IJSRM
INTERNATIONAL JOURNAL OF SCIENCE AND RESEARCH METHODOLOGY
An Official Publication of Human Journals

Human Journals
Review Article
March 2019 Vol.:12, Issue:1

Psychological Pressure Due to Inflation: Money on Our Mind

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Submission: 28 February 2019
Accepted: 3 March 2019
Published: 30 March 2019

HUMAN JOURNALS
www.ijsrm.humanjournals.com

Keywords: Psychological Pressure, Inflation, Money, Mind

ABSTRACT

Money is a main concern for many of us and personal finances are considered to be a source and a core area of everyday stress among the common people. Inflation seems to loom large over the horizon and the working adult population seem to be in the grip of this financial stressor as it takes up most of their productive time especially as they move nearer to their retirement age. It is seen that the earning population is also affected by the thought of the worth of their money in the times to come. Finding an equitable level of revenue and expenditure for themselves and trying to fulfill the present and the future needs of their immediate family influences their psychological well being and health. This paper aims at discussing the psychological pressures of inflation and whether the phenomenon of inflation has been triggered due to moral failings on the part of the public in many countries especially, the developed ones. It also focuses on the strategies and ways to manage the social and economic responsibility of having a sound financial outlay to lead a relatively stress free life- Present and future. Keywords: Inflation, price hike, Money, Psychological stress.

INTRODUCTION

An upward rise in the cost of goods and services results in a decrease in the purchasing power, That is, as price rises, with each unit of currency person, is able to buy less food and services. It is this increase in the prices (inflation) that decreases the value of money or currency. It is but natural that public anxiety about inflation continues, as many are concerned of the rising prices. Although it's a common occurrence. that prices of commodities and services go up over a period of time, most people do not understand the forces behind inflation, and do not try to protect themselves from the onslaught of inflation and the issues surrounding it or reflect on whether anything can be done to protect themselves from the harm that it might cause to their economic freedom and emotional well being.

Inflation is defined as a "sustained increase in the general level of prices for goods and services." Many consumers fear inflation because it reduces the purchasing power of their money. The influence that inflation has on consumers in India and other developed nations can be seen in petrol and diesel prices, to name one example. When the price of petrol goes up, the amount of money allocated to fuel takes a bigger percentage of your paycheck, you get the same amount of fuel. This hit to your bottom line leaves you with less money to spend on other items.

In less-developed countries, food price inflation is an ever-greater concern. When the price of basic food items increases significantly, low-income consumers experience severe hardships. In recent years, food price inflation has resulted in public demonstrations and rioting in numerous countries across the globe, including Chile, Morocco, Tunisia and Algeria.

Objectives of the Study

1. To examine the social and psychological triggers of inflation.

2. To analyze the psychological impacts of inflation.

The Conventional Outlook -The History of Inflation in Various Parts of the World.

Inflation is not a modern occurrence of and the world has been witness to many extreme, cases of inflation or hyperinflation. Instances can be quoted even in ancient Rome when money became worthless which gave rise to a period of anarchy and chaos. In the not so distant past, too, many countries have experienced the monstrosity of inflation and faced the terrifying monetary debacle.

In the Post World War II, 1944 Greece experienced 18% inflation every day. The monetary value halved every few days. Greece's fiscal budget balance went from a sizable surplus on the eve of the war to a deficit three times that size the very next year. The culprit: a dramatic drop in foreign trade thanks to World War II.

After losing World War I, Germany was forced to repay huge war debts to the victors. However, Germany was forbidden to use its "Papiermark" currency to pay reparations since the fiat currency's value had already declined significantly due to heavy borrowing to pay war costs. Adolf Hitler rose to power, in part, as a result of this period of crazy hyperinflation. With prices doubling every 3.7 days and inflation at 29,500%.

When the Soviet Union fell, it hit Yugoslavia hard. It was the decision of the newly-formed Federal Republic of Yugoslavia to retain communist policies that caused it to overspend, over-borrow and lose control of money creation. Enter hyperinflation. In January 1994 alone, inflation was 313 million percent. Prices doubled every 34 hours as the currency was eventually revalued five times in two years.

Prices doubled every twenty-four hours and that's exactly what happened in Zimbabwe's run-in with hyperinflation in November 2008 when inflation reached unheard of levels of 79 billion percent. Eventually, runaway inflation caused the Zimbabwe government to ditch their currency and use the South African Rand or the US dollar, long after their citizens wished to do the same, of course. During this period, a loaf of bread cost 35 million Zimbabwe dollars.

World War II left Hungary economically devastated. Thanks to being in a war-zone, Hungarian reserves were already largely depleted by the time the war was over. Of course, taking on a ton of debt to help Germany fight in the war — a debt that was never repaid — didn't help. At its peak, inflation reached a mind-boggling 13.6 quadrillion percent — per month. The largest banknote denomination was 100 quintillion as prices doubled every fifteen hours.

Historic inflation in India – Consumer Price Index (CPI)

Table: average inflation India (CPI) - by year

average inflation	inflation	average inflation	inflation
CPI India 2018	4.85 %	CPI India 2008	8.32 %
CPI India 2017	2.49 %	CPI India 2007	6.39 %
CPI India 2016	4.97 %	CPI India 2006	5.79 %
CPI India 2015	5.88 %	CPI India 2005	4.25 %
CPI India 2014	6.37 %	CPI India 2004	3.77 %
CPI India 2013	10.92 %	CPI India 2003	3.81 %
CPI India 2012	9.30 %	CPI India 2002	4.31 %
CPI India 2011	8.87 %	CPI India 2001	3.77 %
CPI India 2010	12.11 %	CPI India 2000	4.02 %
CPI India 2009	10.83 %	CPI India 1999	4.84 %

Numerous theories have been floated about the stubborn nature of India's inflation. Higher commodity prices have been touted as a major force for driving up costs for critical elements such as food and energy. Moreover, usually, drought in north India are considered to spiral wheat and sugar prices Floods during harvests such as that happened in 2010 kill much of India's crop of onions, a key staple. The spending pattern of the government and the lax framework of the Central Bank is also blamed by many economists.

Eminent economist and columnist Surjit Bhalla, analysed the data for the past 31 years and says that the traditional variables like Money supply, fiscal deficits, GDP growth does not explains inflation occurring in India. He states that Indian inflation for more than three decades has been strongly correlated to international inflation which is again, correlated to commodity prices over which domestic Indian monetary policy may have a very little control.

On the other hand, economists from the National Institute for Public Finance and Policy says the blame is in our own backyard and the blame cannot put on the international issues and points at government actions, especially the lax monetary policy, which has been a persistent problem. It reflects a failure of macro policy of the RBI for its conflicting communication signals regarding rate hikes and allows inflation to get embedded in the minds of business owners and consumers.

Noted economist and former Planning Commission member Saumitra Chaudhuri agrees that psychology is a big part of it. Indians have become accustomed to ever-rising prices and don't trust the government to tackle the problem. For instance, he says that when in 2010, onion prices skyrocketed so did everything else, because the government wasn’t in control and everybody wanted to make money. He also apportions some of the blame on international commodity prices.

But he also sees some unintended consequences of well-intentioned government social programs, widely considered a great success in educating India’s rural poor. The school participation rate for rural children in India has risen to 96.5% from 93.4% in 2005, according to the Indian non-governmental education organization Pratham. But it’s had the effect of removing labor supply (illegal or otherwise) and driving wages higher. Another example that he points out is the government’s landmark Mahatma Gandhi National Rural Employment Guarantee Act, a massive jobs program rolled out to millions of poor. It has put cash in the hands of the poor, but the program has also failed, largely because of corruption and incompetence, to deliver on the promised productivity increases, such as better roads and irrigation that should have boosted agricultural productivity, helping stem food inflation.

The effect of the rural jobs program has rippled across India’s labor markets, where less people are migrating from the countryside seeking factory work. The program created some kind of assurance of employment in rural India, which improves the bargaining power of agricultural labor and led therefore to a rise in wages.

Inflation due to Moral And Spiritual Failings

When inflation stares us in the eye, it is definitely important to have an insight into the role of the economy but it would also be good to understand that views that inflation is not only an economic perspective. Solzhenitsyn in his address in Harvard University in 1978, critiqued the Western outlook as he pointed out various failings among the people which has increased inflation. He cited four reasons for the sordid state of affairs.

- The pursuit of material well being
- Human rights sans human obligations
- Lack of personal responsibility,
- The unwillingness to sacrifice for the common good

He stated that these are all aspect sintimately connected with a lot of economic problems, and particularly with the phenomenon known as inflation.

Another great economists of our time who is sympathetic with the view is Wilhelm Roepke,. In his book, A Humane Economy, Roepke said of our age of inflation: It is the acute stage of a chronic pathological process fed by forces which are now permanently operative, and as such, it is not susceptible to any quick or lasting cure. The inflation of our time is intimately connected with some of its most obdurate ideas, forces, postulates, and institutions and can be overcome only by influencing these profound causes and conditions. It is not just a disorder of the monetary system which can be left to financial experts to redress, it is a moral disease, a disorder of society. This inflation, too, belongs to the things which can be understood and remedied only in the area beyond supply and demand.

A Spiritual Illness

Believing with Roepke that inflation is not just a disorder of the monetary system but a moral disease and ultimately a spiritual illness, Psychology, as used here in the classical sense, that of Plato and Aristotle, to mean the understanding of the order of the soul. And if, as Plato said, society is "man writ large," then inflation will only be properly understood and possible solutions arrived at through knowledge of man's moral and spiritual disorders which cause him to constantly increase the quantity of money, and thus decrease its value.

Simultaneously, there has been a great decline in ethical instruction and character training in this century—especially in our schools. What Richard Weaver termed the "spoiled child psychology" has emerged. In his powerful little book, Ideas Have Consequences, Weaver spoke of modern man as a spoiled child. In the past half century government has acted as man's benefactor in the name of compassion and humanitarianism, assuring men that their appetites are legitimate and that government can gratify them. In reality, however, government has nothing to give some but what it takes from others.

The relatively recent character changes which have caused the growth of the welfare state, and in turn, which have been encouraged by it, have been noted in studies made by the scholarly research firm of Yankelovich, Skelly and White. As a result of interviewing hundreds of thousands of Americans over the past 30 years, these researchers have discovered three basic changes in modern attitudes which have taken place in a single generation: a loss of autonomy (dependency), focus on self (personalized morality), and the psychology of entitlement (parentalism).

The Consumer View

For centuries it was each man's goal to become self-sufficient and self-supporting—that is, for himself and his family. Knowing that if he did not work he would die, his efforts were vigorously directed toward production. Modern man, deluded that abundance is automatic—a fact of life—and driven by his unchecked appetite, is no longer concerned with his role as producer. In fact, attitude research concerning the contemporary American's economic perceptions shows that he views himself almost entirely as a consumer. Thus we have a citizen whose self-image focuses on his activities in getting and using money and goods, and who is no longer guided or disciplined by objective moral standards. Understandably, he feels himself entitled to the money and services that Big Brother concedes and even gladly offers him. And power-seeking politicians, eager to get elected, are correspondingly happy to promise the citizen these things—even if it means creating a socialist system with deficit budgets financed by inflation.

Thus, many non-economic causes give rise to inflation and in particular the moral problems that prompt government to increase the quantity of money.

Impact of Inflation on Psychology of the People in Developed and Other Countries.

Research conducted illustrates that inflation tends to impact people as the ratio of crimes, increases, drug usage and lowers the living standards due to decrease in the fulfillment of the basic needs of life; Research examines economic inflation as a psychological stressor.

Economic behavior in response to inflation is hypothesized to be a function of subjective cognitive appraisal of threat as well as objective economic indices such as actual income.

People become psychologically depressed, and tension and anxiety, creates unrest as they are not able to afford daily commodities, leading to more stress and strain; Adverse impacts on the psyche and the mental level of individuals instigates violence which further tends to increase suicidal tendencies and creates an overall hopelessness.

In fact, not only citizens of developing countries, but even the Americans are afraid of even a small financial emergency. Though the developed countries have extensive support of welfare schemes, health care systems and provision for pension, the proportion of USA pensioners residing in poverty is almost double than in Germany and around six times of France. In fact, western Europeans are even afraid of leading a homeless life due to inflation hitting them. This has resulted in increases in suicides and drug or alcohol deaths are also on the rise.

Rosston said that whatever the causes, the increased numbers of suicides reflects a mental health crisis that is not being addressed in part because of a lack of professionals but also because of a reluctance to seek their help. A very high shortage of doctors especially mental health professionals and psychiatrists has led to a crisis. It is seen that many people have never been to a psychiatrist as it is considered a stigma and people feel that they have failed in their lives and see depression as a failure and weakness Most of the medical review of suicides among people in the lower economic strata is that they thought their lives were not fruitful and they were a source of burden to their intimate family. Some of them felt that they were tired of the daily struggle to make ends meet.

The Most Vulnerable Group In India

India is the world's second most populous country and is experiencing a dramatic demographic transition in the past 50 years, entailing almost a tripling of the population over the age of 60 years. A few important characteristics of the elderly population in India are noteworthy. Access to services, however, is uneven across the country. In the absence of state-level measures of providing social security, security in old age may be assured through movable or immovable property assets. Transfer of property to children results in property lessness, a phenomenon more common among rural elderly men and urban widowed women with sons. Lack of property means lack of assets or a safety net to rely on as health costs escalate through old age India's relatively unaccountable and inefficient public system of healthcare has led to the evolution of a highly varied, unregulated, and mostly expensive private sector that provides most healthcare, rendering elderly Indians increasingly vulnerable to catastrophic health expenditures and poverty.

Manifesting solutions to the problem

Posing problems are easier than answering them is a lot harder. The first step towards overcoming the failings of the psychology of inflation is summed up in ancient Greek aphorism: "know thyself."

The link between inflation and money has an interesting dimension as people are in need of more money for their own health and other related issues especially in the times when there is a lesser income. The attitude of procrastination towards savings seems to be a major scourge as people tend to think of saving towards the later part of their lives. It is important to understand that saving from an early is an important part of the solution to inflation.

While people may not be able directly affect the inflation rate of their country, there are ways to minimize the shadow it casts over their lives especially towards retirement. Reducing housing costs, for instance, is a step in the right direction. Moving to smaller homes reduces the monthly outflow and can also lower other housing costs, such as property taxes, homeowners insurance and maintenance.

Another smart move is adding investments to your portfolio that are likely to increase in value as inflation rises. A real estate investment trust (REIT) or energy sector stocks, for example, are better positioned to see their value grow in tandem with the inflation rate. Just remember to balance stock investments with more conservative options, such as bonds, which are more predictable and tend to offer stable returns.

Governments have to inculcate trust in the national currency by maintaining a balance between production and taxation. A corrupt government spending beyond its ability may create a chasm and lead to the collapse of public faith in their currency as the public are not able to buy goods in the currency.

CONCLUSIONS

It should be clear by now that the inflation is much more than an derivative of the economic factors as it also involves many psychological elements. Properly mapping the psychology of inflation involves identifying the associations, explanations and causal reasoning utilized by the government and the public. It would be in the interest of all to understand the economic phenomenon and at the same time identify the various cognitive and emotional systems that have a bearing on inflation. Inflation can be a retirement killer but it doesn't have to be for who take the time to develop a plan for combating it. Reducing spending, creating a realistic retirement budget and leveraging investments to take advance of price increases can all help to soften the blow inflation may deal to long-term savings.

Further, the national governments have to reach out to the public and communicate to them regarding the ramifications of the monetary policies on the different ways that they would be impacted. Short sighted policies by many governments may buy peace for a short time but may ultimately lead to uncontrollable inflation resulting in complete economic annihilation.

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