Chapter Four

FOOD POLICY IN INDIA

India’s food policy evolved out of the Bengal famine of 1943 which killed more than a million people with starvation caused mainly by lack of adequate supplies of foodgrains than the lack of production. Foodgrains Policy Committee 1943 was appointed under the chairmanship of Sir George Theodore which emphasized rationing to overcome such situation in the future. Since then successive governments have been trying to enhance the level of foodgrain production in the country through offering minimum support prices to the farmers. In addition, PDS was evolved to safeguard the interest of the consumers particularly the more vulnerable section of the society. Aimed to curb the speculative price rise, simultaneously evolved price policy contained four major policy instruments; namely inputs subsidies; minimum support prices; procurement prices; and issue prices. They were devised to achieve the basic goal of the food security. Despite changes in contents and emphases over the years the basic goal of India’s food policy could be summarized as follows;¹

1. Increase in foodgrain production.

2. Stabilizing foodgrain prices and

3. Maintaining adequate stocks of foodgrains as a measure of food security.

To attain the above mentioned objective two central bodies namely the Food Corporation of India (FCI) and Agriculture Price Commission (APC) were established in 1965. The FCI was responsible for procurement, import, distribution, storage and the sale of foodgrain. While the APC was to control and guide the cropping pattern, land use and profitability through minimum support price mechanism. This policy continued till the dawn of the new economic reforms in 1991 when the World Bank, which had earlier designed these two centralized institutions called for dismantling them, besides advising the government of India to dismantle the PDS as well. The Bank also asked for the removal of the Essential Commodities Act, the removal of price and inventory control and deregulation of agricultural trade. Further, it

recommended the corporatisation of agriculture and a shift from a state-centred to a corporate-centred food system.²

Radical restructuring of the PDS and withdrawal of food subsidies were the important aspects of India's structural adjustment programme that began in 1991. The Revamped PDS (RPDS), which started in 1992, was supposed to target particularly the vulnerable regions and sections besides curtailing the public expenditure. But the scheme not only failed in achieving its stated objective but also ended up aggravating both of them. Therefore, in 1997, the RPDS was replaced by the Targeted PDS (TPDS), which artificially divided the population into “Below Poverty Line” (BPL) and “Above Poverty Line” (APL). The APL category was defined as those earning Rs. 1500/month and above. Those falling in the APL category were subsequently asked to bear 100 percent of the procurement and distribution costs. Whereas those falling in the BPL category were provided 10 kg of wheat or rice a month at highly subsidised prices.³ The withdrawal of subsidies for families above poverty line (APL) resulted food prices to rise substantially and beyond the reach of a large number of families. This took its toll on the offtake which fell substantially leading to un-surmounting stock of foodgrains. That is why the recent government committee established to formulate the long-term grain policy has recommended the prices of grain for APL families to be slashed by 25 percent.

PDS expanded enormously after establishment of the Food Corporation of India (FCI) and the Agricultural Prices Commission (APC) now known as Commission for Agriculture Costs and Prices (CACP). Over the years, the amount of foodgrains distributed through the PDS has increased enormously. However despite an extensive public distribution programme, the benefits quite often have not reached the people it was intended for. Simultaneously, the vulnerable producers who are growing rain-fed crops like jowar, bajra etc could not benefit from the governments’ policy of assuring ruminative prices. Added to this the fixed pricing policy of the government throughout the year for the purpose of procurement and distribution has increased the concentration of the market arrivals in a few month or the days of the month. High degree of concentration of market arrivals results disorderly marketing

³ From March 2002 the quota was increased to 35 kg of foodgrain per family per month.
of the produce and make difficult, the handling of the large quantities of the grains purchased efficiently in a short post harvest period by the FCI, as a result the difference of the economic cost of the FCI and the issue prices widened. At the same time size of the distribution continued enlarging year after year leading to much increase in the burden of the food subsidy on the exchequer. Despite the country reaching near self-sufficiency in foodgrains production, its continued policy of offering higher MSP has reached a limit where farmers are more interested in selling their produce to the Government then to the market, as a result the market prices of the foodgrains have increased to adversely affect the poor. Secondly, the stocks position has also gone beyond the desired level leading to heavy increase in the burden of the food subsidy. Government’s decision to increase the issue prices of the foodgrains, to make up the deficit, have sharply reduced the offtake leading to further bulging of the stocks.

It is noteworthy that after the SAP in 1991 the overall system of food management and public delivery was over hauled. Initially the RPDS was introduced with narrow targeting and thereafter the RPDS was replaced by the TPDS in 1997. Unfortunately both the schemes miserably failed in achieving their stated objectives of increasing the foodgrain availability among the poorest and reducing the government’s food subsidy burden. It is important to note that after the structural adjustment programme the consumer food subsidy has fallen in real terms and since then has not changed much as a share of gross domestic product (GDP). It is due to increases in intermediate costs and costs of procurement, storage, buffer-stock operations and transportation. Consequently, the burden of inefficiencies in the system of storage and distribution are being passed on to consumers in the form of higher prices. For example, between 1975 and 1989, the distribution costs of the Food Corporation of India (FCI) has increased by 274 percent whereas the procurement costs increased only by 70 percent. And in 1992-93 the per-quintal cost of procurement and distribution of the FCI was almost as high as the per quintal support price. Particularly, the period of structural adjustment saw a steep rise in the prices of foodgrains supplied through the public distribution system and the consequent decline

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in the offtake of the same. Following pages have some more details about India’s evolving food policy since the World War II.

4.1 Historical Background of Food Management in India

4.1.1 Food Situation Pre World War II

Famines were not unusual in the pre independent India but they were mostly confined to the limited affected areas. A survey shows that between 1860-1909 twenty famines occurred in the country. But it was only in 1890-91 when the food situation became precarious. During this period the growth in population was much above (5 percent annual) than the growth in foodgrain output (2 percent annual). Consequently there was a sharp increase in the prices of foodgrains between 1895-1909. Food supply became narrowed with the demand and reached its lowest levels at the quinquennum 1905-1909 causing sharp increase in the foodgrains prices. The trend of rising population and declining cultivation of crops continued until the turn of the century. Between 1893-94 and 1915-16 population increased by 7 percent whereas the output of food crops percapita declined by 9 percent. Percapita area under cultivation sharply declined after 1921 which further aggravated the food problem. Great depression of 1929 further suppressed the foodgrain prices and agriculture production. Thus, foodgrains production declined from 54.3 million tones in 1921-22 to 50.1 million tones in 1931-32 and further to 45.7 million tones in 1941-42. Shortage of domestic production increased the government’s foodgrain import. Since that time India was dependent on import of rice from Burma, the entry of Japanese in the Second World War and occupation of Burma made the situation worse for the country at the time when the country was already in short of supply of foodgrain by 10 million tones.

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6 Report of the Foodgrains Policy Committee 1943, Govt of India.
4.1.2 Bengal Famine of 1943:

Bengal famine of 1943 shocked the conscience of the world which killed about 1.5 million people. This famine occurred as consequence of WWII and inefficient administrative handling of the food situation by the government. Bengal was short of land to feed its population of 60 million. Food production was not catching up with the increasing population of 1 million a year. The net import of foodgrain into Bengal averaged 140000 tones. Mobility of the rice crop through the marketing channels was the only source to feed the people and that was badly affected in 1943. Before WWII the gap between demand and supply of foodgrain was filled by import, however, the gap was too precarious that any perceived danger of dislocation either in the production, import and distribution of foodgrain could play havoc. Entry and occupation of Burma by Japanese forces made this fear comes true when not only Bengal, but also the whole country was facing a deficit in food stock. Crop failure of 1941 further aggravated the shortage of food supply. Cyclone and unfavorable crop output abruptly increased the prices of rice in many parts of the country owing mainly to heavy and speculative buying. There was no institutional arrangement for food procurement, therefore, the situation continued worsening especially in Bengal and its surroundings and ultimately in October 1943 about 1.5 million people died due to shortage of food supply.

4.2 Emergence of Comprehensive Food Policy:

The history of food policy in India began taking shape during the Bengal famine of 1943. Prior to this, the government of India had no set principle of food policy but only a sort of ad-hoc arrangement of feeding the people during crisis. But the famine of 1943 led to the appointment of the first Foodgrains Policy Committee under the Chairmanship of Sir George Gregory, which after examining the whole situation recommended;

1. Procurement of foodgrains from the surplus areas.
2. Rationing for equitable distribution and
The Committee also emphasized the need for the active involvement of the central government in the management of food economy of the country. Since then central government of the country remains actively involved in the food management of economy. After the independence, the government resolved to increase the indigenous production of foodgrain by at least 10 million tones per annum and import of foodgrains only for the reserve stocks for unforeseen circumstances. Keeping this in view, another foodgrains policy committee was appointed in 1947, which recommended gradual abolition of the food controls and rationing and import for the maintenance of the reserve stocks. Therefore, the control on foodgrains, which was imposed in the wake of the Bengal famine and the war was removed but shortly reinforced in 1948 when the rising prices of the foodgrains created another havoc. The Foodgrains Procurement Commission 1950 suggested the rationing of foodgrains in all the towns with a population of over 50000. Besides it also asked for informal rationing in other towns and some regulated supply of grains in rural areas. The Foodgrain Enquiry Committee 1957 further suggested the maintenance of buffer stocks, and setting up of the foodgrains stabilization organization to undertake purchase and sale operation of foodgrains as during 1957-58 to 1966-67 food economy was completely dominated by the import under PL480 to serve the public distribution. In the light of the aforementioned observations, the Food Corporation of India was set up in 1965 with the aim to procure foodgrains including through imports and making available the foodgrains at different destinations for the purpose of public distribution. It was further recognized that food policy of the country should have three main objectives; (i) food self-sufficiency (ii) foodgrain price stability (iii) and assurance of an equitable distribution of foodgrains at reasonable prices.

4.2.1 Food Self Sufficiency:

At the time of independence food supply situation in the country was not very comfortable. India had inherited a completely exhausted agriculture sector, where the supply of foodgrains was substantially short of the national requirements. Therefore, the import of large quantity of foodgrains was inevitable. Method of cultivation was very traditional, and a large part of the cultivated area was under rain-fed which had rendered agricultural output particularly that of foodgrains quite fluctuating. Further,
the land tenure system and other institutional arrangements like infrastructure facilities were not conducive for rapid agricultural growth. Per capita income was very low, markets were disintegrated, weak and exploited due to lack of transportation facilities.\footnote{Tyagi, D.S., op. cit., p. 16.}

Between 1951 and 1954, the share of imports in the total availability of foodgrains in the country was 4.8 percent, which in the next five years i.e. 1955-59 declined to 3.9 percent. However, during the first half of the sixties this share increased to 6.25 percent and further to 8.3 percent in the late sixties (1965-69). So to increase the production of foodgrains in the country, major emphases was put on enhancing the land productivity, as the potential for bringing more area under cultivation had started saturating. Consequently, India turned towards the potentially high yielding varieties (HYV) by applying the modern farm inputs like HYV seeds, chemical fertilizers and mechanization of certain agricultural operation. Thus the role of technology was accorded explicit recognition as a major input in agriculture. But, this policy had three major concern areas.

a. It required heavy investment on the part of the farmers to reach at higher production possibility curve.

b. It required a favorable price climate for agricultural produce and

c. It required availability of modern farm inputs at affordable prices.

Above constraints required the government too look afresh at the ongoing food policy and make the necessary changes accordingly. Therefore, the Agricultural Price Commission was setup keeping in view the following points.

1. The need to provide incentives to the producer for adopting improved technology for the purpose of enhancing production.

2. The need to ensure rational utilization of land and other production resources.

3. The likely effect of the price policy on the rest of the economy as cost of living, level of wages etc.
4.2.2 Agriculture Price Policy:

The policy has evolved out of need to augment the domestic foodgrains production so as to achieve food self-sufficiency and protect the consumers from scarcity and speculative price rise. Thus, the main objective of foodgrains price policies in India had broadly been concerned more with the stabilization of consumer prices than with ensuring maximum prices to the producers. During the first five-year plan foodgrains prices moved haphazardly, government then depended entirely on ad-hoc corrective measures. On the other hand when grains prices were crashing with good production in 1954-55, government was unable to come out with an adequate purchase plan for a considerable period. During second plan also the maintenance of price stability through physical control and other regulatory measures continued to be the primary objective but in spite of these the prices showed a continuous upward trends. Therefore, during the third plan it was realized that a policy is necessary to prevent sharp fluctuation in prices as well as to ensure a certain minimum to the farmers. Simultaneously, consumers’ interest which is also paramount to be taken care off through proper buffer stock, trade regulatory measure and suitable distributive arrangements. The L. K Jha Committee 1964 prescribed the first price policy in the matter of foodgrains. The objective of the price stability was sought to be achieved through reducing year-to-year seasonal fluctuations in the prices. The Committee recommended the constitution of a body that will advice the Government on agricultural prices and price structure in the context of the need to raise agricultural production. The Committee also recommended the minimum support prices for the year 1964-65. In the light of the recommendation Agriculture Price Commission (APC) was setup in 1965 and since then it has been recommending the minimum support prices, (below the market prices) and the procurement prices (higher than minimum support price but below the market prices). The support prices acted as insurance and direct incentive to the farmers to increase agricultural production. Foodgrain prices since then had been under varying degree of control despite the fact that barely 10 percent of the total foodgrain production and 25 percent of its marketable surplus passed through the PDS. On the other hand, the administered issue prices, which had an element of food subsidy in it, did had a more than marginal downward effect on the market prices, as a consequence the actual rise in foodgrain
price was less than the potential rise. Subsequently, agriculture price policy intervened to cover many more agricultural commodities in the network of minimum guaranteed prices. There are four main instruments of agriculture price policy; namely, input subsidies, minimum support price, procurement price, and issue price.

4.2.2.1 Input Subsidies:

Input subsidies are provided to enhance the foodgrain production in the country, as it encourages the adoption of specific technology and benefits small producers. Fertilizer, electricity, irrigation and bank credit at nominal charges are the major input subsidies besides HYV seeds and other facilities that help farmers encourage food production (for more details, please see table 5.32).

4.2.2.2 Minimum Support Price:

The rationale of minimum support price lies in assuring the farmers who may suffer from periodicals gluts caused by good monsoon or the use of superior technology. The minimum support price for principal commodities are generally announced at the sowing time and the government agree to buy any amount of quantity offered for sale at those prices (for more details, please see table 5.28).

4.2.2.3 Procurement Price:

Procurement prices are fixed and announced at the starts of the marketing season. Till 1970s they represented the prices at which the states agencies were ready to procure grains from the producers, millers and the market. These prices were generally lower than the normal market prices. The quantity to be procured was determined by the Government’s need for buffer stocks as well as quantities needed for the disbursements under the PDS. However, the actual quantity of procurement depended upon the prices offered by the Government irrespective of the requirement for buffer stocks or the PDS. Later on the difference between MSP and the Procurement Prices

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were abolished. Now government announces only Minimum Support Prices for different commodities.

4.2.2.4 Issue Price:

These are the prices at which the Government releases foodgrains stocks from the central pool to the PDS. They are lower than the prevailing market prices and slightly higher than the procurement prices. These prices involves heavy element of subsidy from the government on foodgrains as well as non-food items such as sugar and edible oil (for more details, please see table 5.28).

4.2.3 Institutions to Implement Agriculture Price Policy:

4.2.3.1 The Commission for Agricultural Cost and Prices (CACP)

This is a renewed version of the erstwhile Agricultural Price Commission (APC). It is the chief advisory body on agriculture price policy. While recommending a price for a commodity the commission takes into account, among other factors, the prices fixed in the previous year, trends in open market prices reflecting overall shortages or surplus, the latest available estimates of cost of production and changes in the input prices, the need for securing a balanced growth in the output of related crops, reduction in inter states price dispersion, the likely effect of the recommended prices on the cost of living and the general price level. At present, the main task of the commission is to recommend the procurement prices for principal crops although its terms of reference are quite comprehensive.

4.2.3.2 The Food Corporation of India (FCI):

The FCI was set up in 1964 through an act of parliament. Its primary responsibility is to undertake purchase, storage, transportation, distribution and sale of foodgrains. It also aims to ensure that the primary producer gets the minimum price set by the government and the consumer is protected from the vagaries of speculative trades. FCI has been the main field instrument of the government of India’s food policy since its establishment. On behalf of the government, it looks after the price support,
procurement, storage, interstate movement and distribution operations of foodgrains. The FCI also provides price support to farmers by purchasing quantities that could not fetch minimum support prices in the market, stores the grains scientifically, moves grains from surplus to deficit areas and makes available grains to states for the purpose of public distribution system. On behalf of the central Government it is authorized to handle all purchase, storage, movement, distribution and sale of foodgrains besides engaging itself in import and export of foodgrains as and when necessary.

Since April 1969, FCI is also acting as the sole agency of the central Government for state trading in foodgrains. It helps government to achieve the following objectives.

1. Guarantee of minimum support price to the producers.
2. Restrictions on the inter state movement of foodgrains by private traders.
3. Imports of foodgrains where necessary
4. The maintenance of Public Distribution System through statutory and other controls.
5. Building up of the required buffer stocks of grains.

4.2.4 The Impact of Agriculture Price Policy:

Till the mid sixties, cultivation of rice and wheat was not profitable because the procurement prices of these crops were below the full cost of their production. For example, price of wheat was lower by 14 to 38 percent in five states namely, UP, Punjab, Haryana, Bihar and Rajasthan. Even the farm harvest price was lower than the full cost of the production in some states. Similarly in the case of rice, procurement price was lower than the full cost of production in Andhra Pradesh, Tamil Nadu, Kerala and West Bengal which together accounted for about 40 percent of the total national output. Thus, the major producing states were not able to profit from the production of these two crops. The onslaught of severe drought in 1965-66 further

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9 Tyagi, D.S., op. cit., p 69.
10 Ibid
shortened the supply leading escalation in the real prices of wheat and rice. The wholesale price index of wheat deflated by the all commodities index increased from 100 in 1961-62 to 130 in 1965-66 and to 173 in 1967-68. Likewise the wholesale price index of rice deflated by the all commodities index had increased from 100 in 1961-62 to 139 in 1965-66 and to 164 in 1966-67. In the light of this, the procurement prices of wheat and rice were also fixed at higher levels in 1966-67 and 1967-68. Thus, making an induced increase in the prices of wheat and rice. Thereafter, the cultivation of these crops became profitable by the end of sixties. Not only the procurement prices but also the farm harvest prices became higher than the cost of production and the margin in some cases was as high as 66 percent. Consequently, there was healthy increase in the net income per hectare from the cultivation of wheat and rice.

With the introduction of the High Yielding Varieties of wheat, the area under wheat and its yield (per hectare) started rising rapidly. The area under wheat increased by 18.2 million hectares within three to four years, and production increased to 23.08 million tones by 1970-71 and average yield reached to 1,307 kgs. As a proportion, the area under high yielding varieties to the total area under wheat increased from 19.6 percent in 1967-68 to 36 percent in 1970-71 and further to 78.6 percent by 1983-84. Apart from this the proportion of irrigated wheat area also increased phenomenally from 43 percent in 1967-68 to 54 percent by 1970-71 and 72 percent by 1983-84. The occurrence of severe drought in 1965-66 and 1966-67 at the time when adequate supply of wheat from the world market was not available brought a sharp increase in the price of wheat. The wholesale price index of wheat escalated from 100 in 1961-62 to 177.7 in 1966-67 and 213.7 in 1967-68. Thus, in another attempt to better the production, procurement price of wheat was raised from Rs. 540 per tone in 1966-67 to Rs 700 per tone in 1967-68 and further to Rs 760 per tone in 1968-69. This price was maintained till 1973-74.

11 Ibid p. 74
12 Till that time the maximum production of wheat was 12.3 million tones achieved in 1964-65, when productivity was at the highest level of 913 kgs per hectare until 1964-65, maximum area under wheat had been 13.6 million hectares
In the case of rice production the main breakthrough was achieved in the mid-seventies when area under rice increased from 37.8 million hectares in 1974-75 to 40.5 million hectares by 1978-79. The area under high yielding varieties of rice went up from 5.4 million hectares in 1970-71 to 17 million hectares by 1978-79. The proportion of area under high yielding varieties to the total area under rice increased from 14.5 percent in 1970-71 to 31.5 percent by 1975-76 and 42.0 percent by 1978-79. Whereas during the period of 1967-68 to 1975-76 the proportion of irrigated area under rice to the total area remained unchanged. The procurement prices of paddy (common rice) were fixed between Rs 460 and Rs 525 per tone during 1967-68 in the different states which remained unchanged till 1972-73. Then in 1973-74 procurement price was raised to Rs 700 per tones and further to Rs 770 in 1977 78 and to Rs 1,050 in 1980-81. The administered price of rice increased by 81 percent whereas the same of wheat by 71 percent during the 1972-73 to 1980-81.

The policy of government intervention also helped producers by forestalling the unnecessary decline in the prices during bumper harvest like in 1971-72 when wheat production was 11 percent higher than in the previous year. Given the demand elasticity of wheat at 0.44, the prices of wheat declined by about 25 percent. But since the Government purchased all the wheat that was offered at the fixed price of Rs 760 per tone the prices actually registered an increase of nearly 7 percent.

In the later years, government to enlarge the size of foodgrain procurement started offering the prices even higher than those recommended by the Commission of Agricultural Cost and Prices (CACP). Thereafter, the prices were made so attractive that without effort procurement targets are easily met. During 1984-85 season the total procurement was over one million tone than in 1983-84 despite the fact that the output in 1984-85 was lower than in 1983-84 by about 1.4 million tones. Thus, despite lower growth in the agriculture foodgrains, procurement by the FCI increased significantly over the years. In the 1980s yearly procurement of wheat by the FCI ranged between 6-10 million tones with the highest in 1985-86 at 10.54 million.

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14 Ibid. p 79.
15 Ibid. p.79.
Likewise, the increase in rice procurement was ranged between 5 and 10 million tones during 1980s.

Till mid nineties, the food policy management moved to keep in view the increase in foodgrain production, particularly of rice and wheat mainly due to fear of the scarcity and import dependence. But, during nineties Government’s policy to announce larger increase in MSP particularly after 1997 have increased the procurement much beyond the stipulated buffer norms.

4.2.4.1 Procurement:

Procurement implies purchase of surpluses from producers by the government at predetermined fair prices. This surplus is utilized to feed the rationed population whereas the quantities left with the producers and traders is used for the non-rationed population. Procurement is undertaken by the FCI in collaboration with numerous state agencies at prices fixed by the Government on the recommendation of the CACP. There have been ups and downs in the procurement levels since 1947, as several factors have been playing crucial role like; procurement target, crop performance and the import of foodgrains. Crop performance on the other hand has been related with the performance of monsoon. Foodgrains import has been subject to international compulsions and price fluctuations. Since it was the responsibility of the government to arrange for the equitable distribution of foodgrains at reasonable prices, very often any shortfall in procurement targets were met through imports. However, paying scarce foreign exchange for food was not always as easy. Therefore, government always endeavored to make the country self sufficient in foodgrains production. In fact the crux of India’s entire food policy is to enable the country produce enough for the entire requirements including those for the PDS as well as stocks.

Procurement was done through different mechanism but the most successful among them was the procurement under price support, which substantially augmented the foodgrains production in the Indo-Gangetic plains falling in the regions of Punjab,

\[\text{Until late seventies the FCI used to handle all cereals including coarse cereals but since 1980 the FCI has confined its operation to only wheat and rice. Coarse cereals are now handled by the National Agricultural Cooperative Marketing Federation (NAFED).}\]
Haryana and Western Uttar Pradesh. The impact of price policy was so effective in the region that on quite a few occasions government purchased foodgrains only to avoid crash in prices. Another way of procurement is through the statutory levy imposed by the state governments on the millers and traders.

The quantum of procurement by the FCI and state agencies largely depends upon the volume of production and the difference between the open market prices and government determined procurement prices. In case of rice procurement is mainly through levy on millers. The rice millers are required to sell a specified percentage of the total rice milled by them to the FCI, at prices equal to the procurement prices of paddy plus milling cost. However when the prices of paddy tend to touch the procurement level, the FCI also purchases paddy. This paddy is then milled either through custom milling or in the FCIs own rice mills. Thus notwithstanding year to year fluctuations, procurement by the FCI as a proportion of total production have displayed an increasing trend.

In recent years, government’s policy of fixing minimum support price (MSPs) much higher than costs of production or even the price recommended by the CACP, has diluted the grains quality besides increasing the statutory levies by the states. These have increased FCI’s effective purchase cost of grain to above the price at which offtake can equal the procurement with reasonable subsidy. Regular hike in minimum support prices have increased the procurement of foodgrains beyond the sustainable level. Present high stocks are result of this and of past decisions to increase the issue prices. Due to lack of proper stocking capacities FCI is forced to transport large quantitities of stocks to far and wide depots in the country, which involves heavy transportation and damage costs besides the usual wear and tear. Thus, the open-ended procurement policy of the government at continual higher MSPs has only added to the governments’ rapidly increasing food subsidy bill.

Table 4.1 shows steady increase in the foodgrains procurement during eighties and nineties. However, procurement growth in nineties is more pronounced then in eighties. Except in the year 1987-88 and 1988-89 there was slow but continuous rise in procurement of rice as well as wheat. Another trend to note is the fact that during the post reform period except for two breaks (i.e. 1995-96 and 1998-99) contribution of rice in total procurement has been greater than that of wheat. After the economic
reforms in 1991-92 foodgrains procurement has increased from 17 million tones to over 41 million tones in 2001-02.

Table: 4.1 Procurement, Offtake and Stocks of Foodgrains

<table>
<thead>
<tr>
<th>Year</th>
<th>Procurement</th>
<th>Offtake</th>
<th>Stocks*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rice Wheat Total</td>
<td>Rice Wheat Total</td>
<td>Rice Wheat Total</td>
</tr>
<tr>
<td>1980-81</td>
<td>5.34 5.86 11.20</td>
<td>5.88 7.51 13.54</td>
<td>6.69 3.07 9.87</td>
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<tr>
<td>1982-83</td>
<td>7.14 7.71 14.85</td>
<td>7.69 7.90 15.73</td>
<td>5.24 5.64 11.10</td>
</tr>
<tr>
<td>1983-84</td>
<td>7.58 8.29 15.87</td>
<td>7.67 7.45 15.54</td>
<td>5.24 9.62 14.92</td>
</tr>
<tr>
<td>1987-88</td>
<td>7.04 7.88 14.92</td>
<td>10.10 12.78 23.00</td>
<td>5.91 3.34 9.43</td>
</tr>
<tr>
<td>1988-89</td>
<td>7.64 6.53 14.17</td>
<td>9.08 8.66 17.74</td>
<td>3.86 2.31 6.18</td>
</tr>
<tr>
<td>1989-90</td>
<td>11.20 9.00 20.17</td>
<td>7.48 7.51 14.99</td>
<td>7.06 3.46 10.52</td>
</tr>
<tr>
<td>1990-91</td>
<td>12.90 11.07 24.16</td>
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<td>10.20 5.60 15.81</td>
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<td>2001-02</td>
<td>21.30 20.63 41.93</td>
<td>15.30 15.99 31.31</td>
<td>24.90 26.04 51.02</td>
</tr>
</tbody>
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Notes: Procurement figures related to marketing years, i.e. Rice (Oct-Sept), Wheat (April-March) @: Includes coarse cereals. *: Stocks are as at March-end.


4.2.4.2 Offtake:

There is gradual increase in the offtake from the central pool. Starting from merely 13 million tones of offtake in 1980-81 the total offtake of foodgrains reached highest to 23 million tones in 1987-88. During the post reform period we find some marked fluctuations in the offtake. However looking at the scheme wise we find that during the RPDS era there was steady increase in the offtake from 17 million tones in 1992-93 to over 25 million tones in 1996-97. Thereafter fluctuations are more marked. In 1999-2000 the offtake was 23 million tones which in 2000-01 declined to 18 million tones then registered a sharp increase of 31 million tones in 2001-02 (Table 4.1).
Comparing with the allocation, the post reform period saw increasing the gap between allocation and offtake from PDS. For example, the offtake of rice as a percentage of its allocation declined from 90 percent of its allocation in 1991-92 to 84 percent in 1992-93, 73 percent in 1993-94 and 60 percent in 1994-95. Thereafter, the offtake of rice improved in proportion to allocation. For example, in the year 1995-96 offtake was 67 percent of the total allocation, which rose to 80 percent in 1996-97, and further 83 percent in 1998-99. In the case of wheat, offtake as percentage of allocation declined from 85 percent in 1991-92 and 1992-93 to 64 percent in 1993-94 and further 47 percent in 1994-95. Thereafter, the offtake of wheat rose to 51.3 percent of allocation in 1995-96, and further to 87 percent in 1996-97. In 2000-01 offtake of wheat and rice again fell as low as 32 and 48 percent respectively.

4.2.4.3 Buffer Stock:

Buffer stock is another important constituent of India’s food policy especially in the condition where agricultural production largely dependents upon the monsoon. It provides the best and most flexible instrument for moderating the short-term fluctuations in the demand and supply of foodgrains so that scarce resources can be employed more efficiently to attain the long-term growth objective in agriculture development. Buffer stocks are buildup by the FCI as a necessary policy measure in the interest of producers as well as consumers. The maintenance of buffer stocks becomes essential to cater for the lean years when minimum level of consumption in food must be provided and also to give price support to the producers in a bumper crops. Thus, buffer stock ensures availability of foodgrains at reasonable price to the consumer in bad years and gives the confidence to the farmers in good years so that they continue producing.

In fact, various food policy inquiry committees appointed by the government form time to time have stressed the need for such reserves. The Foodgrains Policy Committees 1943 recommended the creation of a central foodgrains reserve of not less than five lakh tones. The Bengal Famine Enquiry Commission 1945 also suggested a buffer stock. The Foodgrains Policy Committee 1948 emphasized the

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importance of a central reserve of one million tones. Foodgrains Enquiry Committee 1957 went so far as to recommend the setting up of a foodgrains stabilization organization. The two main tasks of which would be to create an emergency reserve stocks of at least two million tones and to undertake buffer stocks operation to achieve stabilization of prices. Foodgrains Policy Committee 1966 also recommended buffer stocks to achieve the objective of interseasonal stability in supply. Originally such a stock was to be created out of imported grains. However, after late sixties local surplus production of foodgrains increased so much so that it promised a sustained increase in production, which prompted the government to decide on the building buffer stocks with indigenous grains. The Committee also recommended the minimum level of buffer stock of 5 million tones from which the stock should not be allowed to fall below that level. The Technical group appointed by the central government in April 1981, suggested increase in the amount of buffer stocks to 15 million tones.19

Thus, a major objective of the maintenance of buffer and operational stock is to ensure an uninterrupted supply of foodgrains to the PDS. Up to mid seventies most of the stocks were built out of import, however, thereafter domestic production has reached a level where large buffer stocks could be build through domestic procurements only. During eighties we find more fluctuations in government stocks (Table 4.1). Total stock which was 9 million tones in 1980-81 increased to over 14 million tones in 1983-84. The in the next year it recorded net growth of over 7 million tones. From 1985-86 it started declining to reach 6 million tones in 1988-89. After the economic reforms we find marked improvement in the stock levels. Beginning with the stock level of 11 million tones in 1991-92 the total foodgrain stock of government has reached to over 51 million tones at the end of March 2001-02. In between we do find some deceleration in stock during 1996-97 and 1997-98.

No doubt central pool must have a sufficient stock in order to meet the eventualities. But at the same time it also need to reconcile the conflicting needs of ensuring a comfortable availability position with the needs to economise on wastage, storage and interest cost on credit availed for the food management. As large stocks of

19 Tyagi, D.S., op. cit., p 46
foodgrains over the years have substantially increased the carrying cost of foodgrains posing threat to the viability of the entire food management.

4.3 Public Distribution System (PDS):

Introduced in the wake of Bengal famine 1943, the PDS has come out to be the most important constituent of India’s food policy. The need for a public distribution, as an effective instrument of price stabilization in the national economy was emphasized time and again in various foodgrains enquiry committee reports. Starting with Theodore Gregory’s recommendation 1943, followed by Foodgrains Procurement Committee Report of 1950-51 asking for a controlled system of procurement and distribution of foodgrains. The Foodgrains Policy Committee 1966 laid emphasis on equitable distribution of foodgrains by making the surplus produces in surplus states available at reasonable prices to non-producing consumers as well as to the deficit states with prime objective to protect the low income groups people from the adverse impact of food shortages. Thus, PDS has been outlined a vital role after the grains had been procured or imported for the distribution purposes. It is the joint responsibility of the central and state governments and union territories administrations to ensure the smooth functioning of public distribution system. While the responsibility of the central government is to procure, store and transport it from purchase points to central godowns, the responsibility of the state governments and union territory administrations is to lift these grains from the central godowns and distribute them to consumers through the network of fair price shops. Historically, the PDS has been functioning with the following objectives.

a. Maintaining price stability.

b. Raising the welfare of the poor by providing them access to basic foods at reasonable prices.

c. Rationing during scarcity situations and

d. Keeping a check on private trades.
Essential Constituents of the PDS:

1. To collect sufficient quantities of foodgrains so as to able to distribute it throughout the year at reasonable prices, commensurate with the commitment and coverage either through the internal procurement or by imports to the extent of necessity.

2. To arrange for the adequate storage capacity at procurement and distribution centers for operational as well as buffer stocks.

3. To lay down the grains specification and quality control at various stages of procurement, storage and distribution.

4. To determine the issue prices of foodgrains, in consultation with the government in the light of the recommendation of the CACP, before the commencement of marketing season. Thus, fixing of the issue price is of crucial importance both from the point of view of regulating the market prices and of determining the size of the commitment undertaken through the PDS. It is also a vital force for maintaining prices at reasonable level.20

4.3.1 Management of the Public Distribution System:

Under the existing division of the authority between central and states governments, Central Government through the FCI procures, transports and stores the foodgrains. On the other hand, state governments are liable to pick the foodgrains from FCI depots and make it available to the consumers through the network of fair price shops. A fair price shop covers a population of about 2000 of a particular village/ town or city. The overall control of the public distribution system rests with the food and civil supplies department of the state government. All people whether rich or poor are entitled to draw supplies from fair price shops at fixed prices. The number of fair price shops has been increasing continuously over the years in both rural and urban areas. According to the civil supplies department about 25 percent of the fair price shops were run by cooperatives. The scale of PDS became massive as during the period of 1971 to 1990 public distribution of cereals ranged between 8.9 and 15

20 Chopra, R N, *Food Policy in India*, Intellectual Publishing House, New Delhi, 1988,
million tones per year. Over the years the share of PDS has varied from 9 to 15 percent of the total cereal production. The distribution is quite high during lean years and quite low when market prices are low. The quantities supplied through the PDS outlets remained below 5 million tones up to 1963 and thereafter they had gone up to 14 million tones by mid 1960s. Throughout the seventies the quantities remained around 10 million tones and during eighties the average was around 16 million tones. In the post reform period average distribution marginally improved to 17 million tones (table 5.23).

PDS continues to be the major instrument of Governments' economic policy not only for ensuring food security but also for protecting purchasing power of the poor. According to the Economic Survey, 75 percent of the ration shops were located in rural areas. More than 70 percent of the PDS rice and more than 55 percent of the PDS wheat was sold in rural areas. The distribution of PDS was more effective in states like Gujarat, Kerala, Maharashtra, Tamil Nadu, Andhra Pradesh and West Bengal. There is a regular operation of PDS supplying the food at highly subsidized prices to those living in the Integrated Tribal Development Project Areas. Different anti poverty employment programme also distribute foodgrains as a part payment for wages to help the poor. These operations have caused subsidy on food to increase over the years.

4.3.2 Revamped Public Distribution System (RPDS):

After the economic reforms in 1991 there was substantial change in the government's food policy. In fact owing to its difficult fiscal situation government had but little choice to have a re-look at its policy of massive public distribution of foodgrains. PDS was also criticized on account of its ineffectiveness in reaching the most vulnerable sections of the society. Some other criticism like leakages and corruption in the overall management of the FCI were also hounding the government for some

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time. But it was the fiscal strangulation after the structural adjustment programme that propelled the government to restructure the public distributions system as Revamped PDS (RPDS) in the year 1992. The RPDS was started by identifying over 1700 blocks of tribal, hilly and drought prone areas, which had weak PDS due to low infrastructural facilities in the region. Government increased the allocation of the foodgrains under the new scheme to these difficult areas and increased the number of fair price shops in the region to improve the physical access of beneficiaries.

Under the RPDS wheat and rice were supplied at Rs. 50 per quintal less than the normal central issue price. The quantities supplied through the PDS outlets increased a peak level of 19 million tones in 1991-92 from 16 million tones in eighties. Simultaneously, with the launching of the RPDS government increased the issue prices of foodgrains to curtail its burgeoning food subsidy bill. This increase in issue price considerably reduced the gap between open market price and the prices charged under PDS. The issue prices of foodgrains within the first four years of structural adjustment had increased by 40 percent which resulted in substantial decline of the offtake from PDS. Notwithstanding this, the upward trend in minimum support and procurement prices continued unabated, which proved very detrimental to the government’s efforts in cutting down the unviable food subsidy burden. (For more details please see, section 5.2.2.1.1 and table 5.24)

4.3.3 Targeted Public Distribution System (TPDS):

Another attempt in narrow targeting with an aim to restrict the PDS only to the poor and phase it gradually out to the non-poor. This scheme replaced the RPDS in June 1997 by dividing the whole lot of population into two broad groups namely; the people above the poverty line (APL) and those below the poverty line (BPL). It specifically focused on the people falling in the second category i.e. “below poverty line”. Under this scheme, foodgrains are allocated to states on the basis of the estimates of the BPL population. The identification of the poor under the scheme was to be done by the respective states as per the estimates of planning commission. The

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Based on the methodology devised by the Expert Group on estimation of proportion and number of poor, Chaired by Late Prof. Lakdawala, for more details see, Annual Report 2002-03.
allocation of foodgrains to the States/UTs is made on the bases of average consumption in the past. As against the underlined philosophy of the RPDS to target all in poor areas, the TPDS aimed at targeting poor in all areas particularly the notorious food deficit areas. The central government transfers to state governments wheat and rice at an issue price close to the market price. The allocation is made on the basis of 10 kgs of cereals per family per month. From March 2001, the scale of issue to BPL consumer was raised from to 20 kgs/month. The allocation was further revised and increased from March 2002 to 35 kgs per month for both BPL and APL families. With the introduction of the dual pricing system the changes in issue prices were now linked to the changes in the economic cost. Now the BPL families were required to pay lower than the price paid in the general PDS, whereas for the APL families the supply cost was fixed at higher than the general PDS prices. For BPL families initially the prices were charged at 40 percent of the economic cost, on the other hand for APL families the prices were fixed at 80 percent of the economic cost. Additional requirements desired by the states were allotted at further higher prices. By the time of the Budget 2000-01. the entire subsidy for the APL customer was withdrawn, whereas, the BPL consumers were now required to pay 50 percent of the economic cost. However, on the recommendation of the Long Term Grain Policy Committee Report 2002, the prices for APL consumers have been slashed by 25 percent from April 2002.

While there has been excessive procurement of rice and wheat, the offtake of foodgrains under the TPDS has been low particularly in case of wheat. This is mainly on account of narrowing differential between PDS and open market prices particularly for the APL families. As the issue price is closing to the market prices, a large proportion of APL families are moving out of the PDS network. (For more details on this, please see sections 5.2.2.1.2 and 5.2.2.1.3 and table 5.25).

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26 Economic cost: cost of food corporation of India comprising the procurement cost procurement incidentals, interest storage across the country transportation and losses if any with in a limit.
4.3.4 Miscellaneous Schemes:

Antyodaya Anna Yojna (AAY):

Introduced on 25th December 2001, the scheme aimed to identify 10 million poorest of the poor out of the total 65 million BPL families. Under this scheme selected families are provided 35 kg foodgrains per month at the Central Issue Price of Rs 2 per kg for wheat and Rs 3 per kg for rice. Initially the scheme has been slow to take off in many states, however, with the passage of time scheme’s performance has remarkably improved. (For allocation and offtake please see, section 5.2.2.1.3 and table 5.25).

Mid Day Meal Scheme:

The scheme was launched by the Ministry of Human Resource Development from August 15, 1995 for the benefit of students in primary schools in EAS/earlier RPDS blocks (2368). The Scheme covers students (Class I-V) in the Government Primary Schools / Primary Schools aided by Govt. and the Primary Schools run by local bodies. Foodgrains (wheat and rice) are supplied free of cost @ 100 gram per child per school day where cooked/processed hot meal is being served with a Minimum content of 300 calories and 8-12 gms of protein each day of school for a minimum of 200 days and 3 kgs per student per month for 10 months in a year, where foodgrains are distributed in raw form.

Wheat Based Nutrition Programme (WBNP):

Launched under the auspices of the Department of Women & Child Development, Ministry of Human Resource Development, allotted foodgrains under the scheme are utilized by the States/UTs under Integrated Child Development Scheme (ICDS) for providing nutritious/ energy food to children below 6 years of age and expectant lactating women.
Scheme For Foodgrains to SC/ST/OBC Hostels/Welfare Institutions:

Introduced in October 1994, the Ministry of Social Justice & Empowerment implements and monitors the scheme. The residents of the hostels having 2/3 students belonging to these categories are eligible to get 15 kg foodgrains per resident per month.

Annapurna Scheme:

The Ministry of Rural Development launched this scheme in 2001-2002 for indigent senior citizens or 65 years of age or above who though eligible for old age pension under the National Old Age Pension Scheme (NOAPS) but are not getting the pension are covered under the Scheme. 10 kgs of foodgrains per person per month are supplied free of cost under the scheme.

4.4 Long Term Grain Policy:

Instituted in November 2000, the Long-term Grain Policy Committee was asked to look into the functioning of MSP, PDS, buffer stocking and international trade in foodgrains. The Committee examined the following areas and keeping in view the basic objective of food policy as well as the budget constraints, submitted its final report to the government in July 2002.

1. Minimum Support Prices (MSP) and Price Support Operations.
2. The Role of the Food Corporation of India. (FCI)
3. Functioning of the Public Distribution System. (PDS)
4. Policies regarding buffer stocks, open market sales and foreign trade.

4.4.1 Minimum Support Prices (MSP) and Price Support Operations:

Regarding the MSP, the Committee recommended that the existing MSP policy should continue but over the time its functioning and the policy regarding the private trade should be improved so that the volume of public procurement is balanced to
meet the needs of price stabilization and the PDS. With regard to the fixation of
different MSP for same crop in different regions, the committee observed that this
trend is likely to encourage inefficiency in production and may require undesirable
controls on movement from one region to another. Therefore, it was suggested that
the Central Government should continue to be responsible for fixing both the
Minimum Support Prices (MSP) as well as the Central Issue Prices (CIP). The
Committee also suggested that MSPs should continue as floor price and be declared
before the sowing season, with guarantee of open-ended purchase but without any
obligation on farmers to sell at MSP.\textsuperscript{27}

Regarding the role of CACP in advising the government on MSP, the
Committee’s views were as follows:

a. The MSPs that CACP recommends must be based on its projection of the full C2
cost in regions of relatively efficient production, taking into account the A2+FL
cost (i.e. paid out costs plus imputed cost of family labor) even in regions of
relatively high cost production.

b. If prolonged excess of production over domestic requirement leads to
unacceptably high stock levels, and these coincide with world prices lower than
domestic prices, MSPs must signal readjustment of cropping patterns. MSPs
will then have to be adjusted to reflect C2 costs of only the most efficient surplus
producing states.

c. The MSP should truly be a national level floor price, rather than remaining
confined to established surplus regions.

d. The existing MSP system, which was developed with reference to a closed
economy, must adapt to the context of liberalized trade. In this regard, MSP
policy will have to be supplemented by variable import and export tariff policies
for effective price stabilization.

\textsuperscript{27} Report of the High Level Committee on Long-term Grain Policy, Ministry of Consumer Affairs,
Food and Public Distribution, Government of India, New Delhi, 2002, pp. 9-10
4.4.2 The Role of the Food Corporation of India (FCI):

The Committee expressed satisfaction over the role FCI has performed over the years. However, it criticized the FCI for its predominant role in procuring from a few surplus states rather than ensuring price support to cultivators throughout the country and developing markets for grain in relatively underdeveloped regions. The Committee recommended additional budgetary support for FCI to perform its remaining tasks.28

Regarding the management of FCI, the Committee did not envisage any basic change in the structure of the FCI. But it called for giving the FCI greater operational flexibility in strengthening the market intelligence set-up and improving its management practices in procurement, storage and quality control. The Committee expressed dissatisfaction over the market intelligence set up of FCI, which in Committee’s view, is extremely rudimentary and does not cater to data requirements on domestic and international prices for open market sales, purchases and release of stocks for export.

Thus, given the present crisis in the foodgrain management in the country, the Committee recommended for immediate and bold initiatives to correct the imbalances. In the opinion of the Committee, the existing measures taken by the government for the purpose of reducing stocks have pertained only to disposal and distribution and have not addressed the critical issue of procurement. In the committee’s assessment, present level of stocks cannot be reduced unless there is corresponding reduction in procurement.29

4.4.3 Functioning of the Public Distribution System (PDS):

The Committee admitted that the effective reach of the Public Distribution System (PDS) has shrunken alarmingly in recent years. Despite bulging stocks and a poor harvest, PDS offtake in 2001 was the lowest since 1978, reflecting viability problems in the PDS network. Consequently, per capita cereals availability in 2001 fell to its

28 Ibid. p. 16
lowest level in over two decades. In regard to the functioning of the PDS, the committee recommended that:

a. The Central Issue Price (CIP) principle under universal PDS was to provide grain at “reasonable price” to consumers. In that context, its main function was one of pan-national price equalization of supply from public stock. To serve this function, the CIPs should be equal to acquisition costs, which implies subsidy equal to distribution cost.

b. The TPDS intent, to shift subsidies from the rich to poor, conflicts with the function of universal PDS to shift physical supplies from regions of surplus to regions of deficit. It also involves a conflict between “poverty” and “nutritional status”, since although States in South and West India may have higher percapita incomes than average, calorie intake and cereals consumption are lower.

c. These conflicts can be resolved within TPDS by setting the CIP for APL equal to acquisition cost. Alternatively, there can be a uniform CIP at this level plus cash grants to States equal to the differential subsidy to the poor, giving States choice of delivery systems.

d. With BPL prices lower than MSP, the potential for leakage to the open market is higher under TPDS, and in fact there is incentive to recycle PDS supplies back to procurement.

e. Leakages can be checked by charging Fair Price Shops (FPS) owners a higher uniform CIP for grain and giving the differential subsidy for the poor directly through coupons, which FPS owners can redeem in cash. FPS viability can be restored by bringing back some of the APL and by having delivery points other than registered PDS outlets.

f. In the longer run, the cash-cum-allocation idea can be extended to allow States to source requirements flexibly from open-ended sales through OMSS. For this, States would have to be given the cash difference between the state-specific OMSS price (or the state specific economic cost) and the CIP (or the

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30 Ibid p 74-7/
all-India acquisition cost) on all lifting up to the state’s PDS allocation, in addition to the differential subsidy for those identified as BPL.

g. The principles of “pre-emptive purchase” and of FCI as “buyer of last resort” are important and necessary to maintain the sanctity of the Central Pool while proceeding with decentralization. However, in the long run, it is desirable for MSP, set as a floor price, to become statutory.

h. All larger traders and wholesalers who are involved in inter-state or inter-regional or export trade must also adhere to the proposed statutory floor price.

i. To reduce the overheads, the Committee felt the need of an inter-ministerial Working Group going into the feasibility of greater co-ordination between different Central undertakings who are currently involved in price support operations like the Food Corporation of India (FCI), the Cotton Corporation of India (CCI) and the Jute Corporation of India (JCI) along with NAFED.

To save the transportation costs and meet the consumers need more adequately the Committee suggested decentralization of procurement by recommending followings:

1. Grain procured under the Decentralized Scheme must be treated as part of the Central Pool, with the FCl.s. in its capacity as buyer of last resort, guaranteeing the lifting of any stock in excess of the State’s own PDS offtake at a uniform MSP-linked acquisition cost.

2. Based on this guarantee of Central purchase at MSP linked price, there should be open-ended bank credit as provided to FCI.

3. The subsidy provided by the Centre on States lifting from own procurement should be at the same rate as provided to States lifting from the FCI, i.e. the difference between the State-specific economic cost of the FCI (or the normal OMSS price defined earlier) and the Central Issue price.

4. There should be an adequate system of auditing of actual procurement and offtake by State governments.

5. State agencies may continue to be used by FCI as agents to undertake operations in different States, if doing so is likely to improve its own
efficiency. Similarly, State governments should be allowed to appoint agents for procurement, provided statutory provisions are in place to ensure MSP payment by these agents.\textsuperscript{31}

4.4.4 Policies Regarding Buffer Stocks, Open Market Sales and Foreign Trade:

The Committee observed that the situation of over stocking is of recent origin and is mainly an outcome of a fundamental imbalance between procurement and offtake. The Committee observed:

1. Stocks were below the buffer norm on October 1, 1997, at only 15.3 million tones. Subsequently, end-December stocks have been 18.3, 24.4, 31.4, 45.7 and 58.0 million tones in 1997, 1998, 1999, 2000 and 2001 respectively.


3. On the other hand, annual PDS offtake, which averaged 17.3 million tones during 1991-97, declined steadily from 18.6 million tones in 1998 to 17.7, 12.8 and 12.7 million tones in 1999, 2000 and 2001 respectively.

4. Total offtake from the Central Pool exceeds PDS offtake on account of open market sales, exports, and releases for welfare schemes (such as mid-day meals and food for work). This was balanced with procurement during 1991-97, averaging 21.9 million tones annually, but dropped to 19.1 and 17.9 million tones in calendar 2000 and fiscal 2000-01 respectively.

5. Larger open sales and exports, reintroduction of food for works, and some increase in PDS sales following issue price cuts increased total offtake to 25.4 million tones in calendar 2001 and further to 30.1 million tones in fiscal 2001-02. Yet offtake remained well below procurement. Also, PDS offtake was only 32 and 43 percent of procurement and total offtake respectively in 2001-02, as against 79 and 80 percent during 1991-97.

\textsuperscript{31}The subsidy here refers to the difference between the State-specific economic cost of the FCI (the normal OMSS price defined later) and the Central Issue price. See, \textit{Report of the High Level Committee on Long term Grain Policy}, p 11.
The Committee admitted that the imbalance between procurement and offtake were mainly the outcome of unrealistic administered prices. The Committee, for example noted that:

I. Production of rice and wheat has fluctuated in the range 148-166 million tones since 1996-97, and was 151.1 million tones in 1996-97 and 153.6 million tones in 2000-01. Therefore, increase in production explains only a small part of the massive increase in procurement.

II. As against 26.8 percent increase in the all-commodity WPI since 1996-97, the MSP for wheat has increased by 63.1 percent and for paddy by 39.5 percent. During this period, wholesale prices for wheat and rice rose less, by 27 and 31 percent respectively, and international prices actually declined 17 and 22 percent in rupee terms. Which clearly shows that MSPs were more attractive than open market prices and even higher than world prices. This, and repeated relaxation of quality norms, has increased procurement.

III. Besides attractive MSPs and relaxed quality norms, another reason for high procurement has been the withdrawal of private trade from primary grain markets. This is because of subsidised Open Market Sales from public stocks. Purchase from these sales is now much more profitable than purchase from farmers at MSP. The Targeted Public Distribution System (TPDS) introduced in 1997 with differential pricing for the poor and non-poor made PDS less attractive to those above the poverty line (APL) and, although prices were reduced for those below poverty line (BPL), the initial BPL quota was set at only 10 kgs per household per month. Because of this, PDS offtake fell from 19.6 million tones in 1996-97 to an annual average of 17.5 million tones during 1997-2000. After the TPDS was made fully targeted in April 2000. The BPL quota was doubled and APL subsidies were eliminated by raising APL Central Issue Prices (CIP) to economic cost, i.e. more than double pre-TPDS levels. As result, BPL offtake increased from 7.0 million tones in 1999-00 to 9.2 million tones in 2000-01 but this was swamped by a collapse in APL offtake from 10.1 to only 2.1 million tones. This increased stocks and, since the annual cost of carrying these was larger than the saving on APL subsidy, also proved fiscally counterproductive. On the other hand, the distress
associated with developments in the cereals sector was more evident among poor consumers. This was most clearly the case during 2000-01 when record procurement and a sharp drop in PDS offtake coincided with a 5.7 per cent drop in cereals production. As a result, the per capita cereals availability in 2001 fell 8.3 percent from the previous year, much more than production, to drop to its lowest since 1980.

Regarding the open market sales and foreign trade, the Committee called for the prices in the Open Market Sale Scheme (OMSS) to be based on the corresponding Central Issue Prices (which should normally be the acquisition cost of grain) plus the full cost of transport and storage. The Committee also advised that since OMSS carries no subsidy and does not distort markets. There should be open-ended sales at these prices to stabilize markets. For stabilization, when world prices are very high, the committee suggested, OMSS prices to take into account the import prices. In such situations, it asked the imports to be subsidized in such a way that this does not reduce OMSS prices below their normal levels determined on the basis of economic cost. In case of high world prices, domestic price stability should be handled through export tariffs rather than a ban on exports.

Regarding agricultural trade, the Committee recommended that the system of exports and imports of food grains should be based on a system of variable tariffs. Import tariffs should vary with world prices to ensure that the tariff inclusive (c.i.f) cost of imports do not fall below the economic cost. Exports, on the other hand, should be entirely on private account. The price for exports should therefore follow the same principle as other OMSS sales. Subsidies on this, if any, should, as far as possible, be at the point of export rather than at the point of sale from public stocks and not be higher than on PDS sales. Subsidies should be given only if domestic stocks are sufficiently high and world prices are less than the domestic OMSS price.32

4.5 Critical Evaluation of India’s Food Policy:

The existing food management system has basically evolved in response to severe food shortages and lack of proper distribution. So the prime objective of the food

management system was to increase the domestic foodgrains production, procurement and storage, movement and public distribution and maintenance of the buffer stocks of foodgrains. So that any supply shortages are met on time. Several agencies, like FCI, CACP, Commodity Boards, Agricultural Marketing Boards and parastatal organizations like Seed Corporations, States Trading Corporations and Marketing Cooperative etc., were created to implement the food policy objectives. In addition, a number of other regulations were enacted to control agricultural marketing, particularly of foodgrains. These include, Prevention of Food Adulteration Act 1954, Essential Commodity Act 1955, the Regulated Market Acts, the prevention of black marketing and maintenance of supplies of Essential Commodities Act 1980. Besides there were number of other restrictions on interstates movement of foodgrains and regulations on input markets particularly seeds and pesticides etc. All these institutions, rules as well as regulations were devised to deal with the situation of food scarcity and inadequate supply of the same. Therefore, as long as India had problem of food scarcity and fear of short supply, the food policy did satisfactory if not quite well. However, after India achieved near self-sufficiency in foodgrain production, particularly during eighties and more specifically after India opted for the structural adjustment programme in early nineties leading to opening of its trade frontiers, India’s food management system, which had its background in food scarcity and lack of supply, started wavering leading to failure of a number of programmes. Many of its policy programmes started with a purpose to reduce food subsidy bill, in fact ended up with increasing the same, besides creating some other serious policy implications like bulging stocks and reducing beneficiaries. There are now serious question about the efficacy of India’s present food management system.

The creation of artificial profitability in the form of price support to farmers had a far-reaching impact on India’s farm economy. It was on the eve of Green Revolution when the government of India decided to create two centralized institutions i.e. Food Corporation of India (FCI), which was made responsible for procurement, import, distribution, storage and the sale of foodgrain and the Agricultural Prices Commission (APC) which was asked to advice government on minimum support prices for foodgrains. Through these two institutions the central government controlled the economics of foodgrain production and distribution.
However, over the years, the profitability of foodgrain production in this centralized, subsidised and enclavised form could not be sustained and government started feeling the pinch when the subsidies on it became a drain on the government budget. In 1991, the World Bank, which had earlier designed these very two centralized institutions, called for dismantling the same. The Bank also demanded the restructuring of the PDS as well as the removal of the Essential Commodities Act, besides advising the government to remove the price and inventory control and deregulate the agricultural trade. The underlined aim was corporatisation of agriculture and a shift from a state-centred to a corporate-centred food system.

Structural adjustment policies called for withdrawal of food subsidies which necessitated radical restructuring of the PDS. The Revamped PDS (RPDS) was the answer which sought to target the vulnerable regions better while also aiming to reduce the public expenditure. But it did the exact opposite, hunger increased and so the government expenditure. Therefore, in 1997, the RPDS was replaced by the Targeted PDS (TPDS), which sought to help the poor by first dividing the people into below and above poverty line and then focusing its attention on the people “below poverty line”. Initially, it provided 10 kg of grain (wheat/rice) a month to families below the poverty line (BPL) at the subsidised prices. On the other hand, it gradually withdrew subsidy for families above the poverty line (APL). Later on, food entitlements to the targeted families were increased to 35 kgs per family per month with even increased subsidy to BPL families, whereas, the prices for APL families were linked to the full economic costs of grains. This resulted increase in food prices causing lower offtake from the central pool. Thus the objective of reducing food subsidy remained illusive as government continued yielding to the pressure exerted by strong farm lobbies to raise the minimum support prices. The procurement of foodgrains kept growing, whereas narrow targeting kept reducing the offtake. The result came in the form of overflowing stocks of foodgrain.

There were major problems with the TPDS. First, the division of BPL/APL categories was arbitrary then further in the BPL beneficiaries were reduced artificially. This put a great question mark on the sincerity of the government whether it was really serious in targeting the poor or it was merely an exercise to reduce the government’s fiscal burden. The problem was further compounded when 12 States
informed the Supreme Court that they could not identify people in the BPL category. Defining the APL category as those earning Rs.1500/month and above barely meets the criteria of basic needs. Asking these people to pay the full economic cost, which includes corruption, leakages and other incidentals, is no more than an exercise of making these people further poor. Obviously the APL families either found the PDS beyond their reach or open market as cheaper and more convenient source of their food requirements.

The economic bi-partition of people on hypothetical considerations was always susceptible to faults and thus making policy on that basis could not have been expected to give most satisfactory result. For example a person earning Rs. 1500 and above per month is considered having enough purchasing power therefore qualified to be excluded from the PDS whereas the one who is earning Rs 1450 is eligible for the subsidised food. One may rightly ask if it is incentive for the BPL or disincentive for APL. Earning as a criteria can also be questioned on the basis that the same level of earning can have different purchasing power at different place and time. It can have different nutritional value as well. Even supposing the criteria to be OK then question arises how come 10 kg of grain would be sufficient for a family’s whole month’s food requirements. In fact the TPDS mischievously altered the principle of entitlements from a percapita norm to a family norm. Even the revised entitlement of 35 kgs a month is much short of the average family requirements. According to the Indian Council of Medical Research (ICMR), annual cereal requirement of an individual is 135 kg/annum, which comes out to be 11.25 kg a month. For an average five-member family, the new ration scale, of about 2 kg per person a month, provides less than 18 percent of the recommended intake.

The TPDS could also be criticized on the ground that it always had lower reach in poorer states like Bihar. Madhya Pradesh and Orrissa where population below poverty is around 45 percent, whereas it (TPDS) is stronger in richer states like Kerala, Karnataka, Maharashtra and Tamil Nadu etc. Burgeoning food subsidy which is often cited as reason for the TPDS is in fact not the amount spend on consumer rather a large part of it is actually a producer subsidy, a fact aptly admitted in the Report on Food Subsidy of the Expenditure Reforms Commission.
As noted earlier that as long as the problem of food scarcity and inadequate supply was concerned, the food policy moved satisfactorily ensuring food security for the population, protecting the interest of the consumers and restraining the price rise. It helped in increasing the foodgrains production with a view to attaining self-sufficiency and meeting the increasing demand through domestic supply. It also succeeded in safeguarding the interest of the consumers by holding adequate stocks of foodgrains for meeting year-to-year fluctuation and to bring about relative stability in foodgrain prices. Positive results were seen in the form of enhanced physical and economic access to food, reduction in inter regional and inter seasonal prices of foodgrains and effective tackling of the problem of drought. The instruments used for this purpose like minimum support prices, procurement prices, and other input incentives were quite helpful in attaining their respective objectives. But the problem started when the regulations, policies, acts and organizations that were created for the need fulfillment objective continued even after the relative self-sufficiency in foodgrains were achieved. For example, the minimum support price operation, which was introduced with the sole aim of inducing higher foodgrains production by guaranteeing the farmers minimum price of their produce, continued even with much vigor when not only the country is self sufficient in food production but even the country’s godowns are bulging with rotten food stuffs. It is observed that during the post reform period MSP for wheat, rice, cotton, coarse cereals, pulses and groundnut have increased many fold. Moreover, continuous rise in MSPs have directed the grains from the market to state godowns, which has unduly increased the open market prices of these grains due to lack of supply. This is in conflict with the government’s objective of providing cheap food to the consumer.

Procurement is undertaken by the FCI in collaboration with numerous state agencies at fixed prices offered by the Government on the recommendation of the CACP. With a purpose of increasing the procurement, the commission had a policy of offering remunerative prices to producers so that they keep augmenting their production by adopting new technologies. Initially the procurement prices were kept higher than the minimum support prices but below the market prices. The principal objective behind the procurement prices was to procure enough foodgrains for the buffer stocks as well as for PDS. However, in eighties the procurement prices were
sharply raised making the farmers more willing to sell their produce to the Government rather than in the market, the availability of the foodgrains in the market reduced, so that the rise in the prices of foodgrains, which ultimately hurt the poor. Moreover, the same prices offered during the entire season increased the concentration of the market arrivals within few weeks of the season. This causes difficulty for the FCI to handle the foodgrains. Over the years FCI’s economic cost has increased because of rising procurement and distribution incidentals (economic cost = procurement price + procurement incidentals + distribution incidentals). Thus, the present high stocks situation has its share in government’s mismanaged price policy. Selective support prices have distorted the incentives across crops as well as states besides having detrimental ecological and environmental effect on the overall economy.