

The State as a Grain Hoarder

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In 1971, we harvested 65 million tonnes of rice and wheat. In 2001, we have stashed away an almost equivalent amount in grain silos, storage bins, in warehouses or simply under tarpaulins. If the government kept some of it as insurance for the future, threw out the bags of grain that were rotten and infested and were to let go of, say, 40 million tonnes, supplies of wheat and rice per man, woman and child would be up by 25% from existing levels. Conversely, by letting things drift, the government would continue to use public money to put a lid on grain consumption in order to build the biggest hoard of grain ever known in history.

By any ethical standard, the immorality of a business as usual food policy must be plainly obvious even to the government. It is hard to believe that any of the actors that make up the government could have any interest per se in perpetuating the state of affairs. Consumers are clearly the losers. Producers and traders are fearful of a collapse in prices. The cost of carrying stocks is an immense strain on the government. What can be done?

First, let us dispense with the story that the crisis is due to a lack of purchasing power on the part of the food deprived. While it is true (almost by definition), the statement is not useful as an explanation. Stocks did not build up because we produced much beyond what our hungry population could afford. Rather our policies priced grain to make them unaffordable. This did not happen overnight.

The change in government stocks is the difference between what it buys as procurement and what it sells through the public distribution system. Some of the stockholding is intentional and is held as a precaution against future deficits. A stock of 16 million tonnes at the beginning of the financial year is held to be the safety level for such stocks. The bulk of the stock build up is therefore unintentional. Through much of the nineties, procurement expanded as public distribution contracted. As a result, procurement has exceeded public distribution sales in every year since 1993.

The mountain of grain is therefore due to the opposite movements of procurement and public distribution that in turn stems from repeated hikes in the procurement and issue price. It is now clear that stocks have reached a level that is unsustainable. The government is eager to find ways of reducing the burden. A particularly bad idea is to export grain. At world prices, the government finds it viable to export grains by accepting a price equivalent to that it charges for below poverty line (BPL) public distribution sales. The concerned ministries are working overtime to find clever schemes for subsidising exports so that it would not fall foul of WTO regulations. Our inspiration for these misguided efforts are the rich countries that administer complex price support and subsidy policies to boost the incomes of their farmers.

Rather than subsidising exporters and foreign consumers, the government should think of unloading stocks in the domestic market. Domestic consumers including the poor would benefit from lower prices. A right step in this direction was the decision to cut prices for the above poverty line population (APL) by 30%. However, this is not enough. This measure may reduce stocks by about 8-10 million. The sales through the public distribution system cannot expand much beyond this because the PDS is not effective in all states and neither is its coverage of the poor complete. A direct impact on market prices would produce immediate gains for the poor all across the country. Another good measure would be to expand food for work programmes. Since it is only the needy that apply for such work, these programmes have the advantage of being targeted. Yet they have been underfunded because of the tussle between the states and the centre as each passes the responsibility to the other. The Antyodaya program is another good idea. But it is small and cannot be speedily implemented because of procedural and administrative issues.

In the short term, the government must take action that has large impacts. And the measure best suited for this purpose is to sell the grain in the open market. The wheat market illustrates the necessity of it. This year the government procured 19 million tonnes of wheat which is reckoned to be almost the entire harvest that has come to the market in Punjab and Haryana. It is estimated that private traders are left with only 10-15% of supplies procured from other regions where the minimum support price was not operative. Traders purchased so little because the huge stocks with the government

creates the expectation that it would have to dispose them off. The government must meet this expectation. If it does not, the limited supplies in the market mean that off-season prices will rise sharply. Cutting the issue price will moderate the price rise only somewhat because of the limitations of the reach of the PDS. The best action for the government would be to announce the sales of specified quantities of wheat at 3 or 4 points in the year. The extra supplies would reduce prices and would not harm traders either because of their small positions in wheat this year.

Over the medium term, the government must restructure procurement and the public distribution system as well. On both of these, there are plenty of ideas. The key to lasting reform, however, lies in the recognition of the differing responsibilities of the central as well as the state governments. In the current arrangement, the states are merely implementing agencies and it is the Centre that coordinates operations and bears the subsidy. The open-endedness of this arrangement has encouraged the surplus and deficit states to free-ride on the union budget by persuading the centre to subsidise consumers and producers. The recent move of the Finance Minister to decentralise procurement and distribution is aimed at undercutting these politics. Not surprisingly, therefore, the states have resisted the decentralization policy.

Decentralization holds a lot of promise if it is not merely a convenient way for the central government to pass on the buck to state governments. The central government should be a funding agency and take a view of food subsidies broader than just the public distribution system. Indeed, it is the state governments that should decide on the schemes that are eligible for food subsidies whether they are the public distribution system, food for work or mid-day meals for school children or any other programme. Food subsidies have worked best when state governments have a stake in them and there is no reason to restrict them to the PDS when there might be other ways to reach the poor or mechanisms that can respond more quickly to temporary distress.

