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Inflation: Cause and remedy

In every developing country inflation of some kind occurs along with economic development which is called natural inflation. The rate of this natural inflation is more or less five percent. If the inflation exceeds this mark the general demand for local products and the consumers are affected. In Bangladesh the present rate of inflation is relatively high even though the figure remains within the single digit. We are afraid if we cannot resolve this problem of inflation by contractionary economic policies this rate will reach the double digit soon. It will result in terrible crisis in economic activities of the country.

Because of adverse effect of inflation the economy and the nation are being affected in different ways. Unexpectedly different groups of people are affected in different fashions. The poor are becoming poorer, the rich richer. Inflation is creating obstacle to the development of the country. Buying capacity of the mass has drastically decreased. Peace and happiness in public life is pitifully affected because they cannot afford to buy goods and services they require as before. The demand and supply of our own goods and services have reduced. Goods and services in a country are provided by the agriculture industries and business organisations and individuals. In producing goods and services we have to import raw materials, oil and fuel from other countries. Recently there has been inflation around the world because of the rise in oil and fuel prices. The production cost of our goods and services has also increased. The workers are putting pressure constantly for the increase in their wages. The producers have increased the prices of all kinds of goods to recover the increased production cost from the consumers. The low-earning people are only thinking of buying the most essentials at the moment. Due to such inflationary pressure in the market and the increasing cost of production the entrepreneurs have lost interest in producing more goods. The national production and economic growth have been reduced to a great extent due to decrease in

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demand, production and supply of local goods. The economists and the politicians have failed to determine what might happen out of such inflationary condition.

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and services have gone up. We have by now succeeded in exporting garments, frozen fish and some other items. But our export status in the international market is much low because of our present inflation. As a result, our export trade is particularly affected. Foreign investments have become one-fourth because of political unrest. Natural disasters like flood, erosion, excessive rainfall, drought, storm etc. have also affected Amon paddy and seasonal crops. The businessmen in different

sectors have lost confidence. The setting up of newer industries has reduced remarkably than in the previous year. It is nothing astonishing that many businessmen are frightened. They have reduced import of rice, fertiliser and many other daily necessities. As a result, farmers and general consumers suffer. General consumers are not in a position to consume foreign goods as before because of devaluation of money and reduction of exchange rate.

Inflation may occur for many

reasons. The main three causes are demand-pull, cost-push and expansionary economic policy taken by government. Expansionary economic policy includes expansionary monetary and fiscal policies. The main reason for the present inflation is worldwide inflation which is caused by the increase in oil and fuel price.

In brief, we can term it as cost-push inflation or inflation due to up-raises of production-cost and global increase in the price of oil and fuel. What we need is to change production system, develop production management and invent newer production methods. We have to boost production through education and training and thus making productive human resource or skilled manpower. Through this effort, average cost of production of goods and services will decrease. The people of the country will be able to buy goods and services as before and at reasonable prices. Thus, peace and happiness will be regained.

The present economic unrest is a temporary event which might be removed. Since the present inflation is not demand-pull, most of it is caused by cost-push inflation; we should avoid foreign advice like contractionary monetary policy and tight credit policy. In fact what we need is to adopt expansionary monetary policy or accept expanded revenue policy. We can also adopt a combined policy so that the economy of the country may expand promptly and the people may re-gain their purchasing power. In this way, the demand of our own products will increase. An atmosphere for smooth trade and commerce will be created. Investment will increase. People will be able to buy goods and services at reasonable prices and we will be in a position to export goods and services.

Since Bangladesh is an import-dependent country, we can increase the rate of exchange of money and hold control over it. Then we will be able to buy foreign goods and services at cheaper prices and low earning people will feel comfort.

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