

Chasing the Wild Goose

India is a rich country inhabited by poor people. Both central and state governments, irrespective of the political parties that manage them play their part but it is only for the benefit of the elite. For the average Indian consumer, inflation has become a real concern rather than just an expectation. It's now widely believed that prices may continue to rise in the near-term and inflationary pressures will remain strong despite periodic assurances given by Union Finance Minister for a tolerable tomorrow. The other day he expressed serious concern over food inflation. In truth food prices are the main driver in keeping inflationary pressures high. Officially food inflation is said to have come down from 20 percent in February 2010 to 8.9 percent in March 2011. But ground reality is otherwise as man in the street finds no respite from being haunted by the continuing high prices of essential foods. Their oft-repeated demand and supply side measures are too clever by half because they have failed to eradicate the root causes of inflation which go well beyond their all too familiar prescription. Also, soaring housing and land prices continue to push up residential costs including rents, construction materials and electricity prices.

The Reserve Bank's efforts to drain excess liquidity from the market may not be that effective in a situation where the central bank is happily printing notes to provide to the government to meet expenditures that are in excess of income. Everybody knows circulation of these excess notes puts enormous pressure on the prices, particularly food prices. Too many notes literally begin chasing too few goods and yet they think market will behave as they express grave concerns from time to time.

The impact of increase in global prices of crude oil on prices simply projects a bone-chilling scenario. As the government is not going to take steps to reduce consumption of oil that is mainly being imported from the Middle East where war and civil war continue to play havoc, it is ludicrous to talk about curbing inflation anytime soon. In January, the world price of crude oil had reached its highest level in two years. The price of a barrel of Brent oil was reported to be 94.84 dollars which according to some energy experts, represented a more than 200 percent increase over the price of crude at the beginning of last year. Also, how foreign direct investment influences price situation in domestic market is ignored and there is no regulating authority to tame the wild goose or what is better known as Sensex.

Foreign investors are encouraged to trade in Indian share markets and they have made large purchases of shares in the last two years. Not for nothing Sensex has risen from 8k to 20k. Everybody is talking about the positive side i.e. growth side of this huge foreign money that is at play. But nobody takes note of how this money also leads to an increase in prices.

As for food inflation what is true for India is equally true for other third world countries including China. Meanwhile, food price hike throws millions into absolute poverty. Rising global food prices since June last year have resulted in an estimated 44 million people falling into extreme poverty (under \$1.25 a day) in low- and middle income countries as per the World Bank's latest edition of Food Price Watch. The Bank's index rose by 15 percent between October 2010 and January 2011 which is 29 percent above its level a year earlier. Global wheat prices have risen the most, doubling between June 2010 and January 2011 while food items essential for dietary diversity, have become extremely costly in many countries, such as vegetables, sugar, and edible oil India and China. Those who measure the impact of food prices on society are more concerned about how rising food prices and food insecurity, contributing to the recent popular mass upsurge in Tunisia, Egypt, Yemen and elsewhere.

After all sweet words cannot curb inflation and raise individual's income to make living easy. Then the Congress-led UPA government has nothing to offer other than sweet words.

Nobody thinks political right will put combating inflation, more precisely food inflation, atop their agendas. But political left in this hapless country is equally opportunist to allow the wild market to move in its own notorious way. In the years gone they never tried to develop any anti-price rise movement as if the issue of price rise has lost the potential for a mass rallying point. □□□