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EDITORIAL ANALYSIS

Reading Wholesale Inflation Right: When the Squeeze Comes from Costs, Not Demand

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THE LIFT LINE

Not all inflation is the same disease, and prescribing the same medicine for every fever can make the patient worse. When prices rise because factories, farms and fuel have become dearer to run, raising interest rates to cool demand treats a supply-side ailment with a demand-side drug. Reading wholesale inflation correctly is the difference between easing a bottleneck and choking growth to fight a price rise it never caused.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Inflation is one of the most examined themes in UPSC economics, and the distinction between its sources is precisely where average answers separate from analytical ones. The recent movement in wholesale prices offers a live opportunity to argue that policy must be matched to the cause of inflation, not applied as a reflex.

GS Paper 3: Indian economy, inflation and its types, monetary and fiscal policy, and the effectiveness of demand management. It also touches supply-chain and input-cost issues that link to industry and agriculture.

For **Prelims**, hold the specifics: the **Wholesale Price Index (WPI)** is compiled by the **Office of the Economic Adviser** under the **Department for Promotion of Industry and Internal Trade (DPIIT)**, whose base year was revised to **2022-23** in June 2026 (from 2011-12), alongside the launch of a new **Producer Price Index (PPI)**; **cost-push** inflation arises from the supply side through fuel, food and input costs, while **demand-pull** inflation arises from excess aggregate demand; and the **Reserve Bank of India (RBI)** targets **Consumer Price Index (CPI)** inflation, not WPI.

For **Mains**, argue that if inflation is cost-push, easing supply constraints and input costs matters more than raising rates.

BACKGROUND AND CONTEXT

The WPI tracks the price of goods at the wholesale or producer stage before they reach the retail consumer. It is weighted heavily towards manufactured products, primary articles and fuel and power, which makes it a sensitive barometer of **input costs** faced by producers. Because it excludes most services and is dominated by tradable goods, it often moves ahead of, and differently from, the retail CPI that households and the central bank watch most closely.

When wholesale prices climb chiefly because crude oil, imported inputs, freight or key food articles have become dearer, the increase reflects a rise in the **cost of production** rather than a burst of spending. This is the classic signature of cost-push inflation, and it calls for a diagnosis of what is squeezing the supply side rather than an assumption that the economy is overheating.

THE CORE ARGUMENT / ISSUE

Cost-push versus demand-pull

The two textbook engines of inflation pull in opposite policy directions. **Demand-pull** inflation appears when aggregate demand runs ahead of the economy"s capacity to produce, and the standard cure is to cool demand, typically by raising interest rates. **Cost-push** inflation appears when the costs of producing goods rise, from fuel, food, wages or imported inputs, and prices are pushed up even as demand may be flat or weak. Raising rates against a cost-push shock can slow output and employment without addressing the source of the price rise.

The structuralist and mark-up view

A structuralist reading, associated with the **Kaleckian** tradition, argues that in many industries firms do not price at the margin dictated by demand but instead apply a **mark-up** over their costs. When input costs rise, the mark-up is applied to a larger base, so prices climb mechanically. In this view inflation is transmitted through the cost structure of the economy, and the natural remedy is to relieve the cost pressure at its source, whether that is fuel taxes, supply bottlenecks, import dependence or administered input prices.

DIMENSION	COST-PUSH (SUPPLY-SIDE)	DEMAND-PULL (DEMAND-SIDE)
Trigger	Higher fuel, food, input costs	Excess aggregate demand
Output effect	Prices up, output may fall	Prices up with output rising
Right remedy	Ease supply and input costs	Tighten demand, raise rates
Wrong remedy	Rate hikes that hurt growth	Supply subsidies that overheat
Typical marker	Rising WPI led by fuel and inputs	Broad-based demand-led CPI

Why the WPI signal matters

Because the WPI is so exposed to fuel and manufactured inputs, a surge led by these components is a strong hint that the pressure is coming from costs. If the RBI, which formally targets CPI, and the government read a cost-push WPI surge as a demand problem, they risk tightening into a slowdown. The correct response is to look upstream, at the fuel, freight and input-cost channels feeding the wholesale numbers.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Use a **source-of-inflation** frame: first ask whether the price rise is led by costs or by demand, then match the instrument to the diagnosis. Layer on the **transmission** frame from the mark-up view, which treats the cost structure as the conduit through which shocks become prices. Finally, apply a **policy-mix** frame: monetary policy is well suited to demand-pull inflation, while cost-push inflation calls for supply-side and fiscal tools such as easing input taxes, unclogging logistics and reducing import dependence.

THE DIAGRAM IN WORDS

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Fuel + input + food costs rise -> firms apply mark-up over higher costs -> WPI climbs -> if misread as demand-pull, rates rise -> growth slows without curing prices -> correct path: ease supply and input costs at source
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WAY FORWARD

1. **Diagnose before dosing.** Officially decompose inflation into its cost and demand components so that policy responds to the actual driver rather than to the headline number.
2. **Target the cost channels.** Where fuel taxes, freight, port delays or administered input prices are inflating costs, act on them directly to relieve the squeeze at source.
3. **Reduce import vulnerability.** Deepen domestic supply of critical inputs and diversify sources so that external price shocks pass through less violently into wholesale costs.
4. **Keep the policy mix coherent.** Reserve rate action for genuine demand-pull pressure and pair it with fiscal and supply-side measures when the pressure is structural, so that fighting inflation does not needlessly sacrifice growth.

PYQ LINKAGE AND PRACTICE

The topic maps to past questions on the causes and control of inflation and on the roles of monetary and fiscal policy. UPSC has asked candidates to distinguish types of inflation and to evaluate whether interest-rate policy is the right tool, which is exactly the argument this issue sharpens.

Practice question: Distinguish between cost-push and demand-pull inflation. In the context of recent wholesale-price trends, discuss why the appropriate policy response to supply-side inflation differs from the response to demand-led inflation. (15 marks, 250 words)

Sources: The Hindu editorial pages, Office of the Economic Adviser, DPIIT WPI releases

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