

The Sinking Feeling

By Samad Ramoly

If a survey is carried out among Mauritian citizens to gauge the causes underlying the current malaise, the cumbersome cost of living will without doubt top the list of the great majority of respondents. What are the forces driving this perceived downfall?

The most pervasive determinant of cost of living in our economy is the exchange rate of the rupee vis-à-vis other currencies. Since a serious research has yet to demonstrate the "pass-through" of rupee depreciation to domestic prices in Mauritius, the figure of 70 % computed informally can provide a yardstick: a depreciation of say 10% of the rupee against a trade-weighted basket of currencies would roughly yield 7% increase in prices.

Obviously, Mauritius cannot boast the *swadeshi*, the economic self-sufficiency Indian nationalists have been advocating. Besides petrol, the market relies heavily on imported staples such as rice, flour and dairy products. In addition, most goods manufactured locally and most services provided have a significant dependency on imported inputs.

Against the trade-weighted basket of currencies, the rupee is today worth about five times less than at the time of our political independence. As the yearly inflation-adjusted increments in pay packets compensate only partly for the erosion of purchasing power and Social Security benefits are not indexed to inflation, it means that, in real terms, most citizens are becoming poorer and poorer with every downward move of the rupee. Any policy aspiring to target a redistribution of wealth must consider this crucial issue to be worthwhile.

In the run-up to the yearly compensation approval, reckless business tycoons pressure the government to deny citizens their rights to claim the compensation. Worse, they contend that trade-unionists are irrational and irresponsible in their activism even though appealing for a redress in purchasing power is absolutely legitimate. In fact, inflation-adjusted increments have been confused for pay awards where collective bargaining ought to be applied.

The zeal with which some influential foreign exchange earners, with the complacent endorsement of IMF-inspired government officials, disseminate the "virtuousness" of rupee slide - euphemistically dubbed competitive rupee - is understandable from their myopic point of view. But the State, entrusted by citizens for safeguarding the value of their assets, fails in its mission to implement policies conducive to their well-being and the long-term competitiveness of the country when it gives in to such indecent self-interest.

Even if price hikes do not go unnoticed during local purchases in rupees, they are not very likely to be implicitly linked to currency depreciation. Alternatively, financing the education of children in countries with sound currencies or visiting these same countries readily reveals how currency depreciation is eating up our purchasing power as expenses occur after junk rupees are exchanged for hard currencies. Depending on the scope, currency depreciation pumps up expenses sooner or later.

Currency depreciation also hurts where it is least expected. For instance, it accounts to a great extent for the high interest rates financial institutions charge for loans or for ever-increasing insurance premiums as insurance companies re-insure policies abroad. It inflates the price of land in exclusive areas luring the hard currencies of Mauritian expatriates first before snowballing everywhere else. Moreover, it deprives Mauritian citizens of the spin off of global competition in the airline industry and the computer business that is cutting fares and prices down.

The new pricing mechanism for petrol is commendable for its transparency but it comes with a major caveat: unless the American dollar or the price of petrol collapses in the world market, local consumers will hardly benefit from it. The price of petrol can prove as volatile as the value of the rupee. Any reduction in the price of petrol in dollar will only exceptionally have an equivalent effect on the price in rupee. With its knock-on effect, persistent depreciation of the rupee marks a widespread upward trend in domestic prices.

Among the other factors contributing to raise the cost of living: corruption due to administrative bottlenecks, rogue governance that fuels misappropriation of financial resources and lax fiscal policy that levies ridiculously high import tariffs, coupled with a 15% VAT, on most items. The trading arms of the State set up to mitigate the impact of market failure often skew prices further because of shoddy management. The weight of products in trolleys leaving supermarkets may still be the same, but not necessarily the quality.

A weak rule of law and a dodgy *permanence de l'Etat* induce sufficient unpredictability in the minds to force business players to beef up margins in order to accommodate the extra risks. As each business partner tends to indulge in the "enjoy-the-flower-while-it-lasts" spree, costs heap up at every stage before being ultimately passed over to consumers. The more a sector is cartelised or in a state of oligopoly, the more extra costs consumers have to bear and the less competitive our products and services will be in the global market.

As long as spineless individuals chair institutions such as the Central Bank and the anti-corruption watchdog, as long as mighty business parties tap market shares without the scrutiny of a "Competition Commission" and as long as governments do not live up to their responsibility so as to be accountable to taxpayers, most citizens, never mind what fat cats, pseudo-ascetics or foreign

expatriates may brag about, will continue to feel the pinch of a declining material quality of life and the economy will remain as distorted as ever.

Above all, an elected government does not have a *raison d'être* when it is unable to provide the appropriate environment for citizens to internalise the desired norms and values on which the premises of a vibrant democracy are founded.