Inclusive Growth and Food Inflation: An Analysis of their Nullification Effect

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Abstract

Inclusive growth, the slogan which came in Indian economy especially in the 11th five year plan has gained wide spread popularity since then. The approach came with wide range of goals and objectives. The paper aims is to explore on the one side, the purpose of the inclusive growth agenda that is to make the inclusion of the most vulnerable and excludable sections of the society. But on the other hand due to implementation of various programmes and policies under inclusive agenda has given rise to various macroeconomic issues, one such issue is the inflation in general and the food inflation in particular, which the economy is facing from last few years. These rising prices have again targeted the vulnerable and poor for whom mainly this approach came into action. These rising prices, thereby nullifying the growth benefits and creates a type of vicious circle in the economy. The paper also aims to discuss and explore the challenges and opportunities of inclusive growth with reference to food inflation. Finally the paper makes some concluding remarks.

Keywords: Inclusive growth, Food inflation, Vulnerable, Vicious circle.

1. Introduction

Lord Mountbatten in his speech while addressing the constituent Assembly August 15, 1947 “India will now attain a position of strength and influence and take its right place
in the comity of nations” but this dream still needs to be realized. No doubt, following 1947 India made significant strides in multiple areas as it made a change from a dependent colony to a free democratic (largest) nation and the immediate challenge for the first government of independent India was to accelerate growth rate and this formed the cornerstone for the economic policies for the independent India. In India, economic growth improved significantly in the last two and half decades particularly in the post-reform period. However, the exclusion problems have not been seriously addressed by the government programmes and strategies. The experience of the economic reforms, indicate while there have been improvements in economic growth, foreign exchange, IT revolution, export growth etc, the income distribution has been unequal and only some sections of the population benefited more from higher growth and prosperity. Exclusion continued in terms of low agriculture growth with increasing visibility in farmers' suicides, low quality employment growth, inadequate development of women and children, concentration of poverty and low human development both geographically and in terms of social categories, increase in rural urban divides and regional disparities (Dev, 2006). Not only these but the matter of concern for the Indian economy is, high inflation, paradox of jobless growth and growth-less job, social security, environmental concerns etc. There is now some consensus that we should follow policies which would help to eradicate these above mentioned major concerns and more important is to improve inclusiveness. Because if the growth trends would remain in the same way it is like running a train with engine only without connecting bogies and people to the engine. In this backdrop came with what is known as the agenda of faster and more inclusive growth.

2. Inclusive Growth
The World Bank defines inclusive growth as “growth that allows people to contribute to and benefit from economic growth”. It differentiates this from pro-poor growth which is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labor force. It focuses on productive employment rather than redistribution of income. It targets a large part of the country’s labor force, where inclusiveness refers to providing a milieu of equality opportunities in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals (Lanchovichina et al., 2009).

In India the agenda of inclusive growth not only considers the inclusion of the most vulnerable and excluded sections of the society but also with the main elements of poverty reduction and increase in quantity and quality of employment, agricultural development, social sector development, reduction in regional disparities, education and infrastructure etc. As the inclusive growth paradigm is an approach that uses and takes advantage of the market system in alleviating poverty making markets active for the poor. All these elements of the inclusive growth are taken only to get rid from a besetting problem of poverty and exclusion. Because all those who are in destitute are not getting the real benefits from the high (volatile) growth rates if somehow achieved.
When the benefits of the inclusive growth started reaching to those who deserve it, this
gave rise to some major issues in the form of sanitation, environmental degradation,
more and more demand pressures etc. But more perplexing issue is in the form of
inflation in general and food inflation in particular which offset the fruits availed from
the inclusive growth. The food inflation affects poor people more because of the fact a
high percentage of their meager earning is spent on food. Thus rising prices of food
holds special social, political and economic significance in the country like India,
where large masses (22% as agians17% in the world) live below poverty line.

3. Food Inflation
Food inflation in India has been a major challenge to policy makers and perplexes not
only policy makers but politicians and the aam-aadmi too, more during recent years
when it has averaged above 11% during 2008-09 to 2012-13(CSO 2013). From the
perspective of the poor and common public, the most worrisome aspect of the recent
overall price rise is the high inflation in a majority of food articles. On an average,
from December 2009 to August 2013, the egg, meat, and fish group has recorded the
highest inflation rate of 17.16%, followed by milk (11.78%), fruits and vegetables
(10.84%), food grains (9.11%), condiments and spices (7.08%), and tea and coffee
(6.14%). Given that an average house hold in India still spends almost half of its
expenditure on food, and poor around 60%(NSSO 2011), and that poor cannot easily
hedge against inflation, high food inflation inflicts a strong ‘hidden tax’ on poor. Thus,
there is an urgent need to understand this problem and to respond with appropriate
policies to keep the food prices stable if we are to reduce the poverty and hunger and
lead the nation on the path to sustainable development.

The acceleration of food inflation and the abnormally high level of food prices
have caused by several factors relating to supply, trade, global prices, food
mismanagement, speculative activities and demand. Several studies have been
conducted which reveals the factors responsible for this unacceptable rise in the food
prices. For example (Nair and Eapen 2012) have concluded that one of the important
factors held responsible for the spike in food inflation since 2008 is supply-side
constraints in the years 2008-09 and 2009-10. As per (Reddy 2013) there are three
types of supply reasons causing food inflation; supply shock, supply bottlenecks and
supply inelasticity. (CACP 2012) The main reasons for the escalation in the costs of
producing food are the rapid increase in farm input prices and long-term structural
deficiencies such as low productivity, fragmented landholdings, and declining public
investments in agricultural infrastructure. Clearly several factors that have contributed
to this surge in food prices, but the general impression that emerged from the studies is
that, it is the combination of demand and supply side factors which are responsible for
the rise. No doubt shift in the consumption patterns (Gokran2013), increasing demand
for bio-fuels, and needs of increasing population (World Bank 2008), climatic factors
are also responsible for the same. Whatever may be the causes of food inflation is not
the main concern, but the important issue to deal with is, that whom this rise in food
price affects. Undoubtedly it is the poor section for whom programmes and policies are framed for their upliftment. These programmes especially under the agenda of inclusive growth on the one side increased the incomes of rural masses but on the other side have escalated the food inflation. In a society where poverty is far more common than property, the worrisome aspect in this scenario is the high inflation in majority of food articles. As this high food inflation has the power to nullify the gains derived from the different policies and programmes in terms of pulling people above the poverty line and at the same time pushes people living below it into an abyss of malnutrition and hunger, and creates type of vicious circle, this is what the diagram shows below.

Such people situate $1/4^{th}$ of the population- a significant proportion that has been lifted untouched by the gloss of economic growth. There comes the role of what is known as inclusive growth to make such paradigm shift in the planning models so that those who are out of reach should be benefited from the real fruits of the growth.

4. **Challenge Cum Opportunities**
The inclusive growth in India, despite of having different objectives and goals has alleviation of poverty is one of the main goal. No doubt the agenda is becoming successful and especially lessens the burden of rural masses by increasing their per capita income and standard of living. This increase in income of the poor results in the increasing demand for the food products and adds fuel to the surging food inflation
there by reversing the gains. As the inflation in recent years is flipside of inclusive growth, the policy of inclusive growth has pushed up demand for wage goods substantially in rural areas and supply of these goods has not matched demand. (The Financial Express). Then there must arise immediate need to address this issue having not only the major challenges but also have the opportunities to fight against the dreaded monster of food inflation and expand its role to help India to become a ‘shining India’, as high and persistent food inflation is a barrier to growth.

As inclusive growth is necessary for sustainable development and prosperity of a nation. It is the inclusive growth which embraces the have-nots of the society and brings them into the mainstream of the economic system and over time these groups climb the economic ladder and form the backbone of the middleclass. Achieving this inclusive growth is the biggest challenge in a country like India. The challenge is to take the levels of growth to all sections of the society and to all parts of the country. Unfortunately for imparting this inclusive growth to those for whom it is especially framed and formulated is deteriorated by one of the major macroeconomic problem of inflation in general and food inflation in particular. For that inclusive growth has the opportunities to cope this perplexing issue. The inclusive growth has done well in improving the rural income and thereby increased demand pressures, but it can also help to improve not only the supply side problems but also the related issues and hence clears the mismatches. As one of the major problem of the Indian agriculture is the low productivity as compared to other developing nations, so there is need to improve the research and development not only at institute level but also should includes those who are associated with the production of the same. Another issue is of investment subsidy dichotomy, since public investment in agriculture has stagnated since the 1990s and on the other side a huge subsidy especially on the urea (which has degrade the fertility of the soil) has also declined the productivity. So there is need for expenditure shifting in favour of small and marginalized farmers and adopt the methodology of pooling among these farmers. Improving the supply chain management has other benefit of absorbing the surplus farm labour into non-farm employment, yet another opportunity for the inclusive growth. Due to the infrastructural bottlenecks in terms of damage or wastage of grains as well, there has been an improvement in the last few years. The quantity of damaged/non-issuable grain from the Food Corporation of India (FCI) has come down from 1.35 lakh tonnes in 2002-03 to just 1,454 tonnes in 2012-13 (up to February). (Department of Food and Public Distribution, Annual Report 2012-13). So there is need to improve the (especially) rural infrastructure, where the inclusive growth has the immense opportunity. Also there is need to increase supply of the protein rich food articles as demand for these articles has drastically increased due to shift in dietary habits(because of increase in income). Another main issue of the Indian agriculture is heavy dependence on monsoons, with their volatile behaviour (due to climatic change) results the same in agriculture production, and so fuels the food prices. There is need to create more and more irrigation facilities under the agenda of inclusive growth. In general there are not only the challenges but also the gigantic opportunities for the inclusive growth. Now it is up to policy makers how they tackle
with the issue and depending upon the policy framework it will result in both boom as well as ban for the Indian economy.

5. Conclusion
Food inflation seems to neutralize some of the positive effects of inclusive growth. The biggest challenge is how the beneficiaries of these programmes be insulated from the effects of food inflation, so that the net gains are not nullified. India needs to understand the gravity of food inflation and thereby to take strong measures for the spread of improved technology, develop farm structure, create an institutional environment. We need to acknowledge the fact that India must initiate serious action to accelerate growth in food production, infrastructural development, tackle environmental issues etc for which country does have the potential.

References