

A NEW MEASURE OF INFLATION IS BREWING ON THE HORIZON

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

About three decades ago, when I learned about the Consumer Price Index (CPI) — that reflects changes in the retail prices of selected goods and services on which a homogeneous group of consumers spends a major part of their income — my immediate query was about how the ‘basket’ of commodities and their weights are selected. Are they constructed in some objective way, say, by some well-defined survey on income and consumption? Or do they mostly depend on the ‘wisdom’ of a few experts?

Another important concern is that while the CPI corresponds to a “common man”, nobody knows who that common man is. Should we put a piece of imported chocolate, say, in the basket in the perspective of today’s India? And what should be its size? Well, as the consumption pattern widely varies across different economic classes, different CPIs may help understand how different economic layers of the society are affected by the increasing cost of commodities.

However, we still have a distinct series of CPIs — for industrial workers (IW), for agricultural labourers (AL), and for urban non-manual employees (UNME). The CPI (IW), certainly, is the most popular one as the dearness allowance of Central government employees is calculated on the basis of movement in this index. The National Statistical Office (NSO) periodically releases the All India CPI and corresponding Consumer Food Price Index (CFPI) for Rural, Urban, and Combined. Of course, India has no income survey and the last publicly available Household Consumer Expenditure Surveys’ data is a decade old. Hence, the choice of the ‘basket’ and fixing weights of its commodities are always tricky tasks.

A radical shift in paradigm has recently been initiated in the United Kingdom, by the British journalist, cookbook author, and anti-poverty campaigner, Jack Monroe. This new index is intended to provide a third-party alternative to CPI, “provided by the U.K. Government’s Office for National Statistics (ONS), charting the effect of inflation on consumer goods and services, and highlighting the profound impact inflation has had on low-income families and supermarket value ranges of food and other basic goods”, as an article by James Whitbrook says.

Ms. Monroe was prompted “to create her index after the CPI measure for inflation in the U.K. rose to 5.4% in December 2021, the highest level for nearly 30 years”. Ms. Monroe was “infuriated” that the CPI “grossly underestimates the real cost of inflation as it happens to people with the least”, especially in the backdrop of the continuing economic effects of Brexit, the ongoing COVID-19 pandemic, prolonged lockdowns, and general supply chain issues, as the Whitbrook article highlights. She noticed, as a Guardian article highlights, that the price of rice, for example, in her local supermarket had increased from 45p a kilogram last year to £1 for 500g, a 344% increase! And the number of value products has also shrunk.

Ms. Monroe realised that the ONS reports a skewed and unfair version of the cost of living, which is not representative of millions of people’s experiences. In consultation with economists, charities, and analysts, she soon compiled her own index “that will document the disappearance of the budget lines and the insidiously creeping prices of the most basic versions of essential items at the supermarket” and “serve as an irrefutable snapshot of the reality experienced by millions of people”.

Ms. Monroe has been authorised by the Terry Pratchett estate to use the “Vimes Boots Index”

as the name of a price index she planned to document inflation in prices of basic necessities.

In the 1993 novel, *Men at Arms* in his book series 'Discworld', English fantasy writer Sir Terry Pratchett crisply explained the "Sam Vimes 'Boots' theory of socio-economic unfairness" in which Captain Samuel Vimes muses on the expensive nature of poverty! In reference to the captain, Sir Pratchett wrote: "A really good pair of leather boots cost \$50. But an affordable pair of boots, which were sort of OK for a season or two and then leaked like hell when the cardboard gave out, cost about \$10." Good boots, however, last for years and years. Thus, "A man who could afford \$50 had a pair of boots that'd still be keeping his feet dry in 10 years' time, while the poor man who could only afford cheap boots would have spent a hundred dollars on boots in the same time and would still have wet feet." Sir Pratchett's work in 'Discworld' consists of 'an insightful, often furious, view of class dynamics and social injustice'. "The reason that the rich were so rich, Vimes reasoned, was because they managed to spend less money," wrote Sir Pratchett. Worse, being poor traps you in a cycle of being poor.

Sir Pratchett's 'boots theory' is not new though. The adage "buy cheap, buy twice" is dated long back. Then, writer Paul Jennings divulged exactly the same idea in his column in *The Observer*, 'Oddly Enough' in 1954. And the character, Owen, in Robert Tressell's 1914 classic *The Ragged Trousered Philanthropists* illustrated how the working classes are robbed: "Everybody knows that good clothes, boots or furniture are really the cheapest in the end, although they cost more money at first; but the working classes can seldom or never afford to buy good things; they have to buy cheap rubbish which is dear at any price."

As Ms. Monroe observed, a collection of 700 pre-specified goods that are used to calculate CPI includes items such as "a leg of lamb, bedroom furniture, a television and champagne", which are not applicable for millions of the U.K.'s poorest "who were forced by an array of desperate circumstances to use food banks in the last year", as a Guardian article notes. The proposed Index "aims to be a record of prices of the lowest-cost staple foods over time, to demonstrate the disproportionate impact of inflation on the poor".

The index certainly gained prominence due to Ms. Monroe's unorthodox name choice. The ONS is already been working on a radical overhaul of how it tracks prices, which "has the potential to kickstart an avalanche of change," as Ms. Monroe believes. As the new price index is brewing, traditional statistical practices are getting redefined, for sure. And, who knows, the newly planned Boots index might eventually touch the horizon of societies of some other countries as well.

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