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The politics of inflation

Inflation is closely associated with economics. Prices go up when there is an increased demand for goods and services, when the cost of production rises, or when there is an oversupply of money in the economy. But politics and economics are also closely intertwined. Inflation is as much a political phenomenon as it is an economic one. Commodity prices can also be affected by political uncertainties, such as political transitions or the implementation of much-needed political reforms. Addressing inflation is thus also a political exercise, as it puts the government in a position to implement policies and introduce measures to mitigate the impact of price spikes.

The Tax Reform for Acceleration and Inclusion (TRAIN) law was implemented last Jan. 1. In its first month of implementation, inflation shot up by 4 percent, the highest in three years, and falling at the upper band of the Bangko Sentral ng Pilipinas' (BSP) target of 2-4 percent. Government officials and analysts had projected inflation to pick up, but the pace of its increase was unexpected.

Certain groups quickly attributed the rise in prices to the implementation of the TRAIN. But a closer look at inflation figures will show that a combination of factors pushed commodity prices upward. At this point, it may be premature to comment on how the TRAIN has directly affected commodity prices because we have yet to see its full effects.

Overall food inflation, which accounts for over a third of Filipinos' consumption

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basket, was at 4.52 percent. In particular, the price of rice, a food staple, grew by only 1.4 percent. Fish inflation was much higher at 12 percent, but this probably reflects the closed season of fishing (November to February) and the effects of the recent typhoon in the Visayas. Other products directly affected by excise taxes, such as sugar-sweetened beverages, had an inflation of only 2.8 percent.

Meanwhile, oil inflation came in at 7.2 percent. On top of higher excise taxes, global oil prices have increased by 19.6 percent in the past year. The peso has also depreciated by 1.5 percent year-on-year, making it costlier to import petroleum products.

Unfortunately, some traders may have profited off the TRAIN. The stocks of goods now affected by excise taxes are still in the warehouses of sellers and traders. This means that retailers, such as gasoline stations and grocery stores, are still selling old stocks of oil and beverages. However, they can only apply excise taxes under the TRAIN on new stocks of goods.

To rein in the adverse impacts of inflation, the Duterte administration can implement certain steps and countermeasures. Of course, it should promptly roll out its conditional cash transfer program to shield poorer households from higher prices. The

Department of Trade and Industry, along with other concerned agencies, should closely monitor the price movements of basic goods. By screening the prices and inspecting the supply of commodities, the negative externalities from trading may be tempered. Cartels, middlemen and greedy retailers who have taken advantage of the transition under the TRAIN should be apprehended and dealt with accordingly. Controlling the supply of goods and services to artificially jack up prices is a serious crime to the working people who are constantly harassed by price increases.

Equally important is for the BSP, with its inflation targeting mandate, to closely monitor changing prices and output conditions. It is critical for the central bank to decide when to step in and curb inflation by raising interest rates. The BSP has revised inflation upward to 4.3 percent for 2018 from its original estimate of 3.4 percent, citing the impacts of the TRAIN and global oil prices.

A more long-term solution is to generate more and better jobs. While inflation is part and parcel of life, Filipinos should have the means to prosper and not simply to subsist. As long as people have more purchasing power, adverse inflationary effects can at least be tempered.

It is in these situations where the Duterte presidency can demonstrate its sincerity in bringing about radical change.

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