

Ending the Glut of Hunger

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In 1973, at the height of garibi-hatao socialism, Indira Gandhi ordered the nationalization of wholesale trade in wheat. By getting rid of the despicable hoarder, the move was meant to procure wheat cheaply. However, the measure failed and was withdrawn. In 2001, at the height of rhetoric about disinvestment, the government finally took over the wholesale wheat trade. It outbid its competitors and offered such good prices that private wholesale trade was left with only the crumbs. Today, the government is the overwhelmingly dominant grain trader hoarding about one-third of the country's grain output. As it is expensive to carry these stocks, the government is desperate for measures that will relieve it of this problem.

At the heart of this difficulty is the desire to please grain farmers by offering them high prices. At this level, as the demand for grain falls short of supply, the government fills the gap by its procurement. In other words, our policies priced grain to make them unaffordable. This did not happen overnight. Through much of the nineties, procurement expanded as public distribution contracted. Hence the mountain of grain.

If the goal is to reach food to the hungry, the pricey grain policies of today are as ineffective as the cheap grain policies of the past. The government will have to find ways to limit procurement to the needs of the public distribution system and storage for emergency reserves. This requires accomodation by farm lobby interests and therefore can only be resolved by the political system. However, conditions for a political deal exist and can be exploited, for even from the point of view of grain farmers, high procurement prices are not indefinitely sustainable. Farmer interests are best served by policies that increase the demand for their products. One such measure is to create a unified national market for grain and other agricultural products by the complete removal of policy and administrative curbs on the movement and storage of agricultural produce. Unless, the central government can persuade the state governments to give up their powers in this regard, agricultural markets will remain fragmented to the detriment of farmers. Another intervention that increases food demand and is therefore in the interests

of farmers, would be to put in place an equitable and efficient system of food subsidies. Reform of the public distribution system (PDS) should be on top of the agenda of a far-sighted farm lobby.

In the targeted PDS, subsidies are offered only to those households that are below the poverty line. However, these are difficult policies to implement because identification of households by poverty status is necessarily imperfect and is subject to capture by vested interests. Instead of relying on a single policy, the government should consider a menu of options such as subsidising coarse cereals, greater subsidy in backward regions and food for work programmes each of which can be effective in particular circumstances. Furthermore, the distribution of subsidised foodgrains tends to be inefficient because of the monopoly of state agencies. The case for involving the private sector and NGOs in the distribution of food is strong.

In sum, enduring reform requires operational efficiency of a flexible and decentralised PDS together with disciplined procurement within a policy framework that rewards rather than cramps the entrepreneurial energies of food producers. For the immediate, the best use of surplus foodgrains lies in cutting issue prices and in meeting the demand that could be generated from investment in rural infrastructure. Attempting to get rid of stocks by subsidised exports or by subsidising private storage are demonstrably bad ideas.