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Who's Behind This Inflation?



Famous economist Milton Friedman has a quote that stays in all our minds. It can be summarized as follows: „The cause of inflation is not consumers, producers, imports, energy, etc., but excessive government spending and the excessive money creation by governments.“

Of course, some might take this quote and conclude, „So taxes do not create inflation.“ However, we all know that taxes imposed on goods and services can trigger inflation and lead to price increases for other products and services as well.

The truth is that no one can match the government when it comes to autonomous spending, I mean independently of income.

The private sector borrows to make investments but bases its operations on the profit principle. The public, on the other hand, not only lacks a profit motive but does not seek efficiency either. Thus, it creates inflation both while collecting taxes and while spending.

Like Friedman said, imports do not create inflation on their own, until the government makes them expensive through protectionist measures. Consequently, producers increase their prices in response to rising costs because they cannot access cheap raw materials or investment goods.

When the collected taxes and savings withdrawn from the market are allocated not to the welfare of society but to flashy or mega projects or unprofitable activities, cost of the monetary resources rise rapidly while the value of the country's national currency decreases.

In a state of panic, governments spend international reserves to hold the value of the national currency while also raising interest rates, thereby wasting resources again. As a result, relative price equilibrium deteriorates, the cost of living becomes sticky, and wages fail to maintain quality of life.

Chain of negative outcomes

The cause of this chain of negative outcomes is the shortcut thinking of those making strategic decisions. If the efforts trying to create a certain perception lack the values to substantiate it, every activity becomes costly, and resources are diverted from investing in “sine qua non” due to unnecessary expenditures.

Generally, making plans without taking the consent and information from the parties affected by a decision is a shortcut favored by governments.



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However, they do not take responsibility for the failures. They instead take credit for any positive developments that arise spontaneously. Such phenomena occur wherever loyalty and servility supersedes merit.

The economic managements and emerging economies always blame citizens and businessmen for the high inflation that has emerged. Therefore, while continuing with a recipe that does not allow people to breathe, they are not taking radical steps to rein in public spending.

As new taxes on imports, a downward trend in agriculture, and rigidity in service prices continues, the government which should be responsible for lowering inflation, continues to spend excessively.

Responsibility for the side effects

Such approaches can be observed in all developing countries. The reason they have remained „developing“ and not truly developed is precisely this.

We are talking about countries that are praised as „potential countries“ but fail to transform that potential into reality.

„Governance decides what the right thing is, while management finds the way to do the things right“

Here, the private sector also attempts to correct strategic mistakes through tactical moves, turning every issue into a „battle for survival.“ It is necessary to remember the difference between governance and management: „Governance decides what the right thing is, while management finds the way to do the things right.“

It is already known that when writing an economic prescription, the views of political, social, and economic stakeholders are not considered.

However, no one takes responsibility for the side effects that arise from the prescription. This is the reason that the prescription has not been fully embraced. I believe this adventure serves not only as a lesson for politicians but also for businessmen and managers.