Indian inflation dips but pressure lingers

NEW DELHI, *Reuters*

Inflation dipped in April, but significant upward revisions to recent past readings and the prospect of rising energy prices will keep pressure on the RBI to raise rates in June and maintain its hawkish stance.

The easing was mostly on a slower rise in prices of some manufactured products, but analysts said such prices could quicken again because of Sunday's petrol price hike by oil firms and on a widely expected increase in state-set diesel prices.

The wholesale price index, the country's main inflation gauge, rose an annual 8.66 percent in April, above the median forecast for an 8.48 percent rise in a Reuters poll and below an upwardly revised 9.04 percent in March.

The February figure was revised to 9.54 percent, 1.23 percentage points higher than the provisional figure. Some analysts said the high quantum of revision could mean April's revised reading could be closer to 10 percent.

"What is worrisome is the large revision in the February inflation, which suggests that there are latent inflationary pressures," said Siddhartha Sanyal, chief India economist at Barclays Capital.

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Most economists in recent Reuters poll expect the RBI to raise rates by at least another 75 basis points in 2011. The RBI's next review is June 16.

The Reserve Bank of India, which has been one of the most aggressive central banks in tightening policy, earlier this month raised rates by a higher-than-forecast 50 basis points and said it was willing to sacrifice a bit of growth in order to bring down inflation.

"Sticky inflation points to the need for more rate hikes and we expect two more increases this year. The data is modestly negative for Indian assets, including INR (the rupee), bonds and equities," said Dariusz Kowalczyk, senior economist and strategist at Credit Agricole CIB in Hong Kong.

The most-traded 7.80 percent 2021 bond yield rose 2 basis points to 8.26 percent after the data. The five-year overnight indexed swap rate rose 4 basis points to 8.15 percent, and the one-year was 3 basis points higher at 8.05 percent after the data, dealers said.

The main share index extended losses to about 1 percent.

Fresh from victories in a handful of state elections, the Congress-led ruling coalition does not face polls until early next year, giving it a window for raising fuel prices in order to offset the government's subsidy burden.

A worker fills petrol in a car at a fuel station in Jammu, India on May 14.

REUTERS

But increasing prices for diesel and other fuels may not go down well with populist government allies, including the Trinamool Congress, its most powerful partner, which won the state election in West Bengal last week.

Supporters of the main opposition Bharatiya Janata Party blocked roads and rail tracks to protest the petrol price hike over the weekend, demonstrations that may intensify as the government nears a decision on diesel prices.

The food price index, which contributes just over 14 percent in the wholesale price index, rose 8.71 percent and the fuel price index climbed 13.32 percent in April, data showed.

The manufacturing sector, which contributes around 64 percent to the Wholesale Price Index (WPI), saw 6.18 percent inflation in April, compared with 6.21 percent in the previous month.

Further pressure?

"The revisions are coming at around 100 basis points, so most likely this (April WPI) will come close to double digits," said Sujan Hajra, chief economist at Anand Rathi Financial Services in Mumbai. "Inflationary pressures are not abating and on top of that we expect diesel prices up 2-3 rupees."

The government may raise diesel prices by 3-4 rupees a litre as early as this month, and there are proposals to lift prices of kerosene and cooking gas, a government source said.

State-run oil refiners raised petrol prices by about 8.6 percent, or 5 rupees a litre ($0.11), from Sunday, a record increase that will fuel inflation in Asia's third-largest economy.

"I see inflation coming down a little bit next month without fuel price increases factored in and the moment you add in the domestic fuel price increases it will go up by 100 to 150 basis points provided diesel and LPG prices are raised," said Saugata Bhattacharya, an economist at Axis Bank at Mumbai.

India is not alone in facing up to the reality that gross domestic product growth is likely to be dented in the battle against inflationary pressures that have been building in Asia as the region leads the global recovery.

Most major economies in Asia have tightened monetary policy to contain price pressures that have built up during a strong recovery from the global crisis.

China raised the reserve requirements for its banks last Thursday for the fifth time this year to restrain prices as consumer price inflation remained above expectations at 5.3 percent in April.

Are businesses adding to the common good?

CHRYSTIA FREELAND

Roger Martin is an unlikely revolutionary: He is the dean of the Rotman School of Management, the business school at the University of Toronto, he sits on blue-chip corporate boards, and he has worked as a consultant for big, traditional companies like Procter & Gamble and General Motors. All in all, very much the résumé of a pillar of the corporate establishment. (Disclosure: I am a member of the Rotman School's advisory board.)

But this month, Martin has published a book whose gentle tone belies its seditious content. Here's what is radical about Fixing the Game: Bubbles, Crashes and What Capitalism Can Learn From the N.F.L. Instead of asking how businesses can organize themselves to be more effective and more profitable for their shareholders, Martin wants to figure out how society should organize business to be more effective for all of us.

The corporate intelligentsia business school professors, management consultants and many of us scribblers and squawkers of the business press focus nearly all of their attention on the first question. That is a perfectly worthy subject. Indeed, the huge and continuing improvements in business productivity over the past 200 years have made more of us richer and healthier than human beings of the previous two millennia could have imagined.

That's why there is such an avid audience for thinking about how to run your business whether it is a public company, a start-up or your own career better. And this type of work has the further virtue, for both its practitioners and its users, of not really threatening anyone. It is technocratic, not political, and it often offers the additional feel-good fillip of a practical path toward improvement. It is a universe of engaging stories and ultimately uncontentious outcomes think of the wildly popular oeuvre of Malcolm Gladwell.

Even the harder edge of the business commentariat muckraking journalists, for example operates largely within this paradigm. The questions we usually ask are about whether laws were broken or investors were deceived.

But the business world also presents an entirely different set of issues: how well the existing rules are working for the common good. This is a deeply political question, and it is a central preoccupation of politicians and policy makers.

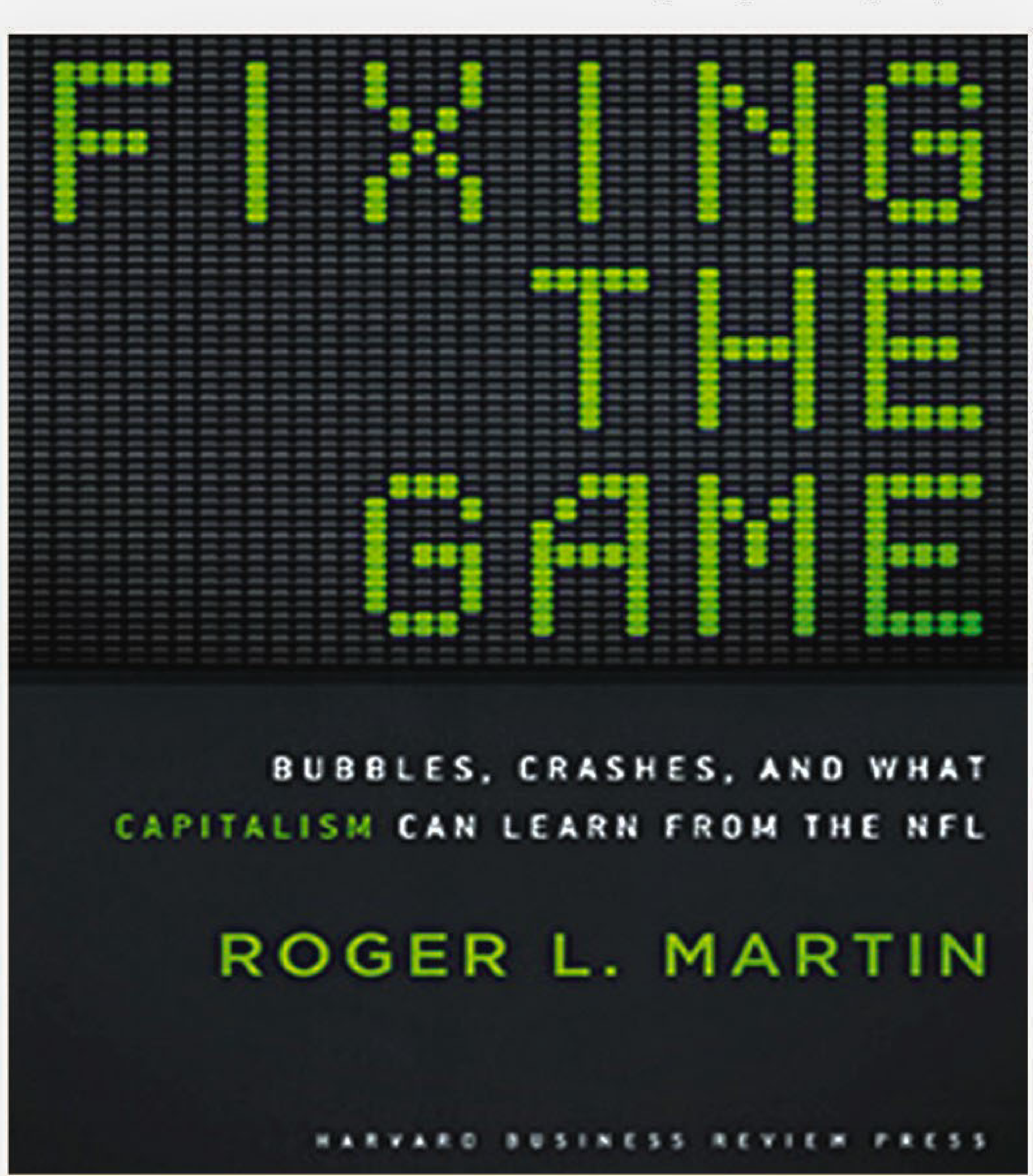
But inside the business community? Not so much. That is more than a shame. It is dangerous, because surely the lesson of 2008, and maybe even of 2001, is that the U.S. version of capitalism contains some serious systemic flaws.

The power of Martin's book is that he steps outside of our existing paradigm to ask whether the rules of the game are working for the system as a whole. That's a departure for Martin, whose previous writing and consulting work was mostly from the more traditional and safer perspective of how to make your company work better within the existing order. Venturing onto this more controversial terrain is a risk for Martin, and he knows it.

"This book represents a departure from my previous three books in that they were largely devoid of criticism," Martin writes. "In this book, I am critical of some institutions (for example, hedge funds). However, I want to be clear that I bear no ill will to the people inside them."

That final sentence is sure to enrage the guillotine crowd, whose chief complaint about the aftermath of the financial crisis is that not enough of the guilty have been punished. If that is your view, Martin's discomfort about naming and shaming may seem like a cop-out.

That couldn't be farther from the truth. While Martin's approach may be less viscerally satisfying, it is actually more radical. The central insight of his book is that the rules of capitalism aren't about God-given rights à la Hayek, Ayn Rand or the Tea Party. They are a social construct, and it is the right indeed the duty of society to ensure that they are working for the common good.



Martin's unifying metaphor and here I do see a reach for the best-seller list is a comparison with the National Football League. The league's commissioners, he argues, are constantly tweaking the rules of the game to ensure the right collective outcome. When a brilliant coach or player devises a technique to strengthen defense, for instance, the commissioners alter the rules to offset that advantage. Capitalism's rule makers, Martin believes, must be likewise perpetually alert to these sorts of business innovations the kind of thing lionized in the traditional business advice best seller and change the rules of the game to neutralize their impact.

Martin has stuck to the business book convention in one way notwithstanding his jabs at a few business titans (notably Jack Welch of General Electric and the hedge-fund giant Stevie Cohen), his is ultimately a sunny, can-do tone. "In doing so, we can restore the core of business and capitalism. We can fix the game until the next time we need to tweak it!" he concludes with a jaunty exclamation point.

Those of a more skeptical bent should follow Martin's book by reading an essay by Tyler Cowen, the prolific and provocative libertarian economist, published earlier this year. His theme is income inequality, and he concludes with the scary thought that the rise of the knowledge economy, and of superstar salaries for its gladiators, may mean that the players will permanently outfox those charged with tweaking the rules to keep them in check.

"It is naïve to think that underpaid, undertrained regulators can keep up with financial traders, especially when the latter stand to earn billions by circumventing the intent of regulations while remaining within the letter of the law," Mr. Cowen writes. "That's an underappreciated way to think about our modern, wealthy economy: Smart people have greater reach than ever before, and nothing really can go so wrong for them. As a broad-based portrait of the new world, that sounds pretty good, and usually it is. Just keep in mind that every now and then those smart people will be making collectively some pretty big mistakes."

Good luck mustering the political will to keep them in check.

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The writer is the editor of Thomson Reuters Digital.