

## **Bleak November**

**Sudipto Mundle**

Happy times are here again --- for some. For the rest the daily grind has just got a little harder with the latest spike in prices. Hopefully, the make believe world of the former will not distract the attention of our leaders from the hard existential realities of the latter.

The well heeled of Delhi are in a celebratory mood. Glamorous models walk the ramps at fashion weeks. Culture festivals, film festivals and leadership summits jostle for space in the city's social calendar. The health conscious do their half marathons while restaurants and clubs are full to bursting. The brand builders are hard at work in commercializing the city's social space and there are entertainment options to suit every taste in this make believe world of the rich and famous.

### **Contrasting Realities**

That is where we are, depending on who you are, as the celebrations of winter gather momentum at the top of the city's social pyramid. Just a few steps lower down that pyramid, however, the scene is quite different. Millions of office workers, shop assistants and 'class IV employees', as they are called in Delhi, commute long distances to their daily grind. They travel in crowded buses or risk their necks on two- wheelers squeezed between millions of cars on roads that were meant to carry only a fraction of their load. These real citizens of Delhi are sullen and tired even on their arrival at work and totally exhausted when they get home, picking up the day's shopping on the way. Not for them all the celebrations of the beautiful people, only a titillating glimpse of it on TV or in the morning papers. Their larger concerns are about what other consumption to cut now in order to keep up with the housing loan EMI and the kids' fees in school

Still further down the pyramid there are the domestic workers, casual workers and construction labor. They commute less as they can only afford jhuggies at or close to their work sites. For them EMIs are out of reach, but

jhuggi rents, school fees and winter clothes for the kids are unavoidable. To make ends meet as prices soar, they are cutting back on vegetables and eggs have just been dropped from the menu. The grand events of the beautiful people are quite beyond their point of reference.

### **Price Shock**

This back drop of Delhi's social context is essential for grasping the full import of the price shock that is hitting the city this bleak November. Those at the top of the pyramid will barely notice. But for the rest a sharp spike in prices can make all the difference between staying afloat and going under. Staple vegetables like onions and potatoes are now selling at between Rs. 25-Rs 30 per kilo in the retail markets. The prices of most other vegetables have similarly risen by 25% to 30% in the past one month. The price of sugar, milk, eggs, fish and meat have also increased sharply. Wheat and rice prices have also risen, but less sharply. Most citizens of Delhi will be eating less this winter, but the poorest will be the worst hit as usual. The poorer you are, the larger the share of your income that is spent on food. Hence when food prices rise, the poorest will have to tighten their belts the most.

Clearly, what we are seeing in Delhi is not a local phenomenon but part of a wider development that calls for a national response. Hopefully, this silly season of celebrations will not deceive our leaders into believing that the good times are here again. Manmohun Singh, Sonia Gandhi, and emerging leader Rahul Gandhi continue to focus on the poor. They know well that it is the 'aam aadmi' at the bottom of the social pyramid, not the well heeled people at the top, who have put them back in power. Now it is their turn to return the favor. But what are they supposed to do?

### **Policy Options**

To answer that question it is important to first understand why prices are rising. It is ironical that food prices should be rising now since there is usually a seasonal dip in prices at this time of year. With the Kharif harvest filling the grain mandis at this time, and the first flush of winter vegetables flooding the market, November is usually a month of low prices and good eating. Not so this bleak November. A large part of the reason is the supply shock in agriculture.

A weak monsoon, followed by floods in Andhra and Karnataka, has resulted in reduced production of many Kharif products. That supply squeeze is forcing prices up. Probably, there is also some element of speculative hoarding. While the overall private sector demand for credit has been subdued, the demand for agricultural credit has been strong. Besides, there is a great deal of liquidity sloshing around the economy and money is fungible. Hence it should come as no surprise if some of it has gone into speculative hoarding of food items, further inflating food prices.

To the extent that high liquidity has enabled such hoarding, the RBI should actively move to reduce liquidity. With inflationary pressures building up while growth is still subdued, policy makers have been in a dilemma: maintain the stimulus to secure growth or cut back the stimulus to contain inflation. As we remarked in an earlier piece (Mail Today 13 August), such tricky situations require a careful assignment of different instruments to different policy goals. Fiscal policy should focus on restoring growth, while monetary policy should now deal with inflation.

The Finance Minister has said that he will not withdraw the stimulus package till growth is secured, which is how it should be. The RBI however should now focus on inflation, its primary responsibility. Its policy announcement on 27<sup>th</sup> October has already signaled an end to easy money policy though interest rates have not yet been raised. In the next few weeks it should consider further moves in that direction.

However, macro economic policies alone cannot do the job. The government should take steps to augment domestic supplies of at least the most important food items. This can be done either through enhanced release of public stocks where it has them, e.g., food grains, or through imports where feasible, taking advantage of a strong rupee and comfortable reserves of foreign exchange.

[The author is Emeritus Professor at the National Institute of Public Finance and Policy, New Delhi. [sudipto.mundle@gmail.com](mailto:sudipto.mundle@gmail.com)]