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An Analysis of Indian Economic Inflation

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ABSTRACT
One of the things that slows down economic growth and living the most is inflation. In actuality, it has an impact on practically all economic activity, in addition to how ordinary and poor people consume. In India, prices have been rising steadily since 1947. It is clear that price swings foster an atmosphere of uncertainty that is unfavourable to the activities involved in development. In other words, inflation reduces the purchasing power of money by causing uncertainty in development efforts. At the same time, economic stability benefits from price stability. It's interesting to note that India's experiences with price instability contrast with the Keynesian theory, which holds that inflation only happens once full employment has been reached. However, this is not the case in India, where an increase in government spending is the primary driver of inflation. In order to better understand the inflationary tendency and rise of public spending in India over time, researchers try to do the following: Using the wholesale price index or the consumer price index, the price level fluctuation is quantified.

Keywords: *economic activity, inflation, fluctuation, price index, public spending*

I. INTRODUCTION

Inflation has spread throughout the world and is now one of the most persistent economic issues that has an impact on both individual and societal growth. As a result, empirical studies into the origins of inflation and how it affects growth have gotten a lot of attention in macroeconomics over the past few decades. An ongoing increase in the general level of prices is referred to as inflation. 1

It is clear that a wide range of factors, including population growth, poor production, excessive demand for goods and services, exports, income disparity, the failure of monetary and fiscal policy, deficit spending, and exports, contribute to inflation. It is significant to stress that in a welfare state, the role of the government is crucial. In reality, whenever it implements different programmes for the benefit of the populace, the government uses deficit budgeting. Increased public spending is therefore practically inevitable in India. However, affluent and developing countries experience inflation for different reasons. This is due to the fact that in an underdeveloped economy, planned economic progress very frequently coincides with peacetime inflation. This kind of inflation is a result of rising government spending on large-scale development initiatives. The purpose of this essay is to examine the rise in public spending and how it affects the level of prices generally.

1.1 Economists' Perspectives on Inflation

Inflation is defined as a significant and quick general increase in the level of prices and an accompanying decline in the purchasing power of money over time. According to Crowther, inflation is "a condition in which the purchasing power of money is declining, i.e., prices are rising." 2. It is statistically quantified as a rate of percent growth in the price index over a period of time, typically a year or a month. On the idea of inflation, there are two different points of view. While some economists today believe that inflation is a post-full employment event, older economists saw it as a purely monetary issue. In his book "Trade and Credit," Hawtrey defines inflation as "the problem of having too many currencies." Inflation was seen by Milton Friedman and Goldnweiser as a purely monetary process. Prices continue to rise when the money supply is greater than the economy's regular capacity to absorb it. When the amount of money in circulation grows more quickly than the quantity of available products, or when the rise of the national income in monetary terms exceeds that in physical terms, inflation results.

Inflation was seen by Keynes as a post-full employment event. He maintains that price increases cannot ever be referred to as inflation. In a condition of underdevelopment, inflation does not take place when an increase in the money supply and rising prices are accompanied by an increase in output, income, and employment. True inflation occurs when prices increase after an economy reaches the point of full employment.

The majority of people are aware that inflation is a significant and quick rise in the overall level of prices. A proper indicator of inflation should demonstrate not only the variables driving up prices but also how these elements interact to create an inflationary environment.

II. LITERATURE REVIEW

Public expenditure has increased dramatically during the period of economic planning, according to Mahendra Dev and Jas Mooij (2002). India saw a population surge in the six decades between 1951 and 2011, as it went through the second stage of the demographic revolution. India had 36 crore people in 1951; by 2011, that number had increased to more than 120 crore. A rise in public spending is unavoidable with population growth of this magnitude.

Pratima Sing (2011) examined the demand and supply side elements influencing the rise in food prices while analysing the overall inflation during the previous five years, with a focus on food inflation. According to the study, India's existing supply of a number of food staples cannot keep up with demand, which pushes up costs.

In India, Prasanna Salian and Gopakumar (2012) looked at the connection between inflation and GDP growth. They discovered a long-term, unfavourable association between them. Thus, the study came to the conclusion that inflation is more detrimental to growth than beneficial.

Bhattacharya (1985) conducted research on India's public spending, inflation, and economic growth. The study found that a significant problem in economics and in developing nations is the trade-off between inflation and growth. The issue is primarily brought on by the dual responsibilities that government spending plays in creating jobs and financing deficits while simultaneously fueling inflation.

2.1 An Increase in Public Spending

In emerging nations like India, rising government spending is regarded as a significant factor in price increases and declining currency values. A rise in public spending leads to an expansion of the money supply. However, there is no commensurate growth in the supply of goods and services to go along with this increase in the money supply. Thus, prices increase.

When demand increases in an economy, inflation occurs. When public sector investment or government spending on public development plans rises and overall demand inevitably rises during the planning period 9, Entrepreneurs' increased investment costs can help drive up demand. This can imply that the price increase was planned or brought on by expansion. This condition, which isn't necessarily true inflation, is also known as peacetime inflation.

Table 1: Public spending combined by the federal, state, and union territories from 2000–01 to 2010–11 (in crores)

Year	Total Revenue and Capital Expenditure at Current Prices	Growth Rate
2000-01	588233	10.1
2001-02	644336	9.5
2002-03	694690	7.8
2003-04	784664	13.0
2004-05	856882	9.2
2005-06	959855	12.0
2006-07	1108174	15.5
2007-08	1316246	18.8
2008-09	1599533	21.5
2009-10	1852296	15.8
2010-11	2240369	2.1

Source: Table 115 on page 204.3 of the Reserve Bank of India's Handbook of Statistics on the Indian Economy, 2009–10.

The growth of public spending by the federal and state governments is seen in Table 1. The government has expanded spending since the nation's independence in an effort to boost the service, industrial, and agricultural sectors. So, from Rs. 900 crore in 1950–51 to Rs. 7843 crore in 1970–71, and finally to Rs. 163520 crore in 1990–91, the total public expenditure grew. As a result, public spending has been increasing steadily. It was Rs. 588233 crore in 2000–01, and it was Rs. 2240369 crore in 2010–11. Obviously, the increase in public spending is fairly impressive. The expansion of development activities in the nation has been a key factor in the rise in public spending during the economic planning period.

2.2 Indian Inflation Trends

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The "Wholesale Price Index" was used in India to calculate inflation, and it has been moderate since 1950. The inflationary tendencies in India over time are seen in Table 2. The study shows that peacetime inflation is defined as an ongoing and sustained increase in the general price level.

Table 2 makes it clear that the increase in the general level of prices was quite slight. The inflation rate was incredibly low, at a positive 13.8%.

It should be noted that inflation peaked in 1974–1975 at a rate of 25.2%. The two main contributing factors to inflation were the Kharif crop failure and the increase in oil costs. Inflation started to trend down the following year, 1975–1976, falling by 1.09 percent. This was due to the government's aggressive anti-inflationary policies. The 1980s, however, saw the greatest inflation rate of the decade at 18.2%. On the other side, inflationary tendencies returned in the 1990s. The government's reform initiatives had a favourable effect on prices. As a result, in 1990–1991, the inflation trend was 10.3%.

Table 2: Indian inflationary trends

Year	Inflate on (WPI) (Percentage)	Growth Rate
2000-01	1.8	-
2001-02	3.6	-50.0
2002-03	3.4	-5.6
2003-04	5.5	61.8
2004-05	4.4	-20.0
2005-06	4.1	-6.8
2006-07	5.4	31.7
2007-08	4.7	-13.0
2008-09	8.4	78.7
2009-10	1.6	-80.6
2010-11	2.0	31.8

Source: Various topics from an economic survey the Government of India's central statistical agency.

Table 2 clearly shows that the inflation trend started to fall in 2001 and reached 1.8%. However, in 2002, it increased to 3.6%. This tendency increased up to 2007, but it started to fall at the conclusion of the year (2007–2008). It is noteworthy to note that the highest inflation rate, 8.4%, occurred in 2008–2009. Due to the effects of the global recession, inflation started to trend downward in the year 2009–2010 and fell to 1.6% by the following year, reaching 2.0% in 2010–11.

According to the study, there is a connection between rising governmental spending and general price increases. The relationship between public spending and inflation is favourable. Only in 2001–2002 did public spending expand at a rate of 7.8 percent, but inflation had a -50 percent decline over that same year. In contrast to inflation, which rose at a rate of 31.8% in 2010–11, public spending climbed at a rate of 29.8%. This demonstrates that the growth in pricing is a result of development. Keynes referred to such a price increase as "semi-inflation only." When full employment is attained, surplus investment or government spending will cause an increase in demand since the economy's output cannot keep up with the increase in demand, which will drive up prices. 'Pure inflation' is the term used to describe this increase in price level.

2.3 The Effects of Inflation

The effects of inflation are negative for both social and economic life. It can be emphasised for the reasons listed below.

1. Many social ills, such as corruption, hoarding, illegal marketing, adulteration, and the manufacture of large quantities of goods, are brought on by inflation.
2. It makes the government's financial burden heavier. The national debt is found to have grown from Rs. 154004 in 1991 to Rs. 2703844 in 2011.
3. It deepens the gap between income and wealth distribution discrepancies. In international trade, it results in a negative balance of payments.
4. It boosts the provident fund, modest savings, and deposits from Rs. 61771 crores in 1991 to Rs. 590809 crores in 2011. 12
5. It encourages workers to seek more pay, which results in a walkout and low output.

III. CONCLUSION

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The study's conclusion is that wealthy and less developed nations have different inflationary reasons. In reality, inflation only occurs when there is full employment, whereas in developing nations, the rise of public spending is outpacing the supply of goods and services. In order to prevent inflation in India, the government should reduce spending on unproductive activities and regulate monetary and fiscal policy. Investment in the public sector is accelerated by public spending. To achieve the goals of the economy, it should be used to perfectly coordinate various sectors. Additionally, controlling public spending should reduce the government's fiscal deficit.

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