



By: Emre Alkin

No Single Digit Inflation with Securitarian Politics



The principle of effective demand below basically tells us why inflation will not fall to single digits in many developing countries.

$$Y = C + I + G + (X - M)$$

Effective demand, which indicates the value of total output, that is the national income, have two determinants: investment expenditures, consumption and foreign income.

In countries affected by dollarisation, when governments raise interest rates hesitantly and insufficiently instead of increasing them in a timely and sharp manner, they leave themselves with no choice but to control foreign exchange rates.

When this monitoring and regulation of foreign exchange rates and the excessive rise of interest rates are accepted as the norm by the markets, economy gets deluded by a sense of false security and trust, leading companies to borrow in foreign currency, and individuals to pursue short-term profits by selling their foreign currency in return for Turkish liras. And a very dangerous process begins when foreign investors also jump in this trend.

The money supply keeps expanding in countries that are struggling with high inflation due to temporary inflow of foreign currency and rising interest rates.

A wise central bank would have regulated the amount of money in circulation. But today it is no longer possible for any central bank, other than the Fed or the ECB, to follow a national monetary policy. Because, in today's global landscape, finance knows no borders anymore and money is flowing to everywhere that promises earnings in dollars.

The vicious circle

On the other hand, government spending in developing countries does not go down. On the contrary, it keeps growing and growing, even surpassing the inflation rate, and central banks continue to indirectly finance these governments.

The system works like this: Market makers, which are typically large banks, buy government securities, then central banks buy these securities from the market makers through open market operations and give them money in return. And market makers, once again, go and buy government securities.

As the vicious circle continues, monetary authorities such as the CBRT (Central Bank of Türkiye) pressure banks to provide the Government with loans as well, like they do for companies. Thus, the Government continues to spend and spend and spend and spend. „Government spending is rising in developed countries too. So, what's the big deal?“, some of you might ask. Let me answer:

In developing countries, sometimes people have to spend 90 percent of their income because of the high cost of living.

As the money supply and government spending are growing, it becomes more and more difficult to combat inflation

When the prices of the goods and services they need to purchase every month, regardless of the season, continue to increase while their income remains stagnant, the marginal propensity to consume increases as well.

Not because they are consumer societies, but because they have to consume, unlike people living in highly developed countries who can save half of what they earn.

Every spending made through borrowing by governments of developing countries, without paying regard to their income, creates purchasing power in different income groups with the multiplier effect and increases the national income, or rather „inflates“ it.

As the money supply and government spending are growing, it becomes more and more difficult to combat inflation because of the multiplier effect. The security policies in place and governments' display of wealth and their desire to impress makes it impossible for

government spending to ever slow down.

Modern autocracies disguised as democracies

Interestingly, the governments of such countries are always cross with the US and the EU, distant from the Chinese, engaging in backroom politics with the Russians, and always welcoming Middle Eastern capital.

They make up a new internal and external enemy every day. Obviously, they have questionable human rights records and poor justice systems. They are simply modern autocracies disguised as democracies.

So how will inflation fall to single digits in developing countries? The solution is actually not that difficult. Governments should stop intervening constantly in the market and imposing restrictions on exports and foreign currency-earning activities.

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They should have a solid roadmap designed to quickly improve relations with foreign countries. They should stop picking up quarrels with the US and the EU all the time. They should keep a constructive distance from the Middle East and move their relations with China to a civilised level while maintaining relations with Russia from a point of mutual respect.

They should avoid the „trial and error“ method while trying to protect their countries' integrity. They should never embrace leaders who oppress their own people.

And finally, they should adopt a dynamic but tactful stance in foreign policy, which may not be always easy to display as the world currently goes through permanent and multiple crises.

Developing countries today have two options to choose from:

- To adopt an increasingly centralised and autocratic regime and to become a worse version of China. To make changes to the Constitution in order to put in place policies that allow people to live freely, but only as much as allowed by laws. And also, switch to state capitalism.

- To adopt an administration style that creates policies promoting the coexistence of conservative and progressive tendencies, in which people can freely say, „I haven't voted for the current government, but I'm glad to see they are successful“. To bring social peace and harmony and stability.

How to achieve economic stability?

Needless to say, I am a strong supporter of the second option and I believe that it is the one and only option that can help us achieve economic stability.

But, I am also a realist: When I think about the dynamics of the Russia-China relations, on the one hand, EU-US relations, on the other, the troubled Middle East and religion-oriented movements, those who believe in democracy and those who disregard it, the fact that the concept of traditional nuclear family is officially over and the number of people living alone surges across the world, I know that, out of this competition, this fight among those who try to control society as a whole, „the most powerful“ will definitely not emerge victorious.

The countries will eventually move into the direction that is determined by the combined force of those who want to manipulate them, not into the direction desired by one party individually. In short, nobody will get what they want and nobody will be satisfied with this new direction. Perhaps this is for the best.

This being the case, we should know that this

soi-disant profitable economic climate created by governments that make rational promises but have not yet taken any rational actions will be a provisional one.



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It is not possible to push down effective demand while the money supply and government spending keep growing. Governments cannot possibly not know this.

However, if they can manage to eliminate the public's lack of confidence in the economy, soothe their worries about their future and that of their children, and we know that both of those things cause disruptions in pricing behaviour, then we can call it a success. But they are about to miss this opportunity too.

People all over the world are angry with the economic prescriptions in place.

Governments appoint top economy officials with outstanding academic backgrounds. But when something goes wrong, they are the ones who are instantly blamed for it.

All of this is happening because of governments that prioritise stability and power therefore avoid doing what needs to be done to increase public welfare and prosperity. And when people entrusted with the task of managing economy begin to do whatever the government says just to keep their positions, they pretend to be fighting inflation.

In countries where people have difficulty even

buying their essential needs, governments tend not to care about the way they handle things, whether it's a corrupt, unfair or unethical way.

Eventually, out of fear of losing their jobs (or some, their lavish lifestyles) or not finding a new one, people become afraid to speak up against wrong practices and poor governance causing social malaise.