

INFLATIONARY PRESSURE ON INDIAN ECONOMY

Nagashree, S.N

Department of Economics, Government Pre-University College, Bangalore, Karnataka, India.
Corresponding author: nagashriraj696@gmail.com

©Ontario International Development Agency ISSN: 1923-6654 (print)
ISSN 1923-6662 (online). Available at <http://www.ssrn.com/link/OIDA-Intl-Journal-Sustainable-Dev.html>

Abstract: Inflation as defined by classical economist is “Inflation shows rise in the price level and fall in the value of the money”. There are many reasons for inflationary pressures on an economy. Here in this paper I would like to present about food inflation and its impact on Indian economy. The reasons behind food inflation is mainly due to the mismatch of demand and supply, population, increase in per capita income, increase in consumption, demonstration effect have all contributed to food inflation.

Occupational distribution of population has undergone a change. Attitude and life style have also contributed for excess demand for food over its supply. The future trend may be that there may arise food scarcity and thus leading to import of basic items of food. Already India is facing low value of rupee as against the dollar; added to this could be import of food grains.

It is an alarm to economy to wake up and pull up to stabilize the agricultural growth rate, as well as maintain self sufficiency and if possible encourage exports.

Keywords: Inflation, Food Inflation, Foreign Exchange, Demand and Supply, Agricultural Growth Rate.

INTRODUCTION

Most of us know what is meant by inflation. For a layman it is a state where he has more cash but can buy less goods and services. As defined by the economist, “Inflation is a situation where there is a rise in price level and fall in the value of money.” So, in general, both definitions mean the same. For the common man the word ‘Inflation’, may be insignificant because he is more worried about his income, expenditure and price of goods and services but, for an economist, inflation is a matter of concern. An economist tries to find the cause of inflation, which goods and services have contributed to it and whether inflation is at single or double digit level. Here, I would like to bring out the reasons for food inflation and its possible remedies.

The major reason for food inflation is the mismatch of demand and supply of agricultural products. This would include food grains, pulses, edible oil, fruits and vegetables.

(a) The post liberalization era has seen a sudden spurt in the per capita income of the people with a consequent increase in the demand for quality food as people have become more conscious of nutritional value and their intake of calories. (b) Again in the post liberalization era there has been increase in population of about 40 crores since 1991. This has also led to the increase in the demand. (c) The demonstration effect has influence the middle class to imitate the upper class regarding the choice and consumption of food items. Thereby increasing the per capita consumption. (d) The occupational distribution of the population has undergone a drastic change after 1991 due to diversification, though even today, agriculture remains the backbone of Indian economy. They no longer want to toil under the sun but prefer ‘white collar’ jobs which fetch them steady income because of this we can see growth of industries and tertiary sectors to certain extent. (e) Urbanization or rural push/ urban pull factor has change the life of the people. Mechanization has set in; labour intensive techniques have been replaced by capital intensive techniques. As a consequence labourers become jobless and move out in search of jobs. (f) The change in the attitude of the people has also contributed to the increase in demand for food grains. Since post liberalization, imported food items which were not easily available in India are to be found in every nook and corner. People do not realize the fact, that though it is their income which they are expending they are burdening the country’s foreign exchange reserves. (g) Popular programmes of the government like ‘Anna bhagya’, which is being extended to help the poor to obtain their per capita food per day is burdening the budgetary policy and misuse of the tax revenues of the country. The popular Food Security Bill recently introduced in the Lok Sabha envisages the need for 600MT of food grains where as the total production was 250MT in

2011-2012. (h) Agricultural growth rate has been steady between 3 and 4%. For a country like India where population is increasing there must be a lot of incentives for growing food grains. Though subsidy is given it has failed to reach the targeted group. (i) According to the Malthusian theory only food in plant form is encouraged, why should not animal food be propagated to feed the millions. (j) Popular schemes to increase agricultural growth rate do not find a place in the final budgetary allocations. (k) The government does not have control over the fixation of the minimum price of the commodity which would be advantageous both to the farmer and consumer. (l) Lack of control by government on price fixation has led to hoarding and black marketing of essential commodities so that it can be sold later at sky high prices. (m) There are certain factors that are beyond the control of the government like population, per capita consumption, income and demonstration effect.

India being a secular country it is difficult to enforce restriction of family size. This has to be a total voluntary decision. But, what the government can do is to propagate the benefits of small family. Increase in per capita income is welcomed by an individual as well as a country. Though a part of the income is paid to the government as tax the individual will still be left with a large proportion of his income to spend. The large proportion of income leads to demonstration effects or dead investments. The excess income may not be channelised for investments that give returns.

Suggested Remedies to Control Food Inflation

(a) Increase agricultural growth rate (b) Intensive cultivation to be encouraged (c) Grow crop according to season and availability of water (d) Use drip irrigation for better utilization of water resources. (e) Encourage research to find more disease resistant strains and improve shelf life. (f) Better preservation

by providing warehousing and cold storage facilities. (g) Direct subsidy to farmers (h) Development of seed banks (i) Promotion of use of organic fertilizers (j) Preservation and propagation of native varieties of food grains (for better nutritional value) (k) Direct marketing to producer to consumer. To enable this, establishment of co-operatives at village level, farmers being the members enabling them to take decisions in their favour rather than following the diktats of an outsider. This will give them an opportunity to collectively solve their problems and help them in better utilization of resources. This would also eliminate the middlemen who prey on the farmers (l) Tie-up with industries for direct supply thus assuring better price for their produce (m) There should be the availability of good rail-road connectivity for the farmer to move his produce to towns and cities as well as cater to the export market. Taxes on vehicles transporting such commodities should be reduced thereby bringing down overhead cost. (n) Minimum Support Price (MSP) to be fixed by the government when the price of the commodity is falling on the supply side due to a glut in the production. Also protect the consumer by fixing a lower price when price increase is due to scarcity, either natural or artificial. Artificial scarcities are created because of middlemen who resort to hoarding when there is a good harvest. (o) Before the government announces its popular programme of giving food grains at very low cost to the poor they need to have sufficient buffer stock by building proper warehouses to store the excess. Otherwise due to variation in production the scheme may die out.

CONCLUSION

A country which has sound agricultural background can survive tough times like natural calamity or war or sanction imposed by other countries. Hence agricultural self sufficiency will boost the morale of the people, conserve foreign exchange and above all build a healthy and wealthy nation.