increase their output prices to maintain their profit margins. But if workers who feel that their real wages would fall as a result of this are able to fight to increase their money wages, then that adds further to costs, and firms could seek to increase prices further as a result. This can lead to an upward spiral if both groups are able to seek to maintain their real incomes. This is more likely when such groups are stronger, and if more incomes are "indexed" to the inflation rate, as it sometimes happens when unions are able to build this into their wage bargains, or when businesses are able to insist on maintaining their profit margin by raising their prices.

High inflation rates are obviously very destabilising, but they can reflect the ability of more sections of the economy to fight back to at least maintain their real incomes. When expectations of inflation become more widespread, then all groups that can do so try to raise their own prices so as not to lose out in real income terms. This can generate inflationary spirals because such expectations become self-fulfilling.

By contrast, in economies like India with a very large proportion of informal workers with little or no bargaining power, such increases in production costs and prices just get passed on to workers who are not able to demand higher money incomes as a result. This means the inflation rate may remain relatively lower, but it would have possibly a worse impact on living standards because real incomes fall.

INFLATIONARY EPISODES

Different inflationary episodes can be classified according to whether they are "demand-pull" or "cost-push". The distinction is important because it should affect how governments respond. Demand-pull inflation is when the money demand for goods and services rises too fast relative to available supply (sometimes called "overheating"). Usually, this is seen to call for a rise in central bank interest rates or tighter monetary policy that will make it more expensive or difficult to access credit, thereby reducing spending. Cost-push inflation can result from specific costs going up, possibly because of supply bottlenecks in specific sectors, or rising prices of imported inputs (either because of world price changes or exchange rate depreciation). In this case, raising interest rates will not address the cause of inflation, but instead can cause economic activity to decelerate and even decline. In the worst case, this policy can generate stagflation: the combination of slow or falling economic activity and rising price levels.

> In economies like India, increases in production costs and prices just get passed on to workers.

The period from the Global Financial Crisis to 2021 should have conclusively refuted the monetarist argument that just releasing liquidity into an economy will generate inflation. Since that crisis, just four major banks (the United States Federal Reserve, the European Central Bank, the Bank of England, and the Bank of Japan) released unprecedented amounts of liquidity, such that their total assets increased from around $4 trillion in January 2008 to more than $26 trillion in 2021 (https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-no-129-the-monetary-policy-response-to-covid-19-the-role-of-asset-purchase-programmes/). But throughout this entire period, until mid-2021, inflation rates remained low in the advanced economies, declining and even turning negative in some countries.

The recent inflation in the advanced economies—and therefore in the global markets—originated with cost-push factors, specifically the supply chain issues that originated in COVID-19-related lockdowns and closures. The Ukraine war made matters worse, by affecting oil, wheat, and fertilizer supplies, and impacting on certain established trading routes. But these are not enough to explain the significant rise in prices: it has also been driven by corporate profiteering and accelerated by financial speculation in commodity futures markets. Oil companies have seized the opportunity to push up prices beyond what is justified by their own cost increases (just like Big Pharma companies profiteered from the COVID-19 pandemic). Meanwhile, financial activity in commodity futures markets increased substantially between January and March 2022, driving up futures prices in wheat and other commodities and thus affecting current spot prices as well.

This pattern is clearly evident in the US. In the three decades of 1979 to 2019, when inflation rates were not so high, rising unit labour costs (which reflect rising wages) contributed to 62 per cent of the total price increase, compared with 27 per cent because of other input price increases, and 11 per cent because of more profits. But in the recent and ongoing inflation, the ratios have been reversed.

Between April-June 2020 and October-December 2021, when inflation has accelerated to much higher levels, corporate profits accounted for 54 per cent of the total price rise, while labour costs contributed only 8 per cent and other inputs costs 38 per cent. (https://www.epi.org/blog/corporate-profits-have-contributed-disproportionately-to-inflation-howshould-policy-makers-respond/). This suggests that the current macroeconomic policy responses to inflation in the advanced economies, which are all about tightening monetary policy and raising interest rates, are wrongly directed. They do not address the real causes of this inflation.

They are more likely to cause economic recessions, and will also generate more financial volatility. Low- and middle-income countries will once again be the worst affected, as they will experience capital outflows in addition to all their other current woes. □

Price of disempowerment

Growth is not the panacea it is held out to be because the truth is a severely skewed distribution of wealth and resources is counteracting all growth potential in the economy, threatening increased deprivation for vast numbers of Indians. BY **SUKUMAR MURALIDHARAN**

AMID ALL THE ANXIETIES IN A TIME OF inflation came a moment of brief reassurance, or at least the pretence of it. On May 12, the Ministry of Finance (MoF) issued a routine Monthly Economic Report, advising a "longer time horizon" in which to view the problem. According to this report, and contrary to lived experience, inflation during the past financial year ran lower than before. And all the current threats on the horizon could easily be mitigated through timely action by the government and the Reserve Bank of India (RBI).

Inflation over the year gone by, in the MoF's assessment, had in fact a highly salutary impact. "Evidence on consumption patterns", it said, "suggests that inflation in India has a lesser impact on low-income strata than on high-income groups". Indeed, the patterns of price inflation had "reinforced the favorable (sic) redistribution of the income from top to bottom and middle-income group".

Once seen as a worthy policy objective, redistribution has for some decades been pushed down as a priority since it was seen as contrary to the efficiency imperative. The MoF now invokes the theme of redistribution only to trivialise it.

The Consumer Expenditure Survey conducted in 2011-12 by the National Sample Survey (NSS) reveals the perfectly reasonable picture that the lower and middle-income groups devote most of their budgets to the broad category of "food and beverages". Upper income groups in rural areas, too, share that trait, though the same income stratum in urban centres tends to spend the greater part of its budget on the broadly defined category of "refined core items".

By plotting these expenditure patterns onto the rates of inflation applicable across commodities, the MoF arrived at a measure of the "effective" hardship experienced by various strata. The rates, it found, are significantly lower across all strata, but most so for the lower income groups, and least so for the top earners.

The MoF analysis came about a week after the RBI's sharpest interest rate raise in many years. In announcing the move, which sent a spasm of anxiety through the markets and prompted a brief sell-off, the RBI governor spoke about the disproportionate impact inflation had on the poor. Clearly, he was going by common sense, with no prior intimation of the MoF's research findings.

The weeks since end March, when the MoF concluded its research, have brought bad news. Time is in continuous flow, and people do not quite divide up their lived experiences in accordance with accounting conventions. Figures on inflation following the end of March indicate that the threshold of pain may soon be breached.

Redistribution was recognised to serve a sound economic and political rationale under certain circumstances. This was a key conceptual breakthrough learnt in the bitter adversity of the global economic depression of the 1930s. But this wisdom, attributed conventionally to the economist John Maynard Keynes, that public expenditure financed through progressive taxation could contribute to the collective welfare, was buried in the 1980s when combating inflation became the singular focus of economic policy.

Underlying the war on inflation was the strategy that did not dare to speak itself out. As played out in its canonical form in the US and the UK, the effort to "whip inflation" was all about extinguishing the collective power of the organised working class. Decades of Keynesian full employment policy had created an uncomfortable parity in the bargaining power of capital and labour. And in a situation of declining competitiveness, a dilemma that the US and UK in particular faced, capital's efforts at maintaining profitability by raising prices or slashing wages had little chance of success. The wage-

price spiral had to be broken and that could be done only through a direct assault on union power.

HOW REAGAN FOUGHT INFLATION

A remedy for the unprecedented situation of "stagflation"—high inflation coexisting with economic stagnation—came after a fashion from the US monetary authority, the Federal Reserve or Fed. In 1979, Paul Volcker was appointed chairman with a mandate endorsed by both Republican and Democrat parties, to fight inflation through all means necessary. He responded with a series of sharp increases in the interest rate between 1979 and 1981, sending the economy into a tailspin.

The 1980s began under the shadow of the "Volcker shock", a brutal increase in interest rates that pushed the US into recession, propelling Ronald Reagan to a decisive win against the hapless incumbent, Jimmy Carter, in the 1980 presidential election. And when Reagan brought his unique brand of "voodoo economics" to the mix, slashing taxes in the expectation of an increase in revenue, and sharply raising defence expenditure to send the deficit soaring, interest rates went above a critical threshold, pushing nations around the globe, most so in South America and Africa, into a debt-induced meltdown. To rejoin the world of dollar-denominated global transactions, these countries had to bid themselves down, devalue currencies and assume a lower position in the global value chain.

Inflation was squeezed out of the system as organised working classes in the West were coerced into surrender. Much of the developing world, under the threat of a breakdown of international relations, chose the painful option of severe austerity. A modest man, Volcker in later years looked back on those years and was candid enough to concede that it was not the impersonal hand of economic policy, but the direct coercive power of politics, that was key in the fight against inflation. "The most important single action of the administration in helping the anti-inflation fight," he said later, "was in defeating the air traffic controllers' strike."

The intent to defeat organised labour was clarified in August 1981, a few months into Reagan's term as president, when 13,000 members of the largest air traffic controllers' union struck work. The US president did not pause to bargain or negotiate, as was the convention. He fired the striking workers, replacing them with military personnel. As job losses accelerated in the crunching recession that followed, corporate managers were permitted almost a clear field for dismissing workers in pursuit of capital restructuring.

Restoration of the dominion of capital involved a shift towards finance. Capital was once associated with industrial production and technological creativity. From the 1980s onwards, it came to be equally about financial legerdemain. Countries across the world were invited to join the great financial boom that began in the 1980s. It was an alluring prospect but with severe downside risks obvious, most countries needed to be goaded into joining under debt-induced distress.

Agriculture was a constraint as India began its engagement with global economy. Output was not increasing at anything like the rate required to support the growth of manufacturing and services. And in terms of employment, agriculture continued to be the source of livelihood for the vast majority in the country. Allowing prices of agricultural commodities to rise would conceivably offer an incentive for higher production but would play havoc with living standards. How was that conundrum to be negotiated?

The question was taken out of India's hands as the 1980s progressed, proving there were no half-measures in an engagement with global finance capital. It had to be either a total dissociation or a complete embrace. As debt accumulated and the economy threatened to melt down after a rude shock in international oil prices in 1990, India eagerly embraced the pathway of globalisation. From then on, there was no looking back.

India's rescue package, negotiated with the IMF in 1991, required the curtailment of subsidies deemed unproductive. Removing these involved a rise in food prices through the early 1990s, unprecedented in its severity. Household budgets were readjusted to deal with the new realities. But the erosion of living standards, particularly in rural areas, was apparent. A disastrous year of drought in 2002 accentuated the miseries, squeezing purchasing power still further. The story of distress is amply conveyed by the numbers: despite a sharp fall in food production, prices remained subdued, indicating that demand contraction in rural areas had counteracted the possible inflationary impact.

Political change in 2004 brought a shift in policy priorities. The introduction of the rural employment guarantee (subsequently named for Mahatma Gandhi and now known as the MGNREGA) introduced a significant element of income support for the rural workforce. Economic buoyancy, caused in part by a rapid increase in portfolio capital inflows, supported government revenues through this phase of expansionary fiscal policy. In 2008, with the global financial meltdown, the good times were at an end.

As the shock waves from the global crisis began to wash up on Indian shores, the government held firm to its expansionary policy. In the next few years, the volumes of liquidity created through the boom years started flowing into commodity markets, creating another sharp rise in inflation.

"Financialisation" of commodities is the term of art that describes this phenomenon of an imbalance between global flows of liquid money and the real economy. It is, if anything, a greater threat now, after the massive injections of liquidity to deal with the COVID-19 pandemic. For a while, the final destination of all the loose cash was the stock market, which enjoyed a seemingly endless boom despite the pandemic-induced gloom. Now the money is seeking out returns in commodities. And the inflationary pressures are aggravated by supply-side bottlenecks.

DEBASISH BHADURI

SUMITRA DAS inside her kirana shop in Talit Daspara, Burdwan, West Bengal, which she had to shut down as she could not afford to buy the stock anymore. From the last quarter of 2021 onwards, there has been a visible slump in the rural demand for both durables and items of mass consumption.

The integration of the vast labour forces from India and China into the global economy had a major role in the "great moderation", as the years of growth and low inflation that ended in 2008 are known. But this integration, at least in the case of India, was never complete. Indeed, most employment growth in those years occurred in the informal sector, where workers have little job security or social protection. Holding down the protections that are regarded as essential in a modern economy was key to suppressing inflation through all those years. And so, too, were the vast movements that took place through the years of growth, as workers migrated in search of opportunity.

INTERNAL MIGRATIONS

Since the early years of the 20th century, the decennial census has recorded the magnitude of internal migrations. The figures are clear in their broad details. In the first decade of the 21st century, India's population was mobile like never before. That reading is consistent with the unprecedented record of economic growth through the decade. The 2001 Census recorded a migrant population of 314 million, just over 30 per cent of the total at the time, a proportion virtually unchanged since 1971. The 2011 Census showed a significant departure: over 455 million, or 38 per cent of the total population, reported themselves as migrants that year.

The 2021 Census operations, once postponed owing to the pandemic, will soon move into high gear. It will not quite be able to capture the magnitude of the mass reverse migration that happened between 2020 and 2021, since some of the migrants would conceivably have returned to their places of work. During the years of the reverse movement, demand for rural employment under the MGNREGA increased substantially, relieving some of the immediate hardships. But from the last quarter of 2021 on, there has been a visible slump in the rural demand for both durables and items of mass consumption. Alongside rising prices, this suggests a pincer movement on the living standards of the poorest.

It is a time when distributive justice clearly needs to be restored to the agenda, though not in the farcical way of the MoF's recent analysis of inflation's impact. Growth is no longer the panacea, if it ever was. The reality today is that a severely skewed distribution of income and wealth is counteracting all the growth potential in the economy, holding up a prospect of growing deprivation for vast numbers of Indians. Inflation was once suppressed by forcing a regime of austerity on the poorest, but that clearly is no longer a politically feasible option. ☐

Sukumar Muralidharan teaches in the school of journalism, O.P. Jindal Global University, Sonipat. Views are personal.