

INCREASING FOOD INFLATION IN INDIA

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Objectives of the study: *The objectives of food crisis will make a attempt to analyse the nature and structure of food inflation. This paper main objective is to enumerate the various factors of food inflation in India.*

Methodology: *The study is off listed nature and makes toll depend on the present scenario exclusively on increasing inflation in India.*

Findings: *Many of us would not be even aware that in the 1960's India was forced to import wheat from the USA under the PL480 scheme as it suffered from a sever shortage of food grains. The effectiveness of Indian agriculture is the effectiveness of the Indian economy. In the geographical aspect India has the highest advantage of farm area under cultivation, but the yield is neither encouraging nor remunerative to the cultivators.*

The retail prices of staple foods rose steadily, far exceeding in real times what the Government of India and the financial system calls "headline inflation", and exceeding also the rate of the rise in food inflation as cultivated for the country. Increasing food inflation is clearly the most important problem before the country at this moment. This means that unless the rate of increase in prices is substantially moderated, we cannot move even directionally towards the attainment of our basic objectives of removal of poverty and self – reliance. Two themes stand out prominently for increasing food prices, excessive growth of money supply, inadequate growth of agricultural production. As for the fuel inflation has also registered one of reasons for it.

Application: *The year – on – year inflation rates show that the prices of primary articles that had started picking up in the wake of expected economic recovery continued with that trend in the current fiscal as well. Higher prices of primary articles, especially rise in food prices, indirectly also effects the production by first pushing up the cost of living which, makes labor to ask for wage hikes and higher wage costs will in turn result in soaring cost of production.*

However, actually, a host of medium to long term factors play major role in inflation control, which can be controlled by the government. And also fulfilled a huge gap between the technology available and used.

Key Words: *Food staples, Global warming, HYVP, Deflate, Archaic System, Commercial Intelligence.*

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The economic history of many countries reveals that all economics suffered from the serious effects of inflation. Inflation is “the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling”. In almost all the countries inflation has been there in some degree or the other and it has become a serious economic problem in many economics. Hence, it is to be considered as a national problem and to analyse this we have to investigate into the cause for inflation, the level of economic development and the effects of inflation on different sectors of people in the country. The genesis of the present inflationary problem is to be found in the era of food. A misconceived curve can aggravate the disease. No basic solution of the problem can be formed unless we can devise adequate solution to food problem, both in relation to production and distribution.

The retail prices of staple foods rose, steadily through 2010 onwards, far exceeding in real terms what the government of India and the financial system calls “headline inflation”, and exceeding also the rate of the rise in food inflation as calculated for the country. These calculations ignore the effective inflation and its increase as experienced by the rural and urban household, and they ignore also the considerable regional variations in India of a typical monthly food basket. Moreover, from a household perspective an increase in the prices of food staples is not seen as an annual phenomenon, to be compared with some point 12 months in the past. It is intimately linked to employment (whether informal or seasonal), net income and the pressures on the food budget form competing demands of medical treatment, education and expenses on fuel and energy. When real net income remains unchanged for over a year or longer, the household suffers a contraction in the budget available for the food basket, and this contraction often experienced by rural cultivator families and agricultural labor is only very inadequately reflected by the national rate of increase in food inflation.

CAUSES FOR INCREASING FOOD INFLATION

In recent years, agriculture has become more sensitive to climate changes. A number of changes in environment like

- A. Global warming
- B. Soil degradation
- C. Absence of environmental planning
- D. Replacement / displacement of traditional varieties of crops
- E. Intensive cultivation with high yielding variety seeds
- F. Indiscriminate use of chemical fertilizers
- G. Use of genetically modified varieties of seeds / crops
- H. Soil, water, air pollution are responsible factors

All the above items are responsible for increasing food inflation in India. Some economists say food inflation is that it always considers inflation as a seasonal and temporary problem. Monsoon failures has always been dubbed as the main cause of inflation. Similarly, above average rainfall has been interpreted as the end of hyper inflation era. In reality, besides domestic climatic conditions, external market conditions, logistics deficiency, unauthorized holding and ineffective agriculture policy too have been the major causes of food inflation. Rather the current food inflation needs to be seen from two angles: one, there is a shift in income brackets with the growth of the middle class as a result of industrialization and growth of services raising demand pressure, and two, the gap between producer prices and consumer prices is widening with retailing at consumer level of highly profitable job as demand pressure increases.

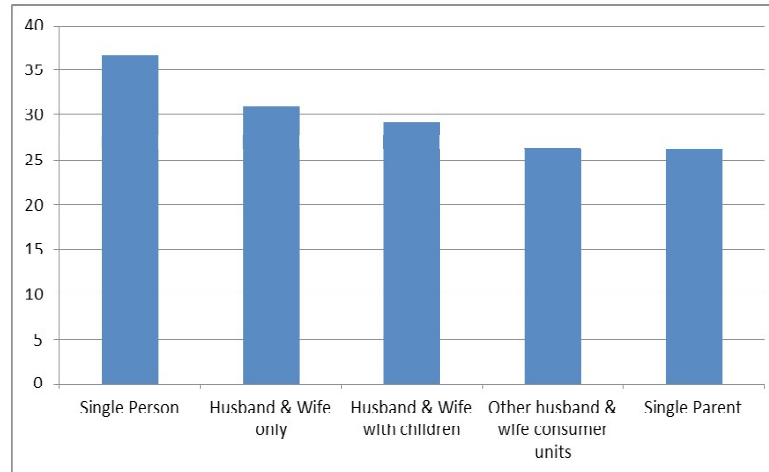
Food Gap	Gap (Supply- Demand)		
	2011	2021	2026
Food Items			
Rice	1.26	8.98	9.13
Wheat	21.21	27.33	32.04
Total cereals	21.19	-2.94	-16.-97
Pulses	-8.05	-24.92	-39.31
Edible oil	-6.66	-17.68	-26.99
Sugar	-4.31	-39.67	-74.13

Source: Surabhi Mittal (2008)

In the above table indicates, Increase in total demand is mainly due to growth in population and per capita income and as far as supply in concerned, production is constrained by low yield growth. Negative gap indicates that the demand of the commodity is more than its supply and this implies a deficit of the commodity in future. The gap between supply and demand is narrowing down over the years for all the food items.

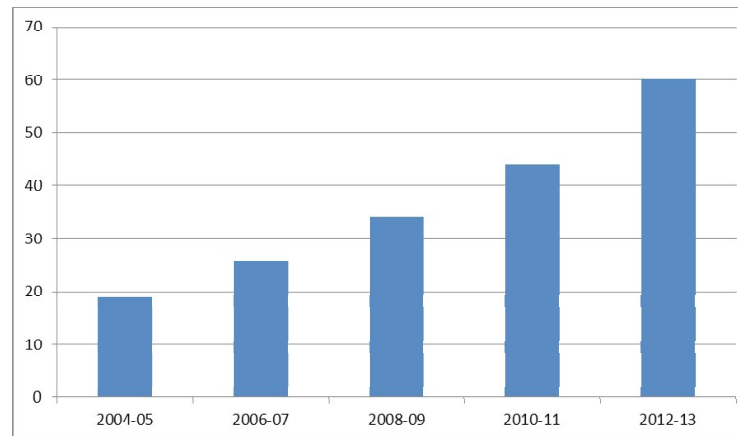
The present inflationary pressure has originally started in the form of food and fuel prices hike in the first half of the 2012 -2013. The study indicates the play of both domestic and external factors. Prices of fuel and primary products have substantial external and policy influences. Manufacturing inflation reflects the performance of the domestic private sector as also has influenced by the exchange rate and global inflationary conditions.

SHARE OF THE TOTAL FOOD EXPENDITURE ON MEALS AWAY FROM BY FAMILY TYPE (%)



Source: Bureau of Labour Statistics

The above table indicates, how different families and individuals spend their expenditure on meals.



Source : Data Gov.in (MOSPI)

The above table indicates, how the consumers spend their expenditure on food items Household expenditures India.

The Way out: Here are five policy steps that may help in the process of control in food inflation.

Deflate the stimulus package (Monetary measures): There seems to be excess liquidity in the system, both globally and in India, as a result of the fiscal stimulus given over the last two years to ensure recovery of growth. It has delivered high growth but has also led to commodity price inflation almost world wide. In India

money supply has been growing at almost 20% per annum while agricultural production has grown by only about 3% on average. Too much money chasing too few agricultural goods. It is time for a calibrated winding down of this stimulus package by tightening the monetary policy.

Enhance supplies of Agricultural Products: In the short run, it can be done by releasing stocks of wheat, rice and sugar luckily, the government has much more stocks than warranted by buffer stock norms -reducing import duties to less than 10% on fruit and vegetables, milk and milk products, etc, where inflation rates are very high. This will give immediate relief to consumers.

The Archaic Mandi system Reforms: Our Agriculture mandis are in a muddle. The current system rewards middlemen, or commission agents, but does not benefit the farmer or the consumer. The Government should invite and incentivize private sector (both domestic and foreign), Co-operatives and NGO's to come up with business models that directly link the growers with processors and retailers Rationalize taxes and fees in the mandi system.

Establish Commercial Intelligence Units: This proposed unit needs to combine information on the production status of key crops from crop forecasting division, on market price status from the marketing division, on stocks, tariffs and trade, and global market situation, and then analyse all these to recommend policy action well in time.

This should be done on a monthly basis, if not fortnightly. Bring the agriculture reform agenda on priority. The country has had two decades of reforms in industry and services sectors, but agriculture has been waiting for long for a serious package of reforms piecemeal efforts will not deliver. The country's agri – GDP growth is stuck at less than 3% per annum, and extremely volatile in nature. With the challenge of climate change looming large, sustainable agricultural growth will require higher investment in agri – R&D and extension, water and soil management, and also in logistics, processing, packing and organized retailing.

Closing the Agriculture Infrastructure Gap: There is a huge gap between the technology available and used the gap needs to be reduced. In India, around 78% Water goes to the agriculture sector, while the remaining part shared out between drinking, industry and other usage. Proper irrigation and storage facilities need to be created by making adequate investment in these infrastructure capacities. Technology transfer in agriculture should focus on key interventions at different stages of the crop from sowing of the seed, crop protection, harvesting, post – harvest management and marketing.

Presently there exists a huge gap between the price received by the producer and the price paid by the consumer. This gap needs to be filled by creating transport and storage infrastructure to the revised extent. The government needs to regulate the functioning of the agriculture markets required.

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