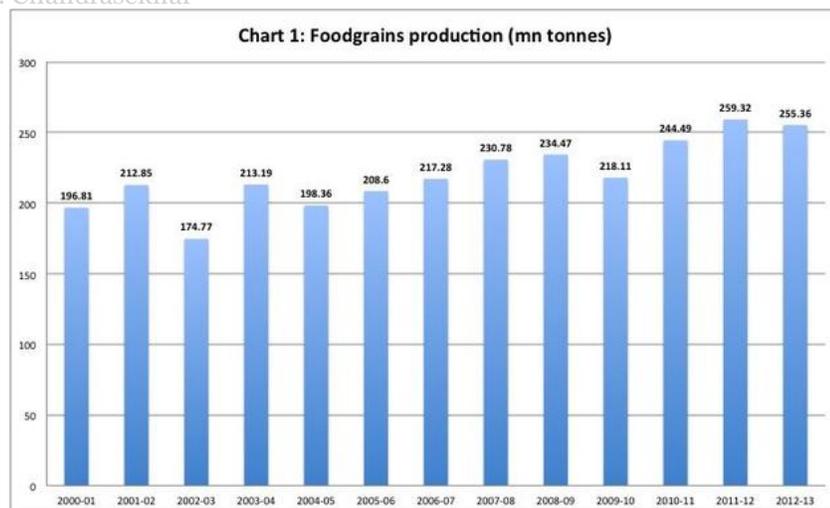


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India's food conundrum

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Another session of Parliament has been adjourned without the passage of the Food Security Bill. Held up for long because of differences within the government on coverage and quantum of support, the Bill is now floundering because much else that has happened under the government's dispensation precludes the smooth functioning of the lower and upper houses. However, in the process of formulating the draft Bill, among the concerns that were expressed by some government functionaries, including the chairman of the Economic Advisory Council to the Prime Minister, was that the country would have inadequate food to sustain a near-universal food security system offering food for all at the same subsidised price.

But recent developments question this perception. Though India's agrarian sector is in crisis reflected in growing indebtedness and rising suicides, production growth has been significant even if not strong since the mid-2000s. The compound annual rate of growth of food grains production, which stood at just 0.8 per cent during 2000-01 to 2005-06, accelerated to 2.9 per cent per annum during 2005-06 to 2012-13. As a result, production in agricultural year 2012-13 is estimated to have touched a record 255.4 million tonnes (Chart 1).

This growth in production should not be exaggerated. In per capita terms production (after adjusting for seed, feed and wastage) was just 164.9 kgs in 2011, which had been exceeded as far back as 1984, and was below its 2008 peak of 171 kgs. So there was no excess production of food grain. Yet the government has been burdened with a rising stock of food grain, being unable to distribute the amount it procures. From about 35.6 million tonnes in 1999-2000, procurement of food grains by the government fluctuated in a range with a ceiling of 42.5 million tonnes till 2007-08, and stood at 39.9 million tonnes in 2007-08 (Chart 2). Since then procurement has risen sharply to touch 57.4 million tonnes in 2009-10, and 63.4 million tonnes in 2011-12. In 2012-13, procurement had reached a record 64.2 million tonnes by late March 2013.

High and rising procurement should have helped the government increase allocations through the public distribution system, to meet its food security objectives. To an extent this did occur. Off-take through the public distribution system (PDS) (and other channels) fell from 49.3 million tonnes in 2003-04 to 36.8 million tonnes in 2007-08, and then rose to 37.4 million tonnes in 2008-09, 53 million tonnes in 2010-11 and 56.4 million tonnes in 2011-12 (Chart 2). The last figure is likely to be exceeded in 2012-13, with off-take till January 2013 estimated at 53.03 million tonnes. Despite this there has been a growing discrepancy between procurement and off-take, resulting in an accumulation of stocks in government warehouses.

Stocks in the central pool as on April 1, rose from 21.8 million tonnes in 2006, to 19.6 million tonnes in 2008, and then shot up to 42.8 million in 2010, 53.3 million tonnes in 2012 and 59.7 million tonnes in 2013 (Chart 3).

Expectations are that procurement of wheat alone during the marketing season starting April 2013 is expected to be in the 44-46 million tonne range. This is resulting in an embarrassing situation for the government since it does not have the warehousing facilities to store the grain. A lot of grain is being stored in facilities that are vulnerable to rotting or attacks from rodents. Wastage is high.

What explains this paradoxical situation where government spokespersons fear there is not enough grain to support the food security bill, but food keeps accumulating in government warehouses when production has been reasonably good, but by no means excessive? The first is the fact that the government has chosen to remain with its Minimum Support Price scheme to ensure procurement. Calculated on a cost-plus basis, the MSP has been rising even in periods when the Commission for Agricultural Costs and Prices has not been particularly farmer friendly, because costs have been rising. The MSP thus provided little more than a cost neutralising floor to food grain prices. Clearly, the private trade is not willing to more match this price. Hence farmers and intermediaries have been selling a larger proportion of their output to the procurement agencies. It is not true that this happens because the MSP is lucrative. It happens because the state of demand in the open market is such that traders are not finding it adequately profitable to purchase the produce from farmers to trade in the produce.

If the MSP, which covers cost and provides a reasonable margin, is attractive for the farmers because there is no significantly better alternative, it must be true that demand for grain at an MSP-linked issue price would not find adequate takers. So the government subsidy matters from the point of view sustaining off-take from the PDS. The government, however, is overcommitted to reducing the per unit subsidy on food. It does this in three ways. It has adopted the targeted PDS (TPDS) system, which separates the population into a minority of households below the poverty line (BPL) and a majority above that line (APL). Second, it substantially reduces the subsidy on sale to the APL population, making it unaffordable for those who are just above or near the poverty line. Thirdly, the government restricts allocations to the states of subsidy-linked quotas, especially in states where a strong PDS services the APL population as well. The result is that even in periods when the harvest is reasonable, sale of PDS grain does not rise adequately though procurement is high, resulting in a growing discrepancy between procurement and off-take from the PDS.

The problem is that this engineered outcome is quite counterproductive. It is not true that the subsidy bill is lower when a part of the grain procured is not released through the PDS. The subsidy remains high in order to cover the carrying costs of the procurement agencies, finance the cost of waste and often subsidise not the consumer but the trader, who is sold grain at a price lower than the MSP to reduce government stocks. Only recently, Union Food Minister K.V. Thomas called on the private sector to procure food from the open market and not wait for the government to do it, and then attempt to bring the price down when government is forced to dispose of a part of its large unsold stocks. "Private traders, too, have some social commitment and you cannot purchase food grain at below Minimum Support Price (MSP) rates," Thomas reportedly said.

In sum, if the government needs to maintain and hike the MSP to ensure the food production needed to support a wide food security scheme, it also needs to expand its subsidy bill to make sure that subsidized food is available and affordable, to keep stocks moving. In practice, the failure on the food front is giving rise to demands for the government to get out of procurement and distribution of food, on the ground that the market would manage things better. The evidence from across the world shows that this would not work. It would be a disaster in a country that is ranked 66 among 105 countries in the Global Hunger Index.

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