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Stagflation in World Economy-Impact on Indian Consumer Market

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ABSTRACT
Stagflation decimated the global economy throughout the 1970s and early 1980s. Recent empirical analysis suggests that the 1973 and 1979 oil crises were the catalysts for these high stagflationary periods. Other issues, such as whether stagflation is still a concern in the global economy, remain unresolved. Other than the price of oil, several factors contribute to stagflation. Humans can see that economies are susceptible to stagflation in a variety of ways using these measurements. Furthermore, even though stagflationary events occurred regularly between 1970 and 2010, the level of stagflation in the global economy tends to change over time. On the other hand, if stagflation develops, the magnitude increases. Our findings imply that stagflation is caused by a complex combination of factors and that oil price hikes' traditionally large influence has decreased in the 2000s. Surprisingly, we found evidence that this impact has grown again at the sample's conclusion. Today's stagflation, on the other hand, is mostly driven by increasing interest rates and declining worker productivity. The main objective of this paper is learn more about Stagflation in World Economy-Impact on Indian Consumer Market. In the future, the problem is clear since people have been used to comparing productivity growth year over year or in shorter periods, typically using aggregates gross national product.

Keywords
Consumer, Economic Growth, Inflation, Market, Stagflation.

1. INTRODUCTION
Although stagflation or inflation are closely connected, they should not be mistaken. Inflation is defined as a long-term rise in the average price point of all products or services produced in an economy, not even just a few of them. Whenever the money supply expands faster than that of the economy's ability to generate products or services, inflation occurs. Stagflation is indeed an economic situation in which an economy has both high inflation and little growth (along with high unemployment). During 2018, the Indian economy has grown at a slower pace for six quarters in a row. The most recent period for which information is available, the second-quarter ending in September, had just a 4.5 percent increase. Growth is predicted to be about 5percentage points for the whole year [1]. The majority of economists attribute the slowdown to insufficient consumer demand for goods or services. In fact, until recently, inadequate demand was considered as the fundamental cause of the modest price inflation that characterized the economy. The government and many economists pushed the Reserve Bank of India to lower interest rates to increase demand. The Reserve Bank of India (RBI) eventually complied, decreasing its key interest rate, the repeated the procedure, five times in 2019 under Governor Shaktikanta Das. Inflation is often seen as the economic enemy. Inflation is defined as a general increase in the price in a given economy. Inflation causes a currency's buying power to erode as goods and prices become more expensive. Simply said, people would be able to buy fewer products for the same amount of money [2].

Stagflation is a term that has been used by economists to describe a period of First and foremost, humans must define what the word "stagflation" means, i.e., what circumstances must be satisfied for a given time in the observed nation or area to be labeled as a period of stagflation. Stagflation is a term that combines the terms "stagnation" and "inflation." As a result, during times of stagflation, it is expected that the financial outlook does not rise or tends to fall. This method will be appropriate in our circumstances as well, as it has been in the past. When we use the word "stagflation," we must also include the question of unemployment because the unemployment rate is a major factor in many stagflation theories [3]. These methods make use of the phrase "natural unemployment rate," which is a somewhat ambiguous word that isn't defined in terms of a precise figure that can be used as a generic constant. As a result, we'll need to figure out what the current natural rate of unemployment in European Union (EU) Member States is. The notion of "natural inflation," i.e., the threshold that must be surpassed for inflation to be considered "high," is fraught with difficulties, as shown in Figure 1. The phrase "natural inflation" or "common rate of inflation" is often used in economics; nevertheless, the meaning of these words varies depending on the period and place [4]. To discuss stagflation in Europe at the dawn of the twenty-first century, we must first establish a rate of inflation that is considered "normal" or "expected" for this period of history [5].

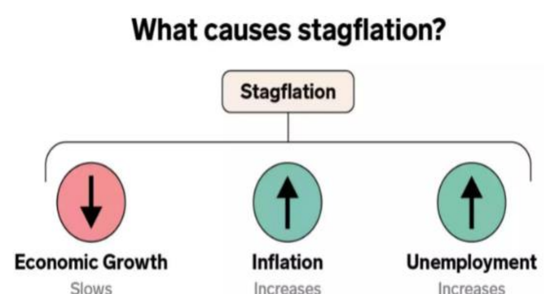

Figure 1:Illustate the Causes of Stagflation, such as Economic Growth, Inflation, and unemployment [4]

1.1. As a consequence, stagflation has developed
Stagflation is the result of a perfect storm for economic ills: poor growth, high unemployment, as well as high prices. Supply shocks but also monetary or fiscal policy are the two

main drivers of stagflation, according to economists. A supply shock occurs when the economy's ability to produce products and services at predetermined prices is reduced. Throughout the epidemic, for example, there were supply shocks, with fewer individuals working, the labor force has shrunk. Goods shortages, such as semiconductor shortages, began long before the epidemic. People postponed elective operations or other healthcare treatments, putting a strain on services [6].

Stagflation may also be caused by poor fiscal and monetary policies. Many factors contribute to stagflation. EVP as well as top corporate economics at Wells Fargo or Co. "But the excess increase in the money supply is the most critical. For example, in the 1970s, Fed Chairman Arthur Burns reacted to skyrocketing commodity prices with an overly soft monetary policy, allowing inflation to endure and become firmly ingrained in expectations," writes De Kaser. "The evidence now demonstrates that he was swayed by government pressure just at the time, to some extent. Economists are keeping a careful eye on Gross domestic product (GDP) unemployment, including inflation trends, as well as possible stagflation triggers include supply disruptions as well as central bank actions. Some people are concerned about the high energy costs that have been in place for a long time.

The prevailing wisdom among economists is that industrial growth and inflation are inversely related. Based on statistical analyses of unemployment or inflation, New Zealand economist William Phillips, after whom the "Phillips Curve" is called, developed the theory initially. It was subsequently accepted by the majority of orthodox economists. The inverse link between growth and inflation was seen as proof of the concept that inflation aids the economy's full potential functioning. The argument behind the view is that inflation (by raising nominal wages but not real earnings) might persuade employees in an economy to accept lower real pay, at least in the short term. It is suggested that without inflation, employees would be hesitant to accept reduced real wages, resulting in increased unemployment and reduced productivity in the economy [7]. At the same time, economists say that an inflation rate over a certain threshold, when labor, as well as other assets in the economy, is fully occupied, will have no positive impact on employment or growth. As a result, policymakers are often recommended to maintain a set inflation rate to keep unemployment low and the economy running at maximum potential. The coexistence of high inflation or poor economic development under stagflation, on the other hand, calls into question the traditional wisdom that inflation aids an economy's maximum capacity operation. Economic stagnation in the United States in the 1970s, caused by soaring oil prices when the Organization of Petroleum Exporting Countries drastically curtailed supply, prompted many to doubt the Phillips Curve's validity [8].

1.2. Why is stagflation such a big deal

Economists who think the present downturn is caused by a lack of adequate consumer demand recommend that the government and the central bank increase their expenditures to revitalize the economy. Stagflation, on the other hand, effectively prevents the government or the central bank from enacting such countercyclical policy measures. With retail inflation already far beyond the RBI's target range of 2-6 percent, the central bank is unlikely to decrease its benchmark interest rate any time soon to help the economy. If the central bank chooses to pump new money into the economy by decreasing its benchmark interest rate or through other unorthodox methods, prices might increase, even more, worsening the situation. If the government participates in deficit spending that is subsidized by the RBI, inflation might grow at a comparable rate. All of this is considered disappointing news at a time of economy is not operating at full potential due to huge jobless resources. Stagflation may be politically damaging to the governing party. On the one hand, a slowdown in growth may have an impact on people's earnings. Higher inflation, on the other hand, may result in a decrease in people's quality of life since they can buy fewer products [9].

1.3. Economic growth and the possibility of stagflation are on the rise

The second wave of COVID-19, which decimated the nation and reached rural regions, has left India in shambles. In April and May, India saw a double whammy of lockdowns and a standstill in economic activity. With rising inflationary pressures and stagnating production, India is thought to be on the verge of stagflation. The fact that gasoline and diesel prices are at all-time highs is fueling the fire.

1.4. As an example, consider stagflation

In both social and budgetary terms, stagflation is expensive and difficult to eradicate. Only a few instances may be found throughout history. The most well-known happened in the United States throughout the 1970s. The first signs of stagflation In the 1970s, the US Federal Reserve were chastised for its unsustainable economic tactics during the 1950s or early 1960s economic boom. The Federal Reserve took initiatives in the 1960s to maintain the economy healthy and boost wide demand for products and services. Nonetheless, the decade's extraordinarily low unemployment resulted in a wage-price spiral. The unwanted economic event in the United States was exacerbated by the 1973 Organization of the Petroleum Exporting Countries (OPEC) oil crisis. Industries were impacted by excessive oil prices or shortages throughout the nation. Industrial output plummeted as demand plunged to new lows. Inflation, for the uninitiated, is the general increase in the price level in an economy. Inflationary pressures because a decrease in buying power, which means consumers can buy fewer things for the same amount of money. Normally, price increases occur during periods of significant economic development, causing company and employee earnings to rise, resulting in increased consumption. However, when an economy slows or, worse, recovers from a time of recession (India, like other global countries, experienced recession last year as a result of lockdowns), deflation is frequently present, as shown in Figure 2. What India is experiencing, on the other hand, is something that has eluded global economies for over four decades. It's a condition in which there's a lot of inflation but little economic activity.

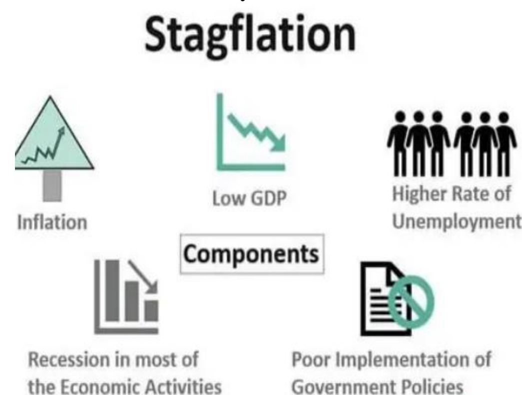

Figure 2: Illustrate when wages fall while prices rise, this is known as stagflation [4]

Stagflation is a condition in which supply and demand are obliterated. In terms of the domestic product or its relationship to inflation, it rejects the Macroeconomic economists' paradigm. Stagflation is defined as economic stagnation that occurs at the same time as inflation, i.e., stagnation + inflation

equals stagflation. Stagflation manifests itself in a country's high commodity prices, diminished buying power, low GDP, firm closures, a drop in consumer spending, or an increase in unemployment due to corporate layoffs. In the 1970s, the United States experienced stagflation. Many academics blame the financial crisis on the Federal Reserve's excessive money production and circulation. The goal of boosting cash flow is to make more money was a strategy for improving the performance of the labor market. Aside from policy, the United States has been hurt by a sharp increase in oil costs. The Arab embargo has brought this to light.

1.5. What effect it may have on India

Consumption accounts for over 60% of India's GDP, and spending has slowed as firms cut employees and postpone investment plans. Consumer attitude is still pessimistic, and the recent fluctuation in oil prices might stifle spending even further. Consider the above: whenever demand for products and services exceed producers' capacity to provide them, prices rise. And, if the circumstance continues, it will result in inflation. Teresa John, an economist with Nirmal Bang Equities Pvt. in Mumbai, told the media Bloomberg that "the recovery is expected to be extremely sluggish and a stagflation situation is anticipated." Last year's five interest rate cuts by the Reserve Bank of India (RBI) and billions of dollars of liquidity injected into financial markets did nothing to encourage lending. This is because banks currently have one of the world's highest stressed-asset ratios and aren't lending much or passing on rate reduction to borrowers. The government has been implementing to help the economy recover, but these have yet to produce fruit. Nirmala Sitharaman, the finance minister, slashed corporate taxes by $20 billion, merged weak state-run banks with stronger ones, and loosened foreign investment laws. In its largest privatization campaign in more than a decade, the government will also sell public assets.

With many countries emerging from Covid-19 lockup and demand expected to rise, but supply difficulties expected to persist, several commentators have been predicting stagflation and waving a red flag. Such circumstances, in our opinion, are very plausible, if not likely, to result in short-term relative price hikes in some categories, such as grocery basics and healthcare goods such as masks as well as sanitizers. However, even with greater price rises, one of the distinguishing characteristics of prior periods of stagflation was the way supply shocks became ingrained. And this will need methods that are incredibly difficult to reproduce now. Even if globalization provides a little less assistance in the coming years than humans have gotten used to, the environment now, and presumably in future years, is significantly less prone to inflation than it was before. Regardless matter how low the unemployment rate falls, Labour has almost little control in its compensation. Manufacturing is also a fraction of what it used to be, is mainly automated, and employs workers that have been de-skilled or are readily replaced, as shown in Figure 3.

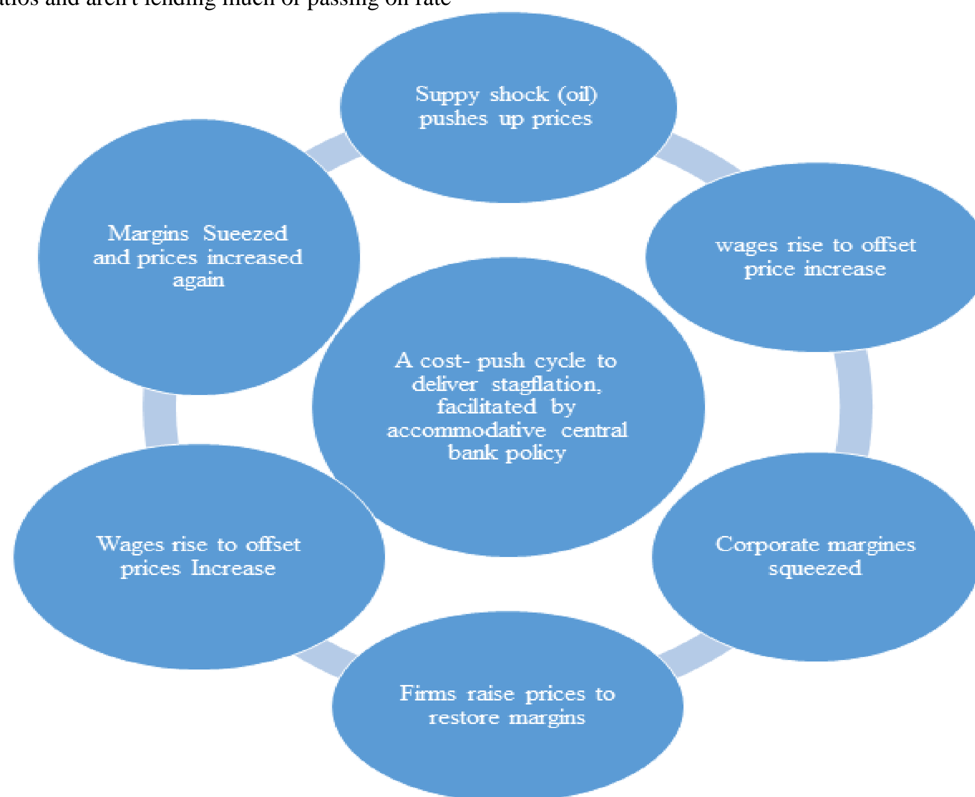

Figure 3: illustrate a stylistic diagram depicting the onset of stagflation [10]

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the consumer price index (CPI)-based retail inflation rate hit a six-month high of 6.3 percent. In April, there was a 4.23 percent raise. In the current environment, there is inflation risk not just at the retail level, but also at the wholesale level.

This happens at a time when the Reserve Bank of India's (RBI) monetary policy committee is entrusted with controlling inflation between 2 and 6%. The core inflation rate, which includes non-food and non-fuel commodities, is much more alarming. This component reached an 83-month high of 6.6 percent in May 2021, and it's expected to continue over 5% for the rest of the fiscal year. In 2020-21, India's Gross Domestic Product (GDP) fell by 7.3 percent, the lowest in 40 years, predicting a grim economic future. In the fourth quarter of 2021-21, when the economy seemed to be strengthening, it barely expanded by 1.6 percent. The number is expected to drop in the first quarter of the following fiscal year as a result of the second wave and associated lockdowns. What the RBI has said "Policy assistance from all sides is necessary to gain the momentum of development," Reserve Bank of India Governor Shaktikanta Das said earlier this month after the country's quantitative easing program received a major boost. "The endurance of the second wave, as well as the resulting limits on activity on a nearly pan-India basis, provide upside risks to inflation." In such a situation, protecting prices of key food products from supply-side disruptions would demand active monitoring or readiness by both the Centre and the states for coordinated, calibrated, and timely interventions to avoid supply chain bottlenecks including increases in retail margins With liquidity pumping tools including open market operations and special windows for troubled sectors, the central bank reinforced its accommodating policy stance. Stagflation may be caused by excessive money printing combined with rising inflation. The RBI is caught in a bind as the possibility of stagflation grows [12].

In an ideal circumstance, an easy financial system would boost the economy by fueling demand. However, if weak economic growth is coupled with price increases, this is a problem that cannot be solved via interest rate cuts, quantitative easing, or money printing. Localized lockdowns, increasing food costs, and the second wave of the COVID- 19 epidemic, per a recent State Bank of India (SBI) study, have disrupted supply chains even now in rural regions [13]. This, it claimed, would express itself in increasing prices of vital commodities, and all of these reasons, taken together, will drive core inflation, leaving the Reserve Bank of India (RBI) with no choice but to rein in price rises. "Given the marginal propensity to consume (MPC's) core mission of price stability, it would be hard for the MPC to look beyond inflationary pressures or remain supportive of growth." As a result, restoring the supply chain remains a high priority over which the RBI has limited authority, and the Government of India must act quickly, according to the study. If it is not tomorrow, India might face stagflation, even though it is critical for the Narendra Modi administration to take notice and implement policy steps before another calamity, this time economic, strikes the nation already suffering from the plague.

2. LITERATURE REVIEW

Malik Zainab and colleagues investigated Gold and Investors' Perspectives under Various Market Conditions. For millennia, investors have preferred to invest in gold as a secure and demanding investment. Investors now are investing in Gold because part of their risk mitigation plan is in their investment portfolio, rather than hoarding the commodity, as has been the case in the past. From the investor's standpoint, research reveals an analytical perspective. This research will help readers understand how financial markets in developing and established countries throughout the globe respond to endure economic losses as a result of these situations. Simultaneously, the analytics reveal the influence of different inflationary situations on Gold. In the future, it would be fascinating to look into the effects of gold on the Indian economy's inflation rate. A more empirical study would be necessary to develop a new paradigm that uses gold as a tool to maintain inflation rates below the baseline inflation rate [14].

Purav Parikh et al. investigated the role of gold in the eyes of investors under various market conditions. For ages, the demand for gold as an investment commodity has been viewed by investors as the most favored investment. Investors' investment priorities have shifted lately, and they are investing in Gold not only to hoard the commodity, as has been the case in the past, but also as part of a risk mitigation plan in their portfolio. As a result, the study report offers an analytical insight from the investor's standpoint. This study explains how financial markets in developing and established economies throughout the globe respond to withstand economic losses caused by these circumstances. Simultaneously, the influence on Gold under different inflationary scenarios is also highlighted from an analytical standpoint [15].

Raval et al. investigated the global recession and its effects on the Indian economy. This research demonstrates that the global economy is severely imbalanced, which might have geopolitical ramifications. This article examines the gravity of the impending negative scenario, particularly for emerging nations, and considers if, as a result, a worldwide recession is unavoidable. This article investigates the global current account deficit and assesses several perspectives on the origins and repercussions of the deficit. Finally, the research discusses several macroeconomic policies and shocks that may help to correct the imbalances. After all, a population of 350 million individuals with buying power cannot be overlooked. This is not a pitch for India, but rather a mild recommendation to American businesses [16].

Kiran Raj Kumawat and colleagues investigated the Global Financial Crisis and its Impact on the Service Sector. The global macroeconomic landscape has shifted dramatically in recent months. The worsening of the global crisis and its spillover impact have stifled credit supply and resulted in a major reduction in growth forecasts, especially in developed nations. As a result, the past several months have witnessed an unprecedented influx of stimulus spending packages including massive quantities of money pumped into the economy at low-interest rates. Efforts are being made to integrate various nations' monetary policy actions. The global financial system is now under growing pressure, and threats to financial stability remain a real possibility. Three reasons have mostly contributed to the current global financial meltdown. The subprime mortgage crisis has expanded quickly and in unexpected ways, wreaking havoc on the global financial system. As a consequence, global growth is slowing and worries of a worldwide recession are growing. The International Monetary Fund and the Organization for Economic Cooperation and Development (OECD) both issued warnings about the financial system's crisis and looming stagflation, as well as the necessary steps to restore investor confidence [13].

Andrew Gamble and colleagues researched British politics and the financial crisis. A globalist agenda or economic practical wisdom emerged, centered on neoliberal ideas as well as the emergence of a new financial growth model, wherein the financial institutions came to play a critical or expanding role, yet at the same time the occurrence of India and China as significant new economies as well as the development of new basic technologies, especially in information, basically made a sustained boom in the worldwide trade possible. The financial crisis of 2008 and the subsequent recession in 2009 put an end to a 15-year era of relative economic progress and happiness for the British economy, which contrasted sharply with the postwar economic history of recurrent boom-bust cycles. The

way the 1970s stagflation crisis was addressed helped to set the circumstances for the present crisis. However, there was little evidence of this as the country neared a general election in 2009 marked by low levels of political fervor and involvement among citizens [17].

3. DISCUSSION

Stagflation is an economic event in which the inflation rate is high, the economic growth rate slows, and unemployment remains steadily high. Such an unfavorable combination is feared and can be a dilemma for governments since most actions designed to lower inflation may raise unemployment levels, and policies designed to decrease unemployment may worsen inflation. Stagflation is the term that describes a "perfect storm" of economic bad news: high unemployment, slow economic growth, and high inflation. The term was born out of the prolonged economic slump of the 1970s when the United States experienced spiking inflation in the face of a shrinking economy, something economists had previously thought to be impossible. Google searches for the keyword "stagflation" have increased as oil and gas prices have reached new highs. Financial markets, according to expert Alberto Gallo, are trapped between fears of stagflation and optimism that the economy would pick up the pace. The future consequences of this dilemma are discussed further down. Stagflation, a period of stuttering economic growth and joblessness accompanied by increasing inflation, has been revived by rising energy costs and supply-chain blockage.

4. CONCLUSION

Stagflation is a period of stagnant or declining economic growth, high unemployment, and rising inflation. Stagflation might have an impact on international trade by boosting global commodity prices for everything, including food, increasing the cost of doing business, and pushing up inflation. This is particularly true in the case of stagflation, which has been pushed exogenously as a consequence of monetary policymaker's reactions to high inflation rates, which spurred central banks to hike interest rates. The world economy has entered a profound slump. Our findings support this hypothesis, as the coefficient of n almost all of our calculations, the interest rate plays a substantial role. The reasons for oil price shocks, in particular, must be investigated. Market and economic shocks inside the crude oil market have been untangled. If the whole supply if the situation continues unchanged, stagflation will not occur. When it comes to quantity demanded, policy differs significantly. Stagflation is far less probable now than it was in the past, as our data show. The danger that is developing from Regardless, people demonstrated that the entire economy has undergone stagflation as a result of the Financial Crisis to the point where Supersedes all preceding magnitudes by a factor of ten. Furthermore, it tends to strengthen with time. The long-term consequences of the problem are discussed further down. Stagflation, a period of stagnant economic growth and joblessness accompanied by growing prices, has resurfaced as a result of rising energy costs and supply-chain blockage. The major goal of this article is to examine stagflation in the global economy. People are used to comparing productivity increases year over year or shorter periods, generally using the aggregated gross national product, thus the concern with the future is obvious.

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