

Sunil Jain: Does inflation matter?

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With inflation levels at what they are, you have to be really foolhardy to argue inflation doesn't matter, but the fact is that you see more agitated souls in Parliament than you do on the streets. One possibility, as CPI(M) leader Sitaram Yechury argued the other day at a newspaper office, is that there is an IPL India and a BPL India — while inflation bites BPL India, it doesn't affect IPL India and that's why you don't get the same traction you did for anti-inflation agitations (tell that to the hapless BJP which lost elections in Delhi and Rajasthan after onion prices rose 600 per cent!) in the past.

Yechury's right, but not fully. As a Marxist, it is natural for him to believe the rich (or the IPL middle classes) are getting richer while the poor are getting poorer. Luckily for us, even the poor are benefiting from rapid economic growth, a point brought out by Chief Economic Adviser Kaushik Basu at the launch of the NCAER's new Centre for Macro Consumer Research (NCAER-CMCR). While NCAER-CMCR Director Rajesh Shukla was presenting the findings of the centre's first publication, Basu pointed out that from what he recalled of data he'd seen in the past, income levels of even the lowest 10 per cent of the population (the last decile) were growing faster than inflation. In other words, if inflation levels were lower, the lowest decile would, like all of us, be better off — but they were unmistakably better off than in the past. That is, even BPL India is better off and the good news is that they're going to be still better off in the future.

And yes, another thing, NCAER-CMCR data show 92 per cent of the bottom decile and 83 per cent of the one just above this, live in rural India. So, even to the extent the lowest 20 per cent (the lowest quintile) would like to participate in anti-inflation agitations, 88 per cent of them live in rural areas; of the remainder, a very large proportion lives in small towns — none of these, however, are places where political parties carry out their agitations!

There is little doubt, and the data confirm what Yechury, or the Leftists in the Congress, would call the spoils of development have been cornered by the rich (see table). In the 1994-2005 period, while real net national product (NNP) rose 6.2 per cent a year (that is, after subtracting the rise in price levels), incomes for the top quintile rose 9.5 per cent — they rose slower than the growth in NNP for all other groups. Indeed, for the future, 2010-15, also, NCAER-CMCR's projections show the same growth getting cornered by the rich. This means income inequalities in India are going to get worse — the share of the lowest quintile will fall from 7.3 per cent of all incomes in 1993-94 to 5.5 per cent by 2014-15. This, as economists and sociologists will tell you, has implications for the way society functions and the economy grows, but if incomes of the lowest quintile are to rise 6.7 per cent per year after taking into account inflation, this means they will be 40 per cent higher after five years.

With incomes of even the poorest fifth of the population rising as they have, it is not surprising that their consumption levels are also rising. So, while 13.6 per cent of the poorest fifth of households had a TV in 1993-94 (obviously a hand-me-down, but a TV nonetheless), this rose to 34.4 per cent in 2004-05; for two-wheelers, it rose from 4.7 per cent to 11 per cent (see <http://www.business-standard.com/380142/>) — these include rural areas; the numbers for the urban poor are obviously higher.

GROWTH OF NET NATIONAL PRODUCT

(In real terms, % pa)	1994-2005	2005-10	2010-15
Q5 (top)	9.1	10.4	10.8
Q4	4.9	6.1	6.5
Q3	3.2	5.3	5.7
Q2	3.2	5.5	5.8

Q1 (bottom)	4.5	6.5	6.7
Average	6.2	8.1	8.7

Source: NCAER-CMCR Analysis

Many will argue that the figures use the wholesale price index (WPI) whereas what really matters is the consumer price index (CPI). That will certainly make a difference, but it's not certain it would be that high. Keep in mind, for instance, that while the CPI has a large weightage for food, the share of food in household budgets is falling steadily, from 59 per cent in 1993-94 to 51 per cent in 2004-05 — for the richest quintile the reduction was from 53 per cent to 44 per cent, while for the bottom quintile it was from 65 per cent to 62 per cent.

So, yes, inflation is a matter of concern for a variety of reasons — economists will tell you how, once inflation sets in, wages rise and overall competitiveness falls; and we all know our household budgets get hit. But as long as GDP rises the way it is, our incomes will rise faster than inflation — that is, though, bad news for the likes of Yechury and the BJP's Sushma Swaraj, who will have to look that much harder for a cause.