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WHO IS AFRAID OF INFLATION?

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Inflation is in the news. Double-digit inflation persists. It is concentrated in prices of food and necessities. The retail prices of pulses are in the range of Rs 80-100 per kg. Seasonal vegetables retail at Rs 30-40 per kg. Yet, our pink newspapers believe that there is little reason for concern. There is a boom in purchases of consumer durables. The middle class is prospering. The poor are better-off with the NREGA. And people are no longer afraid of inflation. Such a worldview is, to say the least, misleading. It needs a reality check.

The woman in the household or the man in the street is not persuaded by statistics on rates of inflation. In the mind of the citizen, there is a 'price perception index' which is based on prices paid. And even when inflation comes down, prices paid are higher. This price perception index has two dimensions. The first is that the consumer is concerned about the proportionate increase in prices over a period of time. Between June 2007 and June 2010, the consumer price index for industrial workers increased by 35 per cent, while the wholesale price index for food articles also rose by 35 per cent. Thus, what cost Rs 100 three years ago now costs Rs 135. The second is that the consumer is worried about the increase in the price level in relation to his money income. Between June 2007 and June 2010, consumer prices for cereals, pulses, vegetable oils, meat, eggs and fish, milk, spices, vegetables and fruits increased by 30 to 50 per cent. For a

large number of people, money incomes did not increase anywhere near as much.

The social and political threshold of tolerance for inflation in India has always been low, because a large proportion of the population is poor and an even larger proportion does not have index-linked incomes. People are afraid of inflation because it erodes their consumption of food and necessities. Governments are sensitive to inflation because elections have been lost on the price of onions. Indeed, in the past, persistent double-digit inflation was simply unacceptable to people and to governments. This time around, there are no visible signs of anger among the people, just as there are no obvious signs of anxiety in the government. Why?

Silence on the part of people is a puzzle. There are no obvious answers that are convincing. But there are some plausible explanations. For the rich, small in number and large in influence, food is such a negligible part of their expenditure that food prices do not matter. For the middle class in the private sector, beneficiaries of rapid economic growth, incomes have increased significantly more than prices and expenditure on food as a proportion of their household budgets has come down. For the middle class in the government sector, following the Sixth Pay Commission, a bonanza of much higher salaries, indexed even better with prices and combined with substantial arrears paid, meant that their purchasing power increased considerably more than prices. In the past, whenever there was double-digit inflation, it was these two segments of the middle class with a voice that organised protest and shaped opinion.

For the poor, making ends meet to simply provide food for their families is such a struggle that they have no time to protest. Committees and

scholars are engaged in an unending debate about the proportion of the population who live below the poverty line. But the government now accepts that this proportion is 38 per cent and could be as much as 50 per cent. Therefore, at least 450 million, possibly 600 million, people live in poverty. The poor are hurt by inflation, particularly in food prices. Their silence does not mean acceptance. It is just that they do not have a voice.

The reality of inflation is recognised by the government. But its concern for the *aam aadmi* has not led it to address the problem of inflation as a priority. Once again, there are some plausible explanations. For one, the UPA won a general election in May 2009 despite the inflation. For another, opposition parties, fragmented and in disarray, seem incapable of mobilising support on the issue. Most important, perhaps, the government does not quite know what to do. Some hope that inflation will come down in six months, but relying on statistics or words is not enough. Some assert that inflation is the price of growth, even if those who lose from inflation are not those who gain from growth. Some believe that raising interest rates and tightening credit would help combat inflation, without recognising that this inflation is attributable to supply-demand imbalances rather than excess liquidity; if the diagnosis is wrong the prescription cannot work.

It would be a serious mistake for the government to conclude that people are now willing to live with higher inflation or that their tolerance is greater than before. Persistent inflation, particularly in food, hurts the poor. Slowly but surely, resentment mounts. The number of people affected could be as much as half our population. Even if they do not have the purchasing power in a market economy, come election time,

they do exercise their right to vote in a political democracy. In the political process, inflation is more like a treadmill than a time-bomb.

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