

INFLATION IMPACT ON INDIAN AGRICULTURE SECTOR



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ABSTRACT

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy

KEYWORDS :*Indian Agriculture Sector , Economic Survey Report , Agriculture Sector.*



INTRODUCTION :

The Indian method for calculating inflation, the Wholesale Price Index, is different from the rest of world. Each week, the wholesale price of a set of 435 goods is calculated by the Indian government. Since these are wholesale prices, the actual prices paid by consumers are far higher.

In times of rising inflation, this also means that the cost of living increases are much higher for the populace. Due to increasing prices, people have to spend more to maintain the standard of living. So, inflation is eating up the savings of an average man.

With most of India's vast population living close to or below the poverty line, inflation acts as a 'Poor Man's Tax'. This effect is amplified when food prices rise, since food represents more than half of the expenditure of this group.

RECENT HISTORY AND PRESENT STATUS:

India's 2009-10 Economic Survey Report suggested a high double-digit increase in food inflation, with signs of inflation spreading to various other sectors as well. The Deputy Governor of the Reserve Bank of India, however, expressed his optimism in March 2010 about an imminent easing of Indian wholesale price index-based inflation, on the back of falling oil and food prices. On March 19, 2010, the Reserve Bank of India raised its benchmark reverse repurchase rate to 3.5% percent, after this rate touched record lows of 3.25%. The repurchase rate was raised to 5% from 4.75% as well, in an attempt to curb Indian inflation.

For 2009, Indian inflation stood at 11.49%. This rate reflects the general increase in prices, taking into account the purchasing power of the common man. According to the Economic Survey Report for 2009-10, economic growth decelerated to 6.7% in 2008-09, from 9% in 2007-08. The economy is expected to grow by 8.7% in 2010-11, with a return to a growth rate of 9% in 2011-12.

In its Annual Monetary Policy Statement, RBI had said "the firming up of global commodity prices

poses upside risks to inflation". The central bank's industrial outlook survey shows companies are increasingly regaining their pricing power in many sectors, and as the recovery gains momentum, the demand pressures are expected to accentuate.

FOOD INFLATION AND THE AGRICULTURE SECTOR:

Food industry is most badly hit by inflation. India's Economic Survey Report, 2009-2010, reveals a double digit increase in food inflation, currently standing at a staggering 16.12%. Inflation has spread to other sectors as well. It is not one cause, but a sum of many events that has led to this:-

In 2008, the Finance Minister waived loans up to sixty thousand crores. A benevolent gesture, but as a result of having more money in hand, demand for commodities went up which resulted in high prices (law of demand).

We have not been witnessing very good monsoons in the last few years. If the crop yield isn't good, then the demand clearly exceeds supply resulting in higher prices.

The global economy, as a whole, is in a state of imbalance. With major nations in the world experiencing an economic setback, the import expenses are rising too.

The ever rising costs of petroleum and crude oil have a direct impact on transportation charges. As many people live below or close to poverty line in India, the poor pay a heavy price. With the increasing wholesale and retail margins, the farmers do not benefit from the rise in prices that consumers in rural and urban areas are forced to pay.

For quite a while now, India has witnessed a debate on the sustainability of our much applauded growth rate in times when inflation seems unstoppable. However, the reality is that inflation has been deeply affecting our agriculture sector, and the nature of this problem is worth investigating.

Firstly, we must put forward a basic and important question- why is it that the agriculture sector is more susceptible to the pressures of inflation and not other areas such as industry? To this question, we see an obvious answer emerge – there is excessive demand for food. Some people are even holding the government's NREGA programme responsible for the rise in the food prices. But it is obviously not the case since it implies that inflation is caused by the poor man's food expenditure.

Also, in the statement that there is excessive demand for food, the supply side of the situation is being ignored altogether. In this connection, some attention must be paid to Sergio Rebelo's (1991) insights into the area of growth economics. Rebelo and many other experts point out that the most important barrier to steady growth comes from the law of diminishing returns. This law states that in any production process, extra doses of a variety of resources combined with a fixed quantum of a given resource leads to a rise in output at ever decreasing rates. Or it can be said that the rate of growth of output must fall in the presence of a fixed resource even if all other resources were to increase at constant rates.

The relevance of this law can be seen quite plainly when it comes to the agricultural sector. Here, land is the fixed non augmentable resource, while seeds, water, fertilizers etc are the variable resources. According to the law of diminishing returns, equal extra doses of the variable resources will yield less than equal extra quantities of an agricultural produce, say rice. In other words, to keep the output of rice at a constant rate, the variable resources must be increased not in equal doses, but in ever increasing amounts. To put this in more technical terms, a given rate of growth of agricultural output calls for a larger rate of input consumption in that sector. This is true as long as the size of land remains constant and the technology used in its productivity remains unchanged. However, it cannot be ignored that if productivity rises due to technological improvements, the constraints imposed by the law of diminishing returns could get postponed and in the process, an equal rate of growth of outputs and inputs in agriculture may be observed.

Therefore in the absence of technological improvements, a steady growth in agriculture can be extracted from a fixed plot of land only if the growth rate of capital use is higher than the growth rate of the input.

However, once the inputs such as fertilizers, pesticides, etc are captured under the term 'capital', the word capital itself assumes yet another dimension. The purchase of capital amounts to the expenditure of money. On the other hand, money can be spent on non agricultural activities also, such as on industry where the extra inputs do not lead to a diminishing extra produce.

Let's take the production of televisions for example. The inputs that go into the production of a TV such as plastic, wires etc are qualitatively different from the inputs required by agriculture. However, we are aware that as opposed to agriculture, the extra doses of these inputs do not lead to a diminishing extra produce. Hence, in a way, the law of diminishing returns does not work for manufacturing in the same way as it does for agriculture. However, it must be understood that the law does not disappear altogether. It takes the form of an overall capacity constraint.

The arguments above rely on the assumption of free markets where capital is allowed to move in the direction of the highest returns. In practice though, markets are not quite 'free'. Also, endless fragmentation has made it technically impossible for large capital to move into agriculture. Hence, in the end it is only small capital that gets attracted to the agriculture sector especially in those parts of the country where land holdings are rather small. This, in turn, leads to far smaller agricultural growth in comparison to industry. Under these circumstances, even if the law of diminishing returns was to be ignored, food prices are expected to skyrocket and this has actually been observed.

The problem can be addressed perhaps by opting for large scale agriculture, although that wouldn't be an easy task. On the other hand, attempting to restrain food inflation by repeated increases in the rate of interest charged for borrowing capital is not reasonable either. Since it is physically not possible to employ capital in agriculture, industry continues to be its only feasible destination.

CONCLUSION:

It is evident from the data we have seen that inflation rose steadily till January 2010, after which a certain decline in the same has been witnessed.

To combat inflation, India needs to remove infrastructural bottlenecks in order to have sustained growth. These also include import duties etc. which are levied on industrial purchases.

More industrial subsidies should be introduced to check the prices of industrial intermediary products.

If in future inflation is not curbed, it will not only deprive the common man of basic amenities but along with it, also deprive the Indian economy of its growth of all the sectors.

Since demand-side pressures are strengthening because of increased cash in hand, monetary policy would have to be active and vigilant in order to keep inflation in check.

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