

Inflation in China

An old worry nags again

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Rising prices alarm the Communist Party ahead of its five-yearly congress

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CONSUMERS in China's cities have had it good for an unusually long time. During most of the past few years of double-digit economic growth, inflation—at least according to official figures—has been barely detectable. But data published this week show the biggest monthly rise in consumer prices for over ten years. Government officials are getting worried that China's happy spenders will turn angry.

The latest figures were higher than many had expected. The National Bureau of Statistics said that consumer prices rose 6.5% in August compared with a year earlier, up from 5.6% in July. Officials still insist that the recent price increases are not a sign of widespread inflation. So far, they say, the index is being driven up by food prices, particularly pork. If food is excluded the index rose by a mere 0.9% in August. But nerves are fraying. Inflation always scares the Communist Party. Hyperinflation helped its own rise to power in the 1940s; price increases fuelled the pro-democracy unrest of 1989.



The timing of this price surge is unfortunate for President Hu Jintao. Since becoming party chief in 2002 and president in 2003, he has presented himself as a champion of the poor. The urban middle-class may shrug off rising food prices, but the poor are being hit harder. From October 15th Mr Hu will preside over his first party congress since assuming the leadership. He does not want it marred by public grumbling, let alone protests. In the build-up to the congress, local officials, citing the need for “stability”, have been issuing flurries of directives calling for measures to tame prices.

Pork is the focus. At the end of August it was 70.3% more expensive than it was a year earlier in 36 large cities surveyed by the National Development and Reform Commission (NDRC), the economic-planning ministry. Officials blame rising animal-feed prices and the death or culling of millions of pigs after an outbreak of disease. Officials say pork prices have stabilised since the middle of August. But demand will surge during festivals in the coming weeks. Pork is a staple food for most Chinese.

Other food is becoming dearer too. The prices of eggs, poultry and edible oil rose some 20% or 30% in big cities in August compared with a year earlier. Overall the food-price index rose by 18.2% that month. Central and local governments have responded with new subsidies to encourage peasants to raise more pigs and cushion vulnerable groups from price rises. Among those receiving handouts are those on poverty-relief schemes, army units and poor students. In Beijing this week officials banned price increases in university canteens. A state-owned newspaper reported complaints by students in Shenzhen, which borders Hong Kong, that canteens have been cutting portions to save money.

The NDRC has promised not to intervene directly in setting prices. But it has ordered a crackdown on merchants or producers who are “fixing prices”. Price-rigging is probably often more imagined than real. Local governments can gain popularity by using anti-cartel regulations to bully sellers into keeping prices down. But free-market instincts still run deep. Many newspapers heaped scorn on the city of Lanzhou after it ordered a cap on the price of beef noodles in June.

Local governments have reason to fret. Even before food-price inflation became apparent early this year there had been reports of price-related unrest. In March riots erupted in Zhushan village in Hunan after a bus fare was increased from seven yuan (about 90 American cents) to nine. Riot police armed with batons clashed with thousands of farmers, leaving one person dead. In October 2006 hundreds of people rampaged through a hospital in Sichuan and fought with police after a boy died because (the protesters believed) his father could not afford the treatment.



Even members of Beijing's middle class complain. Although the consumer-price index has long been growing in low single digits, many say that it does not accurately reflect the increasing burden. Yi Xianrong of the Chinese Academy of Social Sciences says housing costs, which have been rising fast in many cities in recent years, are not given due weight in the index (food accounts for a third of the index and housing less than 14%). He says local governments, which benefit hugely from rising property prices, have been far more reluctant to investigate price-fixing allegations in that sector than they have in the case of food.

If there is one source of relief for the party it is that China's consumers have not been swept up by a recent surge of discontent abroad over safety standards of Chinese products. Consumers in China, where the market is subject to far less rigorous quality controls, should have more reason to complain than those overseas. They have to contend with pork that is sometimes injected with water to make it heavier or, worse still, with poisonous chemicals to make the meat less fatty. Hundreds of people in Shanghai fell ill last year from such meat.

A muzzled press and a lack of independent consumer-rights organisations help suppress this sort of bad news. Zhou Qing, who wrote a book published this year on the dangers of food sold in China, says officials have tried to curb its circulation (his dissident past may not have endeared him to them either). Mr Zhou suspects that the high price of pork will encourage more doctoring of meat.

Officials predict that the consumer-price index will rise by around 4% this year as a whole. This is still tame compared with the double-digit peaks of previous inflationary periods in the past two decades. Neither is it far off the target of less than 3% set at the beginning of the year. Officials say subsidies aimed at encouraging pig-rearing should cause the pork shortage to ease by the middle of next year. But some still fear more general inflation. Efforts this year to curb liquidity and a surging economy—including four interest-rate rises and seven increases in the amount of money commercial banks must deposit at the central bank—have shown few results. As he prepares for his big moment at the party congress, Mr Hu will not be at ease.