INFLATION, ECONOMIC GROWTH AND UNEMPLOYMENT

Trajanka Makrevska
International Slavic University "Gavrilo Romanovich Drezhavin", Sveti Nikole, Republic of Macedonia, makrevska_art@yahoo.com

Abstract: The main characteristic of today's inflation is its universality, durability and the power of rapid spread and transmission. There is not more reliable and more sophisticated way of breaking down the existing foundations of society from the depreciation of its currency. That process on the side of the destruction connects all the hidden forces of economic flows.
There is not generally accepted inflation theory that would satisfy and would give the greatest number of responses to the complex phenomenon of inflationary disorder, while at the same time giving the economic policy makers reliable indicators for conducting an efficient stabilization policy.
Economic theory is faced with new questions, even when defining the problem itself .
Inflation does not repeat in the same form, it further expresses the complexity of this problem, although it always binds its external manifestation to a steady and rapid increase in prices. Today, there can be inflation without price growth (controlled inflation).
Inflation is no longer explained as a disproportion between supply and demand, i.e. excess demand over the supply of goods and services.
The theory of inflation is more pre-tasking to explain the initial impulse and the mechanism of their cumulative expansion. The relation to the causes and types of inflation is changing. The question is how to ensure a high rate of economic growth with technological stability of prices and possible full employment. In connection with the previous one, other questions are asked, how growth is justified, with a growing appreciation of the need for introducing a new distribution system. The distribution system often has a crucial effect on the formation of accumulation and consumption and their relations. Inflation today develops under completely different conditions of various economic, political and other structures of the society as a whole. This means that there are new factors that decisively affect the production, supply and demand, prices and money in the cyclical fluctuation of modern society.
Keywords: inflation, economic growth, unemployment,

CONTENT

Inflation, besides unemployment, is one of the most complex problems of modern economy. One of the most important goals of macroeconomic policy is maintaining price stability; the fight against inflation is one of the properties.

There is no consensus among economic theorists about the definition of the concept of inflation, nor about the explanation of all its causes and consequences. An older definition of inflation says that inflation as a situation in which the increase in the amount of money in circulation leads to a fall in the value of money, and consequently, there is a general increase in prices. According to recent understandings, the essence of inflation is in the disorder of goods-monetary relations . Namely, when the effective demand is higher than the supply of goods and services on the market, there is inflation, not taking into consideration whether the resulting imbalance is an increase in the general price level or not. In other words, if the effective demand is 400 units, and the offer is 350 units, then the resulting inflation gap must be covered by an increase in the general price level.

Any increase in prices is not inflation. In order to increase the prices of inflation, it is necessary:

1.) a rise in the general price level to occur;
2.) the price of the increase to be irreversible, or that it is not only a consequence of some current market shock.

The main characteristics of inflation in modern economies are its universality (it exists in all economies), its durability, and the power of rapid transmission and expansion. It presents a very complex economic as well as a social phenomenon that is manifested in different economies in different ways, which significantly complicates its study and control.

These are only some of the possible causes of inflation:

a) disorders in the development of the economy;
b) cyclical economic trends;
c) changes in the economic structure;
d) interference of the state into the economic life;
e) disproportion between savings and investments;
f) changes in the distribution of national income;

g) disorders in the field of employment and consumption, etc.

The parameters related to economic growth are key macroeconomic variables that are always the focus of public attention. With the rate of inflation and the unemployment rate, a general picture of the development and a review of the economy is created. Inflation, economic growth and unemployment are central issues for the nation's social and economic life.

The economic literature examines these variables, and with their help, explains the endemic nature of the poverty of developing countries. In one of its studies, Philips(1962) emphasizes the importance of modeling the connection with (un)employment, inflation and the total outcome in the context of improving macroeconomic performance .

The author emphasizes that the establishment of these links is crucial for avoiding overstocking or low values in relation to the equilibrial targeted values. This trivial approach was a pioneering attempt, as previous studies mainly analyzed the bivariant linkage of variables. Key differences in understanding the relationship between these variables relate to the theoretical views of individual economic schools, primarily Keynesian and Neoclassical.

The basic assumption of the Keynesian economic direction is the rigidity of prices. Accordingly, the possible increase in the money supply, the balance of the money market is established with the growth of the real gross domestic product. On the other hand, the basic assumption of the neoclassical economics schools is price flexibility, and inflation is caused by changes in the money supply. In the case of growth, money supply , the prices of certain goods also go up and the real gross product does not change.

The neoclassical case is known as the neutrality of money. Many controversies are still present regarding this issue, but most economists agree that the Keynesian assumption is suitable for short-term analysis, and the neoclassical for a long term. It is important to introduce the concept of unemployment in the analysis.

If the Keynesian assumption is true, the decrease in the demand on the commodity market leads to a fall in the supply, and the rigidity of prices and earnings allows certain adjustments and return of the offer to the initial level. So, distortions of demand has only a temporary impact on the output and unemployment.

The main goal of this paper is to point out the basic types of causality of the makers in the short and long run, as well as to reconsider the basic laws that bind to these variables. To test the potential dependence of variables, a sample of the countries of the SEE (South East Europe) region is used. This study analyzes a specific group of countries characterized by moderate economic growth, high unemployment and significant distrust in monetary sovereignty.

The importance of understanding the linkage of unemployment, inflation and economic growth, which is the basis and appropriate tool for mitigating the cyclical movements in the economy.

Excluding other factors, accelerated economic growth is desirable, as well as the low unemployment rate and inflation. However, there are numerous constraints on achieving these goals. The high rate of economic growth itself, does not lead to inflation and price growth. Here above all, there are certain conditions in which certain economic growth takes place, which often follows with the appearance of structural inflation, especially for the following reasons:

a) disproportions in development
b) production bottlenecks
c) import restriction and high import content of reproduction (with the occurrence of imported inflation
d) redistribution of income
e) a new ratio of consumption and accumulation
f) changing the structure of consumption that follows the economic growth.

The success of macroeconomic policy cannot be measured by observing a single variable, the above-mentioned variables are interdependent. In the long run, rapid economic growth allows for better material conditions of the population. However, in the short term, the growth rate has consequences for other economic variables. If the growth has a high rate, there is a risk of increasing the growth of prices, that is, inflation.

If the growth rates are too low, there is a danger of rising unemployment.

Although the growth of unemployment is associated with the economic recession, there is a possibility that the economy will grow, but not sufficiently, to prevent the growth of unemployment. One of the basic problems of implementing the economic policy is the lack of adequate quantitative knowledge of how to understand the method on how the economic system works.

Lately, the number of empirical studies that examine the above -mentioned laws is increasing, and some controversies have arisen with the application of various econometric techniques. On the one hand, the high inflation rate negatively affects the economic movements, above all the decisions on consumption and investing. Too much money in circulation increases the costs of production, and leads to a fall in the exchange rate, reduces the availability of limited resources such as food and oil.

On the other hand, the decline in inflation is associated with loss of outputs and higher unemployment. Inflation is a sign that the economy is growing, because the economy without inflation stagnates. However, excessive economic growth can lead to hyperinflation, which has many negative consequences for the national economy.

If inflation is only a monetary problem, things are more or less clear in terms of anti-inflationary measures. In accordance with the quantitative theory, the increase in money supply leads to an increase in inflation, while the opposite, restrictive monetary policy has an anti-inflationary character. Group of authors in 2005 published the results of their research, for example, from 160 national economies in which quantitative theory and inflation were examined. The results show that in today's countries with hyperinflation and there are not many like these , there is a link between the supply of money and inflation. However, in countries where inflation is lower than 10% per year, the empirical evidence from this research cannot confirm the link between the growth of money supply and inflation. However, the fight against inflation cannot be limited to monetary measures and to the tasks of the central bank .

Today inflation is more sensitive to external shocks than to internal supply and demand relations. Unfortunately, for the hypothesis that globalization and the opening of national markets increase the labor productivity, the economies of scale, and thus positively affect not only the limitation of inflation growth, but also the economic growth, but there is not much evidence.

Globalization has only marginally positive impacts on inflation, the opening of major markets such as China, India, Russia, Brazil have negative impacts on inflation, the financial sector, and an increase in demand on energy, raw materials and food products, which has deepened the global imbalance that greatly has affected the latest dynamics of inflation.

Another type of instability in the last three decades is the vast increase in job insecurity. The main reasonfor this is, of course, the increased unemployment, but also a rise in work engagement for a certain period of time. Not to be overlooked is the fact that there are significant burdens on the existing work. According to a study, workers report that in the last five years they have had to work more, faster and more intensively in comparison to the previous five years. In many countries, however, the social state is significantly reduced, which further increases uncertainty.

All of this is a result of an economic policy that insists on low inflation, job insecurity (which is called greater flexibility in the labor market) and higher capital mobility. It is a policy that is especially inclined to the owners of financial assets. Inflation control is important because financial investments usually have nominal rates of return. In addition, financial capital is obviously most moving (only in comparison with human and physical) and that advantage is expressed even if the capital mobility is not limited.

Inflation as one of the brakes of economic growth is not just bad weather, but in conditions of growing globalization and the openness of national economies, it becomes a constant and perpetual danger. The new global imbalances obviously cause a global inflation wave. However, the decline in financial markets, the rise in interest rates and the speculative inflation expectations in the markets of raw materials that follow the global shift in demand on the new mega markets have dynamized global price growth..

Increasing openness of national economies and their integration into the global market makes economies vulnerable to global influences. Global imbalances as the main non-monetary component of the inflation structure in the upcoming years will be a strong generator of inflation. Apart from import inflation, weaker economies are exposed to a wave of domestic inflation, which is a direct consequence of the unfavorable economic structure, the erratic economic policies and the general low competitiveness of the domestic economy.

CONSLUSION

There are many reasons for inflation. In contemporary economies, any relevant socio-economic, and also a political factor can be the cause of inflation. However, when it comes to reasons, it is necessary to distinguish between emerging external manifestations and its real reasons.

However, it is indisputable that there is still no firm position whether economic growth is fueling inflation or inflation stimulates the growth rate, or economic growth and the inflation rate are the result of many other factors. Static models are increasingly being abandoned, and with dynamic analysis an attempt is made to find their relationship and interdependence.

High monetary income (profit) that goes along with inflationary pressure leads to an increase in investment, employment and other forms of income, which leads to an increase in the rate of economic growth. The above is often supported by the argument that a significant increase in wages can be offset by an increase in labor productivity. However, nominal expressions usually cover such relationships, which is a major weakness of modern economies. Money today is becoming more and more a means of sui generis, increasingly separated from its primordial form and truly converted into pure manipulated currency. Restricted mainly to national frameworks, under the constant pressure of national economic policy and development philosophy at all costs, money becomes a means of development, and less adequate measure of value. Under the current philosophy of development at all costs, money is put into action to stimulate development, and often to cover certain developmental and structural problems. This points to the fact that today the policy of stable prices and stability of money at a much lower price is abandoned.

REFERENCES

[1] Blanchard, O., (2016) The US Philllips curve: Back to the 60s? Policy Brief PB16-1, Peterson Insitute for International Economics.
[2] Burda, M., Viploš, Č., (2012) Makroekonomija, Beograd
[3] Ristic, K., Komazec, S., Ristic, Z., (2015) *Makroekonomija*, pp.252-272,Beograd,