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# Inflation in Food and Consumption Patterns, Importance and Control

Inflation is analyzed by breaking it down into price increases of goods whose cost is more volatile (for example, food and fuel) and the increase in the cost of more stable goods (among them, manufactures and services). This distinction is relevant because, in addition to informing about the main source of inflation (food and fuel prices or manufactures and services), it also allows us to identify how much the economy will suffer because of those increases. Contrary to the prevailing argument that any inflation is equally damaging to an economy, this article will argue that, actually, its seriousness depends on the prevailing spending pattern, which is essentially determined by income levels. In addition, it underlines the possible origin of inflation in the cases of food and manufactured goods and their potential solutions.

The seriousness of an inflationary process involves prevailing income and consumption patterns. Let us consider, for example, the case of economies with an average per-person income lower than US$13,000 a year; that is, economies classified by the World Bank as having upper-middle, lower-middle, and low levels of income. Given these resource levels, consumers can earmark up to 60 percent of their incomes to purchase food and the remaining 40 percent for the consumption of manufactures and services.[1] What can be observed in these societies is that general consumption is dominated by food purchases. Thus, when inflation strikes, their citizens will feel it depending on the types of goods that are the source of the increased prices. If the hike comes mainly in manufactured goods and services, the effect in that population's purchasing power will not be substantial. This is because, as already point out, a smaller part of people's income is used to consume these kinds of goods. At the same time, the population might suffer less from this inflation since the purchase of manufactured goods or payment for certain services can be postponed or even replaced by lower-priced goods. In short, inflation that originates with these

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kinds of goods should not be as concerning for an economy with low, lower-middle or upper-middle incomes.

When the rise in prices derives mainly from higher food costs, it will be more keenly felt. In this case, if consumption patterns are dominated by buying food, purchasing power will immediately be affected, and, in contrast with the situation regarding manufactures or services, consumption cannot be postponed. Thus, inflation caused by food prices in societies that earmark a significant part of their resources to purchasing them will undoubtedly become a primordial concern.

Knowing both the primary source of inflation and the prevailing consumption pattern is relevant since it makes it possible to implement the appropriate measures for controlling it. If inflation is caused mainly by food prices, the response must not center on increasing interest rates, as most monetary authorities do the world over. With this measure, they seek to reduce aggregate demand of all goods through greater unemployment. Paradoxically, even in conditions of unemployment, the last thing people stop consuming is food.

Seeking more effective solutions presupposes finding the origin of inflation. In the first place, inflation caused by food prices is surely due to a growth in demand over and above their (inelastic) supply. It is important to point out that this happens only if the economy has been growing. That is, the greater employment generated by economic growth fosters an increased demand for foodstuffs that, given natural and/or institutional restrictions of agriculture, is impossible to satisfy. This kind of inflation has already been identified, and is even called, "structural inflation," since it refers to a real imbalance between supply and demand.[2] But, I repeat: the main conditions for this to happen is the existence of sustained economic growth and higher employment, which in turn create greater demand for food. The solution for this kind of inflation consists of temporarily importing foodstuffs as local production increases.

It is important to point out that inflation due to high food prices is possible even when the economy does not present sustained growth. This would happen when inflation depends on food imports. That is, when an economy imports most of its food, it is exposing itself to international market prices determining local inflation in the prices of these goods. In other words, this would be a case of the transfer of external inflation. If prices are low, local inflation of this kind will drop, and the opposite will happen when prices abroad increase.[3] I should underline that international food prices have steadily grown since the beginning of this century for different reasons: the growth of economies with large populations, like China and India; climate change; the use of grain to feed cattle and produce energy; the lags in certain technological advances; and potential wars. This has given rise to the suggestion that the era of cheap food has come to an end. In fact, in 2021, the international price of food grew 26 percent, one of the largest increases in a single year in three decades. Given these expectations, the risk of continued high inflation for food products in economies that depend on their importation has increased.

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This kind of inflation does not have a short-term solution. On the contrary, stopping it involves an effort that will only be successful in the medium and long terms. This effort will consist of recovering food self-sufficiency to reduce food imports as much as possible. To recover food sovereignty, agricultural policy must allow for increasing production; to do this, a series of economic policy instruments must be put into play, ranging from fiscal and financial support (soft credit, insurance); technological advances (in inputs, fertilizers); setting up irrigation systems; to the consolidation of a guaranteed price system, and the design of storage, logistical, and distribution strategies. These kinds of food production measures can be expected to satisfy local demand, and, if a surplus results, it can be exported. The intention is that the agricultural sector will turn into a parallel additional lever for economic growth and development.

Mexico is one of the world's upper-middle income countries, whose citizens earmark an average of one-quarter of their income for food purchases. It is also a society marked by one of the worst distributions of wealth on the planet. For that reason, the lowest-income deciles, most of the population, must spend up to 60 percent of their income on food. This means that inflation caused mainly by increases in the cost of food products still has very important effects on the purchasing power of a large part of the country's inhabitants and is undoubtedly the kind that must concern public policymakers. It is so important that in 2021, food inflation contributed a little over 3 percent of the total almost 6-percent inflation of that year; that is, almost half of total inflation. By October 2022, its 4.3-percent impact was more than half the 8.4-percent annual total.

The main reason this is happening in Mexico continues to be that, as it has for more than four decades, the country continues to depend on imported food to satisfy domestic demand. For example, it imports 83 percent of the rice it consumes, 65 percent of the wheat, and 73 percent of the yellow maize. Of all the grains and oil seeds it needs, approximately 52 percent are imported. In the post-pandemic scenario, international food prices have shot up and affected food inflation in Mexico.

Although the current administration has implemented measures to contain inflation on food products, including some that point to the supply side of the primary sector, a more ambitious and long-term agricultural policy continues to be needed. Otherwise, Mexico will continue suffering from food-centered inflation, which, as already pointed out, is felt more keenly by the most vulnerable sectors of society. VM

## Notes

**1** On the contrary, in a country with high incomes, in which the average distribution per person is over the US$13,000 threshold, between 5 and 10 percent of income goes for food, and the rest is used to purchase manufactured goods and services or is saved.

**2** Many economists have studied this in detail. Among the works that can be consulted are Michael Kalecki, *The Problem of Financing Economic Development*, in J. Osiatynsky, ed., *Collected Works of Michael Kalecki* (Oxford: Oxford University Press, 1995), vol. 5; Juan Noyola, "El desarrollo económico y la inflación en México y otros países latinoamericanos," *Investigación económica*, vol. 16, no. 4, 1956, pp. 603-648; and Osvaldo Sunkel, "La inflación chilena: un enfoque heterodoxo," *El trimestre económico*, vol. 24, no. 4, 1958, pp. 570-599.

**3** Moritz Cruz, Armando Sánchez, and Edmund Amann, "México: alza de precios de los alimentos y restricciones al crecimiento," *Revista* CEPAL, no. 105, 2011, pp. 77-93.