in the share of the labour force in the total population has another consequence: labour shortages, including excessive demand in the labour market. The latter leads to higher wages, which increases production costs – and hence the prices consumers have to pay. At the same time, labour shortages mean that the economy's productive capacity is reduced, leading to higher consumer prices.

An indisputable fact is climate change, as a result of which we can expect an increase in extreme weather conditions such as heat waves (Soto, 2022), droughts, storms (World Weather Attribution initiative, 2022) and floods (World Weather Attribution, 2021) (World Weather Attribution initiative, 2022) which lead to crop loss and therefore a reduction in the supply of food products. Another reason for the high prices is strategies aimed at reducing greenhouse gases and limiting climate change.

One of them is limiting industrial production by imposing higher prices for these emissions. This is also calculated in the final prices and has an inflationary effect. On the other hand, the shift to using biofuels instead of fossil fuels also exerts inflationary pressures from the growth of capital costs for the construction of new production facilities. Second, these productions increase global demand for biomass and crops such as soybeans, corn, and canola. The areas for cultivation of other crops and, accordingly, their supply is limited. Another measure aimed at limiting climate change is afforestation, which again leads to a reduction in the area of arable land. An increase in demand and a decrease in supply will lead to constant inflation of food products.

Many politicians, organizations and researchers show concern about the described problems. The results, however, provoke many questions. Is the direction in which world processes are heading correct? Can sustainable demographic development be achieved? Aren't the strategies fundamentally wrong, but rather the operational implementation of the measures aimed at limiting climate change? Answering these questions may be considered unpleasant or "politically incorrect" because they go against basic policies.

The described economic effects of deglobalization or regionalization must be addressed through enhanced political cooperation, equal and fair negotiation processes and, as a result, reduction of political risks in front of global supply chains. The goal should be to build an atmosphere of trust and move from the paradigm "together against" and "together at the expense of" to "together for the sake of". This necessitates fundamental changes in most global governing bodies. These bodies must actually regulate the demographic processes in individual regions in accordance with their possibilities for sustainable development. The rejection of environmental strategies aimed at limiting production and reorientation towards strategies related to the limitation and liquidation of deserts (their afforestation), occupying huge areas, is of extreme importance. Along with the inclusion of these regions in the reproduction processes, this will also allow for a manageable modification of global climate processes and the achievement of sustainable yields from vast previously unused territories.

From what has been described, it is clear that there are many factors that complement each other and stimulate the inflationary processes in the global economy. The effects cannot be stopped without structural reforms in global governing bodies. These reforms must be of the first, second and third order - the foundation, superstructure and consciousness. While first- and second-order reforms require a relatively short period of time – from years to decades, third-order reforms require the change of generations. This is the reason why work in this direction should start as soon as possible.

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