A New Measure of Inflation is brewing on the Horizon

Why in news?

Traditional statistical practices of inflation measurement amounts to skewed inflations that needs to be redefined, as an initiative by British campaigner Jack Monroe shows.

How is inflation measured in India?

> *Inflation is the rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising.*

- The most commonly used inflation indexes are the Wholesale Price Index (WPI) and the Consumer Price Index (CPI).
- **Wholesale Price Index (WPI)-** A WPI measures and tracks the changes in the price of goods before they reach consumers.
- WPI tracks inflation at the producer level.
- It is a marker for price movements in the purchase of bulk inputs by traders.
- WPI includes three components viz,
    - Manufactured products - 64.2%
    - Primary articles - 22.6%
    - Fuel and power - 13.1%
- The base year for the WPI will be 2011-12.
- WPI data is published by the **Office of Economic Adviser**, **Ministry of Commerce and Industry.**
- WPI does not capture changes in the prices of services, which CPI does.
- **Consumer Price Index (CPI)**- The CPI is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.
- CPI captures changes in prices levels at the consumer level.
- The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.
- India uses 2012 as the base year for calculating CPI.

- There is a distinct series of CPIs for
    - CPI for Industrial Workers (IW)
    - CPI for Agricultural Labourer (AL)
    - CPI for Rural Labourer (RL)
    - CPI (Rural/Urban/Combined)
- The first three series are compiled by the **Labour Bureau** in the Ministry of Labour and Employment.
- The **National Statistical Office (NSO)** periodically releases the All India CPI and corresponding Consumer Food Price Index (CFPI) for Rural, Urban, and Combined.
- The dearness allowance of Central government employees is calculated on the basis of

movement in this index.
- Inflation rate will be based on the final combined Consumer Price Index (CPI).

What is the background for formulating new index in the U.K.?

- A radical shift in paradigm has recently been initiated in the United Kingdom, by Jack Monroe.
- This new index is intended to provide a third-party alternative to CPI.
- Ms. Monroe was driven by the fact 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 pandemic
    - prolonged lockdowns
    - general supply chain issues
- Ms. Monroe realised that the U.K. Government's Office for National Statistics (ONS) reports a skewed and unfair version of the cost of living, which is not representative of millions of people's experiences.

What is the Jack Monroe's index?

- Jack Monroe compiled her own index "**Vimes Boots Index**" which provides a snapshot of the reality experienced by millions of people.
- 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.
- So, she proposed an Index that 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 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 the new price index is brewing, traditional statistical practices are getting redefined and the newly planned Boots index might eventually touch the horizon of societies of some other countries as well.

References

1. https://www.thehindu.com/todays-paper/tp-opinion/a-new-measure-of-inflation-is-brewing-on-the-horizon/article65075606.ece
2. https://www.investopedia.com/terms/w/wpi.asp
3. https://www.investopedia.com/terms/i/inflation.asp

SHANKAR IAS PARLIAMENT
Information is Empowering