Surplus food: What's to be done?

Kharif procurement is barely a month away and government granaries are overflowing. The only beneficiaries of the policy are the rats in FCI godowns. FCI itself costs too much and market discipline is urgently required. Three experts debate the policy options:

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Yes, the present mountain of foodgrain stocks is a result of mismatch in procurement, stocking and distribution policies of the government. Unless bold steps are taken to change these policies, the food management system of the government would crumble. Where is the mismatch?

Many people blame high increases in procurement prices of wheat and rice for the present mess. I don't. My analysis reveals that the real problem is in between the procurement price and the issue price. In early 1990s, when economic reforms started, we were importing foograins (wheat) at more than double the price that we were paying to our own farmers. It needed correction. I am glad that procurement prices of wheat and rice were brought near to export parity levels by the government in subsequent years. This was a step in the right direction. But then, there are taxes and levies imposed by the surplus states, which amount to about 11 per cent in case of wheat. It is topped by the high costs of procurement, stocking and distribution of Food Corporation of India (FCI). All this inflated the 'economic cost' of FCI to astronomical levels, by more than 50 per cent of the procurement price in case of wheat. So, while the procurement price of wheat was Rs 580/quintal, and the private trade is still selling at Rs 620/quintal, the (un)'economic cost' of FCI was about Rs 850/quintal. Sure enough, FCI could not off load its stocks. They could not export these either as world prices of grains had crashed to record low levels for almost the last 15 years.

On top of this, the government raised the issue price of grains by more than 60 per cent even for the people below poverty line (BPL) in its zeal to prune food subsidy. Although government was claiming that this is still 50 per cent of the 'economic cost' of FCI, they never questioned why the economic cost was so high. The real problem lies there.

What can be done now, and how can we avoid such a repeat? Take the real economic cost of wheat as Rs 650/quintal. Accordingly, reduce the issue price for BPL at about Rs 350/quintal, enlarge the quota from present 20 kgs per family to 40 kgs per family. Announce a major Employment Guarantee Scheme at national level to build rural infrastructure, where say one third of labour payment would be made in terms of food. The infrastructure would include building rural roads, watersheds, desilting of canals, repairs of tanks, building primary schools and health centres, community toilets, afforestation, and so on. The execution of these schemes should be by local people, may be panchayats, may be NGOs, or even through the local MPS. But the accounts must be audited by recognised authorities. Supplement this scheme by midday meals type schemes in school.

What about FCI? Prune it to one fourth of its present size. It should not hold more than 10 million tonnes as buffer stock. For feeding PDS, it should contract with private grain companies to deliver specified amounts of grain at specified price and place. That means private sector should be invited in a big way in grain management system, from procurement to stocking and distribution. They would invest in modern silos, bulk handling facilities, and faster and better transportation. That means Indian policy makers should think of promoting large grain companies, who would compete and finally replace FCI. To enable this, provisions of Essential Commodities Act in terms of stocking limits, movement controls, levies on rice, ban on futures trading, etc., all will have to go for good. These bold steps need to be taken. Indian policy makers need to see just outside their borders. Food grain management all the world over is being replaced by private trade, which is much more efficient than monolithic para-statals like FCI. Sooner we learn this lesson, better it is for the country.

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With the kharif procurement barely a month away, the granaries are overflowing. Life is a non-stop party for the rats in FCI godowns. For the poor though, life is still as it used to be. It could get worse unless the government is able to curtail the rodent happy hour. Stock management is a balancing act between the present and the future. As no one can really tell what the future holds, honest mistakes can occur. We could end up carrying too much or too little stocks. The policy cannot also cope with certain situations such as a sequence of bad harvests. So even in the best of times, things can go awry. That's not what has happened in our case. In India, stocks are not managed. Rather they are the outcome of poorly coordinated decisions in different wings of the government. The whole idea of building up stocks is that they can be drawn down at some point in the future. But what if this never happens? Then we would have built a mountain of grain. Well, this is very nearly what has happened in our case. Consider the difference between procurement and sales from the public distribution system. The difference is the net annual change to public grain stocks. If positive, stocks increase and if negative, they decrease. In the 1990s, procurement has exceeded public distribution sales in every year since 1993. In fact, leaving aside 1991 and 1992, when public distribution sales were only slightly larger than procurement, one has to go back as far as 1988 to find a year when public distribution sales were substantially larger than procurement. In earlier decades, policies were more balanced. Net changes to stock were positive in 4 years of the 1970s and in 5 years of the 1980s. Why have we lost our way so badly? The answer seems to lie in the piece-meal measures to reform the system of food subsidies. In the 1990s, the government has tried to reduce food subsidies by increasing the issue price. As a result, public distribution sales fell as consumers switched to the open market. Hence the annual additions to stock have been positive for practically the entire decade. The costs of holding these unsold stocks have also defeated the objective of drastic reductions in food subsidy. The act of increasing the issue price was a piecemeal measure because it was not coordinated with other reforms. If the government wished to curtail public distribution, it ought to have reduced procurement as well. Yet, procurement prices have remained high throughout. Second, and less obviously, even when issue price is lower than the market price, consumers switch to the market as the gap narrows because of quality concerns. The poor quality of government supplied grain is due to inefficiency in the government marketing chain that the reforms have not addressed. Third, FCI costs are not subject to market discipline. Increasing the issue price is a bad response to high costs of the FCI.

For the present, the best thing the government can do is to unload the stocks in the market. The government will lose money. But poor buyers of grain will gain. This is preferable to export schemes (that subsidise exporters and foreign consumers) or schemes of free food distribution that never take off because of red tape. For the future, a stock management policy is essential. Rather than fix procurement prices, procurement targets should be fixed depending on needs of public distribution and storage. Farmers can be better helped by opening access to international markets and removing restrictions on grain movement. Finally, we must consider alternative institutional arrangements for delivering food cheaply. These could include food stamps and greater involvement of private agencies in the procurement and distribution of subsidised grain.