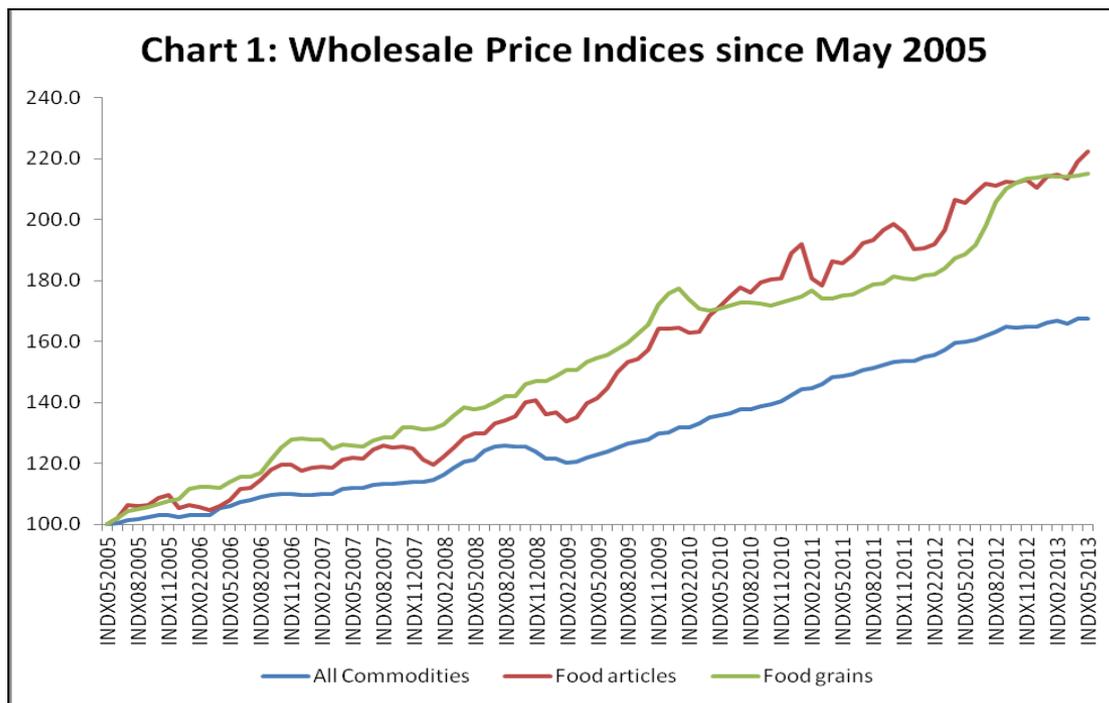


The Changing Pattern of Food Inflation in India

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Food inflation has been a continuing theme in India for the past decade, and its persistence almost without any remission over the entire period of the two UPA governments suggests that it has proved to be relatively intractable at least for Indian policy makers to address. Chart 1, which shows the monthly movements of the Wholesale Price Index (WPI) for all commodities as well as for food, indicates that – particularly for UPA-2 – food inflation has significantly outstripped the increases in the general price level.



It is also evident that the gap has actually grown in the recent past, in particular in the past four years of UPA -2. The other feature of significance that is apparent from Chart 1 is the divergent behaviour of the aggregate food price index compared to the price index for only food grains. Before the middle of 2010, food grain prices were moving upwards faster than other food items. Thereafter, while grain prices have been rising, the composite food price index has gone up even more, suggesting that non-grain food items have become the significant drivers of food price rise.

It has been commonplace for Indian policy makers to blame global trends for the domestic food price increases. This is problematic for several reasons. First, despite the more open trade in agricultural products forced upon India by the WTO regime, it is still possible to insulate domestic consumers from the full impact of global price increases and market volatility. A number of other countries (including China but also other smaller economies) have done so more effectively than India. Second, it is bizarre to talk of global prices for essential commodities like food and fuel in India when per capita income is still so much lower than the global average and when the majority of Indian residents operate at levels of monetary income that would be considered extreme destitution in most other countries. To that extent, the increasingly close correspondence between Indian and global food prices is not just a

reflection of globalisation: it is a sign of domestic policy failure, even in the increasingly integrated economy.

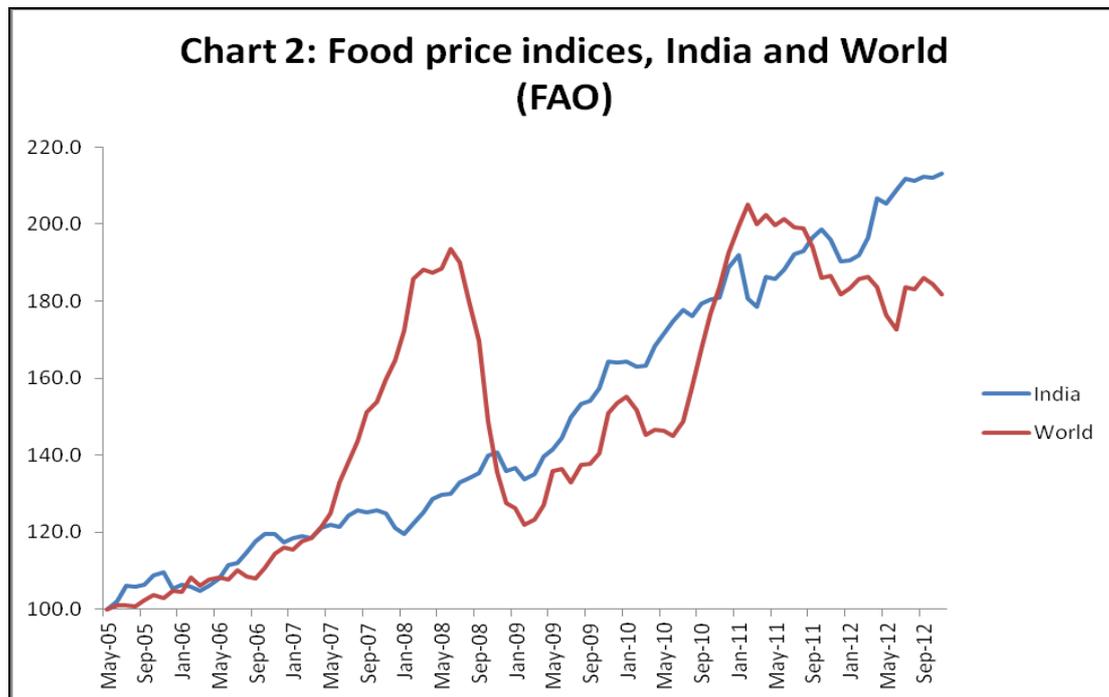
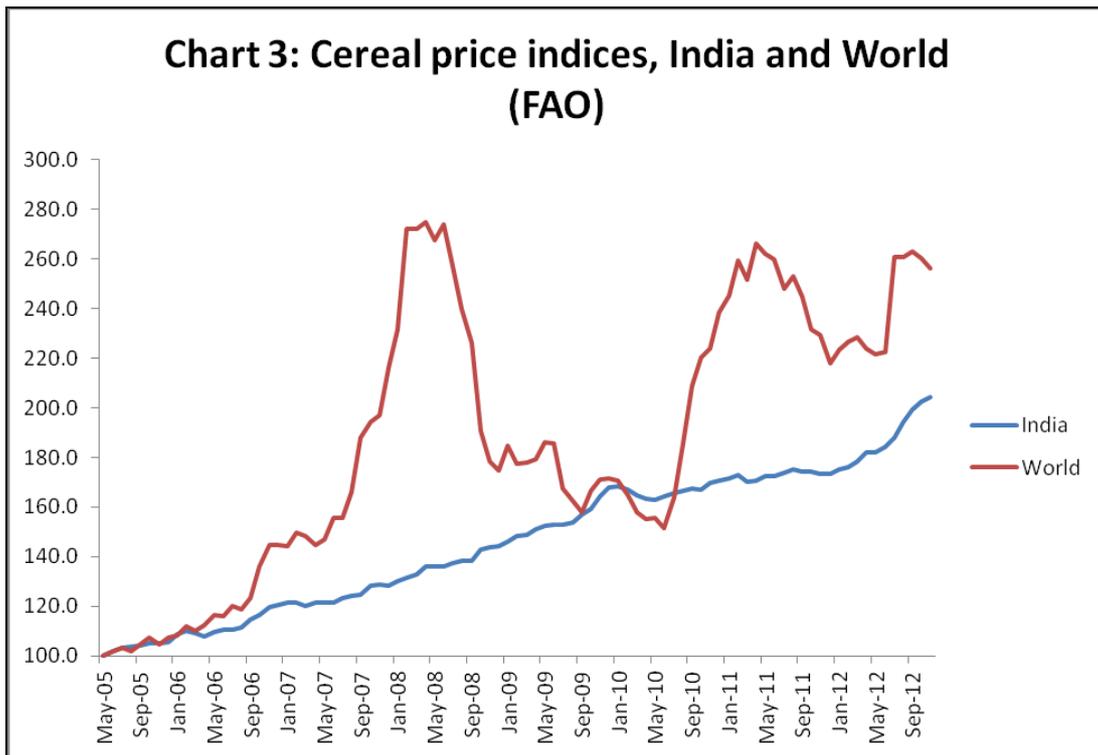
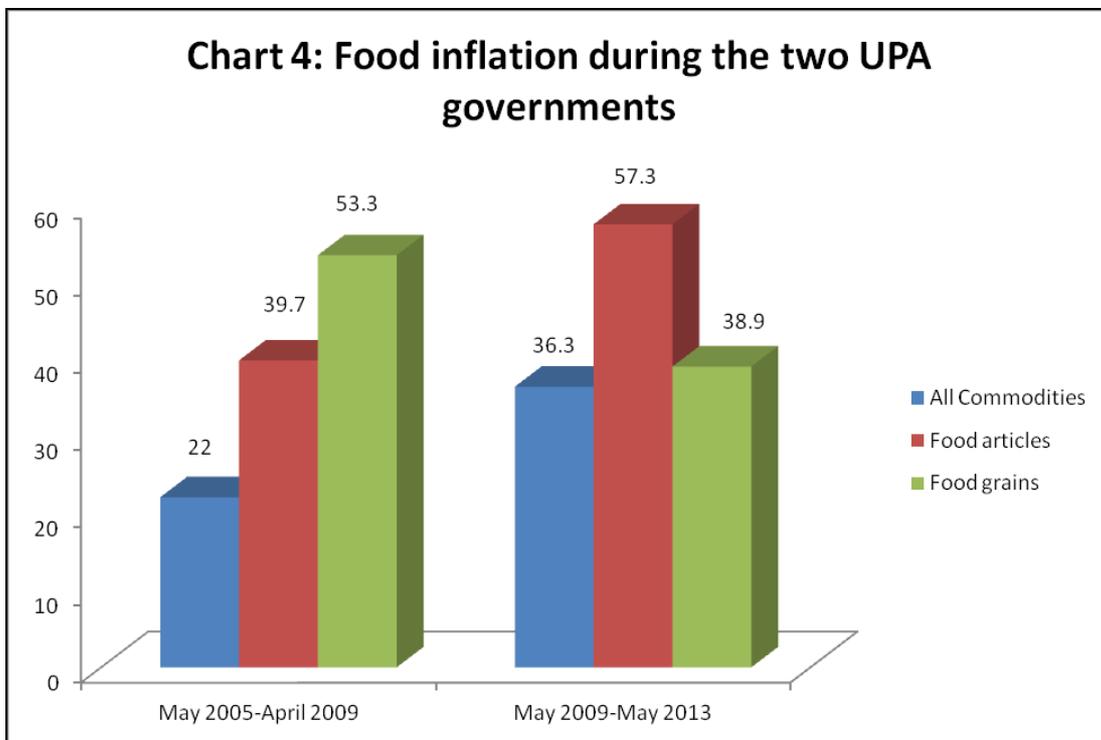


Chart 2 shows that the recent trajectory of Indian food prices has been unremittingly upwards, even beyond the movement of global prices. The index (with May 2005=100) shows that while Indian food prices avoided the extreme spike exhibited by global prices in 2007-08, they did increase quite significantly even then. What is more, they did not fall as global prices fell – rather their levels exceeded the global index by a substantial margin until the next global price spike of early 2011. Thereafter, while global prices fell from their peak, the Indian food price index has continued to rise.

However, this has not been mostly because of cereal prices, which was much more the case earlier. Indeed, Chart 3 suggests that the Indian economy has avoided the worst effects of the global price spikes in cereals, largely because of the domination of domestic production in consumption and the role played by the public procurement and distribution system for major food grains like rice and wheat. At a time when this system is being sought to be undermined (including through proposals to substitute it with a system of cash transfers) it is important to recognise this crucial role. There are clearly major weaknesses in the system, as will be noted below, but without this in place it is likely that Indian consumers would have suffered even more by being exposed to the massive volatility in global prices.



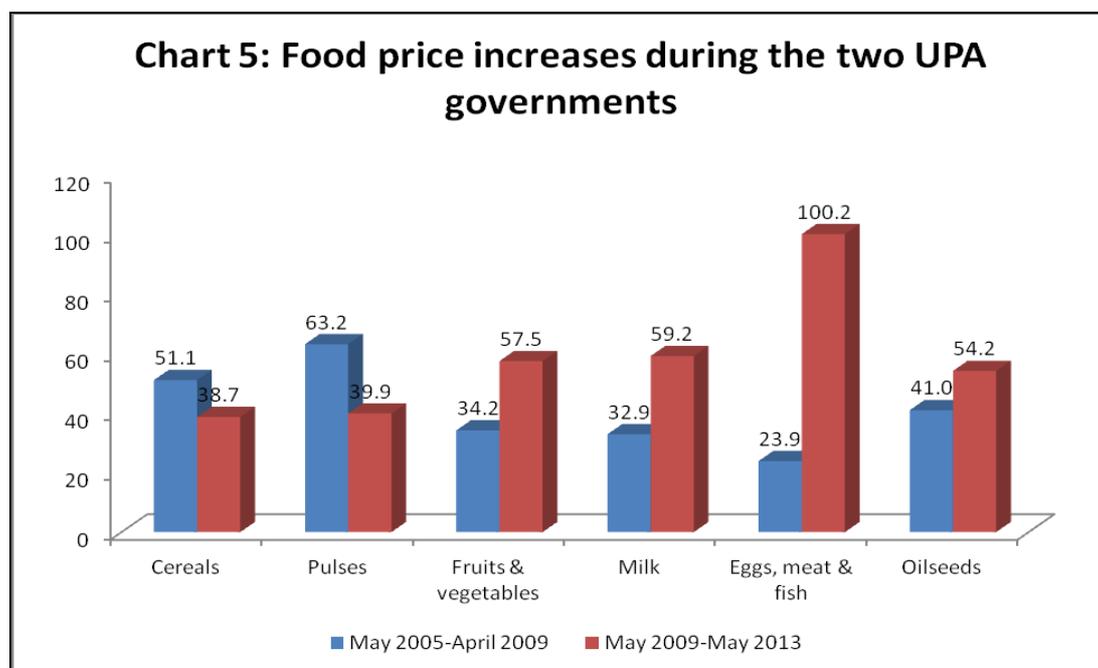
The relative significance of food grain and non-food grain elements of the food price index in driving food inflation and general inflation becomes more evident from Chart 4, which describes movements in the price indices during UPA-1 (May 2004 to April 2009) and UPA-2 (May 2009 to May 2013).



During UPA-1, the increase in food grain prices (by around 53 per cent) was more than double the increase in the general price level, and also much higher than the general food index. But during UPA-2 thus far, food grain prices have moved along

with the general price index, while the composite food index has moved much faster, rising by nearly 60 per cent in just four years.

The major elements of this are fruits and vegetables, sugar, milk, eggs meat and fish and edible oils, as indicated in Chart 5. In the four years of UPA-2, prices of fruits and vegetables and milk have gone up by close to 60 per cent, while prices of eggs, meat and fish have more than doubled. This indicates that the nature of food price inflation has changed to some extent.



While food grain prices continue to increase, that increase has tapered to some extent such that it is now the same as the general inflation (which does not mean that it is less of a problem for the poor, as will be evident below). However, the other elements of a balanced diet have soared in price, becoming unaffordable for many poor consumers. Obviously, the factors behind this rapid price increase in non-grain food items need to be studied in more detail. The growing demand-supply imbalance in such items as well as the continuing problems of India's livestock economy as well as rising prices of fodder that must be purchased in the market may be among the factors.

Meanwhile, however, the increase in food grain prices is also not something that can be ignored by policy makers, especially in a country with such terrible overall nutrition indicators. In the past four years of the UPA-2 Government, prices of both cereals and pulses have increased by nearly 40 per cent – still very high rates for a dominantly poor country. (It is worth noting that lower increases of food inflation have been associated with increased public diasaffection and widespread protests in countries at much higher levels of per capita incomes like Brazil.) Further, in the first few months of 2013, cereal prices have started rising faster than other food prices once again, suggesting that this may become an important concern very quickly.

While the central government has been anxious to score political points by belatedly trying to pass a flawed Food Security Bill that has been pending for years, it has done very little to revive the Public Distribution System and ensure that it is more effective

in its functioning. This is in stark contrast to some state governments that have already shown that it is possible to have an effective system of public procurement and distribution of food grain and even other food items (such as Tamil Nadu and Kerala) and others that have recently expanded and reformed their systems (such as Chhattisgarh and Orissa).

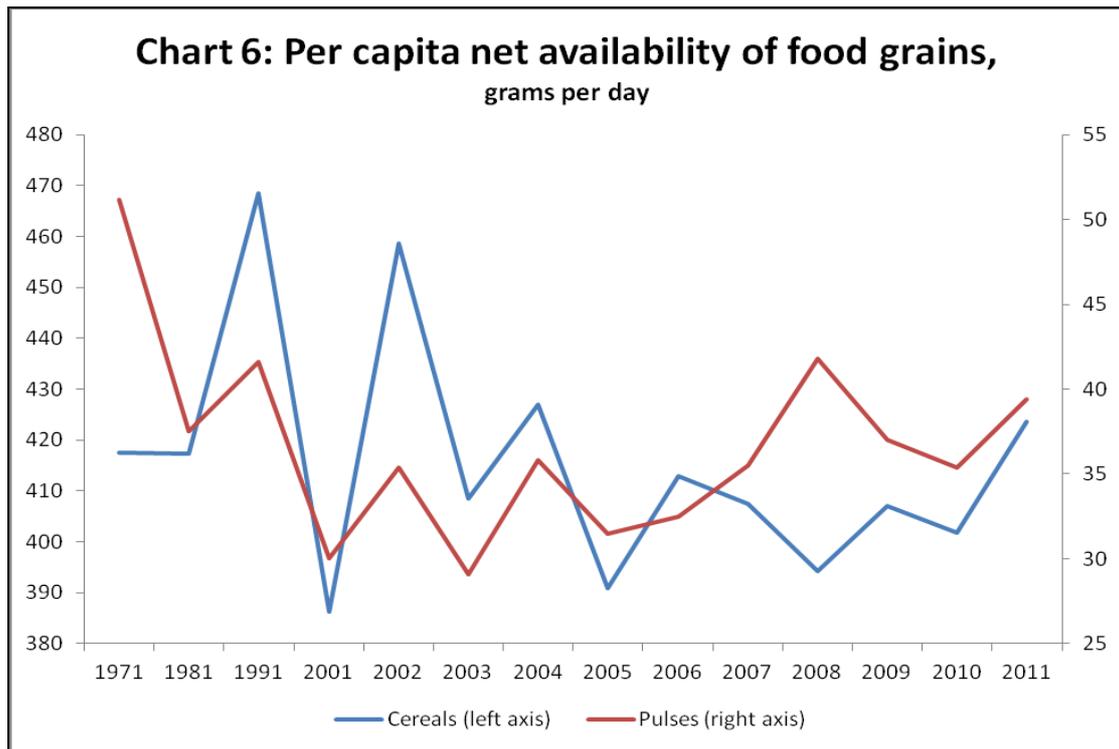
**Table 1: Production, Net Imports and Availability of Food grains
(million tonnes)**

	Cereals				Pulses		
	Production	Net Exports	Change in govt stocks	Net availability	Production	Net Imports	Net availability
2004-05	173.5	7.7	(-)3.3	169.1	13.1	1.1	14.2
2005-06	162.1	7.2	(-)2.4	157.3	11.5	1.2	12.7
2006-07	170.8	3.8	(-)1.8	168.8	11.3	2.0	13.3
2007-08	177.7	7.0	(+)1.7	169	12.0	2.7	14.7
2008-09	197.2	14.4	(+)17.0	165.9	15.3	2.3	17.6
2009-10	192.4	7.2	(+)11.5	173.7	12.4	3.4	15.8
2010-11	178	4.7	(-)0.5	173.8	12.8	2.5	15.3
2011-12	198.2	4.2	(+)8.3	185.8	14.2	3.1	17.3

Instead, the central government's handling of exports and imports as well as of food stocks in the central pool has been such that it may well have contributed to the domestic price rise in food grains. This is certainly suggested from Table 1 which shows that net exports of food grain were large and even growing during periods of particularly rapid food grain price increase. Further, the increase in central stockholding in a period of rising prices, and with inadequate storage facilities that allow the grains to rot and become unfit for human consumption, has prevented their being transferred even to those state governments that are clearly interested in making this system more effective.

In the case of pulses, production has remained low relative to India's requirements, making India the largest importer of pulses in the world, whose imports clearly drive up global prices, and still leave net domestic availability low relative to the real needs of the population. This is doubly important as pulses remain the most important source of protein for most households in the country.

These processes may be why per capita net availability of both cereals and pulses remains low relative to that achieved several decades ago (Chart 6). Indeed, recent trends have not been sufficient to bring this back to levels that were experienced in the early 1990s in the case of cereals.



The UPA government’s management of the food economy may yet prove to be its political Achilles’ heel. But a more serious consideration of the strategies to ensure food and nutrition security to the entire population is not just about politics: it is an essential plank of any viable development strategy.

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