The Rise in Inflation Rate*

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Even as the growth rate of the Indian economy is slowing down, and the index of industrial production actually showing negative growth for three consecutive months, August to October (over the corresponding months a year ago), the inflation rate in the economy has started accelerating. Significantly, the acceleration in inflation has been the sharpest precisely during these very months when the contraction in industrial output has been the most pronounced.

India's retail price inflation for the month of November 2019 (over November 2018) was 5.54 per cent. The inflation rate so calculated has been rising every month since January 2019, reaching 3.28 per cent in August; its rise has been particularly steep since then, to 3.99 per cent for September, 4.62 per cent for October and 5.54 per cent for November. What is particularly striking is that the rise in the current inflation is driven by food articles: food prices rose by 10.01 per cent in November (compared to 7.89 per cent in October); within food articles the rise in vegetables was 35.99 per cent, pulses 13.94 per cent, meat and fish 9.38 per cent, eggs 6.20 per cent, spices 4.33 per cent, cereals 3.71 per cent, milk 3.46 per cent and fruits 3,29 per cent. This increase in food prices is the highest since December 2013.

Its impact on the people can be imagined from one telling fact. Between 2011-12 and 2017-18, according to the National Sample Survey whose findings have been suppressed by the Modi government, there had been a fall in real per capita consumption expenditure for the country as a whole of about 3.8 per cent. And the per capita expenditure on food had declined particularly sharply; in rural India in fact the real decline had been as much as 10 per cent. The current rise in food prices, coming on top of this decline that had already occurred in real food consumption, would push people into even greater destitution and undernourishment.

Some have called the current situation of a co-existence of inflation with stagnation, a "stagflation". While this may do as a pure description, there are absolutely no analytical similarities between this "stagflation" (if one calls it that) and the crisis of stagflation that had afflicted the capitalist world in the late-1970s and brought the term into popular usage. That stagflation had arisen because of an autonomous cost-push inflation in the midst of unemployment, owing inter alia to the jacking up of oil prices by OPEC in 1973. Such unemployment in turn had got compounded by the response to the cost-push inflation by the governments in the advanced capitalist countries, which had taken the form of massively enlarging the reserve army of labour; the idea had been to resolve the cost-push inflation at the expense of the workers, by squeezing the workers' share in output through a weakening of the trade unions that such an enlargement in the reserve army entailed.

The present inflation in the Indian economy in contrast is not caused by any autonomous cost-push; in fact when the autonomous cost-push that would arise in the coming months because of the higher import costs caused by the current weakening of the rupee, gets superimposed upon the already-occurring inflation in the economy, matters will only become worse.

But the effects of that, and of other administered price increases occurring at present, such as of milk and telecom services, will unfold only in the coming months. The current inflation is neither cost-push, nor caused by any sudden accretion of purchasing power in the hands of the people; on the contrary it is caused by a decline in output of several commodities relative to the already meagre and shrinking purchasing power in the hands of the people. It is noteworthy that if we take what is called the core rate of inflation, which excludes inter alia the rise in food prices from its purview, then we find that the core rate of inflation has been declining across successive months in 2019. This is as one would expect in a period of slackening demand.

But while the rise in inflation rate is not caused by excess demand arising from any sudden accretion of purchasing power, and is rather the result of sudden supply shortfalls in several important sectors which are subject to sharp output fluctuations, it undoubtedly contributes to a worsening of the downturn in the economy. It does so because people now have to devote a larger amount of purchasing power to buying food items, and therefore have correspondingly less to spend on industrial and other commodities, which only aggravates the demand deficiency in these sectors.

The current inflation in other words must not be taken to indicate that the economy is not facing demand deficiency. The downturn in the economy is because of demand deficiency, and this demand deficiency would be worsened by the rise in inflation. What is required for overcoming the current crisis in the Indian economy, both the currently increased inflation rate, and the slowing down of the growth rate which has had the effect of pushing up unemployment to levels unprecedented in the last forty-five years (since the year when we had a "stagflation" as the term is commonly understood), is a combination of policies: a stimulation of aggregate demand together with appropriate sector-specific supply management in the sensitive commodities.

There should for instance be an increase in the supply of certain commodities through imports if possible; there should also be for some commodities a fixing of prices together with rationing of amounts sold to consumers; and so on. And at the same time the government should undertake fiscal measures for stimulating growth and employment in the economy: it should increase its welfare expenditure and finance this increase through taxing wealth or corporate profits.

But the conclusion that the government, and indeed all the institutions of finance capital such as the IMF and the World Bank, and various "think tanks", would draw from this combination of inflation and stagnation will be precisely the opposite. They would avoid any sector-specific policies for combating inflation as constituting "interference with the market", and would reduce aggregate demand instead, which would only aggravate unemployment and the growth-slowdown without even controlling inflation in any way.

The government of course may do nothing at all, and simply wait for the crisis to blow over in its own sweet time. It would not actually blow over, but the government may hope that it does; and would meanwhile keep people distracted by its divisive communal agenda. But if the government does anything at all, then given the understanding it imbibes from the institutions of finance capital, it would pursue policies to fight inflation that end up reducing aggregate demand. It would raise interest rates which would reduce aggregate demand and increase unemployment.

(There is an asymmetry here: while a reduction in the interest rate does not stimulate aggregate demand much, a rise in the interest rate can curtail aggregate demand). And it would cut its own expenditure, as a means of controlling inflation, which again would aggravate the slowdown and worsen unemployment.

What is more, with the reduced incomes in the hands of the working people, the reduction in their consumption expenditure will have an impact not on the commodities that are currently experiencing inflation, such as pulses, vegetables and other food items, the demand for which is income inelastic; it will impact precisely the industrial goods which are currently experiencing negative growth because of insufficient demand. The inflation therefore will remain unimpaired while the stagnation will worsen.

The conventional weapons that governments employ against inflation are singularly inappropriate in the present context, since the current inflation is not one caused by excessive purchasing power in the hands of the working people. On the contrary the purchasing power in their hands is too small. The objective therefore should be to increase their purchasing power, and simultaneously to ensure that inflation is controlled through specific interventions in the particular commodity markets which are affected by output shortfalls; but a government under thraldom to international finance capital can scarcely understand this point.

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