

Trends of Inflation and Employment in India: At Glance

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ABSTRACT

The term Inflation refers to the rise in the general price level of the goods and services with a consequent fall in the purchasing power of money. "Too much money chasing too few goods". In the Indian context the government uses the WPI, CPI and also the GDP Deflator as same as other countries but the WPI is generally considered as an indicator of the inflation in India. Taking the scenario of the difficulties faced in calculation of the CPI which is much more troublesome than the WPI made the Reserve Bank of India to formulate the Measures in order to regulate the Inflation and also for other policy related frameworks. The Wholesale Price Index (WPI) which calculates the prices of the goods only with the wholesaler and the reality lies with the Consumer and at what price the common man is getting the goods this is generally shown by the Consumer Price Index (CPI). In fact, one reason of RBI for using the WPI is data frequency of it and it is available weekly basis and it also has a broader coverage than the CPI in number of commodities, trade able items etc., whereas CPI is available in India on monthly basis. The CPI is calculated separately for the Industrial workers and for the Agricultural laborers and the CPI for all India In order to capture the effects of the cost push and demand pull inflation separately one needs to glance the both CPI and also WPI respectively. The using of CPI by the RBI started with the recommendation of the Urjithpatel led committee in 2014. The CPI is more close to the real situation than those of the WPI as said earlier. Thus, Inflation is a sustained increase in the general level of prices for goods and services. When inflation goes up, there is a decline in the value, or purchasing power of money. Variations on inflation include disinflation, deflation, hyperinflation and stagflation. Theories as to the cause of inflation are up for debate. Some common theories include demand-pull inflation, cost-push inflation, and monetary inflation. When there is unanticipated inflation, creditors lose, people on a fixed-income lose, menu costs go up, uncertainty reduces spending and exporters aren't as competitive. Lack of inflation (or deflation) is not necessarily a good thing and can lead to destabilizing deflationary spirals.

INTRODUCTION

The term Inflation refers to the rise in the general price level of the goods and services with a consequent fall in the purchasing power of money. -Too much money chasing too few goods. In the Indian context the government uses the WPI, CPI and also the GDP Deflator as same as other countries but the WPI is generally considered as an indicator of the inflation in India. Taking the scenario of the difficulties faced in calculation of the CPI which is much more troublesome than the WPI made the Reserve Bank of India to formulate the Measures in order to regulate the Inflation and also for other policy related frameworks. The Wholesale Price Index (WPI) which calculates the prices of the goods only with the wholesaler and the reality lies with the Consumer and at what price the common man is getting the goods this is generally shown by the Consumer Price Index (CPI). In fact, one reason of RBI for using the WPI is data frequency of it and it is available weekly basis and it also has a broader coverage than the CPI in number of commodities, trade able items etc., whereas CPI is available in India on monthly basis. The CPI is calculated separately for the Industrial workers and for the Agricultural laborers and the CPI for all India In order to capture the effects of the cost push and demand pull inflation separately one needs to glance the both

CPI and also WPI respectively. The using of CPI by the RBI started with the recommendation of the Urjithpatel led committee in 2014. The CPI is more close to the real situation than those of the WPI as said earlier.

The inflationary experiences in the Indian context can be dated back to the period of the second world war NeelambarHatti (1974) who traced the incidences of the inflation in India during the period of 1939-45 i.e. the second world war, the statistics shows that the during the second world war the war financing was extensively met by the extra currency printed by the RBI and also the availability of the goods and services for the Indians usage on the overall the inflation surged because of this deficit financing of the India for the allies in the war.

Year	1938	1939	1940	1941	1942	1943	1944	1945	1946
WPI	96	109	121	141	187	311	302	292	328

Source: RBI Archives: Report on Currency and Finance, 1944-45 and 1946-47.

In the above table a constant surge in the inflation can be seen from the year 1940 on account for the diversion of the

resources and also the deficit financing by the reserve bank of India.

SITUATION IN 1950'S

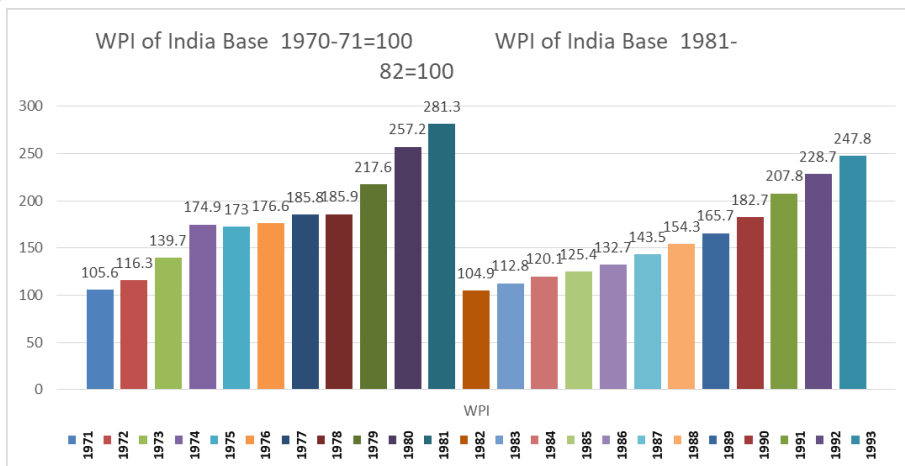
After the Indian Independence and with the setting up of the Indian Planning commission the during the first plan one of the objective was to combat the inflationary pressures on the Indian economy and as the output increased in the first plan period the index of the general price inflation was 99 in reference to the 1952-53=100 as the base period where as the average inflation from the 1950-60 is 1.75 % in terms of WPI. With this steady decrease of inflation and in the second five-year plan in order to finance the industrial development the

government took to the deficit financing and also the in which in turn caused the increase in the inflation.

SITUATION IN 1960'S:

The average decadal inflation in the 1970's was nearly 6.3% and this was mainly because of the India china war in 1962 and the Indo-Pak war in 1965 which increased the governments defence expenditure and the famine conditions in 1965-66 and during 1966-67 inflation growth was 13.69% and again because of the increased agricultural output in 1968-69 and the inflation growth was lowest negative 1.1%. This was again attributed to the agricultural output.

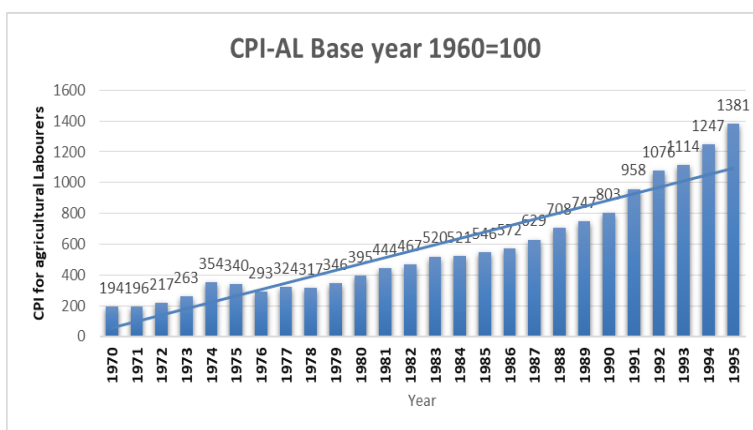
SITUATION IN 1970'S:



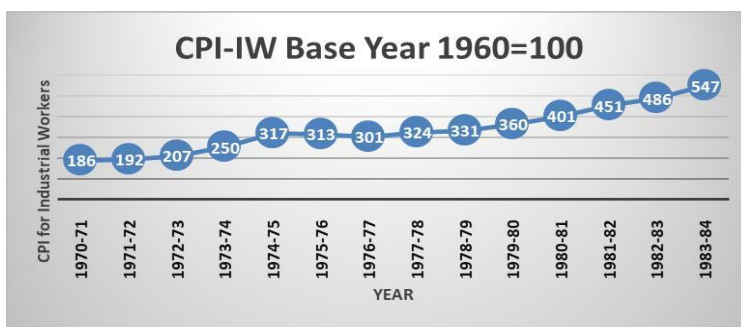
Source: Reserve Bank of India, Handbook of statistics on Indian Economy

The seventies are the bad days of inflation in the Indian history were the inflation growth for the overall decade was 9% highest than the previous periods. During the fourth plan period (1969-74) the kharif crops failed in the year 1972-73,

the increase of the international crude oil prices in the 1973-74 has worsened the situation further and in the span of 192-74 the WPI index increased from 116.3 to 174.9 with an increase of 58.6points.



Source: Reserve Bank of India, Handbook of statistics on Indian Economy



MEASURES WHICH CURBED INFLATION DRASTICALLY IN 1970'S

With the gradual increase in the inflationary levels at a greater extent the government took resort to fiscal and monetary policy measures which includes:

- A compulsory deposit scheme was launched which forced the people to deposit their income parts with the banking system.
- Limits were imposed on the declaration of dividends by the RBI.
- Measures were also taken to combat the smugglers, black marketers and hoarders.

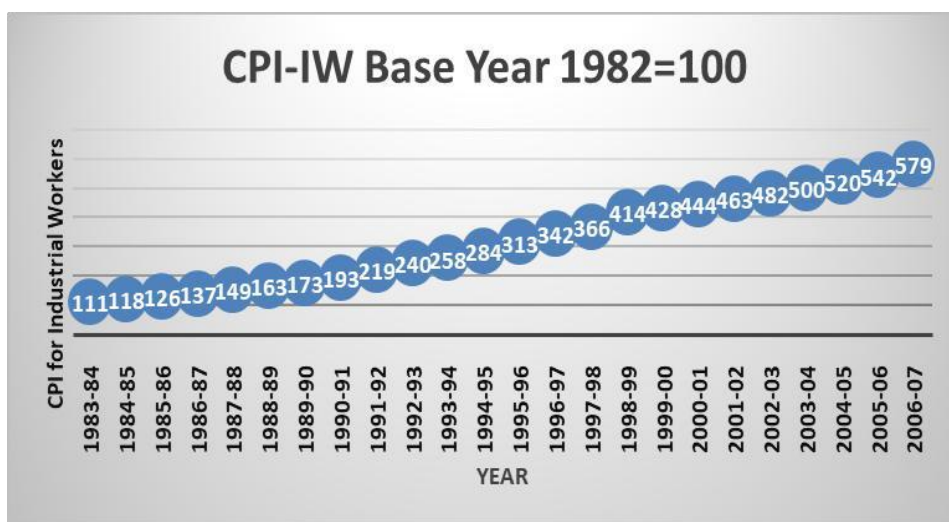
This in fact resulted in the drastic fall of inflation by the end of the 1976-77 period inflation remained tamed at 176.6 points. And the Consumer Price Index remained at 301.

With a change in the government in 1977 the Janata Party came into power with morarjidesai as the prime minister even though the prices were regulated and the inflation seemed to be normal with slight increases by the end of 1978-79 inflation WPI index was 185.6 but the budget which was introduced in the February of 1979 has changed the situation a lot which was an *Inflationary Budget*, a higher degree of indirect taxation and also a huge budget deficit of 1365 crores and by the end of the 1980 it stood at 217.6.

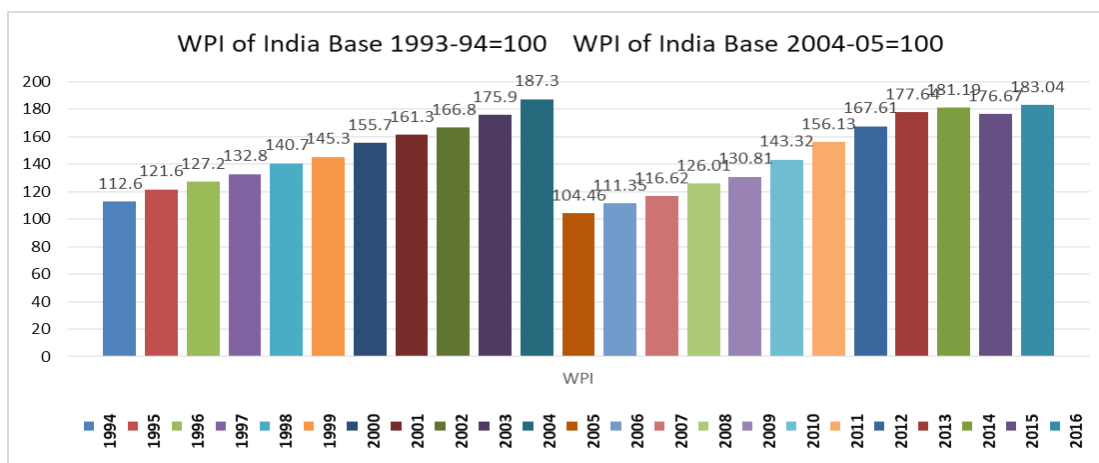
SITUATION IN 1980'S AND 1990'S

Power transferred to the congress from the Janata party in the 1980's even though the inflation was targeted primarily but the Oil Shock of 1980 and the failure of the crops gave an ultimate effect of 281 points of WPI with an increase of 64 points of WPI. A change in the base year can be seen after 1980 and later the 1981 base year is continued up to 1993. The change of the base years will hide the true effects on the inflation and the true figure will not be out from this. Later on the measures by the government such as the curtailing of the government expenditure and also the liquidity regulations in the form CRR ratios and lending capacity that are imposed on banks. During nineties also a linear trend can be observed in the price situations a steady increase in the price levels. The government's actions of administering the indirect taxes and prices of the goods and services and also the Increase of the money supply, addition of taxes on the oil imports also. In the nineties the prices of the food seems to be bit in control. The decadal inflation rate of India

- During 1950s: remained at 1.7per cent.
- During 1960s: remained at 6.4per cent.
- During 1970s: remained at 9.0per cent.
- During 1980s: remained at 8.0per cent.
- During 1990s: remained at 9.5per cent.



Source: Reserve Bank of India, Handbook of statistics on Indian Economy



SITUATION IN 2000'S

Coming to the 2000's even though the inflation resulted between 3-5% in the period of 2000-2008 but with the 2010 the Inflation surged to 143.32 showing a sharp increase and it

kept on increasing from there. This surging is mainly because of the increase of the price indices of the food articles and primary articles. In the below table the increase of the prices of the food articles can be easily visualized.

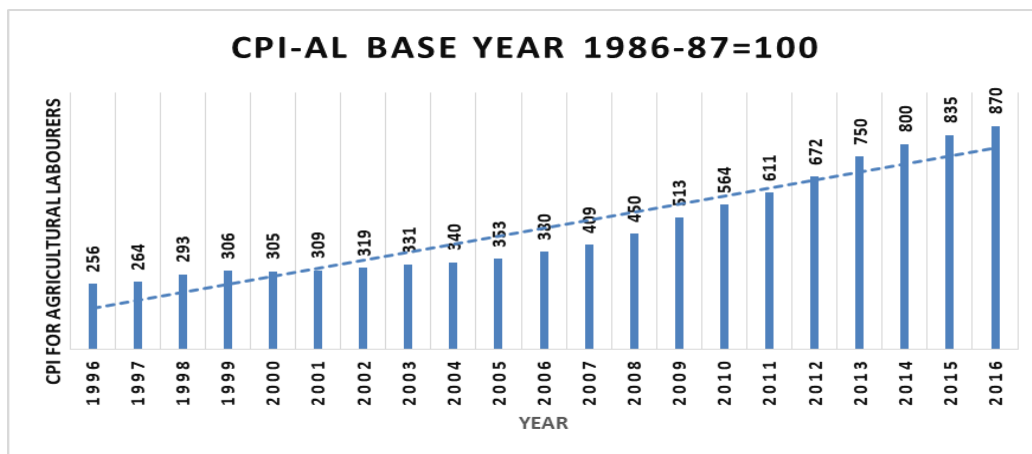
Year	WPI AC	WPI PA	WPI FA	WPI NF	WPI F&P	WPI NP
2005-06	104.4667	104.3	105.3833	96.675	113.575	102.4167
2006-07	111.35	114.325	115.5167	102.2917	120.9167	108.2167
2007-08	116.625	123.85	123.5667	114.4167	120.9583	113.3917
2008-09	126.0167	137.525	134.8	129.15	134.95	120.375
2009-10	130.8167	154.9417	155.3917	136.2083	132.1	123.05
2010-11	143.325	182.4417	179.625	166.625	148.3167	130.0667
2011-12	156.1333	200.3167	192.7417	182.7	169.025	139.5083
2012-13	167.6167	219.9667	211.825	201.925	186.4917	147.0583
2013-14	177.6417	241.6083	238.85	213.2333	205.4333	151.4583
2014-15	181.1917	248.8	253.3833	212.0667	203.4917	155.1167
2015-16	176.675	249.5833	262.0583	219.5	179.75	153.4167
2016-17	183.0435	261.5044	275.5261	229.9044	189.3	157.3174

Source: Handbook of Statistics on the Indian Economy, Reserve Bank of India

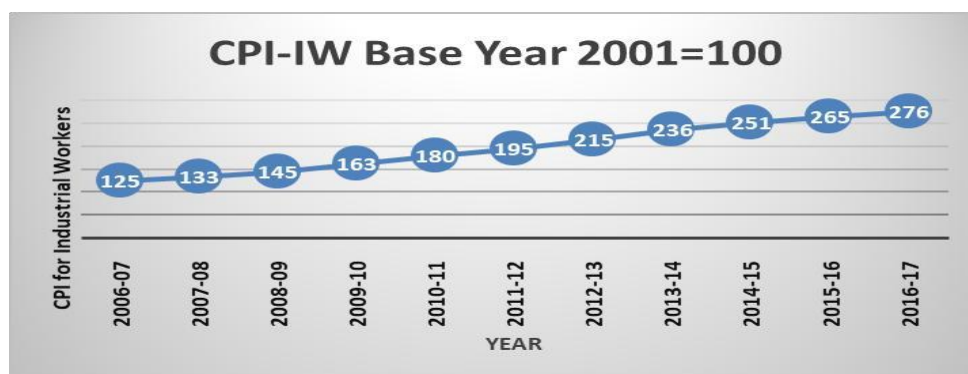
AC: All commodities, PA: Primary Articles, FA: Food Articles, NF: Non FoodArticles, F&P: Fuel and Power MP: Manufactured products. FA and NF are part of PA.

Both the indices WPI of Primary Articles and the Food Articles kept on increasing at a greater speed than those of the others. This can be described as a food inflation and researchers also claim that this might also because of the income effect which happened through schemes such as MGNREGA Mahatma Gandhi National Rural Employment Guarantee Act, etc., Mishra and Roy (2012) studies the food

inflation in India and study finds out the strong cointegrating relationship between the food, non-food prices and the inflationary levels, the study also finds that the relative price of the food and the CPI movements are close together. Ball et, al (2016) analyses clearly how the Food and Energy prices of India is affecting the inflation levels and also shows how the monetary policy is in a state of a dilemma in India.



Source: Reserve Bank of India, Handbook of statistics on Indian Economy



Source: Reserve Bank of India, Handbook of statistics on Indian Economy

Moving to the economic survey 2016-17 outlook on the inflation in India is being described as

- a) CPI inflation moderated to 3.4 per cent by December 2016 (due to good kharif crops led by pulses).
- b) WPI inflation reversed from negative to a positive of 3.4 per cent by December 2016 (due to rising international oilprices).

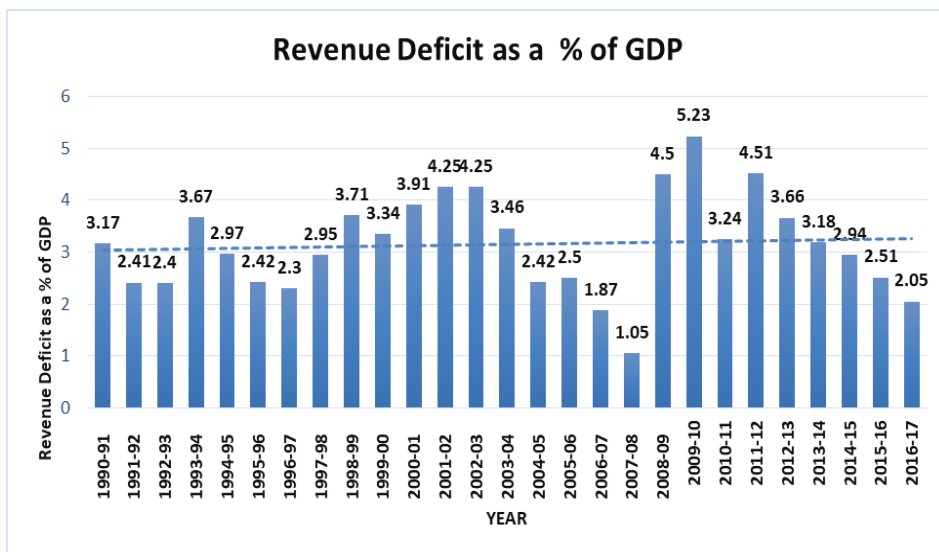
- c) The wedge between CPI and WPI inflation, seen in 2015-16 has narrowed down to zero.
- d) Core inflation has been more stable—hovering between 4.5 to 5.0percent.
- e) The outlook for the headline inflation (i.e.,CPI-C) for 2016-17 is below the RBI’s target of 5 per cent (atrend likely to be assisted by demonetization’).

Year	New CPI Rural	New CPI Urban	New CPI Combined
2011-12	92.8	93.8	93.3
2012-13	102.7	102.7	102.7
2013-14	112.5583	112	112.3
2014-15	119.4917	118.125	118.85
2015-16	126.1	123	124.7
2016-17	132.425	127.9	130.325

Base Year 2012=100, Source: Reserve Bank of India, Handbook of statistics on Indian Economy.

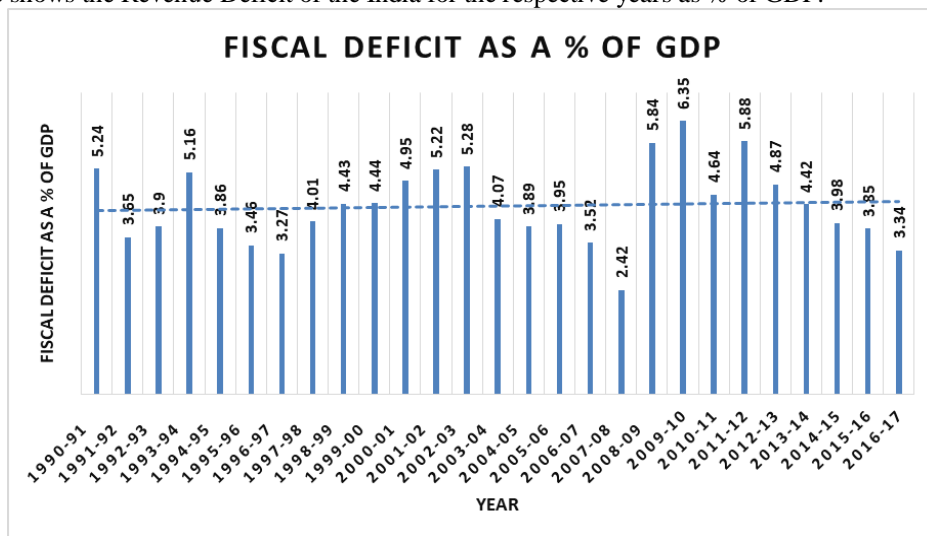
DISSECTING THE INFLATION GROWTH AND MEASURES IN INDIA

It is clear from the above figures and facts the inflation rates of India have been increased many folds, the changing of the base year shows the hiding of a true fact that the clear figures are being hidden. Focusing on the aspects of the both the demand side and the supply side. On the Demand Side the Expenditure of the government, Revenue Deficit/Deficit Financing and the increase in the money supply with the public and the aggregate monetary resources (M3) or the Broad Money can be viewed from the monetary side which induces the inflation in India.

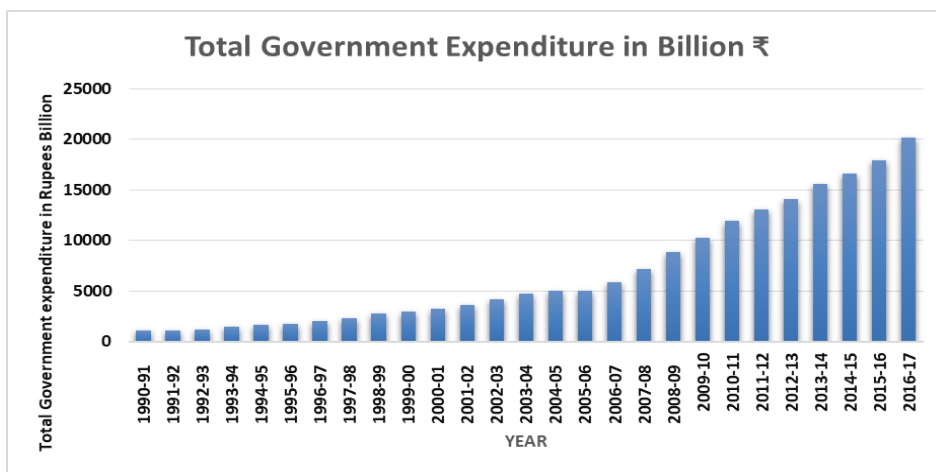


Source: Reserve Bank of India, Handbook of statistics on Indian Economy.

The above figure shows the Revenue Deficit of the India for the respective years as % of GDP.



Source: Reserve Bank of India, Handbook of statistics on Indian Economy.



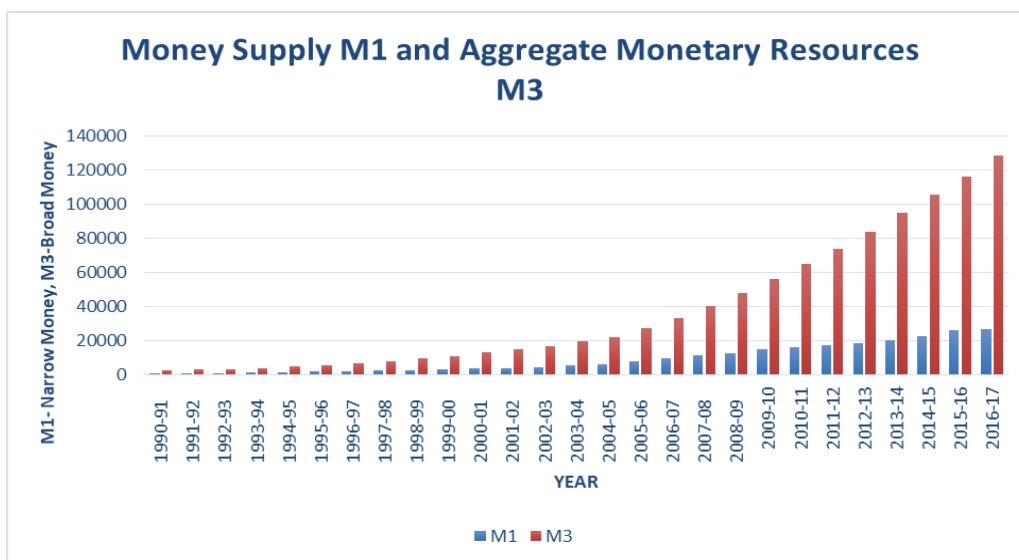
Source: Reserve Bank of India, Hand book of statistics on Indian Economy.

Catao and Terrones (2005) examined a large span of 107 countries for the period of 1960-2001 in order to bring out the empirical relationship between the deficits and the inflationary levels. The study has reconfirmed the relationship of spurring of inflation rate when the fiscal deficits have increased consistently. In the Indian Context to the Fiscal Deficits have been increased over the period of time along with the Revenue Deficits. Tiwari and Tiwari (2011) tested the data of India for the time period of 1970-71 to 2008-09 and the study finds a positive relationship between the government expenditure and money supply with the inflation rates of India.

As said earlier the demand factors Revenue Deficit and also the fiscal deficit in the above figures. The revenue deficit is greater than 3 in most of the years and in the year it has touched 5.23 % and stayed above 3 % up to the 2013-14 and later on it is controlled in the year 2006-7 which persisted at 2.05%. Fiscal deficit too stayed above 3% in all the years

except 2007-08 and it was highest in 2009-10 6.35 % of GDP. It is obvious that the government expenditure has been increased to a greater extent. The Government expenditure in the 1999-2000 is 2980.53 Billion₹ and it increased to the 20114.07 Billion₹ in 2016-07. A higher level of government expenditure shows a higher degree of demand for the goods and services and also with an increase of it causes the general price level to increase at a greater pace since the government expenditure becomes the income of the people.

The other factors of the demand side are money supply (M1) and the Broad Money (M3) it is also well known fact when the government expenditure is being carried out through the deficit financing it increases the money supply and ultimately resulting an increase in the price level as the demand for goods and services increases when the money levels with the people increases.



Source: Reserve Bank of India, Handbook of statistics on Indian Economy.

M1 is the money in circulation and it is also called as narrow money it consists of Currency with the public and the demand deposits of the public with the commercial banks. M3 is the Broad Money which is the total volume of liquidity which includes the M1+ time deposits of the public with banks and these also can be converted into cash/liquid form easily. M3 is being used as a policy variable by the Reserve Bank of India. The money supply M1 which was 928.92

billion₹ in 1990-91 and it reached to 26954.31 billion₹ in 2016-17. Whereas M3 which was 2658.28 Billion₹ in 1990-91 and increased to 128443.9 Billion₹ in 2016-17. The Money in circulation has been increased more than 2801% and the M3 volume of liquidity has been increased by more than 4732% by 2016-17. Such huge expansions in the money supply can be regarded as a significant factor for the sharp increase in the inflation rate over the period of time.

CONCLUSION

It can be said that the sub-group of food articles was the major contributor to the overall inflation in the past, with its contribution of 100% during 1950's and 1960's. Over the years, its contribution in overall inflation has declined to 17% during 1990's and 2000's, while the contribution of other two categories, viz. fuel and manufactured goods has shown an upward tendency. Inflation in India is no larger a food shortage inflation. This suggests that progressively, over the period, the impact of monsoon conditions on volatility in prices is getting increasingly moderated perhaps owing to the expansion of irrigated agriculture and buffer stock operations and increasing non-food expenditure in total budget. Thus, Inflation is a sustained increase in the general level of prices for goods and services. When inflation goes up, there is a decline in the value, or purchasing power of money. Variations on inflation include disinflation, deflation, hyperinflation and stagflation.

Theories as to the cause of inflation are up for debate. Some common theories include inflation, cost and monetary inflation. When there is unanticipated inflation, creditors lose, people on a fixed-income lose, menu costs go up, uncertainty reduces spending and exporters aren't as competitive. Lack of inflation (or deflation) is not necessarily a good thing and can lead to destabilizing deflationary spirals. Inflation is measured with a price index. The two main groups of price indexes that measure inflation are the Consumer Price Index and the Producer Price Indexes. The GDP and Price-deflator are also used. In the long term, stocks and precious metals are good protection against inflation. Inflation is a serious problem for fixed income investors. It's important to understand the difference between nominal interest rates and real interest rates. Inflation-indexed securities offer protection against inflation but offer low returns.

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