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Calcutta Notebook

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Some time ago, Mr M S Aluwahlia commented in a typically hypocritical manner that the spurt in the inflationary trend, which is endemic to the Indian economy, is due to increased purchasing power in the hands of the people. It seems a typical Keynesian diagnosis, but in the orthodox Keynesian income-expenditure model, inflation largely burns itself out, because the hitherto unemployed resources are tapped by entrepreneurs and utilized for productive purposes. In India, this has however never happened. It should be pointed out that the rise in purchasing power, even if considered a fact for the sake of argumentation, is not the same for all sections of the people. One may for the time being leave aside the question of the multiplication of the number of billionaires (in dollar terms), which is one of the outcomes of neo-liberalization, because if the rise in purchasing power is measured by this yardstick, the official economist is certainly right. If account is taken also of the recent unexpected pay hike of college and university teachers, bank officers, administrators, other government employees etc, the official economist's diagnosis will seem more correct. But the trouble is that those who shape the economic policies of the country consider only these sections, at most twenty-five percent of the population, as the real people. Well, a middle-aged person, a rickshaw-puller by profession, told this correspondent a few days back that they had stopped going to the village *haat* (the periodic market held twice a week) for quite a few weeks. "Sir, the prices of green vegetables have gone up so much that we can scarcely afford to purchase them even in small quantities. So potato is our only vegetable, and it can be had from ordinary grocer shops. We could never imagine that even a kilogram of pumpkin would cost much more than a kilogram of potato. Vegetables like brinjal, ladies finger, potol, cucumber, green banana etc have already gone out of our reach." The daily income of this fellow ranges between rupees 60 to 100, and there are four members in his family altogether. In earlier days, these people used to catch small fish from ponds and get some animal protein. But in the present era, the adverse impact of chemical fertilizer has destroyed such sources, and the market prices of small fish is so high that even the middle income groups cannot afford them easily.

It is not that the price rise has embraced green vegetables or small fish only. The prices of coarse cereals and pulses have gone up dramatically in course of the last two years. This price rise coincides with wastage of huge quantities of food grains stored in government warehouses. Despite various announced official policy measures, these huge quantities of cereals remain unutilized. Who are the people worst affected by this staggering price inflation? Wholesale dealers in cereals, pulses and vegetables obviously stand to gain. Government and bank employees, teachers and professors get their dearness allowances. But those working in small enterprises and in the informal and unorganized sector of the economy face continuous erosion of real income and decline in the standard of living. It is needless to point out that the so-called high growth does not reach them at all. Their bargaining power is also weak, because they are too unorganized to demand higher pays that would maintain their quality of life.

Of course, to persons like Chidambaram & Co, this hardly matters. They are concerned only with the possible impact of the recent global recession and suggest that the fundamentals of the economy are strong enough to withstand it. The foreign exchange reserves, mainly dollar reserves are comfortable, and while the USA, by bringing down the rate of interest to a near-zero level, is struggling hard to tide over the crisis—despite massive doses of official aid, there is no sign of abatement—the Government of India hopes to draw foreign portfolio investment by offering higher rates. But at the same time, the USA is incurring huge trade deficits every year, and the credit rating of the leader of world capitalism has gone down drastically. In that case, a serious reduction in the exchange value of the dollar is only a matter of time, and when it takes place, the real value of the foreign exchange reserves is also bound to suffer serious erosion.

What is really hateful is that the rise in prices of ordinary commodities used by non-affluent households is of no concern to the government. The government and the media are much more concerned about share prices; they are worried of the decline in share prices, and the Manmohan Singhs are trying to assure the affluent, who is now used to invest heavily in shares, that the strong 'fundamentals' of the economy will turn everything hunky-dory. But the increasing tying up of the economy with the USA, which continues to lick its recession wounds, does not hold out much hope for these investors in shares. □□□