Greedflation

Why in news?

There is a growing consensus across the world that corporate turns crisis into an opportunity for businesses to make supernormal profits.

How inflation is contained in an economy?

- **Inflation -** It is the rate of increase in prices over a given period of time.
- There are two main ways in which inflation happens.
- **Cost-push inflation -** Prices get pushed up because input costs have risen.
- **Demand-pull inflation -** Prices are pulled up because there is excess demand.
- **Containing inflation -** Central banks use monetary policy to contain the inflation.
    - It raise interest rates to bring overall demand in line with overall supply containing demand-pull inflation.
    - It raise interest rates to contain demand which in turn contains cost-push inflation.
- In case of Greedflation, the whole monetary policy prescription becomes more unjust and ineffective.
- Because it is neither due to higher input cost nor due to excess demand.

What is Greedflation?

- Greedflation is the exploitation of inflation by corporates to create excessive profits.
- It simply means (corporate) *greed fuelled inflation*.
- In normal inflation situation, corporates go for the wage-price spiral, in Greedflation corporates choose the profit-price spiral.
- **Wage-price spiral -** A cyclical condition where the rise in wages leads to increased prices, resulting in inflation.
- **Profit-price spiral -** Companies exploit the existing inflation by putting up their prices way beyond just covering their increased costs.
- This is used to maximise their profit margins that, in turn, further fuelled inflation.

- Greedflation happens in two scenarios.
    - When the price mark-up is far in excess of the increase in inputs.
    - When businesses do not bring down the market prices even when the input prices fall.

What are the implications of greedflation?

- Less likeliness to spend money will lead to reduced economic activity.
- Reduces the purchasing power of the people making even basic needs hard to afford.
- Creates social unrest due to raising cost of living.

- On the corporates' side it affects the business as well as loss of customer trust.
- Forces governments to intervene like windfall tax to contain inflation.

Is Greedflation happening in India?

According to the Centre for Monitoring Indian Economy (CMIE), '60% of the growth in net profit can be attributed entirely to the increase in profit margin.'



- Net profits of 4,293 listed companies reached Rs.2.9 trillion in the March 2023 quarter.
- This spike in profits is over *3.5 times the average quarterly profit* earned by listed companies till before the pandemic of 2020.
- The data shows the Indian corporate sector has generated superlative profits in the post pandemic period.
- The sharp spike in profits depicts there is a very good chance that corporate greed also played a role in spike the inflation rate in India.

References

The Indian Express | What is Greedflation? Does India also have it?

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