

# The inflation scandal in India

DEREK SCISSORS

It has cost and continues to cost the economy tens of billions of dollars. It has immiserated the poor. It should come as a surprise to no one yet, with each revelation, senior officials express consternation. Federal ministries, at best, have been incompetent and, at worst, offered up a series of falsehoods. Critical agencies refuse to take the necessary action.

The telecom auction? Another corruption saga? No, all this refers to the ostensible fight against inflation, which is by far the biggest failure of the current government.

Food inflation warnings began in the summer of 2009. It may be hard to believe but the most senior of officials promised that inflation would be under control by March 2010. Both consumer and wholesale price inflation were in fact in double digits in March a year ago. By itself, that should have been grounds for someone's resignation.

Showing no shame, another round of predictions were made for the end of the last fiscal year in March 2011. These featured the Prime Minister himself forecasting inflation would be at 5.5 percent by the end of last month, and falling.

As that became utterly unreasonable, the figure became 6 percent, then 6.5 percent. Instead, wholesale inflation stood at 9 percent at the end of March, on top of the previous year's double-digit increase.

The consequences have been grave. Though energy is now coming to the fore, inflation to this point has been led by food, thus hitting the poor hardest. So much for the mantra of inclusive growth.

Nor has the middle class been spared. Salary increases have been considerable the past two years but they have been slower than inflation. In other words, despite strong growth, those who are salaried have become effectively poorer.

These effects should be the government's prime concern. But the response has been abysmal. Eighteen months of wishful thinking have not



Salary increment of Indian citizens has been considerable for the past two years but the rate was slower than inflation.

been enough; the Prime Minister's Economic Advisory Council is again anticipating 6 percent inflation by the end of the new fiscal year. Someday, they will be right.

Officials make vague references to the monsoon, "supply bottlenecks," and other forces for which no one can be held responsible. Even statistics are subject to obfuscation. Revisions of initial estimates invariably show inflation as worse than the government initially announced. An inflation peak of 18 percent last summer was evident

to the aam aadmi but officially reported only well after the fact.

The Central Statistical Organisation has also chosen this time to roll out new inflation measures, which are long overdue but now serve to muddy the trend. The new consumer price index will not be usable until next year.

Interest rates should be the chief tool to fight inflation but the Reserve Bank has failed miserably to do so. Rate increases have been far too little, far too late. In an environment of high inflation, India has maintained sizable

negative real interest rates (the formal interest rate subtracting inflation), which only encourages more inflation.

Corruption incidents receive headlines but consistently bad policy is much more harmful. The obsession in New Delhi with high GDP growth has damaged the entire economy. Nine percent GDP growth and sustained nine percent inflation is no major accomplishment. It does not show India's "rise," but rather fundamental weaknesses.

RBI policy-making shows either lack

of independence or abject failure to confront soaring prices. While the poor and middle class suffer from this failure, the biggest beneficiary is the federal government, whose debt payments become smaller in real terms as the value of each rupee declines.

Inflation is the true scandal.

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# Underground fashion thrives in Philippines

AFP, Manila

In a dark and hot pedestrian tunnel underneath Manila's university district, shoemaker Julius Wilfredo Gregorio sweats as he sews rubber soles to a pair of hand-crafted leather boots.

The 37-year-old is aiming to make five pairs for the day and avoid getting buried under a pile of orders from his ever-growing list of cash-strapped fans of fashion.

Since taking over his father's "Freddie's Leather Haus" shop in 1991, Gregorio has gained a steady stream of both foreign and local clients who buy his designs that aim to rival those sold in trendy boutiques.

"You don't have to be a rich action movie star to own top-quality boots and be fashionable," Gregorio said, his sweat dripping as the battered electric fan in the corner struggled to provide ventilation.

"I can make you shoes that will make you feel like one, all you have to add is a little attitude," he said, pointing to a picture strategically tacked on his display wall of a local action movie star wearing one of his designs.

Gregorio is one of the movers of the Philippine capital's underground fashion haven that operates semi-legally in two pedestrian tunnels on Recto boulevard, where you can find many of the city's universities.

Over the decades, their tiny stalls and cubicles have come to symbolise defiance of an industry obsessed with ultra-expensive signature labels favoured by Manila's social elite.

The tunnels' strategic location has helped clothiers and expert craftsmen gain a cult following among mostly college students short on cash but high on fashion sense.

Shops here sell anything from jeans, boots and leather garments, accessories such as beads and bracelets, to school and office uniforms and athletic gear at friendly prices.

Designs patterned after popular American brands are perennial top sellers, although those seeking a personal touch can bring their own designs while most retailers offer their own cutting-edge concepts.

Price tags range from 300 to 400 pesos (six to nine dollars) for a pair of denim jeans, while cowhide boots can cost up to 4,000 pesos (93 dollars).

This season's hot tickets are colourful basketball jerseys to be worn in summer leagues organised by various athletic organisations in a country addicted to the sport.

"I often go here to get my clothes done," said Pauline Banigued, a 23-year-old communications major at one of the nearby universities, as she had her measurements taken from a tailor for a blouse.

"They are not exactly fashion runway material, but they suit my taste just the same."

The shops began operating illegally in the 1970s but city hall long ago gave up the fight to evict them, instead allowing them to thrive informally in exchange for token electricity and rent payments.

The subterranean industry has survived globalisation and the influx of foreign brands sold in air-conditioned department stores and malls that are ubiquitous across the megalopolis of 12 million people.

A powerful storm in 2009 that triggered

Manila's worst flooding in 40 years threatened to shut them down for good with the tunnels completely submerged, but demand for their services remained high and they soon returned.

Veteran tailor Ruben Rosal, 59, began in the tunnels making just denim jeans, but diversified over the years to meet customer demand.

"People go to us and ask us to make them blouses, skirts, even school and office uniforms," said Rosal, 59, amid the distant rumble of automobile engines overhead and as fluorescent lights flickered in his shop.

Rosal learned his craft from his older brother, Danny, who channelled his creative juices from photography to clothing design in the late 1970s.

They named their shop Crazy Horse Jeans to

capitalise on spaghetti westerns that were the rage in Hollywood then, and the catchy label stuck.

Rosal's family now owns four shops, and the earnings from the business have paid for the education of his five children, all of whom now have university degrees.

But just as importantly, Rosal said he believed his retail career had offered something important back to the community.

"I've been a farmer and a fisherman in the province, but this is what I do best. I have made clothes for all sorts of people, and I feel happy when they come back because they are satisfied," he said.

"I always say that good, quality clothes are for everyone. Not just those who have the money to buy them."

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A shop assistant arranging shoes for sale at a shop inside the pedestrian tunnel in Manila.

AFP