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TOPIC :- MEASURES TO CONTROL INFLATION

Inflation is a complex phenomenon. The instruments which are commonly used to control inflation can be analysed in following manner:-

(1) Monetary Policy :-

Inflation is primarily a monetary phenomenon. Hence, the most logical solution to check inflation is to check the flow of money supply by devising appropriate monetary policy and carefully implementing monetary measures.

To control inflation, it is necessary to control total outlays because under conditions of full employment, increase in total outlays will be reflected in a general rise in prices that is inflation.

Monetary management is aimed at the commercial banking system, and through this action, its effects are primarily felt in the economy as a whole. Monetary management, by directly affecting the volume of cash reserves of the banks can regulate the supply of money and credit in the economy, thereby influencing the structure of interest rates and the availability of credit. Both these factors affect the components of aggregate demand and the flow of expenditure in economy.

The Central bank's monetary

management methods, the devices for decreasing or increasing the supply of money and credit for monetary stability is called monetary policy. Central banks generally use three quantitative weapons namely as bank rate policy, open market operations and variable reserve ratio to control the volume of credit in an economy.

To curb inflationary pressures, a dear money policy is usually followed by using the quantitative methods, the total volume of credit is depleted. In this regard, bank rate may be raised, open market sales operation may be undertaken and in several cases, the reserve requirement ratio may be increased.

(II) Fiscal Policy:-

Fiscal policy is a budgetary policy in relation to taxation, public borrowing and public expenditure. Changes in the public expenditure on the total level can be effected by fiscal measures. To combat inflation, fiscal measures would involve increase in taxation and decrease in expenditure. During inflation, the government is supposed to counteract an increase in private spending. Obviously, during a period of full-employment inflation, the aggregate demand in relation to the limited supply of goods and services is reduced to the extent that the government expenditures is curtailed. Government must simultaneously increase taxes to effect a cut in private expenditure also, in order to minimise inflationary pressures. It has been argued that a tax policy can be directed towards restricting demand without restricting production.

Briefly, fiscal policy alone may not be very effective. An effective programme for combating inflation should combine fiscal and monetary tools in a manner complementary to one another.

(III) Direct Control Policy :-

Direct controls refer to the regulatory measures undertaken to convert an open inflation into a repressed one. Such regulatory measures involve the use of direct control on prices and rationing of scarce goods. The function of price control is fix a legal ceiling, beyond which prices of particular goods may not increase. When ceiling prices are fixed and enforced, it means prices are not allowed to rise further and so, inflation is suppressed. Under price control, producers cannot raise the price beyond the prevailing level, even though there may be a pressure of excessive demand forcing it up. War-time price control is an example of such attempts to suppress inflation.

(IV) Miscellaneous Policy :-

Among other measures, it has been suggested that production of certain articles of necessity at the expense of luxury goods can also serve as an anti-inflationary measure, since they will help to keep prices from rising rapidly. Under miscellaneous measures, following actions may be undertaken to control the inflationary pressure :-

(a) Control of wages to stop a wage-price spiral.

(b) Relaxation of restrictions on imports to increase the supply of essential commodities.

(c) To check the growth of population to help in reducing the increasing pressure on the general demand for goods and services.

Conclusively, we can analyse that all the above points of discussion suggest that an anti-inflationary policy should involve a many-sided programme, and can not exclusively depend on a particular type of measure only.
