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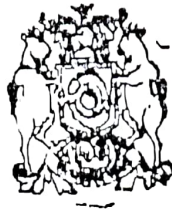
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A STUDY OF AN IMPACT OF INFLATION ON A LAYMAN: A COMPARATIVE OVERVIEW OF 2014 AND 2022

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Abstract

Inflation is a big deal not only in World Politics but also in several other economic linkages associated with it. Most of the times inflation has crossed 10% in India, the incumbent government has lost power. Besides losing power, experiences from other countries have shown the role of hyperinflation leading to revolts and revolutions like in Venezuela, Congo, Peru, Indonesia and Zimbabwe. After 2014, inflation has never been this high as we are witnessing after the pandemic in India. Indian politicians are acutely aware of the political impact that inflation can have on their government. Societies blame politicians for hikes in price and exhibit their anger through voting. Malignant Inflation in India is associated with slow credit growth, flat demand, disturbed manufacturing, slowing GDP, perennial unemployment, rupee depreciation, high interest rate, negative outlook and lower wages. One may easily witness people complaining about their routine expenditure, rise in fuel, food, shelter and so on. High inflation erodes consumer confidence and precipitates a stock market crash. There are a lot of people around us, whose lives have changed due to inflation. Hence an attempt is made to discuss why that is happening in India in a comparative framework of 2014 and 2022.

Keywords: Inflation, Hyperinflation, Stagnation, GDP, Unemployability.

Introduction

History proclaims right from the French revolution to the Arab Spring, inflation can do things more intensely which even powerful opposition leaders can't in any country's political arena. These are common statements issued by Indian politicians across all the political parties as inflation has risen leaps and bounds, the falling GDP on one hand and the rising inflation on the other and the assurance of rectifying inflection related issues and economic sustainability. Inflation impacts more disastrously on a common layman who cries for daily bread and butter or earns hand to mouth. Comparing India with Venezuela is obscure where it had shot up as high as 4000% at one point of time. There are several interviews and examples published in newspapers that showcase the impact of inflation on the common man. It seems difficult for middle class families to fulfil their children's wishes and even to afford a price of milk for cervical cancer patients. India has just fought against a pandemic and on the top of that- inflation has ruined the dreams of middle class families.



units' faces their job loss. This is why high inflation is kind of an obstacle for any developing economy.

There are several reasons for the inflation in India. The first and foremost reason is that due to the Covid Pandemic, the supply chains across the world are in tatters. A large amount of goods are manufactured, packaged and consumed and sold in different countries. Let's take an account of the iPhone; it is designed in California, America, most of the electronic parts for iPhone imported from Taiwan, these iPhones' get assembled in the factories of China and shipped throughout the world. Due to lockdowns and travel restrictions cargo ships found it difficult to transport goods from one part of the world to another. It resulted in a demand supply ratio disturbance and surged inflation. Market has seen a dried up supply of electronic chips so that its prices were shot up. (Editor, 2022) Apple unveiled the all-new MacBook Air laptop with its latest M2 chipset at WWDC 2022. The new MacBook Air comes with a 13.6 inch display and its price starts at Rs. 119000/- After the price hike the customers will now have to shell out Rs. 99900 for the base variant. Supply chain of petrol and edible oil was further dismantled.

The global oil prices have increased since the Russia - Ukraine war began in late February. Russia is the second largest producer of crude oil in the world. India spent 11 billion dollars purchasing oil in December, 2021, 17 billion dollars were spent for around the same quantity of oil in March, 2022. (Shroff, 2022) Comments as Russia's offensive refuses to pause. Since February 24, a little over 2.3 million Ukrainians have fled seeking a safe haven while the Russian army is upping the stakes and making the war exponentially dirtier by attacking civilian enclaves, non-military infrastructure and even hospitals. On March 10, Russia retaliated to the banking, business and commercial sanctions imposed on it by the US and the EU by firing counter-sanctions of its own. Russia's counter-sanctions impose a ban on the export of telecom, electrical, agricultural, auto, medical and tech equipment till the end of 2022. a 10 dollar increase in crude oil price may push retail inflation by 50 to 60 bps. A similar impact has been observed on the price of edible oil. India imports 60% of the raw materials required for the production of edible oils from Russia as well as Ukraine.

Another reason for this inflation was RBI's monetary policies and rate of interest. (Mohanty, 2012) explains, "...With the development of domestic financial markets and gradual deregulation of interest rates, monetary policy operating procedure in India in recent years has evolved towards greater reliance on interest rates to signal the stance of monetary policy. This process is buttressed by significant evidence that policy rate changes transmit through the term structure of interest rates, though the intensity of transmission varies across financial markets." (Hofmann, 2017) asserts, "From a historical perspective, this persistently low level of short- and long-term nominal rates is unprecedented. Since 1870, nominal interest rates in the core advanced economies have never been so low for so long, not even in the wake of the Great Depression of the 1930s". In March 2020, India was under its first lockdown and a lot of shops had shut down. The demand for goods was extremely low, so that people had lost their jobs and a lack of money registered low inflation. High inflation and deflation both are not healthy for the economic development of any progressive country. Negative inflation or deflation reduces purchasing power and RBI comes into



play as like in March 2020. In order to address this problem RBI revived their monetary policy and lowered interest rates. People availed loans and started investing and purchasing, it led to inflation.

Inflation is not just numbers or statistics. This number is impacting a lot in a huge way not just in India but overall the world. In the US bacon surged by 1.38 dollars, eggs by 20.7% and sirloin steak by 2.09 dollars. It is reported that prices were surging more than they have in 30 years. (Sherman, 2022) reports, "Prices jumped at an annual rate of 4.7% last year - faster than any other country in the Group of Seven (G7) advanced economies, according to the Organisation for Economic Cooperation and Development (OECD). In the UK, for example, inflation was just 2.5%. Last month, inflation in the US hit 8.6%, one of the highest rates in the world. A recent study by the Federal Reserve Bank of San Francisco concluded that pandemic relief packages probably contributed to 3 percentage points of the rise in inflation until the end of 2021 - a factor that goes a long way to explaining why US inflation outpaced the rest of the world." It is assumed that inflation in the US may invite global recession.

It is interesting to compare the years 2014 and 2022 on the numbers of inflation as India has witnessed a drastic shift in politics, where inflation was one of the reasons. Recently the ruling government has admitted that the inflation rate jumped 8 years high in April, last time it was high in 2014. (Dhoot, 2022) reports, "Inflation faced by Indian consumers raced to an almost eight-year high of 7.8% in April, from 6.95% in March, with rural inflation accelerating to 8.4%, and urban shoppers experiencing an almost 1 percentage point month-on-month quickening at 7.1%, data released by the National Statistical Office on Thursday show. Food costs led the surge with inflation measured by the Consumer Food Price Index (CFPI) jumping to a 17-month high of 8.4% from March's 7.7%. Food prices rose at a faster clip of 8.5% in rural India." Vikas Dhoot further added that "Driven by continued global crude price upsurge which impacts food, fuel and light, and transport and communication prices in the CPI basket, India's April 2022 CPI inflation turned out to be a 95-month high of 7.8%," noted EY India chief policy advisor D.K. Srivastava. "It was way back in May 2014 that CPI inflation was at 8.3%," he recalled."

Data from Ministry of statistics and program implementation (MoSPI) discloses comparative statistical analysis of April 2014 and April 2022. Refined oil such as sunflower oil price almost doubled. Groundnut oil prices have increased by 90%, mustard oil prices have soared by 95%, lemon by 102%. Hikes in oil prices have broken the economic backbone of a layman. LPG cylinder prices are hiked by 97% within these eight years. (Suraiya, 2022) reports, "Thanks to domestic taxes, petrol and diesel prices in India are among the highest in the world, taking comparative earning capacity into account. And currently the prices of these fuels are at an all-time high. When the price of fuel goes up, the price of everything, from food to factory products, goes up because of the increased cost of transportation and manufacture, both of which are energy-dependent." Pulses are also hiked in these eight years; yellow split pigeon peas (tur) by 48%, green gram (moong) by 29%, red lentils (masur) by 50% and black gram (urad) by 61%. Protein rich foods like eggs are hiked by 42% and milk by 40% and meat and fish prices have risen by 77%. Paneer is also very expensive and fruits are not more available as in 2014; oranges are hiked by 53% and



mangos by 92%. Core inflation indicators which included footwear, personal care, transports are hiked by 6.97%, highest in 95 months. (Magazine, 2022) reports, "High price levels of fuel and food items, especially of vegetables, spices and oils/fats, along with household services, contributed to the sharp rise in inflation, a level which is seen as being partly responsible for preempting the unscheduled repo rate hike of 40 basis points by the RBI last week. Retail inflation surged to a near 8-year high of 7.79 per cent in April, persisting above the Reserve Bank of India's (RBI's) inflation target for the fourth straight month, data released by the National Statistical Office (NSO) showed Thursday." (Banerjee, 2022), According to the data issued by Govt. of India, retail inflation overall increased from 2014 to 2022 is 48%.

Though it is difficult to track the salary or annual income of a lay man, comparative perspective can be accomplished with the numbers of per capita income. Per capita income can be sought by GDP divided by total population of the country. In India, there is a great valley in between poor and rich. Recent article published by (Bureau, 2021) says, "India stands out as a "poor and very unequal country, with an affluent elite", where the top 10 per cent holds 57 per cent of the total national income while the bottom 50 per cent's share is just 13 per cent in 2021, according to the latest World Inequality Report 2022." In 2014 per capita income of India was 1574 dollars and it is now 1935 dollar. This is a 23% increment whereas inflation is growing by 48% in the same span of time.

Thus, despite the huge gap between rich and poor strata of the society, people are becoming poorer due to inflation in comparison with 2014 and 2022. As per the figures if salary is not doubled in these eight years, savings may be zero. Salaries have either stagnated or reduced in the light of high racing inflation. This inflation may lead towards issues like inequality, discrimination, hunger, unemployment and economic slowdown.

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