Food price rise in india

Last couple of months have seen sharp increases in food prices in India. The inflation in prices of basic food materials has raised alarms for the government as well as for common people. According to figures released by commerce industry on 18th Feb 2010, the annual inflation in food prices rose to 17. 97% for the week ended on February 6, as compared to 17. 94% in previous week. In spite of promises from the Agriculture Minister Mr. Sharad Pawar and Finance Minister Mr. Pranab Mukharjee, government has failed to bring down the prices.

Rise in sugar price in last couple of months is one such example. There has been a sharp fall in sugar production in India. Ironically, this has happened in a nation which is the largest consumer of sugar in world. The government is hoping for a record production of wheat this year and slight reduction in sugar prices in coming months. But, a lot depends on various factors responsible for this volatility in food prices. Millions of people have to cut their food consumption so that they can coax it with their monthly budget.

All of this is the result of the backdrop of various policy decisions made by the government and rise in the role played by the agro – business and financial companies in Indian Food Market. The price rise of some essential items over 52 weeks as reported in Times of India is: Potato: 40. 57 %, Pulses: 41. 24 %, Cereals: 12. 15 %, Rice: 9. 90 %, Milk: 14. 16 %, Wheat: 15. 47 %, Vegetables: 20. 97 %, Fruits: 8. 67 % [1]. The whole sale price index of food prices is increasing at the highest rate since last 11 years.

This turnaround can be attributed to imbalance between demand and supply. On one hand, we have increasing population, income growth and increased consumption while on the supply side we find lower production due to natural disasters, declining trend in arable land, unavailability of good irrigation water and rising production and transport costs due to its association with oil prices. The saddest point is that it is coinciding with highest GDP growths each quarter.

The common argument given for price rise is that Indian Population has risen at a much faster than Food Production. This inability of Food Production to keep pace with population rise has resulted in Demand – Supply mismatch, causing a rise in prices. However, this phenomenon cannot be explained by such simplistic reasoning. In this article, we are making an effort to analyze various factors responsible for this phenomenon. We will identify various forces involved in this crisis and actors influenced by this.

Farmers are the most directly associated people with food. They are in the beginning of this food supply chain. Government plays the role of a facilitator and provides a partial interface between producer and consumers through its schemes such as PDS, MSP etc. It acts as a policy maker with its decisions having a far reaching impact on Food Production & Food Price within the country. With the changing policy framework, a new dimension has been added to the Indian food market in the form of corporations & large retailers.

They are playing an increasing role in the production & procurement of food and are now a major force to reckon with. With the introduction of Commodity trading and derivatives, the food prices are now closely linked to the Financial Institutions and Traders. Rising input prices: Cost of production in agriculture is an important factor in rising food prices. With increasing inflation, input items are getting costlier day by day. Consider Fertilizer which is an international commodity. The subsidized retail price for chemical fertilizers has remained unchanged since February 2002.

But, the use of fertilizer has increased several percentage points since then and it is visible in the amount of fertilizer that government has to import from outside to cater to this demand: Source: The Hindu, Business Line [2] To ensure balanced use of all fertilizers, government is now proposing nutrient based subsidy instead of current product based subsidy. If the purpose of this step is to promote balanced use of fertilizer then there is no point of objection. But, if it is a step towards deregulation of fertilizer prices then it is going to be a big blow on Indian agriculture.

Similar is the case of water irrigation in agriculture. The use of ground water for irrigation has increased several times in last couple of years which has resulted in depleting sources of ground water. This over exploitation is in coordination with poor and irregular rainfall in various parts of country. There has been not much effort to harvest this rainwater. There is a desperate need of improving the efficiency of our water and irrigation resources. Another factor that has contributed to the price rise is fluctuations in oil prices, which affects agricultural costs directly and indirectly in several ways.

This is because of the growing significance of energy as an input in the cultivation process itself as well as in transporting food. Greater mechanization of agriculture in the form of tractors, harvesters and threshers requires more oil to run these machines. The spread of irrigation, especially groundwater exploitation, requires energy in the form of diesel or electricity to run pump sets. The impact of the rise in energy costs is more now than before because in India, government has not given the kind of protection that farmers of developed countries like US have.

Instead it has reduced protection and subsidies on agriculture. This means that high costs of energy directly translate into higher costs of cultivation, and, therefore, higher prices of output. All this directly impacts the price of food grains. Agriculture is not an independent sector. The terms of trade between agriculture and non – agriculture sectors are important in determining the cost of production. Now that these terms are getting costlier, it is obvious that the price of end product, food, has to rise.