

THE ECONOMIC DISPARITY AND INFLATION

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Annotation

Economists and decision-makers frequently disagree on the connection between inflation, income inequality, and economic growth. This essay examines the intricate and frequently disregarded connection between inflation and economic inequality. It explores how inflationary pressures can be made worse by economic disparity, emphasising how poor communities are disproportionately affected by inflation. The scientific article also addresses the possible feedback loop that could exist between inflation and rising inequality, highlighting the necessity of implementing legislative changes to solve both problems.

Key words

Gini coefficient, Economic Disparity, Income Inequality, Inflation, Cost of Living, Wage Stagnation, Monetary Policy, Fiscal Policy, Social Welfare, Redistribution, Inequality Trap.

The unequal distribution of income within a society is referred to as income inequality, and it is quantified using the Gini coefficient. However, wealth disparity can have a significant impact on both inflation and economic expansion. Because marginalised people find it difficult to access opportunities and resources, high levels of income inequality may be a contributing factor to social and economic instability [1]. Due to social unrest and pressure to raise salaries, limited access to needs and greater financial strain may have an impact on inflation. Furthermore, income disparity can obstruct economic growth by limiting access to the market, impeding the development of human capital, and dividing society in ways that undercut profitable economic activity [2,3].

An economy's overall level of prices for goods and services rising steadily over time is referred to as inflation, and the consumer price index (CPI) is a useful tool for measuring inflation. It is frequently determined by looking at the inflation rate, which shows the percentage change in prices over a given time frame, usually a year. Because there are fewer goods and services available for a given amount of money, inflation diminishes the purchasing power of money.

A thriving economy might be indicated by moderate inflation. This shows that the market is large enough to support enterprises' expansion and investment, which fuels economic growth [4]. Economic growth may be adversely affected by high rates of inflation. Overly rapid inflation weakens customers' purchasing power and limits their capacity to make purchases. This may result in fewer investments, a decline in consumer confidence, and a slower rate of economic expansion. By driving up the cost of essentials and depressing low-income people's purchasing power, inflation can worsen income inequality by forcing them to spend a bigger percentage of their income on necessities. This has the potential to worsen economic inequality by increasing the gap between the rich and the poor.[3]

A rise in the production and consumption of goods and services over time is referred to as economic growth, and it can also be expressed in terms of GDP. In general, steady economic expansion is advantageous since it can raise living standards and create job and revenue-generating opportunities. However, income inequality could arise if the advantages of economic progress are not dispersed equitably. Specifically, some industries or geographical areas grow at a faster rate than others.

A widespread or ongoing increase in the cost of goods and services as a result of disparities in the growth of social production is known as inflation, which is also a breach of the law of money circulation and a devaluation of the monetary unit. The term "inflation" is derived from the Latin word "inflation" which means "inflated", "exaggerated", "increased". The economic essence of inflation means a decrease in the purchasing power of cash in circulation, an increase in the price of goods and services. From the middle of the 19th century, until it was used by economists as an economic term, it was used in medicine to describe a malignant neoplasm. History has indeed shown that this word is dangerous in every way. Because inflation is not only an increase in the price of goods and services in some particular markets, it is a dangerous phenomenon for the entire economy. The economic meaning of the word "inflation" is to issue more money in relation to the goods in circulation and their prices. If we look at history, the increase in other expenses due to war and other disasters is inextricably linked with inflation. For instance, during the Napoleonic Wars in England at the start of the 1800s, the French Revolution in France, and the Russian Revolution in the middle of the 1800s, there were instances of severe inflation. Germany had extremely high inflation in 1923, a year in which the money supply reached 496 quintillion marks and the value of the currency fell by a factor of trillion. These historical instances demonstrate that inflation is a historical phenomenon as opposed to a modern phenomenon. Inflation and its trajectory may exhibit distinct features unique to a given nation [5]. The features of inflation in the current period differ from those of inflation in previous periods. Past inflations were transitory and were typically brought on by the printing of paper money to pay for wartime military needs.

Another feature of inflations is that they appeared in a certain period. Inflation of the current period usually has a permanent (chronic) character, covers all areas of economic life, and is distinguished by the fact that it affects other economic factors in addition to monetary factors. In recent years, inflation is a frequent process, and its quality is also changing. This is because inflation these days:

- first, to continuous price increases;
- secondly, as a result of the violation of the law of money circulation, the economic mechanism will fail.

The main reason for the inflation of the 20th century is not only the scarcity of goods, but also the existence of crises in production and reproduction. Current period inflation:

- first, the violation of the law of money circulation as a result of the increase in the demand for money over the supply of goods;
- secondly, as a result of the increase in the cost of production, it is represented by the increase in the price of goods and, therefore, the increase in the money supply.

There are two categories of internal inflation factors: those connected to economic activity and monetary policy. Economic factors include things like allowing monopolies in production, cyclical economic development, investment imbalances, state-run monopolies in pricing organisation, and incorrect credit policies. On the other hand, money-related factors include things like public finance

crises, the state's budget deficit, the rise in public debt, money emission, breaking the law of money circulation, and allowing automaticity in lending.[6] The global economic downturn, the state's foreign exchange policy (concerning raw resources, fuel, and currency), the state's international economic relations with other nations, illicit activities involving gold, and currency reserves, etc.

Inflation manifests itself in the following forms:

- As a result of the continuous and irregular increase in the price of goods and services, the devaluation of money and the decrease in its purchasing power;
- A decrease in the national currency exchange rate against foreign currency;
- Increase in the price of gold in the national currency, etc.

Types of inflation:

Creeping inflation (observed when the inflation rate in the country is 5-10%);

Severe inflation (inflation rate can be observed in cases of 10-100%, sometimes up to 200%);

Hyperinflation (appears in a situation where the inflation rate is higher than 200%. As mentioned above, we can cite the inflation that occurred in Germany in 1923 as an example of hyperinflation);

Demand inflation. (This traditional type of inflation occurs when there is an increase in demand. The production sector cannot fully satisfy the demand of the population, the demand exceeds the supply. As a result, the price of goods increases. A small amount of goods corresponds to a large amount of money will come);

Output-related (supply-side) inflation. (As a result of various processes and structural changes, as a result of the decrease in labor productivity, the costs of product production increase).

Effects of inflation

Inflation can affect the economy to the point of destruction. In inflation conditions:

- First of all, the currency depreciates;
- The balance of prices in goods is disturbed;
- Buyers and sellers hesitate to make a clear decision;
- The risk of making large investments increases;
- Entrepreneurs are limited to short-term decisions and actions;
- Personal savings lose their value; The real value of stocks, bonds, checks, bills, certificates, insurance policies decreases.
- The poor will be poorer;
- Compared to the development of work and entrepreneurship, wages depreciate faster.

Thus, inflation disrupts the market process, disrupts both production and consumption, sharply lowers the standard of living of the population, and creates social tension in society.

Implementation of anti-inflation policy in Uzbekistan. Implementation of anti-inflation measures should be combined with long-term and short-term policies. A long-term policy includes:

- ✓ Taking measures to reduce the budget deficit by improving the tax system and reducing the state's expenses;

- ✓ Activities in the field of money circulation, in particular, the way to increase the money supply the highest criteria that can be set, the annual growth of the money supply setting strict limits;
- ✓ Taking short-term loans and borrowings from abroad in order to eliminate external factors that aggravate inflation, in particular, to finance the government's budget deficit reducing the impact of inflation on the economy by converting these loans and debts and issuing an additional mass of national currency for the same amount.

Factors affecting inflation in Uzbekistan.

Expert opinion

Macroeconomic stability depends in large part on maintaining a low rate of inflation. The variables influencing inflation and its dynamics were examined by specialists at the Institute of Forecasting and Macroeconomic Research. Inflation in trading partner countries, he claims, is one of the primary reasons influencing inflation in Uzbekistan. as roughly 38% of core inflation is now represented by the rise in import inflation. In Uzbekistan, the money supply, interest rate, and GDP account for 29% of the inflationary pressure. 33% increase in the consumer price index is driven by changes in price drivers.

In short, a general or continuous increase in the price of goods and services due to imbalances in the development of production and, as a result, the depreciation of the currency unit due to the violation of the law of money circulation is called inflation.

The relationship between economic disparity and inflation is a complex and multifaceted one. Existing inequality can amplify inflationary pressures and exacerbate the negative impacts of inflation on vulnerable populations, creating a vicious cycle of hardship and economic instability. Addressing this issue requires a multifaceted approach that encompasses both monetary and fiscal policy interventions, as well as long-term strategies to promote greater economic equality and social mobility. Failure to address these intertwined challenges could lead to further economic instability, social unrest, and a weakening of social cohesion.

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