

Feeding the problem

Why the government keeps procuring more food than it can store

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The Supreme Court ordered the government of India to distribute foodgrain (that would otherwise rot) to the poor, free of cost. The Food Corporation of India (FCI) has run out of storage space and so has to store grain without adequate cover from rain and pests.

For all its faults, however, the FCI is the fall guy here. It has no say in determining how much grain is procured and how much of it is distributed. The difference is the amount stored and it varies substantially across seasons and across years. With these constraints, even the smartest MBA in the private sector would get it wrong most of the time: either too little storage or too much of it.

Better supply chain management would help. Yet, the deep problem is not the FCI. It is our longstanding food policy that lets stocks accumulate without good reason. Today, the government sits on a stockpile of nearly 60 million tonnes of grain. This has happened before. In August of 2001, the government stashed away 65 million tonnes in warehouses, school buildings or simply under tarpaulins in open fields. We can be sure that if this policy continues, as before, the problem will recur.

In the immediate situation, the mountain of grain is about to get larger. The coming paddy procurement will add another 25 million tonnes or so. The usual demand from the public distribution system (PDS) will help, but even by the end of the fiscal year, stocks are likely to be close to current levels.

The government can therefore afford to get rid of at least 25 million tonnes of grain right away. Supplies of wheat and rice per man, woman and child would be up by 15 per cent or more from existing levels. In fact, the consumption by the poor would increase by even more as the non-poor have their fill anyway.

So why does the government not do it? The government can allocate more grain to be distributed through the PDS (as it is now doing timidly). It could also cut the prices at which it sells the grain. Both steps would also dampen market prices, helping even those poor without access to the PDS.

Even more effective would be to directly offload substantial stock in the market. The argument against doing this boldly is that traders would buy up grain cheaply and profit by selling back to the government in procurement. In practice, there are clever ways of doing it to make such arbitrage unprofitable. In the past, open market sales (at subsidised prices) have been an important mechanism for reducing unwanted stocks.

The reluctance of the government to take either or both steps stems from two reasons. First, either or both of these measures would show up immediately in the budget as increase in food subsidy. Even when the government ultimately sees reason, the financial implications mean that the chain of decision-making is long and subject to frequent review. Speedy response to excess stocks is not part of the government DNA.

Second, at the higher levels of government, there is immense paranoia about food shortages affecting the PDS. High stocks signal comfort levels indeed, it is often cited as a strength of the economy. The fact that they severely subtract from supplies is ignored because it is believed that public attention is more forgiving of excess stocks (unless it reaches gargantuan levels) than its opposite.

Unfortunately, it is always too late by the time government wakes up to the problem. The problem always begins with moderately excess stocks. This creates the expectation that government would have to dispose them off. Private trade lowers grain purchases and, therefore, the government ends up with bumper procurement and massive excess stocks in the following year. The cycle continues until expectations are broken.

Finding the best ways to dispose of stocks is the immediate issue. The longer-term issue is to have automatic stabilisers that limit the excess stocks with government. This is not possible when procurement prices have displaced legitimate support price operations and when procurement is open-ended.

The Supreme Court has also said that the government should not procure more than what it can store. If this is an order, the government might well respond by colossal investments in godowns and warehouses. In most years, the capacity will not be used but the government would rather live with such costs than reform the politically tangled procurement policy.

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