Creating an improved response to crises due to inflation

Economic and Social Council (ECOSOC)

From a separated world to global peace: the need for a new look on institutions

Forum: Economic and Social Council
Issue: Creating an improved response to crises due to inflation.
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Introduction

The effects of COVID-19 and the Russia-Ukraine war have caused a significantly higher inflation than in previous years. During the COVID-19 pandemic, lockdowns were implemented around the world and this lowered the spending of consumers that worked from home, and also decreased the manufacturing and shipping, sometimes even closing certain manufacturing bases. But after the lockdowns were lifted, demand increased to higher levels than before the lockdown, and production was unable to keep up, leading to a higher inflation.[1] The Russia-Ukraine war is another catalyst of supply shortage. Ukraine is one of the largest exporters of grains and sunflower products. With high market uncertainty on those products, prices have increased. Together with sanctions on Russia limiting Europe's access to natural gas. The fact that rising inflation caused by these crises have happened in successive sequence has increased inflation even more. It is necessary for the state and stability of the global economy that improvements are made to the way we respond to crises, in order to keep upholding political beliefs and the safety of people, whilst keeping the economy running as smoothly as possible.

[1] https://www.economicshelp.org/blog/168283/economics/the-impact-of-supply-bottlenecks-on-world-economy/

Definition of Key Terms

Inflation

Inflation is the rate of increase in prices over a given period of time. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country. But it can also be more narrowly calculated—for certain goods, such as food, or for services, such as a haircut, for example. Whatever the context, inflation represents how much more expensive the relevant set of goods and/or services has become over a certain period, most commonly a year.

Economic flow

The creation, transformation, exchange, transfer or extinction of economic value.

Fiscal Stimulus

An attempt by a government to increase economic activity by reducing taxes, increasing government spending, or granting cheques to citizens.

Sanctions

A penalty that is given to force a government, organisation or individual to obey international laws by limiting or stopping trade with that said party, by not allowing economic aid for said party, etc.

Gross Domestic Product (GDP)

A monetary measure of the market value of all the final goods and services produced and sold (not resold) in a specific time period by countries.

General Overview

Crises

In the last three years, the world has experienced two major crises leading to an increase in inflation. Crises cannot easily be predicted, but they can be prepared for, with fallback measures or specific plans in case of crises. In any crisis it is not only important to keep the crisis under control and resolving the crisis itself, but also to keep the adverse effects of the crisis to a minimum. Lockdowns can cause lower quality of education or a decrease in mental health, and wars have effects on political stability. Nevertheless, every global crisis has a substantial impact on the global economy. COVID-19 has had more global effects on the economy while the Russia-Ukraine war has more variation of effect per country, yet is still affecting the whole world. With the last two crises global inflation has risen to an estimated 8.75%[2] in the year 2022. Therefore, it is critical to come up with improved responses to crises to mitigate the effects on global economies.

COVID-19

COVID-19 has caused lockdowns in almost every country. Forcing many employees to work from home. A great solution to keep businesses running while keeping people safe, but since people were not allowed to go outside during the lockdowns, the tourism industry and the hospitality industry had little to no income. COVID-19 caused many people to be more cautious with their spending habits, resulting in less economic flow and a lower demand for products. By spending less money people saved up a lot more than usual. When the lockdowns lifted again, the demand for commodities and durable goods such as electronics skyrocketed. Unfortunately the goods that were now in high demand were also in shortage due to the long lead times for production. When demand is predictable, businesses can run on fine margins and can run close to full capacity without major shortages. Demand had changed with the pandemic and the supply was often not adapted to this due to its inelasticity. Several countries took different measures to combat the low economic flow and its consequences. For example, the United States of America (USA) responded in the form of a fiscal stimulus of $1.9 trillion in 2021.[3] Inflation also rose because of this sudden increase of money in circulation.

Russia-Ukraine war

On February 24th 2022, Russia had launched its first attacks on Ukraine. Since then, the war has been going on mostly inside Ukrainian territory. Russia's strikes have occasionally hit Ukrainian farming ground and crop fields. Together with the fact that Ukraine's borders are less easily traversable, export trucks or ships are increasingly often obstructed by Russia's attacks. Additionally, many men, including farmers and

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[2] https://www.statista.com/statistics/256598/global-inflation-rate-compared-to-previous-year/#:~:text=Despite%20the%20economic%20impact%20of,to%204.7%20percent%20in%202021.

[3] https://www.economicshelp.org/blog/169072/economics/to-what-extent-did-covid-cause-inflation/

exporters have been called upon to serve their country in the war. Altogether, this results in a limitation in export of Ukraine's agricultural products, whilst beingone of the largest exporters of grains and sunflower products in the world economy. The demand of these products has not increased significantly but because the supply has been lowered and the cost of import has increased due to the high risk for Ukraine's export, prices have inflated for those products. On the other side of the war, sanctions have been imposed on by many countries to reduce Russia's power economically and promote Ukraine's chance of keeping their sovereignty. Sanctions include reducing the export of fossil fuels from Russia by blocking the Nord Stream 2 pipeline in Northern Europe. The EU previously was Russia's largest customer, buying 71% of all of Russia's exported fossil fuels. [4] Russia's GDP is expected to drop -2.3% in 2023 and with an inflation of 5.0% in that same year.[5] It is clear that the sanctions seem to be partially working in reducing Russia's economic power. But the effects on Europe itself are very similar. Russia was with 45% Europe's largest supplier of gas. Cutting this out has resulted in a high increase in gas prices in the EU and has significantly devalued the Euro.

Supply, demand and transport

In both cases it has been shown that the demand being larger than the supply is the problem together with insufficient transport means. During the COVID-19 pandemic especially the Chinese producers of goods were unable to keep up with the demand and had troubles reinstating their previously meticulously managed methods of transport. And with the situation in Ukraine, the opposite was happening with the same effect. Supply shrunk and the demand stayed the same, as is also the case with the fossil fuels from Russia. It can be concluded from these results that the largest cause for high inflation with these crises was that the economy depended much on the precise relation between supply and demand which was unintentionally sabotaged by a pandemic and intentionally disrupted by the sanctions on Russia.

[4] https://en.wikipedia.org/wiki/International_sanctions_during_the_2022_Russian_invasion_of_Ukraine#Effects_on_Russian_economy
[5] https://www.imf.org/en/Countries/RUS

Major Parties Involved

Russia

As the main active country in the Russia-Ukraine war and with heavy sanctions on their own economy, Russia has much interest in reducing the effects of inflation.

Ukraine

Ukraine has had many industries closed down or destroyed by Russian attacks, greatly affecting its economic recovery and position after the war.

United States of America (USA)

The USA has felt most of its economic effects from COVID-19 and the fiscal stimulus, but also partially from the Russia-Ukraine war.

China

China is one of the largest exporters in the world and lockdowns caused their system to work less efficiently, leading to high inflation.

World Bank

The World Bank is a primarily economy oriented institution and is responsible for a certain amount of stability in currencies.

Timeline of Events

16 Jul 1990	Ukraine declares Sovereignty
18 Mar 2014	Russian annexation of Crimea
Nov 2019	Patient 0 COVID-19 infected
April 2020	~Half the world in some form of lockdown due to COVID
23 Feb 2022	First[6] EU sanctions on Russia
24 Feb 2022	Russia invades Ukraine

[6] First sanction package in 2022, following earlier sanctions starting in 2014 after the invasion of Crimea; https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/history-restrictive-measures-against-russia-over-ukraine/

Previous attempts to solve the issue

Building a European Health Union: Stronger crisis preparedness and response for Europe,

https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_2042

The European Commission (EUC) decided that coordination and cooperation between Member States and the EUC are crucial. The EUC believes that with the support of the European Parliament and the Council, the EU must therefore be better equipped to prevent, prepare for and manage health crises. And that the implementation of a stronger Health Union, with all the societal and economic benefits it brings, is up to the task.

World Bank Group Outlines Global Crisis Response Package to Help Developing Countries Navigate Multiple, Compounding Crises,

https://www.worldbank.org/en/news/press-release/2022/08/03/world-bank-group-outlines-global-crisis-response-package-to-help-developing-countries-navigate-multiple-compounding-cris

The World bank's plan on how to recover from and improve response to future crises.

Possible solutions

Preparation

While crises cannot be predicted, some measures can be taken pre-emptively to ensure a lesser economic impact of certain crises. These might include setting up systems to track demand by how much is clicked on ads and being ready for an amount in proportion to that, routine checks on certain industries such as the transport industry to see if the industry would be capable of supporting itself in times of crises, measuring the elasticity of the supply for changes in demand. In the case of COVID-19 economic struggles, educating citizens about dangers of a virus before it has arrived in a country and teaching about vaccinations so people can make an educated choice and keeping employees trained for physical jobs could ensure a stable re-emergence of an industry after a lockdown.

Solving the crises

Crises often cause economic backlash in countries, and while there can be preparations for such crises, if the crisis is never solved the economy will still crumble over time. This is why it is necessary to not only prepare for the economic effects of a crisis, but also for the crisis itself. Ports can have added security and surveillance for wars, emergency programmes can be instituted for employees. Depending on the crisis certain measures can be taken during the crisis to help solve the crisis itself while it is happening.

Prevention

While not always possible, such as in the case of a pandemic, prevention is the most effective way of reducing a crisis' effects on the economy. Diplomatically solving territorial disputes is economically more beneficial for all parties involved than solving it through war.

Supporting the economy

Inflation is defined by the increase in price of products. Inflation is generally not a bad thing if the purchasing power stays the same. The only way purchasing power is consistent is if the wages grow proportionately to the prices of the products they buy. In the case of COVID-19, the USA had issues with the lack of economic flow. To solve this problem they used a fiscal stimulus and gave every citizen a check of money to stimulate the spending habits of its citizens more. Eventually this leads to relatively high inflation but in certain situations it can be useful to stimulate the economy. Governments can also support crisis-affected industries such as the tourism industry to allow these industries to continue after a lockdown instead of going bankrupt. Economic aid does not need to be limited to inside the country. Improved trade relations or sanctions can influence another country's economy positively or negatively.

Useful documents

Global Impact of war in Ukraine on food, energy and finance systems,

https://news.un.org/pages/wp-content/uploads/2022/04/UN-GCRG-Brief-1.pdf?utm_source=United+Nations&utm_medium=Brief&utm_campaign=Global+Crisis+Response

Aggression against Ukraine : resolution / adopted by the General Assembly

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https://www.imf.org/en/Countries/RUS

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