

AUTHORS

**Shivani Chaudhary**  
Research Scholar,  
Department of  
Commerce,  
D.N. College,  
Meerut (U.P.)

**Dr. Mayank Mohan**  
Lecturer in  
Economics,  
Govt. Degree College,  
Budaun (U.P.)

# Gulf Between Higher & Weaker Sections of Society

## ABSTRACT

*An expansion of money supply upto the point of full employment may not be harmful for the economy. In fact, mild inflation may even serve as a tonic for the economy of the country. But an expansion of money supply after the point of full employment certainly degenerates into runaway or hype-inflation and thus is very harmful for the economy of a country. It creates business uncertainty which is harmful to production. In fact, hyper-inflation disrupts the smooth functioning of the economy. When the whole global market is facing the problem of economic depression, our country is also not an exception to that. Though the situation is not that much critical as in American and European countries. But the question is; Is this economic depression benefiting India? To some extent it is true. There is large scale inflation in our country because of which the number of millionaires is increasing day by day. Also the number of poor is increasing. The rate at which inflation is increasing the dreadful gulf of inequality is also digging up in our society. It is a big question; what will be the economic picture of our country in the forthcoming years?*

### 1. INTRODUCTION

Inflation is popularly associated with rapidly rising prices which causes a decline in the purchasing power of money. According to **Webster Dictionary**, "Inflation is a stage when value of money and credit relative to available goods resulting in a substantial and continuing in the general price-level".

According to **Professor Pigou**, "Inflation takes place when money income rises faster than the income-earning activities. As an example, one may refer to a situation where one works and gets Rs. 25, but does the same work as before for which he got Rs. 15. As a consequence inflation sets in. Enlarging this example for the entire economy, what has happened is that the total effective demand in monetary terms has risen faster than the increase in the total supply of goods and services in real terms. In economic terminology, there is "inflationary gap" between the money demand and the real supply. This presentation enables one to relate the increase in money supply with the growth in national income/goods and services. In other words, when goods and service/national income remain the same or

rise less than the increase in money supply, there is larger money to go round. When the prices in general rise, it of course, does not mean that price of every goods/service rise on rises equally. Depending upon demand/ supply of each goods/service, some individual prices may rise or fall. It is said that the increase in the supply of money is the cause of inflation and the rise in the price-level is its effect.

### 2. PERCOLATION EFFECT OF INFLATION

An expansion of money supply upto the point of full employment may not be harmful for the economy. In fact, mild inflation may even serve as a tonic for the economy of the country. But an expansion of money supply after the point of full employment will degenerate into runaway or hyper-inflation and thus is very harmful for the economy of a country. It creates business uncertainty which is harmful to production. In fact, hyper-inflation disrupts the smooth functioning of the economy. It is this hyper-inflation which has harmful consequences for the economy.

There are two important

considerations to be kept in view in formulating any inflationary policy. One point to be noted is that with the rise in the money supply larger than in the supply of goods and service, there is in general a rise in the price-level. However, it has been found that invariably the impact on prices in the same year is smaller. Over a period of time, however, the effect of increase in the money supply percolates into different sectors of the economy, resulting in the rise of demand and the price-level. This percolation effect, over a period of time, is described in economics in terms of the correlation coefficient. This is a relationship between the variations in the quantity of money and the variations in the indices of wholesale prices, after adjusting the former to the increase in real national product. In India it has been found that this is high and rising. This suggests that in the control of price-rise the reduction in the rate of money expansion can play a significant role.

### 3. GULF BETWEEN HIGHER AND WEAKER SECTIONS OF THE SOCIETY

When the whole global market is facing the problem of economic depression, our country is also not an exception to that. Though the situation is not that much critical as in American and European countries. But the question is; Is this economic depression benefiting India? To some extent it is true. There is large scale inflation in our country because of which the number of millionaires is increasing day by day. Also the number of poor is increasing. The rate at which inflation is increasing the dreadful gulf of inequality is also digging up in our society. It is a big question; what will be the economic picture of our country in the forthcoming years?

Earlier the developed nations of the world were in the curb of the economic depression of America, but the developing nations like India are also coming under its influence. Inflation has broken the record of 13 years. It will affect over development rate. Will it affect all the people of our country? The

answer is No. There is always a time lag between the rise in production costs and the rise in the price-level. This time lag brings rich profit to the business classes. In other words, flexible income groups, such as – businessmen, industrialists, merchants etc., are always the gainers in a period of inflation, while the fixed income groups such as – the workers and the salaried employees are always the losers on account of the inflationary rise in prices.

We are also living in a system, where the fruits of development are not shared equally. One who is rich becomes richer with the growth of the economy. So to provide the benefits of development equally to all the sections of the society is the biggest challenge for the policy makers. But the irony is that the development benefits the rich and the poor suffers.

The government should take early steps to control the situation in our country because the long-term effects of economic depression are very dreadful. The economic depressions of 1930s started from America, it could have harmed America more but the most affected part was the Europe. From the starting blows America recovered but the Europe was not able to recover, the result was the Second World war and America became the super power of the world. Now also the recession had started from America, it will affect the developing nations too. But in long-term, it will not harm America and other nations will suffer losses.

In fact the recession is like an indirect tax, the burden of which is shouldered on the common man. This not only increases the economic difficulties in the families but also broadens the gap of economic inequality.

The maximum number of poor of the world resides in India. The daily income of around 35 crore people in India is only 1 dollar (around 40 rupees) or less than that and the other 35 crore earns only 1 or 2 dollars. The percentage of people living below poverty line is 12% in America, 15.8%

in Russia, 22% in India, 8% in China and 31% in Brazil. As against this, number of millionaires is also high in India as compared to other countries. It is 30% in America, 13.6% in Russia, 1.23% in India and 4.15% in China. The rich are becoming richer and the poor are becoming poorer. This is due to inflationary situation.

The ideal situation of the development is that every class should develop with the development of the nation. But the recession situation becomes the graveyard for the poor class. In 2006-07, the growth rate of India was mere. It declined in 2007-08 to 22.7% as against 20.5% in 2006-07. The growth rate has the inverse relationship with the inequality of income. Why does it happen? The reason is inflation. The inflation is such a mechanism in which the income of the poor is transferred to the riches. And this situation worsens when there is hike in the price of food grains because the poor spends maximum part of their real income on the eatables. Such inequalities cannot be filled through the schemes like *Pradhan Mantri Rozgar Yojana* and *National Rural Employment Guarantee Scheme*. The increased rate of millionaires during 2007-08 was due to slow growth rate and increased inflation. The slow growth rate is expected this year too due to large scale inflation which will no doubt increase the number of riches in the country. Inflation has given an ugly picture to our society. Rich are so rich that they are enjoying all luxuries of life while the poor are so poor that they are starving for one time meal.

Besides the rich and poor class, the

class that is most affected by the inflation is the middle class. The people related to this class cannot enjoy luxuries like the riches and also cannot live in a miserable situation like poor. The higher class can maintain their standard in every situation while the weaker class does not have any standard. Inflation situation is harsh on the middle class. In an order to maintain their standard, middle class people have to spend more and due to this reason their savings becomes almost nil which makes their future unsafe.

#### 4 CONCLUSION

Inflation is a vampire that can grab the whole economy. Though the government is declaring that inflation rate is negative but the reality is that the prices of necessities are touching their peaks. Government should take steps to control the prices of the food grains because the weaker section spends the maximum part of their real income on the food needs. Higher taxes should be imposed on the luxurious goods to reduce the inequalities of the income in the society. The government should take hard core steps to generate the incomes of the higher class for the upliftment of the poorer sections of the society. Hoarding and black marketing of goods should be controlled. Inflation, if left unchecked brings so many inequalities in the economy that it makes the two sections i.e. higher and weaker section, two poles of a magnet that can never meet. So the government should make every possible effort to save the country from the dreadful results of global economic recession which starts due to inflation.

#### REFERENCES

1. Agarwal Anupam; *Economics*; Sahitya Bhawan Publications; Agra.
2. Agarwal, A.N.; *Indian Economy*; New Age International Publishers; New Delhi.
3. Rajeev Ratan & J.C. Varshney; *Money and Public Finance*; Sahitya Bhawan Publishers and Distributors (P) Ltd; Agra.
4. Singhai, G.C.; *Monetary Economics & Public Finance*; Sahitya Bhawan Publications; Agra.
5. Sury, M.M.; *India's Five Year Plans I to XI- 1951-56 to 2007-12*; New Century Publications; New Delhi.
6. Vaish, M.C.; *Monetary Economics*; Ratan Prakashan Mandir; Agra.
7. *Times of India*, New Delhi.
8. *The Hindustan Times*, New Delhi.