

# The Social and Political Cost of Inflation in India

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**Abstract:** If you are from the 98% of Indians who fall inside the economic middle class and you are not living under a rock, you must have noticed something recently: prices are skyrocketing. And it's not only you who is affected by inflation; in several instances, hugely successful governments have been overthrown by hyperinflation in a country. However, why now? What changed overnight to cause everything to become so expensive? And what response has the government made to it? In this research paper, we will discuss it in detail.

**Keywords:** Inflation, Cost of living, Global recession, Indian politics.

## 1. Introduction

Inflation is a significant issue in Indian politics, and many people think it had a major role in the UPA government's loss in the 2014 elections. Additionally, the UPA government in 2014 was not alone; India's inflation rate typically exceeds 10%. As a result, the current administration is no longer in office. Forget about losing power; evidence from other nations has shown that hyperinflation may trigger uprisings and revolutions, such as those that occurred during the French Revolution and the Arab Spring in Venezuela, the Congo, Peru, Indonesia, and Zimbabwe. Inflation can do things in a country's politics that even powerful opposition leaders can't. Although India's inflation is not as terrible as Venezuela's, where it once spiked to 4000%, the Modi government is well aware of the political impact inflation may have on its position in power. Since 2014, inflation has never been this high, and this has had a significant impact on people's daily lives. For instance, during the summer, Surya Kali's daughter, who attends school in Delhi, asks a drink of sugarcane juice, but Surya lacks the funds to satisfy her request because of inflation. Consider Kausalya Devi, who was recently diagnosed with cervical cancer and was advised to maintain her diet by drinking three glasses of milk per day. Unfortunately, she is unable to do so. There may be many people around you whose lives have been altered by inflation.

## 2. Methodology

The study's data and information were gathered from several papers and articles regarding the inflation in India that were published by different governmental bodies, journals, websites, research papers and articles. Additionally, data is gathered from the RBI (Reserve bank of India) yearly publication as well as other reliable government sources.

## 3. Discussion

First of all, let us understand what is the inflation rate. What do we mean, when we say the inflation rate is 8% or 10%? Consider one year ago, you were buying 1kg potato for 10 rupees. Now this year, 1kg potato costs you 15 rupees. The 5 rupee rise, is inflation. Which means the inflation rate for potatoes is 50%. This was a very simple explanation; however, to calculate the actual inflation rate, we must take into account the prices of various items, such as food and beverages, oil and gasoline, and electronics. Many more categories are formed in the same way, and their prices are evaluated. There are two different types of inflation: WPI, or wholesale pricing index, and CPI, or consumer price index. You can guess from the name that the consumer price index measures the cost of things for us, the consumers, and the wholesale price index measures the cost of goods for those who purchase items in bulk. A base year is set after considering the costs of various product categories. In India, the base year is now considered to be 2011–2012. Therefore, when someone states the consumer price index is 7.8%, it means that prices for goods like food, cooking oil, and pharmaceuticals have increased by 7.8% relative to previous year. Additionally, high inflation can undermine consumer confidence and even cause a stock market catastrophe. Recent market disasters have demonstrated how quickly many tech companies' valuations have collapsed, and these events are never beneficial for the national economy. You may recall the US stock market meltdown of 2008, which was brought on by a financial crisis.

### *Why is inflation bad?*

When there is inflation, people stop buying non-essential items like buying a car or a movie ticket. This is because, while prices rise instantly, salaries do not rise as quickly once we sign a contract, so, while the prices keep increasing, our salaries remain stagnant, which means that people do not buy non-essential goods and the people working in these sectors are negatively impacted. High inflation is detrimental to the economy for this reason. Now, let's discuss why inflation rose in India. For that, there are two main reasons:

### *1) The supply crises*

The first reason is that the global supply chain is in shambles as a result of the covid-19 pandemic. Today, many goods are manufactured, packaged, sold, and consumed in various countries. Consider your iPhone: it is designed in California, America, and the majority of the electronic parts for it, such as semiconductors, come from Taiwan. They are assembled in a

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factory in China and shipped to various parts of the world. Cargo ships found it difficult to transport goods from one part of the world to another due to lockdown and travel restrictions. So, while there was demand, there was no supply. You may have heard that the supply of electronic chips has dried up, causing the prices of electronic goods to skyrocket. Because of this, purchasing a new motherboard or laptop has become more expensive. The supply chain of petrol and edible oil was further disrupted as a result of Covid.

#### *Russia- Ukraine war:*

Fig. 1 shows, how global oil prices have risen since the Russia-Ukraine conflict began in late February.



Fig. 1. Crude oil prices during Russia- Ukraine war

The world's second-largest producer of crude oil is Russia. Fearing that the war might affect the world's oil output, oil prices began to rise. Whereas India spent 11 billion dollars on oil in December 2021, it spent 17 billion in March 2022 on almost the same amount. This had a direct effect on inflation rates. A dollar increase in the price of crude oil, according to journalist Kaushal Shroff, results in a 0.5% increase in consumer price inflation in India. This impact was also observed in the pricing of edible oil, as 60% of the raw materials needed to make edible oils are imported from Russia or Ukraine.

#### 2) *RBI's interest rates*

The interest rates set by the RBI are yet another factor in increasing inflation. To further comprehend this, let's go back in time a bit. India experienced its first lockdown in March 2020, and many businesses shut down. Because of the exceptionally low demand for commodities, many individuals lost their employment and had little access to money, which is why inflation was so low. There is a very simple explanation for why deflation (negative inflation) is bad for the economy. For example, if you need to buy a TV and you know that India is experiencing negative inflation, which means that prices will continue to fall over the course of the next month, would you buy a TV right away? No. You would wait until the next month to purchase the TV once the pricing drops then purchase the TV. In other words, when there is negative inflation, people are less likely to spend money, which slows down economic growth. This was the situation in India in March 2020, and the RBI wondered what it could do to solve it. The RBI controls the monetary policy of every nation, and they do so using a very straightforward method using a formula, that is when economic

growth slows and RBI wants people to spend more money, it reduces interest rates; when it believes that people are spending a lot and the economy is expanding so quickly that it could cause an accident, it raises interest rates. In conclusion, if the economy isn't expanding, lower interest rates are appropriate; if the economy is heating up, raise interest rates. The RBI followed this rule in March 2020 when it cut interest rates. Now, this makes perfect sense as well; low-interest rates make it simpler to obtain a loan. I could get a loan and launch a new business because when more people can get loans and start investing, prices go up, and inflation sets in. As previously mentioned, moderate inflation benefits the economy since people would spend money now rather than waiting if they thought prices would rise by 1-2% in the coming month. The RBI lowered interest rates to stimulate spending even during COVID, but a problem developed when lockdowns were removed, people came out of their homes and began spending during this time RBI did not boost the interest rates. If you spend today, the economy will flourish. Instead, they kept them low, which led to a slight increase in inflation.

#### *Fear of Global Recession:*

Many of us only see inflation as a statistic. Even though it's just a single number, it has a significant impact on many individuals, and inflation is a concern for countries other than India. The US has a high rate of inflation as well. And many worry that a global recession might result from this. You may be wondering why. Recall that there is only one fundamental policy rule: When the economy slows down, the central bank reduces interest rates, which causes inflation; conversely when the economy heats up, the central bank raises interest rates, which results in lower inflation. Many think that the American central bank will raise interest rates to reduce US inflation, which may cause a global recession. This might help to slow the rise in prices, but we might have to endure a global recession. As previously mentioned, rising prices may also have a significant political impact. For example, in India, every time inflation rates exceeded 10%, the government lost power, as shown in the graph below. However, we have yet to reach that threshold.

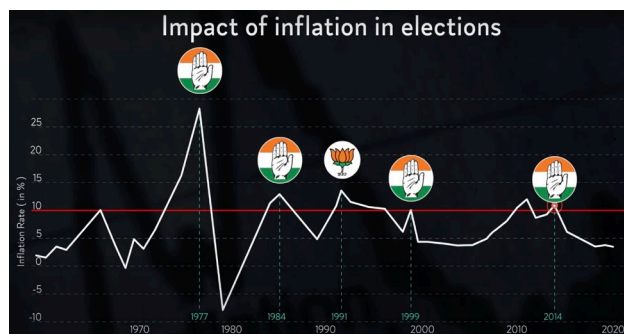


Fig. 2. Impact of inflation in elections

#### *Political impact of Inflation:*

Furthermore, many experts believe that inflation is no longer a major issue in Indian politics. According to this graph, only 4% of people said that price increases are the most important issue for them in the 2019 Lok Sabha elections.

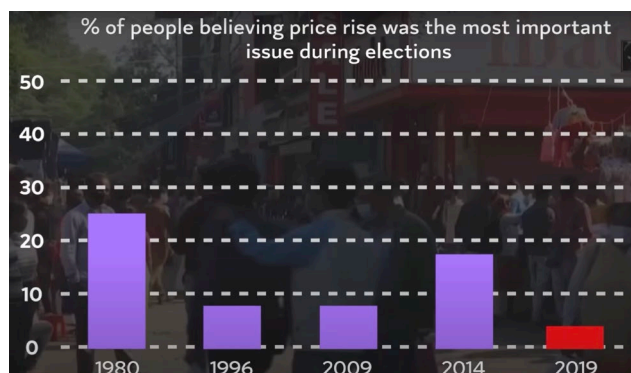


Fig. 3. Percentage of people believing prices rise was the most important issue during elections

To a large extent, this phenomenon is due to PM Modi's image, but this does not mean that it will have a political impact. While various welfare schemes have helped the poorest survive, some middle-class people may believe that they are not receiving enough government support.

#### 4. Conclusion

Given that the middle class represents a sizeable portion of the Modi government's support, the BJP may already be aware of this. The middle class is a crucial supporter group and a powerful political force, which is why the Modi government wants to address this issue. Recently, the government lowered fuel costs by over 10 rupees, in contrast to earlier when prices were boosted by 5 rupees and decreased by 0.5 rupees. But there is a problem with that also with every reduction in petrol and diesel price, the government is losing its revenue. The government is losing money with every decrease in the price of gasoline and diesel, which is a problem. Although the price cut may temporarily make people happy, eventually the government will need to make up for that loss through higher

taxes or less spending. But for those who can't even afford to buy sugarcane juice for their daughters, this is currently necessary.

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