

Food Inflation: Consequences & Problems in Sustainable Economic Development in India

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Introduction

Countries of the world continue to grow and develop in many spheres of activity. The vast changes in the global economic system as well as political alignment have explored certain problems. The process of a continuous and general rising price level is one such problem described as Inflation. The process of spiraling price level affects everybody from plebian to patrician. In a way inflation can be considered as a hidden tax levied on the people without their acceptance. The famous statement of Milton Friedman, a celebrated monetarist of Chicago school bring to the fore a cup-let regarding inflation. That is we have inflation because we expect Inflation and we expect inflation because we have had inflation.

Traditionally Inflation in India has primarily been caused by supply shocks and drought but now, demand driven factors also found. Of course, Government of India and Reserve Bank of India is taking initiatives to abate control and prevent hyper inflation in the economy. But still we find inflation. The WPI & CPI have always been volatile without ensuring the objectives of monetary policy. Since independence, we adopted various strategies for price management. But still, the problem of Inflation continuous to afflict the economy. Where does the problem lie? Is it due to wrong polity? or is it due to poor governance? or is it due to mismatch between the planning process and expectations? Why not better measures be contemplated and introduced to ensure price stability in the economy. We start the process with the best of intention without setting an intervention. This paper makes an attempt to analyse the rate of inflation empirically among the BRIC countries, in general and India, in particular. A comparative analysis of WPI on Food and Non Food commodities, Production and yield per hectare is also discussed.

Inflation: Etymology

Inflation is directly proportional to price and inversely proportional to purchasing power of money or value of money. Inflation emerges when the general prices of commodities and services are rising on one hand and on the other hand purchasing power of money or value of money falls. In the words of Milton Friedman, the legend economist for Chicago School is that "Inflation is a form of taxation without legislation when there is a situation seen by the people that too much of money chasing too few goods that situation can be described as inflation. Inflation is like a tax levied on the common man without their acceptances. According to J.M.Keynes, inflation is the excess of aggregate demand over the available aggregate supply and true inflation starts only after full employment.

Measurement of Inflation

The IMF statistics highlighted those 24 countries in the world uses Wholesale Price Index (WPI) as the official measure to assess rate of inflation compared to 157 countries which uses Consumer Price Index (CPI).

(i) Whole sale Price Index (WPI)

The WPI numbers reflect the changes in the general price level of a Country. For the WPI, basket of commodity is 676 is taken for measurement. Under this basket, there are three constituent commodity group found. They are;

- a) Primary Articles (102)
- b) Fuel, Power, Light and lubricants(19)
- C) Manufactured Products (555) With respective weights 08 20.118 percent, 14.910 and 64.972 percent respectively, WPI measures the changes in average prices of goods and services with companies the base year (2004-05) WPI (base year =100). If the current year WPI is greater than the base year index, it is called inflation.

(ii) Consumer Price Index (CPI)

It is also known as cost of living index number, are generally intended to represent the average change overtime in the prices paid by the ultimate consumer of a specified basket of goods and services. The CPI helps in determining the effect of rise and fall in prices of different class of consumers in different areas. The construction of such an index is of great importance because very often the demand for higher wages is based on the cost of living index and wages and salaries in most countries are adjusted in tandem with CPI.

India launched CPI in January 2011. The CPI measures the prices of goods and services purchased by households. The data of CPI is collected from 310 cities and towns and 1,180 rural centers by NSSO and from selected villages by the Department of Posts. CPI measures retail prices in five major groups viz, food, clothing, housing, fuel and power. Food comprises the highest weighting of 45.50 percent in the CPI.

Role of RBI

The apex bank of the country (RBI) plays important role in the financial markets through its Monetary Policy. To control inflation, normally, the RBI executes two measures - monetary measures and liquidity measures. Monetary measures are CRR, Bank Rate, Repo Rate, and change in Risk weight for calculating Capital Adequacy Ratio (CAR). Liquidity measures are SLR and Open Market Operations.

Comparative analysis of Inflation and GDP Growth among BRIC Countries

Table 1.1
Inflation and GDP Growth among BRIC Countries

(in percent)

Year	Brazil		Russia		India		China	
	GDP	Inflation	GDP	Inflation	GDP	Inflation	GDP	Inflation
1980-84	1.5	123.9	-	-	5.0	10.5	9.7	2.9
1985-89	4.5	523.3	-	-	5.8	7.7	9.9	12.0
1990-94	1.4	1690.2	-4.3	236.5	4.7	10.2	10.9	10.3
1995-99	2.0	19.4	-1.1	74.7	6.8	8.9	9.1	5.2
2000-04	3.0	8.7	6.9	16.5	5.6	3.9	9.2	1.1
2005-09	3.6	5.1	4.1	11.4	8.2	7.2	11.4	2.7
Average total	2.67	395.1	1.4	84.78	6.02	8.07	10.03	5.70

Source: *The Times of India, New Delhi, March 7, 2011.*

It is derived from Table 1.1 that Brazil went through hyper inflation with price rises by an astounding average of 1690.2 percent during 1990-94, where as the GDP growth was plugged to only 1.4 percent. In Russia, the rate of inflation was highest in 1990-94 which accounted for 236.5 percent where as the growth rate of Russia was negative (-4.3 percent). It was a regime of Stagflation found in the country. In the case of India, it is found that the annual GDP growth was just 4.7 percent in 1990-94 where as the inflation rate was soaring at an average of 10.2 percent. With regard to China the annual GDP growth rate during 2005-09 was 11.4 percent where as the inflation rate was only walking (2.7 percent). In sum there is no similar growth in respect of BRIC Countries with regard is inflation and GDP is found from the study.

Macro Economic Environment of India

The macro economic indicator GDP growth and WPI Inflation is contemplated on Table 1.2

Table 1.2
Inflation and Macro Economic Environment of India

Sl.No	Year	GDP Growth (in %)	Percent of Variation	WPI Inflation (in %)	Percent of Variation
1	1951-52 and 1959-60	3.6	-	1.2	-
2	1960-61 and 1969-70	4.0	+0.4	6.4	+5.2
3	1970-71 and 1979- 80	2.9	-1.1	9.0	+2.6
4	1980-81and 1990-91	5.6	+2.7	8.2	-0.8
5	1991-92	1.4	-4.2	13.7	+5.5
6	1992-93 and 1999- 00	6.3	+4.9	7.2	-6.5
7	2000-01 and 2009-10	6.9	+0.6	5.1	+2.1

Source: *Compiled from Secondary Sources*

It could be derived from Table 1.2 that the macroeconomic environment of India found very good only after 1992-93 due to the introduction and implementation of the new economic reforms. The process as Liberalisation, privatization and Globalisation has triggered GDP growth in India. The GDP growth during 1992-93 and 1999-2000 was 6.3 percent and progressed to 6.9 percent in 2000-01 and 2009-10. It is evidenced that the GDP growth of India since 1951 and until 1991 found lower compare to new economic regime. It is noted that the wholesale price inflation was lowest in 1951-52 and 1959-60 where as it has been increasing tremendously since 1960-61, between `1951-52 and 2009-10 the WPI inflation found highest during 1991-92 i.e., prior to the introduction of New Economic Policy in India.

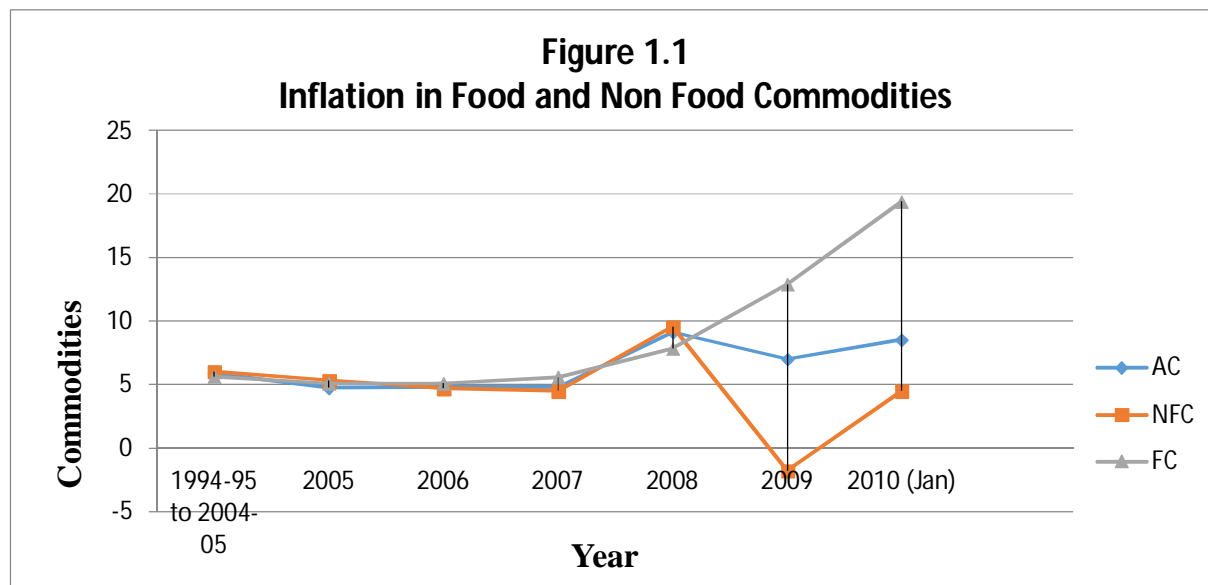
Inflation in Food and Non Food Commodities

Table 1.3
Inflation in Food and Non Food Commodities

Year	AC	NFC	FC
1994-95 to 2004-05	5.90	6.02	5.64
2005	-	-	-
2006	4.74	5.37	5.09
2007	4.82	4.72	5.09
2008	4.82	4.52	5.60
2009	9.12	9.55	7.87
2010	7.01	-1.76	12.90
(Jan)	8.54	4.53	19.42

FC - Food Commodities, NFC- Non Food Commodities, AC- All Commodities

The inflation rate in respect of food and non-food commodities in India ranges from 4.74 percent to 9.12 percent in 1994-95 to 2009-10. It is evidenced that the inflation rate was lowest in 2005 and highest in 2009 for All Commodities with regard to food items. It is derived that the inflation rate was highest in January 2010 and lowest 2005 and 2006. In the case of non-food items, it is found that the inflation rate was highest in 1994-95 (6.02 percent) and negative (- 1.76 percent) in 2009. Therefore it is construed that there is no price stability was found in Indian economy is evidenced from the analysis.



Food grains Production and Whole Sale Price Index

The relationship between food grains production and WPI in India is analysed and the percent of variation is found and given in Table 1.4

Table 1.4
WPI and Food grains Production in India

year	Wholesale Price Index: annual variation	Food Grains Production Million tonns	WPI variation	Food Grains Productio : variation Million tonns
	(Base :1981-82=100)			
1982-83	4.9	129.52	-	-
1985-86	4.4	150.44	+0.5	+20.92
1988-89	7.5	169.92	+3.1	+19.48
1991-92	13.7	168.38	+6.2	-1.54
1993-94	8.4	184.26	-5.3	+15.88
	(Base :1993-94=100)			
1996-97	4.6	199.43	-3.8	+15.17
1999-00	3.3	209.80	-1.3	+10.37
2002-03	3.4	174.78	+0.1	-35.02
2003-04	5.5	213.19	+2.1	+38.41
2004-05	6.5	198.36	+1.0	-14.83
	(Base :2004-05=100)			
2005-06		208.59	-2.1	10.23
2006-07	4.4	217.28	2.2	8.69
2008-09	6.6	230.78	+1.5	21.35
2010-11	8.1	244.11	+1.5	13.33
2011-12	9.6	257.44	-0.7	13,33
	8.9			

Source : MOA, GOI

Among the 3 decades (1982-2012) the wholesale price index was highest (13.7 percent) in 1991-92 and lowest in 1999-2000 (3.3 percent). The food grains production was very high in 2011-12 (257.44 million tonnes) and very low in 1982-83 (129.52 mT) is derived from the study. It is generally observed that there is a growth tendency of food grains production over the years in India is seen after 1991-92. The food grain production found lowest in 2002-03 and 2004-05 which accounted for 174.78 and 198,36 million tonnes respectively. The WPI variation over the years was found the highest in 1991-92 and food grains production was lowest is derived from the analysis. Hence there is a complete volatility existing between WPI and Food grains production in India is evidenced from the analysis.

Table 1.5
WPI, Area under food grains Cultivation and Yield per hectare in India

Year	WPI Annual variation	Food Grains		Total is used
		Area under cultivation Million hectare	Yield Per hectare (kg/ hectare)	
	(Base :1981-82=100)			
1982-83	4.9	125.09	1,035	1,29,468.15
1985-86	4.4	128.03	1,175	1,50,435.25
1988-89	7.5	127.67	1,331	1,69,928.77
1991-92	13.7	121.87	1,352	1,68,424.34
1993-94	8.4	122.76	1,501	1,84,262.76
	(Base :1993-94=100)			
1996-97	4.6	123.58	1,614	1,99,458.12
1999-00	3.3	123.11	1704	2,09,779.44
2002-03	3.4	113.87	1,535	1,78,790.45
2003-04	5.5	123.45	1,727	2,13,198.15
2004-05	6.5	120.08	1,652	1,98,372.16
	(Base :2004-05=100)			
2005-06	4.4	121.57	1,715	2,08,492.55
2006-07	6.6	123.70	1,756	2,17,217.20
2008-09	8.1	122.83	1,909,	2,34,482.47
2010-11	9.6	125.73	1,921	2,41,527.33
2011-12	8.9	126.74	1,993	2,52,592.82

Source: RBI

***Food grains:** comprised rice, wheat, coarse, cereals and pulses.

* **Major commercial crops:** includes groundnut, repressed and mustard, soya bean, and sugarcane (oilseeds)

It is construed from table that the food grains cultivation, yield per hectare and total yield were compared and the results revealed as follows. The area under cultivation of food grains was lowest during 2002-03 which constitute 113.87 million hectare. There is a tendency of using large hectares of land was used for food grain production over the range of inflationary pressure in India. It is quite interesting to note that yield per hectare was progressive since 1982 and till today due to the introduction of Hyup. The inflationary pressure does not have any influence on yield per hectare of food grains. It is noted that the inflation rate was lowest in 1999-00 and as

