

# The Shadow Economy and Price Inflation in Wars: An In-Depth Look at Gaza

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## 1. WARS CREATE A PARALLEL ECONOMY

Under normal conditions, markets reflect the balance between supply and demand within a structured system of production and distribution. During wars and blockades, this balance collapses, giving rise to what is known as the shadow or phantom economy.

- Production is no longer central; activity revolves around trading whatever is available through monopolization or black markets.
- The economy expands in numerical terms, yet shrinks in real value of goods and services.
- A small group of profiteers and brokers emerges, enriching themselves at the expense of the suffering majority.

## 2. How the Shadow Economy Operates in Gaza

Several mechanisms are particularly visible in Gaza:

- Scarcity as fuel for inflation: Every rare item—flour, oil, or medicine—becomes an object of extreme price hikes.
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- Currency distortions: With reduced cash flow, goods skyrocket in price relative to local income, eroding purchasing power.
- Black market networks: Informal and unregulated supply chains emerge, reinforcing the shadow economy.
- Starvation as policy: Price inflation pushes people toward displacement or surrender.
- Control of supply routes: Authorities at border crossings dictate what enters, in what quantity, and when.
- Societal weakening: When families are consumed with finding food at any cost, their collective ability to resist diminishes.

### 3. Social Impact of Inflation

- Collapse of the middle class: Families that could previously endure are no longer able to keep up with rising costs.
- Deepening inequality: A small minority profits from imports and monopolies while the vast majority struggles for bread.
- Shift in consumption patterns: People turn to poor-quality or nutritionally weak substitutes simply to survive.
- Breakdown of trust: Communities view traders or certain actors as profiteers exploiting widespread suffering.

### 4. The Economy as a Weapon of War

The shadow economy in Gaza is not merely a spontaneous byproduct of the blockade—it functions as a deliberate weapon:

### 5. Future Consequences

If the current trajectory continues, the consequences will be dire:

- Prolonged famine: Rising mortality, especially among children and the sick.—
- Total collapse of the local economy: No production, no formal trade—only black market survival.
- Compound social crises: Internal displacement, family breakdown, and rising crime rates.

## 6. Pathways for Response

Addressing the shadow economy and inflation requires urgent measures:

- Open safe humanitarian corridors for food and medicine, bypassing intermediaries.
- Monitor aid distribution to prevent diversion into markets.
- Establish free or subsidized distribution centers in displacement areas and impoverished neighborhoods.
- Document economic violations and submit them to international bodies as part of war crime evidence.

## Conclusion

The shadow economy in Gaza is not just an economic crisis—it is a deliberate mechanism of starvation, a weapon of war as destructive as bombs and shells. Accelerating inflation traps civilians between poverty and hunger, and demands urgent international intervention to guarantee direct aid delivery and dismantle the black market system that perpetuates the catastrophe.