

3. Inflation in India- Causes and Remedies

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Introduction

One of the most intricate challenges of our present times is the problem of rising inflation. Its effect can be felt by each and every person to at least some degree, whether he is an engineer, doctor, lawyer, govt. servant or anybody. Inflation upward movement of prices or of income. But all rise in prices is not inflation prices may as a recovery after a fall in prices. They may rise when average cost of production rises. But all this is not inflation may exist even if prices are stable. The stability is however brought about by government measures like price controls and rationing. That is true inflation is caused by increase in effective demand after full employment is reached.

Generally Economists agree that high rates of inflation and hyperinflation are caused by an excessive growth of the money supply. Views on which factors determine low to moderate rates of inflation are more varied. Low or moderate inflation may be attributed to fluctuations in real demand for goods and services or changes in available supplies such as during scarcities, as well as to growth in the money supply. However, the consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth. According to R. G. Howtrey - "Inflation is the state of too much currency."

Inflation refers to the rise in the prices of most goods and services of daily or common use, such as food, consumer staples, clothing, housing, recreation, transport, etc. Inflation measures the average price change in a basket of commodities and services over time.

The potential drivers and dynamics of inflation in response to COVID-19 distinguishing between the containment and reopening phases were discussed broadly in this investigation. We argue that during the containment phase, supply disruptions due to the lockdown and hoarding due to panic buying could result in an increase in prices of critical goods (food and medical supplies). Inflation following the reopening, but our discussion points to the relevance of factors

such as pent-up demand, supply disruptions and scarring, changes in the bargaining power of labor, trade openness, fiscal space, and monetary policy.

Moreover, to avoid creating inflationary pressures, appropriate monetary and fiscal policy after the end of pandemic should be data dependent and based on the strength of the rebound in supply and demand.

Objectives

1. To understand the concept of Inflation.
2. To study the Causes of Inflation.
3. To study the Remedies of Inflation.
4. To study the Inflation during Pandemic period.

Methodology

The present research paper based on the secondary data Collected from various published books, articles, research papers, journals, govt. survey and various websites etc. have been used for intensive consultation.

Causes of Inflation

There are main causes of inflation

1. Demand-Pull Inflation - The demand-pull Inflation effect states that in a growing economy as wages increase within an economy, people will have more rapidly money to spend on goods and services. The increase in demand for goods and services will result in companies to raise prices that consumers will bear in order to balance supply and demand.

2. Cost Push Inflation- It occurs when there is an increased input costs on raw materials and wages for manufacturing consumer goods, they will preserve their profitability by passing the increased production cost to the end consumer in the form of increased prices.

3. Wage Push Inflation- Also called cost-push inflation or a wage-price spiral, wage-push inflation is an economic term that describes how prices increase when wages increase. Rising wages increase costs for firms, and so these are passed onto consumers in the form of higher prices. Also rising wages give consumers greater disposable income and therefore cause increased consumption.

4. Imported Inflation - Imported inflation is a general and sustainable price increase due to an increase in costs of imported products. This price increase concerns the price of raw

materials and all imported products or services used by companies in a country. Imported inflation is also referred to as cost inflation.

5. Hyperinflation - Hyperinflation is a term to describe rapid, excessive, and out-of-control general price increases in an economy. While inflation is a measure of the pace of rising prices for goods and services, hyperinflation is rapidly raising inflation, typically measuring more than 50% per month.

During Pandemic situation economic in balance increased due to the price rising in retailing business and services. The stocking of Goods in the lockdown period led an increase in the price of goods of all sectors. So, automatically this situation is known as Hyperinflation situation. This pandemic crisis causes worldwide economically imbalance and Hyperinflation.

6. Core Inflation- Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors. It is most often calculated using the consumer price index (CPI), which is a measure of prices for goods and services.

The core inflation rate for December 2020 was 1.6% year over year. That means the prices of everything except food and energy rose by 1.6% since December 2019. The core rate excludes food and energy prices because they vary too much from month to month.

Remedies of Inflation

The main Remedies which are used to control inflation are 1, Monetary Police 2. Fiscal Police 3. Other Remedies.

A. Monetary Police

Monetary policy is a policy that influences the economy through changes in the money supply and available credit monetary policy is adopted by central bank of a country. The various monetary measures which are used to control inflation are grouped under two heads (a) Quantitative controls (b) Qualitative controls. They are

1. Open market operation
2. To Increase the bank rates
3. Credit rationing
4. Varying reserve requirements
5. Varying margin requirements
6. Consumer credit regulation

B. Fiscal Policy

Fiscal policy is the deliberate change in either government spending or taxes to stimulate or slow down the economy. It is the budgetary policy of the govt. relating to taxes public expenditure, public borrowing and deficit financing. Fiscal policy is based upon demand management i.e. raising or lowering the level of aggregate demand by controlling various expenditures, government expenditure, consumption expenditure and investment expenditure.

The main fiscal measures are:

1. Changes in Taxation
2. Changes in Govt. Expenditure
3. Public borrowing
4. Balanced budget changes
5. Control of deficit financing

C. Other Remedie

The other Remedies which are helpful in controlling inflation are:

1. Price support programme.
2. Provision of subsidies.
3. Arrangements of easy availability of goods on hire purchase to stimulate demand.
4. Imposing direct control on prices of essential items.
5. The supply of money should be properly regulated RBI.

Conclusion

The purpose of this paper is to study about the two main issues of inflation in India- Causes and Remedies. The Inflation in India is the direct results of flows of money through short-term borrowings and speculative activities that is begging sustained by these flows of money. Inflation has caused certain serious imbalances in the Indian economy. Mainly this Indian economy based upon supply of goods and services. In pandemic COVID-19 supply of goods and services were strongly affected. Hyperinflation was happened in Indian currency.

Recent inflation controls the change in monetary policy, reduction of fiscal deficit, agricultural price policy, public distribution system reduction in excise and customs. This investigation conclude that Indian economically polices are reframed and new economical laws will be modified for pandemic COVID-19 and i.e. crises.

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