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Problems of inflation in India

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Abstract
In modern days, continuously price inflation becomes a great problem for India. By the term ‘inflation’ we simply mean continuously rise in prices of commodities. Inflation takes place if aggregate demand for commodities is greater than supply of commodities in an economy. Aggregate demand for commodity comes from adequate supply of money. Mainly due to increase in government expenditure money supply increases where increase in government expenditure in the developing country like India is inevitable. Inflation also occurs from the supply side of an economy. This means inadequate supply of agricultural products & industrial products. Causes behind less supply of such commodities are dependency on monsoon, volatile nature of agricultural products, inappropriate government policies, speculation of agricultural products etc.So inflation can be divided into two broad type, and cost push & demand push inflation. There are three types of anti-inflationary measures –i) monetary ii) fiscal and iii) other measures like increase in production, price control, rationing, deferred payment and demonetization etc.Monetary measures are increase in bank rate, repo rate and reverse repo rate, increase in cash Reserve Ratio and Statutory Liquidity Ratio, open market operation by which bond or government securities are sold and brought in open market. Fiscal measures are reduction in government expenditures, transfer payment, fiscal deficit and revenue deficit, increase in tax revenue etc.As a countervailing force of monetary policy fiscal measures are implemented. Therefore at last we can say that even though the government has been taken controlling measures to check up inflation, but it cannot wiped out totally which increases poverty among the people in the society such as one can purchase things, but other cannot.

Keywords: Inflation, cost push, demand push, price rise, deflation, stagflation, monetary & fiscal policy, demand, supply, consumer price index, Gross domestic product etc.

Introduction
Inflation is a great problem in recent India. Inflation means rising prices of commodity continuously. Price stability is an essential condition for stability in economic life as well as economic growth. Fluctuations in prices on the contrary create an atmosphere of uncertainty which is hindrance for economic activity. If demand of the commodity rises, but supply of the commodity does not rise, then there is shortage supply of the good, automatically price rises. Beside this, if the wage or the income of the people increases, purchasing power of the people also increases which rises demand than the supply of the commodity and create inflation. People do not satisfy their want or their wish because of the high rate of price. Food-inflation is very dangerous for the society as it creates hunger among the people and they cannot purchase their essential commodities. If price rises steadily over a long period, a redistribution of national income and wealth takes place to the disadvantage of the poor, which eventually influences the demand pattern. Moreover, changes in prices will influence the production. Investors also observe price movements. In order to estimate the profitability of a particular investment, they have to study the behavior of prices in the market. In a state of uncertainty, an investor cannot measure the actual profitability of investment which he would like to make. This will naturally discourage the investors to invest in larger amount. In the beginning of the mid-1950s, prices have continuously risen in India. The rate of price rise has not been the same throughout the all period. Once they discover that the rate of price rise is also increasing causing continuous erosion in their real income, they become panicky. This actually happened in India during the early 1970s.In 1980, the price inflation occur due to deliberately raising administered prices and indirect taxes on commodity & services. In recent time the average rate of price inflation is 4.9%. Hence, price stability is a necessary condition to ensure the development performance of the country.

This research paper tries to pinpoint the reasons for price inflation and find out the solving measure of these problems.

Objectives of the study: The objectives of the study are.

1. To study what is price-inflation and the problems that are confronted in present India.
2. To know about the real causes and reasons of the price inflation.
3. To put forward an ideal model for solving the price inflation and compare it with the total inflationary problem in India.
4. To put forward recommendations for solving the problems and developing the actual price system in Indian commodity market.
5. To analyze the nature of demand, supply and price fluctuations of commercial and noncommercial product market.
6. To give the actual picture of price-movement in commodity market and give suggestions for solving the problems.

Methodology of the study

The data will be collected from primary and secondary source in Indian market. The primary data will be collected with the help of interview and survey method. The primary data will also be collected from a sample survey among the producer, retailer and whole seller, consumer. The information has been collected from them by observation the price level in various product markets. The sampling technique is judgment sampling and the conclusion has been made on the basis of the information. For evaluating the objectives of the study the secondary data will be collected from various sources such as books, journals, reports, websites, university libraries, planning commission, govt. publications (central and state), district and state wise statistical office, commodity product market committees etc.

Statement of the problem: Inflation i.e. price movements or the variations in the price level in India are usually measured in terms of the wholesale price index (WPI).But they can also be measured in terms of the gross domestic product deflator (GDPD) or the consumer price index (CPI).The wholesale price index (WPI) is the main measure of the rate of inflation in India. A new WPI series with 2004-05 as base was released on September 14 in 2010. A commodity basket comprising 676 items has been selected for the new series. WPI does not include services and non-tradable commodities. Moreover it only measures headline-inflation. Headline inflation includes the entire set of commodities in the general price index; in this case, the WPI. Core inflation does not take into consideration commodities that have volatile prices, for example, food and fuel. It follows that supply shocks that arise from a poor crop yield or hikes in international prices of fuel will lead to increase in headline inflation. Core inflation would not be affected by these shocks and would serve as an indicator of the price levels of commodities that have nonvolatile prices. The consumer price index (CPI) reflects the cost of living for homogeneous group of consumers. The newly monthly CPI with base 2012=100 is now taken as the measure of headline inflation. The gross domestic product deflator (GDPD) is obtained from the national accounts as a ratio of GDP at current prices to GDP at constant prices. As a national income deflator encompasses entire spectrum of activities including services, the coverage of GDP is far more than of the WPI or the CPI. The wholesale prices in India during the period from 1981-82 to 1993-94 rose at an annual rate of 8.2%.The inflation rate touched 12.6% on August, 2008. In 2009, inflation rate dropped to just 0.18%. Thus, the inflation rate based on WPI touched almost zero level. The overall average inflation during the year 2010-11 was as high as 9.6%.Headline WPI inflation was as 8.9% in 2011-12.Headline inflation moderated to an average of 7.4% during 2012-13.Headline inflation measured in terms of WPI fell to 6% in 2013-14 and further to just 2% in 2014-15.It turned negative to -2.5% in 2015-16.As against this inflation in terms of CPI was higher at 9.5% in 2013-14,5.8% in 2014-15 and 4.9% in 2015-16 where the base years of WPI series is 2004-05 while base year for CPI series is 2012.Moreover creeping i.e. daily inflation occur day by day and the prices of the goods rises with passing of time.

The causes of the inflation: There are various factors for causing inflation. Some factors are on the demand side affecting prices which are called demand-pull factors and others factors are on the supply side affecting prices which are called cost-push factors.

Demand-pull factors

1) Increase in public expenditure: The public expenditure in India has increased during the planning period and has thus generated considerable inflationary pressures. At present 40% of the government expenditure in India is on non-development activities. Due to unproductive nature expenditure on these activities results in inflationary price rise.

2) Deficit financing: When a government is not able to raise adequate revenue for its expenditure, it can meet its deficit by borrowing funds from the banking system. This technique of resource mobilization is called deficit financing. For the required amount purpose of economic development the government has not shown the necessary will to raise the required amount of capital through savings have steadily increased. Under this circumstances, there could be no escape from deficit financing.

3) An important factor for any spectacular rise in prices in all countries is the expansion in money supply. The government of India has been responsible for the inflationary situation in the country through its policy of deficit financing and the state governments contributed their share through persistent financial indiscipline and reckless expenditures. This situation is being brought under control.

4) Role of black money: There is huge accumulation of unaccounted money in the hands of tax evaders, smugglers, builders and corrupt politicians and government servants. A large part of the unaccounted money is used in buying and selling of real estate in urban areas, extensive hoarding and black marketing in many essential wage goods, such as cereals, pulses, sugar edible oil, etc. This causes price rise.

5) Growth of population: The pressure of growing population on aggregate demand and on the price level also causes inflation.

Cost push factors

1) Fluctuations in output and supply: Violent fluctuations in food grains output and supply of production also create inflation. Market arrivals have also tended to be erratic. In fact the upward pressure on agricultural prices is also due to large hoarding by big farmers and speculation in food grains by traders and blackmarketers. The hoarding was done by the middleman and big farmers also.

2) Taxation, as a factor in rising cost and prices: Cost push factors consist mainly of rise in wages profit margins and rise in other cost. The government and the public sector were responsible to large extent for pushing up the price level in the country.

3) Administered prices: The public sector enterprises too were continuously raising the prices of their products and services which generally constitute raw materials for other industries. There has been regular upward revision of several administered prices adds fuel to the inflationary potential in the country.

4) Hike in oil prices and global inflation: The sharp hike in the price of crude oil since September 1973 and the consequent upward revision of the prices of oil and oil based goods. In the year 1980, there was 90% increase in all fuel prices by the OPEC. The gulf-surcharge which raised the prices of petroleum products to an unprecedented level was major cause for rise in prices during 1990-91.

5) Agricultural price policy of the government: In order to provide incentives to farmers with marketable surplus, the government has been pursuing a policy of price support for about five decades. By announcing the prices at which it would be buying agricultural products it not only ensures certain minimum prices to the farmers but also completely eliminates the element of risk involved in farming operations. Although this policy has benefited big farmers, it has been a major cause of inflation.

6) Inadequate rise in industrial production: In 1979-80, there is a negative growth in industrial production. For this there was a shortage of industrial goods and this created inflationary pressures in the economy. During the economic reform period since 1991, there has been a marked fluctuation in industrial production which has created conditions of instability and uncertainty. As a result inflationary pressures are bound to continue.

7) Other factors

i. The failure of the government policy at various times was a serious factor in the inflationary rise in prices.
ii. In 1973, the government nationalized the whole sale trade in wheat along with a threat to introduce a similar measure for rice. This measure completely upset the normal trade in wheat and the price of open market wheat shot up.
iii. The government did not fail to procure adequate amount of food grains for the public distribution system, nor was it able to import the necessary quantity from foreign countries.
iv. Price support programmed and control of agricultural prices have generally worked in favour of middleman and traders and rarely benefiting urban consumers at the expense of the rural folk.

Consequences of Inflation

1) Adverse effect on production: As a result of inflation, prices of certain goods of consumption such as textiles had increased to very high levels forcing demand for such goods to decline especially from the poorer sections of the country. While demand had declined, production too had declined due to shortage of raw-materials, transport, and power and so on. Production had been affected by labour strikes and lockouts.

2) Adverse effects on the distribution of income: Inflation has brought about a mal-distribution of incomes. The producers, traders and speculators have gained enormously through ever-rising profit margins and through illegal gains and windfall profits, due to hoarding, speculation and black-marketing. On the other hand people living on past savings, fixed interest and rental incomes and old age pensioners have been ruined due to continuous depreciation in the purchasing power of the rupee. Inflation has brought about shifts in the distribution of income from the poor and the weak to the rich and the powerful and also creates inequalities in income & wealth.

3) Obstacle to development: The continuous price rise during the planning period has turned out to be an obstacle to development. This is particularly due to the rigidity about plan outlays. When a plan is finalized and outlay determined, it is generally not revised. This approach leads to non-completion of projects in the required period.

4) Changes in relative prices: Over the years, prices of all commodities have not increased uniformly. In some years relative prices of agricultural products increased more rapidly than that of manufactured products while in other years it was the other way round. As a result, large farmers get great benefit and small farmers get less benefit. The farmers in Punjab, Haryana and UP have invested newly created income in the mechanization of agriculture, which has led to displacement of some farm labour in these states.

5) Adverse effects on the balance of payments: Inflation created two problems for the country. First, the demand for India’s products declined in foreign markets and the task of increasing exports became more difficult. Moreover, in the home market, the profitability increased which reduced the interest of export. Secondly, Indian importers finding that foreign goods were cheaper, tried to increase imports.

Measures for controlling the inflation: The Government of India has worked out a wide range of measures to control inflation and to ensure stable conditions as well as to prevent speculators from taking an undue advantage of the conditions of scarcity.

1) Demand management: The price policy since 1973-74 relied predominantly on fiscal and monetary measures to check the demand of general public for goods and services.

I) Fiscal measures: The government of India has generally insisted on controlling its own expenditure and keeping in check both its revenue deficit and fiscal deficit which are major instrument of inflation-control. In 1984, the government of India announced a package of programme to curtail public expenditure, to postpone fresh recruitments to government jobs etc. In 1990-91, the government of India has appreciated the importance of reducing fiscal deficit which was very helpful for controlling inflation.

ii) Monetary measures: The monetary policy of RBI consists of extensive use of general and selective credit control measures. The RBI relied heavily on selective credit controls on bank loans against food grains, cotton, oilseeds and oils, sugar and textiles so as to discourage speculative hoarding. In general RBI uses its monetary policy to achieve a judicious balance between the growth of production and control of the general price level.RBI uses bank rate, CRR, SLR and open market operations to increase bank credit and expansion of business activity or speculative activity.

2) Supply management: Supply management is related to the volume of supply and its distribution system. Through increase in domestic supplies, large releases from official stocks of food grains and widening and streamlining of the net work of public distribution, the government attempts to prevent an undue increase in the prices of essential commodities.

i) Fixation of maximum prices: For removing the incentive for hoarding and speculative activity in food grains the state governments fixed the wholesale and retail prices of food grains. The government also fixes minimum procurement prices (MSP) for major crops. Prices of other important goods like cloth, sugar, vanaspati were also controlled in the past.

ii) The system of duel prices: The government adopted a system of dual prices in the case of goods like sugar, cement, paper etc. Under this system the weaker sections of the community are supplied these goods through fair price shops, at controlled prices and the rest are allowed to purchase their requirements at higher prices from the open market.

iii) The government used to increase supplies of food grains and other essential goods in times of internal shortage through larger imports. During the last few years, the FCI used the open market sale of rice and wheat to check market prices of these essential food grains.

iv) Problem of oilseeds and edible oils: In the 1990s, steep rise in the prices of edible oils along with those of pulses, tea and sugar were responsible for rise in the general price level. The government prepared medium and long term plans to step up the production of oilseeds in the country and also announced higher support prices for groundnut, soya bean and sun-flower seed. The last two crops offer the maximum scope for augmenting the supply of edible oil in the country.

v) Public distribution system (PDS) and consumer protection: The government‘s PDS system policy covering both rural & urban areas. The government has set up fair shops which distribute wheat, rice, sugar, imported edible oil, kerosene etc at reasonable price to the people. It helps to hold down prices and provides essential commodities at low income groups.

vi) Price policy of the government: To maintain price stability, appropriate price policy is taken by the government. Under this price control measure, the government has been adopted many steps such as price control and regulation, policy of administered prices, procurement/support prices, buffer stocks and PDS system, prices of industrial products etc.

3) Other measures: Since 2000-01 the following important measures have been taken by the government to control inflation:

i. Adoption of OGL (open general license) import policy for importing sugar, pulses, oils etc.
ii. Adjustment in trade and tariff policies in recent central government budgets to ensure that domestic prices of industrial products remain competitive.
iii. Substantial reduction in excise duties on a number of items expected to accelerate the pace of industrial revival and raise industrial growth.
iv. To control the inflation, recent government of India have been implemented Goods and Service Tax (GST) on all goods and services by replacing all other taxes. GST on essential goods starts from 0% to 18% respectively. GST is very high as even 28% in case of luxuries goods.
v. To control black money the Indian government has been introduced newly printing notes of Rs 500 and Rs 2000 by cancelling the old & previous notes. This decision have been declared by the government suddenly within one night so that the rich & illegal black money holders do not get enough time to store, hide & transfer the black money in other places and are compelled to surrender or spoil them. Even CBI attack or investigation have been done by the government very quickly in different places, rich person and businessman’s home, office, godowns and has discovered a huge amount black money from different places. Lastly to control the inflation, the government has to increase production to meet the rising demands. Adjustment between demand and supply keeps the price stable.

Conclusion

Inflation is very crucial problem of our country. It reduces production and thus hampers economic growth and development. So inflationary controlling measure is necessary for improving the country’s economic conditions. Anti- inflationary measure depends upon containing fiscal deficit and checking monetary expansion. Besides these, it would be necessary to promote the expansion of agricultural production and manage the supply of food grains and other essential commodities like edible oils and sugar among the poorer sections of the people.

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