NOTE

# No Relief for the Common Man

**Bharat Jhunjhunwala writes :**

The main concern of the common man is regard-ing price rise. It is necessary to distinguish between two types of commodities here. Some commodities like pulses and milk purchased by the urban consumer are produced by the rural producer. Lower price of such items benefits the consumer but hurts the producer. The farmer gets less price for the pulses produced by him and is made poorer. It would be in order to allow the price of such commodities to rise. This will provide sure relief to the farmer. The negative effect of this on the urban consumer can be nullified by a reduction in the price of other goods. The impact of increase in the price of pulses and milk, for example, can be nullified by a reduction in the price of cloth, paper and electricity. This will provide relief both to the rural farmers and urban consumers. The farmer will benefit from higher price of his produce. The urban consumer will benefit from the cut in prices of paper etc. though he will pay more for pulses and milk. In the end benefit to him will be less than that to the farmer but both can emerge winners.

The Chidambaram budget moves in the opposite direction. Prices of commodities produced by the farmer such as pulses and edible oils have been reduced by allowing cheaper imports. This will hurt the farmers. Only a small reduction in peak import duty has been made from 12.5% to 10%. This will provide small relief. The net impact on the farmer will be negative while that on the urban consumer will be marginally positive.

The main cause of price rise is not increase in prices of agricultural commodities like pulses. Rather the main cause is huge inflow of foreign investment. This is leading to increase in pressure on the Indian economy much like in the pressure cooker. The Reserve Bank is printing notes in large quantities and providing to foreign investors to buy shares on the Bombay Stock Exchange. These additional rupees are chasing the same amount of goods available in the market as previously. Instead of 10 rupees chasing one kilo wheat previously, now 12 rupees are chasing it. This is leading to an increase in price.

The RBI is investing the dollars brought by foreign investors in the United States to augment the country's foreign exchange reserves. The RBI has to print new notes since it is not selling the dollars in the domestic markets. If it sold dollars then it would mop up the same amount of rupees from this sale as it gave out to the foreign investors. In other words, the price is rising because the RBI has chosen to invest dollars in the US and print and give new notes to the foreign investors for the dollars brought by them.

The solution is to sell the dollars in the domestic forex market and allow the rupee to appreciate. The dollars brought by foreign investors will go out of the system through the importers. The Reserve Bank will then not have to print new notes to provide to foreign investors against dollars brought by them. The importers will purchase the dollars and provide the rupees. The temperature in the domestic economy will not increase because the total supply of money will remain unchanged. The increased availability of dollars in the forex market will lead to a decline in the price of dollar and a corresponding increase in the price of rupee. The price of dollar will decline from Rs 44 presently to say Rs 40. Imports will become cheaper and exports will become difficult. Cheaper imports will help hold the price line. Fewer exports will also make more goods available in the domestic market and help contain

price rise just as ban on the exports of milk products is expected to lower the price of milk in the country. This is the correct method of controlling the price rise.

The problem is that exporters suffer. But this will not lead to negative effect on the workers employed in that sector. The production of goods will remain at previous level. The goods will be sold more in India and less in foreign countries. Less milk will be sold by exporters in Gulf countries and more in India. The production and employment in the industry will not be affected.

This policy is not implemented because the Finance Minister is more concerned about the welfare of foreign consumers and less about Indian consumers. In the result the present strategy of trying to contain price rise by reduction in import duties on selected items will be ineffective because the basic problem of increase in temperature of the domestic economy due to inflow of dollars remains unattended.

The present budget is not likely to provide relief to farmers. The Finance Minister has devoted much of his budget speech on this sector but there is little in terms of concrete steps. Former member of Planning Commission Mr Som Pal says that the increase in budget outlay for irrigation is a paltry Rs 3500 crore. The increase in outlay on telecommunications and highways is much more. ✍✍✍✍