

Government Must Curtain Rodent Happy Hour

Tuesday Sep 12 2000, Economic Times

Bharat Ramaswami

With the kharif procurement barely a month away, the granaries are overflowing. Life is a nonstop party for the rats at 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 few 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 piece-meal 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 at least the 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.

Words: 632