

TAX ON THE POOR: THE HINDU EDITORIAL ON INFLATION AFFECTING WEAKER SECTIONS MORE

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

The latest [retail inflation data](#) from the National Statistical Office is a sobering reminder that accelerating price gains still remain the single biggest challenge to policymakers as they try to steer Asia's third-largest economy to a more durable recovery from the pandemic-induced slump. Inflation based on the Consumer Price Index (CPI) quickened in August to a provisional 7%, from 6.7% in July, as the pace of gains in food prices as measured by the Consumer Food Price Index accelerated by a sizeable 93 basis points to 7.62%, from July's 6.69%. And rural consumers bore a disproportionately higher burden: with month-on-month changes in both food prices and overall inflation appreciably greater at 0.88% and 0.57% respectively, compared with the 0.50% and 0.46% rates of urban inflation. Of particular concern is that inflation in the prices of cereals — staple grains in every household — surged to 9.57% from the preceding month's 6.9% rate. Month-on-month the pace was a disconcerting 2.4%. With kharif sowing of rice this year undershooting last year's acreage and uneven distribution of rainfall further roiling the crop's production picture, the outlook for inflation in this 'heavyweight' food category remains far from reassuring, the Centre's recent imposition of tariff and other curbs on export of non-Basmati rice notwithstanding. In fact, eight of the 12 food items that combine to constitute the food and beverages category of the CPI saw sequential price upticks, with vegetables (13.2% year-on-year and 2.5% month-on-month) and dairy (6.39% and 0.9%, respectively) being two other vital foods that contributed to the faster inflation.

The Finance Ministry was quick to assert that the increase in headline inflation was "moderate", even as it sought to downplay the significance of food price pressures by terming food and fuel prices as "transient components". It also pointed to the steps by the Government to cool prices, that could help tame inflation in the 'coming weeks'. And it cited oils and fats and pulses as two items where prices had begun to ease in response to the Centre's steps. However, the prices of pulses and products quickened by 1.7% month-on-month, with the pace trailing only that of sequential inflation in spices, cereals and vegetables. Services categories including housing, health, education, recreation and personal care too witnessed sequential increases in price gains as these services saw demand gradually revive. The challenge going forward would be for providers to tread carefully so as not to yet again depress consumption by raising prices too quickly. Policymakers would do well to heed the dictum of a former RBI Governor, who never tired of reiterating that 'containing the build up of price pressures is the best anti-poverty programme' as the poor 'have no hedge against inflation'.

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