

CHAPTER IV

The ever-burgeoning subsidy bill of the Central Government is often touted as a conclusive evidence of the government's commitment to address the twin issue of poverty and food security. Simultaneously this is also cited as the conclusive evidence of fiscal profligacy of the government. This Chapter thus seeks to dissect the anatomy of the subsidy regime and traces the history of India's attempts to achieve self-sufficiency on food grains and the evolution of the green revolution. This Chapter questions the wisdom of successive Indian government to declare self-sufficiency in food production by highlighting the pattern of food consumption in India and comparing it with the food consumption with the rest of the world. This Chapter also dissects the subsidy bill, its efficacy and the level of food security prevailing in the country. Further, this Chapter analyses the tectonic shift that has taken place in the recent years from the economically correct input subsidies to the politically popular output subsidies. The consequences of such a shift in the subsidy policy, its costs and consequences are analysed in this Chapter, especially that of increasing the MSPs of foodgrains in India and its direct impact on the poor in India.

DISSECTING THE ANATOMY OF FOOD SUBSIDY IN INDIA AND UNDERSTANDING THE CAUSES AND CONSTITUENTS OF THE SUBSIDY BILL WITHIN INDIA

It is important that we understand the precise nature of subsidy in India, dissect the subsidy bill, find out the components and figure out the evolution, cause and implication of the subsidy regime over the years, understand the tectonic shift in the thinking of the polity about subsidies in the post reforms era, understand the compulsions behind the change in the composition of the Indian subsidy and try contrasting the Indian subsidy regime to the global subsidy regime. This chapter precisely attempts to do so by analysing the anatomy of the Indian subsidy regime.

It is critical to examine the history of the green revolution itself and also to understand the complexities involved in India's road to this phenomenon Agricultural growth. Be that as it may, it is also important that we also critically analyse the food production in India and compare the same with the world standards to find out whether we are truly sufficient in food production and need to critically examine our concerns of food security. For this, we need to compare the food availability on a per capita basis and also compare with the global per capita of food availability. What comes out of such a study is a very important pointer – the fact of the matter is that we compare less than the global average by 50% of the global average. **In fact our current consumption is equivalent to the levels fixed by the Famine commission in the year 1880. At a macro level, our production of foodgrains and its consumption are short by at least 130-150 MT and our food production short by a similar quantity. In short, this means that we are self sufficient on food production is a myth. And the propagators of these myths invariably argue that the subsidy bill arises because of**

excess food production. Consequently their argument invariably seems to be that it is unnecessary for our country to indulge in the economics of subsidising agriculture whether directly or indirectly. Further the peddlers of this argument seem to suggest that the scarce resources used by the government in subsidising agriculture need to suggest alternatives for such resources. The fact of the matter is that as a country we have a long way to go to before we achieve global food consumption standards. Hence any argument or debate that begins by ignoring this fundamental fact is a non-starter.

Apart from food sufficiency we need to focus on the issues relating to food security—a modern concept that has gained currency in the realms of present day geo-political uncertainty. Food security is the physical availability of food to the citizens of a country. What needs to be analysed in this context is whether we have simultaneously ensured that our population is having sufficient purchasing power to buy food. Adequate food production as well as sufficient purchasing power to buy food is sine qua non for eradicating the scourge of poverty from our midst. In the light of the reported starvation deaths in some states and the intervention of the Supreme Court in a Public Interests Litigation filed, one can safely conclude that substantial levels of our population are without food security. This leads to the inevitable question as whether the public food distribution system (PDS) is able to target the poor and ensure food security. Contrary to the popular belief that it does and is able to provide a reasonable amount of food security to its vast number of poor who are below the poverty line (BPL) aggregating to over 350 millions, it has been observed that the PDS mechanism is able to reach less than 20% of the poor in India. The balance 80% remains outside the purview of the PDS mechanism and continue to be at the mercy of the “markets” for their food requirements.

What is worse is that the Government has simultaneously over the years increased the Minimum Support Price (MSP) of food grains, more specifically Wheat and Rice over the years. This yearly increase in the MSP has been of late for the past few years far more than that recommended by the Commission for Agriculture Costs and Prices (CACP). Though not a stated policy of the government this fixing of the MSP over and above the recommendations of the CACP is now acquiring policy overtones. Consequent to such a decision it has been found that while the Government continues to buy out Wheat and Rice at higher prices, the Economy as a whole is unable to bear such a pricing policy as significant numbers of our population do not have enough purchasing power to buy food grains at such artificially inflated prices. And worse still, as they are not covered by the PDS they are forced to buy at inflated and artificial market prices. Thus, the government by fixing the minimum support prices determines the benchmark for the open markets also follow suit and the agricultural prices in open markets in India increase in tandem. Consequent to this skewed pricing policy followed by the Government of India, the price index on Agriculture has been constantly ahead of the manufactured products within India. This is direct contrast the movement of global food prices as detailed in earlier chapters of this document. All these lead to the food insecurity for a significant section of our population.

To compound all these the Food Corporation of India (FCI) has been highly uneconomical in its working. As already explained the Government procures food grains at MSP, which are higher than the prices, which our economy can bear. Over and above this the Government spends a substantial amount on holding and distribution, popularly called as the economic costs. Of late the economic costs have been spiralling out of control and the FCI's economic costs have reached unacceptable levels. It is estimated that for a PDS price which is Rs 0.25 lower than the MSP, the government spends Rs 4.25 per KG as economic costs through the FCI. This huge cost reflects poor policy, mediocre governance and more importantly deplorable economics of the government when it comes to the issue of sustaining the PDS.

Finally, despite all these the stock of food stored the FCI godowns has been of poor quality and sometimes unfit for even cattle feed leave alone for human consumption. Thus both in actual delivery and in its economics the FCI has been a colossal failure. This failure of the FCI has bloated the subsidy bill of the government. Since it actually reflects the inefficiency of the FCI and its operation, the government is loath to admit the same. **It has to be noted that the Food Subsidy bill has nearly doubled in a decade with a more than proportionate reduction in the Fertilizer subsidy. This tectonic shift in the subsidy policy of the government has far-reaching impact on the Indian Agriculture.** This forms the fundamental basis for future discussions in this document, especially in Part III while dealing with recommendations.

Now let us analyse each of these issues in greater detail.

HISTORY OF INDEPENDENT INDIA'S ROAD TO SELF SUFFICIENCY IN AGRICULTURE AND TRACING THE EVOLUTION OF GREEN REVOLUTION

Since self-sufficiency in food grains is so basic to the economic independence of the nation let us consider India's efforts at it since independence. It is necessary to do so to facilitate assessing the food scenario, food self-sufficiency and food security in India. So at the outset let us attempt at tracing the history of India's efforts at food sufficiency, the evolving concepts of food security in the context of geo-political realities and the overall food scenario in India. Further the impact of these in the context of the government's finance needs to be examined, understood and evaluated.

India's efforts for food self-sufficiency started mainly in the mid-sixties when the nation faced the horrendous consequences of two successive devastating droughts. Till then it was beyond the realm of our polity to think of food self-sufficiency. We as a nation till such time in spite of the perennial shortfall in domestic production of food grains were heavily dependent on imports for meeting the requirements of the nation. The two droughts of 1965 and 1966 reduced the food production by 20 per cent over the previous year and consequently the net availability of food grains (even including

imports) by 15 per cent. These droughts resulted in widespread distress and even some deaths from starvation and exposed India's vulnerability in respect of food availability. Besides at the same time the prospects of wheat imports from the USA owing to our political equations with that country also became dim and grim, which further worsened the food situation.

At this stage it is a story¹ worth recalling a hundred times and is reproduced here "During the 1960, India was heavily dependent on food aid from the US. To appreciate the apprehensions of a country that once availed of food aid in large quantities, it is worth resurrecting the graphic scenario of 1960s. We had two consecutive droughts and a real famine threatened. Starvation was prevented only by the arrival of ships from the US with over 14 million tonnes of grain worth more than a billion and a half dollars. At the peak, grain ships were leaving American ports at the rate of one every ten minutes. B.K.Nehru was our ambassador in Washington at the time and responsible for the logistics of this massive operation. He recalls that suddenly one day the ships stopped. B.K. Nehru panicked. He "rushed around like a headless chicken" to Dean Rusk, the secretary of state, to Orville Freeman, the secretary of agriculture, to David Bell, the head of AID, but to no avail. No one knew why the ships have stopped. New Delhi was in panic and bombarded its ambassador with telegrams.....It turned out that President Johnson himself gave the order. He later told B.K.Nehru that his daughter, Lucy, told him, "What are you doing, Daddy? You can't let the Indians starve at Christmas". "I told her not to worry", said LBJ, "no Indian was going to starve at Christmas". The next day the ships started moving again. B.K.Nehru speculated that it might have had to do with Johnson's displeasure over the joint communiqué issued by the Indians and the Soviets when Indira Gandhi visited Moscow, which was critical of US policy in Vietnam. More likely though, he thinks, it was the American President's way of reminding us of the consequences if we failed to pursue with vigour our new agriculture policy"

As a direct consequence of such a situation and development the then Government was forced to frame a new strategy of agricultural development, which is, popularly called as green revolution.

This Green Revolution, which has propelled the production of foodgrains production in India to a very large extent in the previous three decades, has come to stay. It consists of two types of changes: technological as well as institutional with an aim of increasing the production of food grains to the level of self-sufficiency. The technological changes are with reference to the use of High Yielding Variety (HYV) seeds, use of chemical fertilizers, modern techniques to be used in agricultural operation, and use of pesticides for pest control and preservation of food grains. The institutional changes consist of changes in the traditional agrarian structure mainly through land reform measures such as prevention of sub-division and fragmentation of

¹ Adapted from the Essays of Mr. Gurcharan Das

land, consolidation of holdings, ceiling on holdings, control and other such similar regulations.

The results of the new policy initiatives were indeed highly remarkable and became evident with a short time. It led to continuous expansion of area under crops, total production as well as productivity. Area under improved seeds has gone up from about 15 million hectares during 1970-71 to 67 million hectares during 1991-2000. In terms of food grains production the new technology brought about a breakthrough in major cereals of wheat and rice. This is seen from the table² laid out hereunder:

Food grains	1960-61	1990-91	1996-97	1999-00
Rice	35	75	81.7	89.5
Wheat	11	55	69.4	75.6
(a) Total Cereals (with coarse grains)	69	162	185.2	195.5
(b) Total Pulses	13	14	14.2	13.4
(c) Total grains (a + b)	82	176	199.4	208.9

This overall improvement in the food grain availability has led to an improvement in the per capita availability of food grains from about 420 grams per day during 1950-55 to 480 grams during 1996-2000. Of these two components of food grains-cereals and pulses – the per capita availability of cereals grew from 354 grams to 442 grams but that of pulses declined from 65 grams to 36 grams. This is just a reflection of the increased share of cereals in food grains production from 83.5 per cent in 1950-51 to 93 per cent in 1998-99 and the declined share of pulses from 16.5 per cent to 7 per cent during the same period.

It may be noted that even as on date the Indian Agriculture is still at the mercy of monsoons and weather conditions and it seems that even after years of monsoon failures we have not yet thought about drought proofing our agriculture. If monsoons turn unfavourable even for a year or two, as witnessed in 2002, the food grains production is seriously hampered when the production dropped by an alarmingly 10%. And that is merely a direct impact and the indirect impact on the other sectors of the economy is unfathomable. **It is important to note that in a country like India, dependent as it were on agriculture even as on date and despite the fact that the other sectors have grown in good measure the truth of the matter is that the fortunes of agriculture has a direct bearing on the prosperity of other sectors of the economy and it is only agriculture that propels demand for the sectors of the economy.** For instance it is widely regarded that the higher growth of 2003-04 is possible because of the remarkable turnaround by agriculture, which grew in excess of 15%. Experts are unanimous of the opinion that if the monsoons had failed during the

² Sources: Economic Survey, Government of India

current year i.e. 2003-04, we could have had serious shortages in the availability of food grains. Further such shortages could have increased the prices of food grains in India. Hence we should not be complacent with the present level of food production of food grains.

THE MYTH OF FOOD SUFFICIENCY- A CREATION OF THE GOVERNMENT AND THE MEDIA OBSESSED WITH THE REDUCTION OF FOOD SUBSIDY WITHOUT BASIC UNDERSTANDING OF THE SITUATION

The Government under the overall guidance of the IMF launched the New Economic Policy (NEP) in 1991 and since then there has been a deliberate policy direction and a definite thrust at curbing various subsidies. One of the areas that the Government and the Media is currently obsessed is with the reduction of the food subsidy and more specifically the Fertilizer subsidy. The main arguments put forth by the media and the polity while articulating the demand for the reduction of the Fertilizer-Farm subsidy is that India has achieved an overall food self sufficiency, and hence there is a compelling need for dismantling the food subsidy regime. As a proof of this routinely the media and the polity point out that the accumulated stock of food grains available at the FCI godowns has reached gigantic proportions and goes on to accuse the subsidy regime for the build up of the stocks.

Instead of reflecting the economic well being within the economy, this accumulation of the food grains reflects a deeper malaise and greater contradictions within the economy. In fact, there is a grave paradox on the food front, with the FCI godowns overflowing with tones of grains on the one hand while millions of people are living in a state of semi-starvation and in some cases of starvation. **For almost two hundred years, average availability of food grains in India has remained below 200 kg per capita per year, which the British administrators considered to be the minimal requirement for staving off famines.** The country, it seems reached a state of near famine within a few decades of the establishment of the British Raj, and we have remained in that state ever since. And we seem to be happy about it.

India today produces around 200 million tons of food grains for a population of around 1000 millions, implying an average of 200 kg Per capita per year. Of the gross production of about 200 kg Per capita food grains allowance has to be made for the seed and wastage, even if it is assumed that little need be fed to the animals. **Taking into account these deductions, it is estimated that the amount of food grains available for human consumption is around 180 per kg per capita per year, which is less than what the famine commission appointed by the British administration in 1880 had estimated to be the bare minimum to avoid starvation deaths, and is lower than what is consumed almost anywhere else in the world.**³

³ This section has been adapted from the Annam Bahu Kurvita by the Centre for Policy Studies, Chennai.

Food grains, cereals, and pulses together, constitute almost the whole of the staple food of the Indians. There is very little of flesh or fish consumed in India, and there is also not much consumption of edible roots, which constitute a fairly large proportion of the staple food in much of Africa and parts of Europe. Average consumption of flesh and fish in India for is estimated to be 7.5 kg per capita per year, and if we also count about 20.5 kg per capita per year of potatoes, total staple consumption would amount to a little above 200 kg.

On a rough reckoning, consumption of staple foods-cereals, pulses, edible roots, flesh and fish-adds up to around 300 kg per capita per year in most countries of the world. Of this around 100 kg consists of flesh and fish in Europe and other parts of the world inhabited by people of European stock. Average Indian consumption of staple foods thus falls below the ordinary standards of the world by at least one third. There are only a few countries in the world, outside the Indian sub-continent, where average staple consumption is at this level. Countries like, Sudan, Ethiopia and Somalia in Africa, and Guatemala, Haiti and Peru in Central and South America are perhaps the only ones- where staple consumption happens to be as low as ours; and most of these countries are known to have been in great political stress for long periods. And, in many of these countries low availability of what we have called staple foods is often alleviated by a rather large availability of some other food, which happens to be more or less staple there. Thus, diets in Sudan and Somalia are supplemented by large quantities of milk, and other countries of Africa as also in Central and South America large quantities of plantains, bananas and other fruit often make substantially large contribution to the staple.

Countries functioning with a reasonable level of stability seem to be almost always able to provide for a consumption level near the norm of 300 kg per capita per year, even if it involves undertaking large-scale imports of food.

Average annual consumption of staple foods in 1990 (kg/cap/y)

Countries	Cereals	Edible roots	Pulses	Total grains & roots	Meat & offals	Fish	Total
WORLD	170.7	62.4	6.5	239.6	34.9	13.1	287.6
EUROPE	127.1	80.2	3.3	210.6	88.1	18.8	317.5
USA	113.4	59.8	3.4	176.6	119.0	21.6	317.2
USSR	166.4	97.0	2.2	265.6	74.4	29.1	369.1

AUSTRALIA	111.8	66.0	0.8	178.6	118.0	15.8	312.4
ASIA	196.7	39.0	6.5	242.2	17.5	11.6	271.3
PAKISTAN	154.5	5.3	4.8	164.6	12.3	1.8	178.7
BANGLADESH	206.5	11.4	4.6	222.5	2.8	7.0	232.3
SRILANKA	161.1	25.2	6.2	192.5	1.6	14.2	208.3
NEPAL	216.3	34.6	6.6	257.5	6.5	0.7	264.7
CHINA	232.5	59.1	3.4	295.0	26.7	9.7	331.4
JAPAN	145.2	37.6	2.4	185.2	41.0	71.8	298.0

It is in this connection that one is tempted to compare the net consumption of foodgrains over the period of time in India since the onset of the green revolution. The following details⁴ clearly demonstrates that the net availability of foodgrains which was computed at 393.6 gms per day per capita rose to 395.4 gms per day per capita by 2001 - an increase of 1.8 gms per day per capita!

⁴ Source: National Centre for Agricultural Economics and Policy research – Policy paper 19

Year	Cereal output: million tonne			Net import ml. tonne	Change in stock ml. tonne	Net availability ml ton	Population Million	Per person availability gm/day	Production per person gm/day
	Kharif	Rabi	Total						
1971	59.65	31.56	91.2	2.0	2.6	79.2	551.3	393.6	453.3
1972	55.46	34.42	89.9	-0.5	-4.7	82.8	563.9	402.5	436.7
1973	64.21	31.66	95.9	3.6	-0.3	87.8	576.8	417.0	455.4
1974	55.53	30.44	86.0	5.2	-0.4	80.8	590.0	375.3	399.2
1975	69.45	34.28	103.7	7.5	5.6	92.7	603.5	420.7	470.9
1976	62.64	38.54	101.2	0.7	10.7	78.5	617.2	348.6	449.1
1977	73.48	37.17	110.7	0.1	-1.6	98.5	681.3	396.2	445.0
1978	74.13	40.96	115.1	-0.8	-0.3	100.2	645.7	425.2	488.3
1979	59.90	45.59	105.5	-0.3	0.4	91.6	660.3	380.1	437.7
1980	73.89	41.23	115.1	-0.5	-5.8	106.0	676.6	429.3	466.1
1981	75.05	45.08	120.1	0.5	-0.2	105.8	688.5	421.1	478.0
1982	65.77	46.74	112.5	1.6	1.3	98.7	703.8	384.4	438.0
1983	83.86	51.89	135.8	4.1	2.7	120.2	718.9	458.0	517.3
1984	79.75	55.62	135.4	2.4	7.1	113.7	734.5	424.3	504.9
1985	81.54	53.83	135.4	-0.3	2.7	115.4	750.4	421.5	494.2
1986	76.00	55.99	132.0	-0.1	-1.6	117.0	766.5	418.2	471.8
1987	70.20	55.70	125.9	-0.4	-9.5	119.3	782.7	417.5	440.7
1988	90.00	59.20	149.2	2.3	-4.6	137.5	799.2	471.2	511.5
1989	95.50	66.10	161.6	0.8	2.6	139.6	815.8	468.8	542.7
1990	94.50	62.70	157.2	0.0	6.2	131.4	832.6	432.2	517.3
1991	87.2	68.1	155.3	-0.6	-4.4	139.7	851.7	449.3	499.6
1992	95.8	69.2	165.0	-0.7	-1.6	145.3	867.8	458.6	520.9
1993	95.0	70.8	165.8	2.6	10.3	137.4	883.9	425.8	513.9
1994	96.4	75.9	172.3	0.5	7.5	143.8	899.9	437.7	524.6
1995	90.5	81.1	171.6	-3.0	-1.7	148.9	922.0	442.3	509.9
1996	98.4	77.6	176.0	-3.5	-8.5	159.0	939.5	463.7	513.2
1997	97.3	86.8	184.1	-0.6	-1.8	162.3	955.2	465.5	528.0
1998	97.7	82.0	179.7	-2.9	6.1	148.2	970.9	418.3	507.1
1999	99.9	90.9	190.8	-1.5	7.5	158.0	986.6	438.6	529.8
2000	98.4	95.6	194.0	-1.4	13.9	154.5	1002.1	422.3	530.5
2001	100.4	86.6	187.0	-2.9	12.5	148.2	1027.0	395.4	498.8

Source: Economic Survey, Various issues.

Any document of this nature shall be incomplete without a reference to what the Chinese have done in the similar circumstances. This is done to precisely capture what a large nation like China with a large population like ours has done in similar circumstances. The manner of approaching the problem and dealing with the issue on hand are compelling for the Indian policy framers.

In an undated⁵ White Paper titled “The Grain Issue in China” issued by the Chinese Government more or less accept these facts and comments “Under the leadership of their government, the Chinese people devoted themselves to developing grain production through self-reliance and hard work. As a result, China is now able to feed 22 percent of the world's population on about seven percent of the world's cultivated land. Total grain output in 1995 more than quadrupled the 1949 figure, or an average increase of 3.1 percent a year. At present, China ranks first in total grain output in the world, with the per capita share of grain reaching approximately 380 kg (including legume and tuber crops), which is the global average. The per capita production of meat, aquatic products, eggs, fruit and vegetables has reached 41 kg, 21 kg, 14 kg, 35 kg and 198 kg, respectively, which are all higher than the world's average. Statistics from the UN Food and Agriculture Organization show that China contributed 31 percent of the world's increased grain output in the 1980s. China's significant achievements in developing grain production have not only basically eradicated the problem of people not having enough to eat and wear and gradually raised the living standards of the Chinese people, but also made great contributions to the worldwide efforts to eliminate starvation and poverty”.

That the Chinese have pride in their food consumption having attained global consumption standards is a success story worth emulating and the moral of the story compelling reading for a policy analyst in India.

Within the Indian sub-continent, Nepal with average staple consumption of around 260 kg per capita per year seems not too badly off, and Bangladesh with average annual staple consumption of 230 kg. Per capita is at least better than us. In Sri Lanka, staple consumption of around 200 kg per capita per year is supplemented by almost 70 kg of coconuts. Within the sub-continent it is only Pakistan and Afghanistan who fare worse than us in terms of food consumption.

The situation of India, and some of our neighbours in the subcontinent, is thus extraordinary. We are living at an average level of consumption that would be unacceptable anywhere else in the world, and which is no better than what is considered to be sufficient in situations of famine.

This is the situation with respect to the food available for human consumption. When we take into account the total supply of food grains and roots, the Indian situation in comparison with the rest of the world, seem to be even worse. The supply of food grains and edible roots together in India for human consumption is so low, yet it takes almost the entire quantity produced, which is almost the whole of the available supply after allowance is made for seed and waste-thus leaving nothing for the animals.

⁵ Presumed to be issued sometime in the mid nineties

In most other countries considerable amount is often produced or imported for the cattle; the average supply of food grains and roots in the world is nearly twice the amount of food grains and roots used for human consumption; much of the other half is fed to the animals. The average supply of food grains and roots in Europe adds up to around 700 kg per year. The figure for the United States of America is around 900 kg and for China about 450 kg per capita per year.

The total supply of food grains in India is thus less than half of what would be required if we were to feed our animal population the way animals are fed in the rest of the world. Since we produce so little of food, we leave almost no food grains for our population of around 270 million heads of cattle and buffaloes. Europe feeds 170 million tons of food grains-which is near our total production of food grains – and 54 million tons of edible roots to its cattle population of only 124 million heads. And China feeds 65 million tons of food grains and 60 million tons of roots to about 100 million heads of cattle and buffaloes and 300 million heads of pigs.

Production of food grains in India is thus at a level that leaves both our people in substantial numbers and our animals perhaps in entirety, hungry. Of course this criticism is not meant to deprecate the merits and achievements of the green revolution or the efforts of the government to modernize our agriculture over the years and other dimensions of the green revolution. It is the green revolution that has made substantial contribution to the growth of food grains production, which has not only kept pace with the growth of population but also superseded it and thus rendered the Malthusian prediction otiose. This compounded average growth rate of increase in population over the past 3 decades comes to the rate of 2.2 per cent per annum. Food grain production during this period increased at the rate of about 2.5 per cent per annum. As a direct consequence of this increase in the food production Famines and starvation deaths have been averted and the prophesies of doom on food made in the mid 1960s have been totally belied.

The fact of the matter is that we have survived, but barely and much needs to be done to increase our food production and consumption and this needs to be done in a planned manner so that we achieve the global food consumption average in the next few years.

EXPLAINING THE CONCEPT OF FOOD SECURITY AND DISTINGUISHING IT WITH SELF SUFFICIENCY AND AMPLYPHYING HOW INSECURE WE ARE ON FOOD SECURITY

Thus as explained above, our food self-sufficiency has been achieved on a very low threshold of per capita consumption and if we consume even as per Asian standards, rough estimate suggest that our production shall have a shortfall of 80 MT per year. And when compared to global standards we may have to double our food production to call ourselves as completely self sufficient in the strict sense of the term. While we

are obsessed with this level of food self sufficiency it has to be noted that one needs to evaluate the food security of a nation like ours and the concept of food security needs to be made co-extensive to that of food self sufficiency. What is critical to a country like India, which harbours ambitions of being an economic as well as political super power and to play a dominant role in global arena, is that it has to achieve food security for its entire population. It has to be noted that Food Security has a special meaning and is not synonymous with food self-sufficiency and is perhaps a more comprehensive concept when compared to self-sufficiency. Food self-sufficiency means adequate amount of food grains production in the country, which is quite sufficient to feed the entire population with nil or negligible food grains imports. On the other hand food security is the physical availability of food to the citizens of a country. A secure food system should be equitable, meaning, as a minimum, dependable access to adequate food for all individuals and groups both now and in the future. Food Security has a higher and deeper connotation and implies that food grains should be provided at the nick of the time (i.e., when people need it), in adequate quantity and at affordable prices, to those sections of our people who are poor and who are otherwise inaccessible to their availability.

It is in this connection that Food Security has been defined by FAO as the physical and economic access for all people at all times to enough food for an active, healthy life with no risk of losing such access and as such is directly connected with livelihood in the developing countries. The Bali Declaration of the Non-Aligned Movement and Other Developing Countries defined food security as "**access to food for a healthy life by all people at all times**" (NAM, 1994). It recognized that, in spite of a substantial increase in the world's food output, the number of people suffering from hunger and malnutrition has increased during the last decade in many developing countries. As per one estimate the total number of people suffering from malnutrition today exceeds 1.3 billion people worldwide. The Bali Declaration reaffirmed that "food security should be a fundamental goal of development policy as well as a measure of its success".

These sections of population are vulnerable sections and the Food Security system needs to provide them with food grains quite on time, in sufficient amount and that too at such subsidized prices, which they can afford to pay from their meagre money income. The Food & Agriculture Organization (FAO) has aptly defined food security as '**ensuring that all people at times have both physical and economic access to basic food they need**'. This may be regarded as a narrow concept of food security since it does not include nutritional food grains but only the basic food grains, that is, cereals. Such a food security system for its success is based on self-sufficiency of food grains. Thus, food self-sufficiency is a necessary though not the sufficient condition of food security. It needs to be supplemented by an efficient distribution channel for ensuring food security to the poor. Thus self-sufficiency in food grains as much as distribution of the food produced as well as the sufficient purchasing power at the

hands of the population to buy the food produced are a sine qua non for the large measure of success of food security.

Further, it may not be out of place to point out that the Central Government has brought out Antodaya Anna Yojana (AAY) and Annapurna scheme (AS). Under the AAY scheme 1 crore poor families out of the BPL families were covered under the targeted public distribution system and 25 KGs of food grains were made available to each of the eligible family at a highly subsidized rate of Rs 2 per KG for wheat and Rs 3 per KG of Rice. This quantity was enhanced to 35 KGs with effect from April 2002. Against an allocation of 19.60 Lac tons of food grains from April 2001 to March 2002, only 16.78 were lifted even at these subsidized prices. Similarly the Annapurna scheme aims at providing food security to meet the requirement of those senior citizens. 10 KGS of food grains per person per month are supplied free of cost under the scheme. Of the 1.62 Lac tons of food grains (Rice and Wheat) allotted for this scheme the off take was only to the extent of 0.93 Lac tons.⁶

We also give out below a table, which gives out the yearly off-take of both rice and Wheat during the past one decade. The facts and figures presented therewith also supports our contention that the poor in this country are unable to buy food at prices that is subsidised by the Government.

Food grains allocation and off take under Public Distribution System⁷ <i>(Million tonnes)</i>				
Year	Wheat		Rice	
	Allocation	Off take	Allocation	
Off take				
1992-93	9.25	7.47	11.48	9.55
1993-94	9.56	5.91	12.41	
8.87				
1994-95	10.80	4.83	13.32	8.03
1995-96	11.31	5.29	14.62	9.46
1996-97	10.72	8.52	15.10	11.14
1997-98	10.11	7.08	12.83	9.90
1998-99	10.11	7.95	12.94	10.74
1999-00	10.37	5.76	13.89	11.31
2000-01*	11.57	4.07	16.26	7.97
2001-02*	13.14	5.68	17.23	8.16
2002-03* [@]	29.45	6.12 [@]	27.35	7.39

⁶ Source: The economic Survey issued by the Government of India – Year 2003.

⁷ Source: Department of Food and Public Distribution

The Supreme Court Bench after hearing the public interest petition filed on the issue of starvation deaths in various parts of the country in the face of a huge stock of over 50 million tones of food grains with the Food Corporation of India (FCI) delivered the verdict that the government should provide food to all even if it has to be given free and that no person should be deprived of food merely because he had no money. The Bench also asserted that it was the primary responsibility of the administration to see that food reached the hungry and was not wasted.

The decision of the Supreme Court is in keeping with the observation and prescription of Amartya Sen, the Indian Nobel Laureate in Economics who feared that the problem of famine and starvation is not of the availability of food grains but of the lack of purchasing power in the hands of the poor resulting in the lack of accessibility of the poor to the stocks of grains. The real difficulty, according to him, lies in the distribution of stocks and reaching the food grains to feed the poor.

The figures for availability of food in India clearly point towards widespread hunger of people and animals in India. According to the latest official estimates, at least 26 per cent of the population or 260⁸ million people were still below the poverty line in the year 1999-2000. This implies that despite the availability of food grains at prices of Rs 2 per kilo of Wheat and Rs 3 per kilo of Rice by the Central Government the off take has been poor implying that we are still far from generating the necessary purchasing power or effective demand from the poor to satisfy their needs. It is in this context that Mr. C.H.Hanumantha Rao, Former planning commission Member has commented **“Since effective food security means achievement of both physical and economic access to food, a large section of our population can still be considered to be suffering from food insecurity despite the bulging stocks of food grains with the Food Corporation of India.”** And every available statistical indicator confirms the prevalence of hunger. According to generally accepted statistics 40 percent of the Indian people do not have access to the bare minimum number of calories required for survival, 63 percent of children under the age of five are malnourished and 88 percent of pregnant women suffer from anaemia.

Recent estimates⁹ suggest that poor spend about 40% of their budget in cereals. Poverty ratios have been found to be positively correlated with food grain prices. Elasticity of the poverty ratios to the CPIAL (consumer price index for the agricultural labourers) has been found out to be 0.23. This implies that a 20% increase in price level will push up the poverty ratio by nearly 4.6% if the initial poverty ratio is about 40%.

⁸ People below the Poverty line as admitted by the Government of India officially

⁹ Source: Seattle and beyond: B Bhattacharya

Those who advocate, especially in the media and the polity, that India has achieved self-sufficiency in food production should consider these chilling facts before opining anything to the contrary. It is, therefore, in the fitness of things that the Supreme Court directed the government of distribute the grains even gratis to the poor to save them for starvation and hunger. **Simultaneously one has to understand the need to reduce the food prices in India as the prevalent poverty levels the current food prices and its resultant economics remain unsustainable. It is neither in the interest of the farmers nor of the poor. And this is the crucial issue that this document seeks to address.**

IMPACT OF THE INCREASE IN THE MINIMUM SUPPORT PRICES – THE INCREASE IN THE COST OF THE AGRICULTURAL COMMODITIES IMPEEDING THE INCREASED CONSUMPTION OF FOODGRAINS

Notwithstanding the fact that the poor are unable to buy food at substantially lower levels, the Government has been systematically increasing the prices of the Food grains by increasing the Minimum Support Prices (MSPs). This overall increase in the cost of the MSPs on the food subsidy has become quite significant. It may be noted that the Commission on Agricultural Costs and Prices (CACP) is the statutory authority that assists the Government in determining the MSPs for the year. While determining the Minimum Support Prices for crops the CACP ensures that such prices are fair to the producers as well as the consumers. The CACP, therefore, takes into account a number of factors, apart from cost of production, while recommending support prices. The economic rationality of the MSP has been explained by the Economic Survey 2003 which states “Keeping in view the interest of the farmers as also the need for self reliance, Government has been announcing Minimum Support Prices (MSP) for 24 major crops; paddy, wheat, jowar, bajra, maize, ragi, pulses, oilseeds, copra, cotton, jute, sugarcane and tobacco. Farmers are free to sell their produce in the open market or to the Government at the MSP, depending on what is more advantageous to them”.

However, the prices actually fixed by the Government have been much higher than those recommended by the CACP in recent years. The Economic Survey of the Government of India for the year 2003 has this to comment on the increased MSPs against the CACP “**In the past, till 1996-97, MSP recommended by CACP was by and large adhered to by the Government and there were limited market distortions. Private trade played its role as long as market prices were higher than the MSP. The first major aberration occurred in 1997-98, when the CACP recommended price of Rs. 405 per quintal of wheat was raised by the Government to Rs.475 per quintal. During the period 1996-97 to 1999-2000, MSP of wheat was raised by Rs.170 per quintal as against the CACP recommended raise of Rs.110 per quintal. The market has not been able to absorb this additional increase of Rs.60 per quintal till today. Consequently market prices of wheat even today are ruling below the MSP (Rs.620) in major states**”. This ad-hoc increase in the prices

of the foodgrains over and above the recommendations of the CACP is guided purely by political considerations rather than by common sense economics. Over and above this, keeping in view the hardships suffered by the farmers due to the drought in last year, a one time special drought relief of Rs.20 per quintal was announced in the case of paddy over and above the existing MSP for the purpose of procurement.

The MSP of wheat and paddy and the increase in the MSP over the years is given in Table below:¹⁰

¹⁰ Source: Ministry of Agriculture

MINIMUM SUPPORT PRICES
(According to Crop Year)

Sl. No.	Commodity	Variety	(Rs. per quintal)							#) increase in MSP 2005-06 over 2004-05
			2000-01	2001-02	2002-03 Spl. Drought relief price	2003-04	2004-05	2005-06		
KHARIF CROPS										
1	PADDY	Common	510	530	530	20	550	560	570	10(1.8)
		Grade 'A'	540	560	560	20	580	590	600	10(1.7)
2	JOWAR		445	485	485	5	505	515	525	10(1.9)
3	BAJRA		445	485	485	10	505	515	525	10(1.9)
4	MAIZE		445	485	485	5	505	525	540	15(2.9)
5	RAGI		445	485	485	5	505	515	525	10(1.9)
6	ARHAR(Tur)		1200	1320	1320	5	1360	1390	1400	10(0.7)
7	MOONG		1200	1320	1330	5	1370	1410	1520	110(7.8)
8	URAD		1200	1320	1330	5	1370	1410	1520	110(7.8)
9	COTTON	F-414/H-777/J34	1625	1675	1675	20	1725	1760	1760	0(0.0)
		H-4	1825	1875	1875	20	1925	1960	1980	20(1.0)
10	GROUNDNUT IN SHELL		1220	1340	1355	20	1400	1500	1520	20(1.3)
11	SUNFLOWER SEED		1170	1185	1195	15	1250	1340	1500	160(11.9)
12	SOYABEEN	BLACK	775	795	795	10	840	900	900	0(0.0)
		YELLOW	865	885	885	10	930	1000	1010	10(1.0)
13	SESAMUM		1300	1400	1450	5	1485	1500	1550	50(3.3)
14	NIGERSEED		1025	1100	1120	-	1155	1180	1200	20(1.7)
RABI CROPS										
15	WHEAT		610	620	620	10	630	640		
16	BARLEY		500	500	500	5	525	540		
17	GRAM		1100	1200	1220	5	1400	1425		
18	MASUR (LENTIL)		1200	1300	1320	5	1500	1525		
19	RAPESEED/MUSTARD		1200	1300	1330	10	1600	1700		
20	SAFFLOWER		1200	1300	1300	5	1500	1550		
21	TORIA		1165	1265	1295	10	1565	1665		
OTHER CROPS										
22	COPRA	Milling	3250	3300	3300	-	3320	3500	3570	70(2.0)
	(Calender Year)	Ball	3500	3550	3550	-	3570	3750	3750	70(1.9)
23	JUTE	TD-5	785	810	850	-	860	890	910	20(2.2)
24	SUGARCANE@		59.50	62.05	69.50	-	73	74.50	79.50	5(6.71)
25	TOBACCO(VFC)	Black Soil(F2 Gr)	26.00	27.00	28.00	-	31.00	32.00		
	(Rs. per kg.)	Light Soil (L2 Gr)	28.00	29.00	30.00	-	33.00	34.00		

@ Statutory Minimum Price (SMP) linked to a basic recovery of 8.5 % with proportionate premium for every 0.1% increase in recovery above that level. The SMP for 2002-03 includes the one time drought relief of Rs. 5 per quintal recommended by CACP. For 2005-06 SMP is linked to basic recovery of 9.0%.

Figures in brackets indicate percentage increase.

For rabi crops the MSPs are in respect of crops marketed in 2005-06 (April-March).

In the opinion of Mr. C.H.Hanumantha Rao, Former planning commission Member the direct consequence of this ad hoc increase in the MSPs beyond the recommendation of the CACP is that the domestic consumption of food grains has been severely restricted in the last couple of years as the current prices of food grains are beyond the reach of a vast majority of Indians. This anomaly is bound to have a

long-term repercussion and, the per capita consumption of food grains is unlikely to increase much even when their relative prices get moderated. Nevertheless this distortion needs to be corrected. Mr. C.H.Hanumantha Rao further states **“there has been a long-term trend of a decline in the per capita consumption of food grains in the country. This decline has been revealed by the data from the National Sample Surveys. The decline in per capita consumption was gradual at the rate of about 0.5 per cent per annum during the 1970s and 1980s. There was a rise in per capita income in the country in this period. Also, there was a decline in the relative prices of food grains during a greater part of the 1980s. These two factors taken together should have led to increased consumption. Despite this, if there has been a decline in the per capita consumption of food grains, it must be due to certain long-term factors operating in the economy”**.

Another way of looking at this is that during the ten years period up to 2000-01, the total procurement of food grains was 250 million tons, which was 76 MT larger than the off take of 174 MT during this period. This large and continuing excess of procurement, incentivized through the MSPs mechanism, over the level of off take had resulted in the stocks of food grains recording inordinately large increases and far exceeding the norms laid down by the government. In July 2001, the stock of food grains had risen to the record level of 62 million ton, which was 38 million tons larger than the norm of 24 million tons. The huge stocks of food grains lying locked up in the government warehouses considerably reduced the availability of food grains in the market, and, consequently, pushed up their prices. **The high prices of food grains meant great hardship for the large majority of the poor who do not buy their food grains from the PDS.**

IMPACT OF THE DECADE OF REFORMS OF THE INDIAN ECONOMY IN THE AGRICULTURE SECTOR

It is pertinent to note at this point in time to have a detailed view of the growth in the agriculture sector within the Indian economy also assess the impact the reforms had on the agriculture sector, which is turn is crucial for the growth of the Indian economy.

Strange as it may seem, one must concede that the reforms process in India has not yet touched the agriculture sector in any significant manner, despite the fact that it is agriculture that is the source of income for a majority of our population. It was logical that agriculture should have been the first sector to be subjected to the reforms process. This was the logical and also expected from the government. In fact this is how the Chinese proceeded in their sequence of reforming their economy in 1978. On the other hand the Indian reforms process has bypassed the agriculture sector till date. Consequently, the urban rural divide within the economy has grown sharply, with the rural population seemingly remaining mired in poverty. While it is true that India is recording significant growth in other sectors Viz., the manufacturing and the services sector the agriculture sector has not recorded impressive growth in the past decade.

The following table¹¹ captures the GDP growth rate within the economy and compares the growth rate of the GDP with the growth rate within the agriculture sector:

Year	GDP	GDP - Agriculture & allied sector
1992-93	5.1	5.8
1993-94	5.9	4.1
1994-95	7.3	5.0
1995-96	7.3	-0.9
1996-97	7.8	9.6
1997-98	4.8	-2.4
1998-99	6.5	6.2
1999-00	6.1	0.3
2000-01	4.4	-0.4
2001-02	5.6	5.6
2002-03	4.4	-3.1

It is interesting to note that in the entire decade the growth rate of agriculture has been lower than the national growth rate in all years barring 2 years – 1992-93 as well as 1996-97. Further it has to be noted that the agriculture sector has recorded negative growth in the three years out of the ten in the past decade is reflective of the fact that the reforms process has not ensured a sustained growth rate for the Agriculture sector. What makes it all the more critical is that approximately two thirds of India’s population are dependent on agriculture for their income and subsistence. This means that unless the agriculture sector grown at a reasonable pace India cannot eradicate poverty.

One of the primary reasons for a relatively poor growth rate by the agriculture sector within the economy is that over the years, especially during the NEP India has consistently ignored the capital formation in the agriculture sector, both by the public sector as well as the private sector. For instance the gross capital formation in agriculture at 93-95 prices was merely 13,523¹² crores as compared to Rs 18,057 crores in the year 2001-02 (both figures are stated in 1993-94 prices). While this translates into an Rs 4,500 crores increase, the fact of the matter remains that the investment in agriculture as a percentage of GDP has fallen from 1.6% in 1993-94 to 1.3 % in the year 2001-02. Further the investment in agriculture by the public sector has fallen from 33 % in 1993-94 to 26% in 2001-02. While the investment by the private sector is surely welcome the fact of the matter remains that the government has not been able to step up investment for the agriculture sector. This is in line with the current policy of the

¹¹ Source: economic Survey of India- 2002-03

¹² Source: Indian Economic Survey 2002-03

government to contain its fiscal deficit and the first causality in the whole process seems to be the agriculture sector. What needs to be done is that the government needs to reverse the trend and increase the capital formation in the agriculture sector to at least 2 % of the GDP in the next few years. At the barest minimum, the government needs to maintain the 1.6% capital formation rate achieved during 1993-94.

Instead of improving the capital formation rate within the agriculture sector, the government has chosen the easy alternative by stepping up the MSP for the farm products and sought to influence the fortunes of the agriculture sector without its interference. This shift in relying on the market to deliver reflected the abdication of the state in the vital sector within the Indian economy. Despite a decade of reforms it is unthinkable even as on date in India that the private sector would step up the investment in rural infrastructure. The fact of the matter is that the private sector did not venture into those areas within the economy where the state had abdicated during the NEP, especially in rural infrastructure, irrigation projects, building of canals and dams. This vacuum within the economy remains as on date and it may take a decade or more for the private sector to step into those areas, which were once the exclusive domain of the state in India. And till such time and during this transitory period there would be a tremendous stress on the agricultural sector in India.

The ostensible plea of the government that it has increased the MSP of the foodgrains and that this increased prices by itself would be a viable alternative to the state funding of the infrastructure especially in the rural areas is obnoxious to say the least. The increased prices are spread over millions of farmers across the country and to expect them to be adequately compensated for the fall in investment in the rural sector is unacceptable. This inevitably takes us to the logical issue as to examine the efficacy of the present subsidy regime working in tandem with the increased MSPs. The economics of the MSPs and its impact on the agriculture sector with special reference to the subsidy bill of the government is examined greater detail in the following section.

INCREASED COST OF PROCURING FOODGRAINS DUE TO INCREASED MSPs LEADING TO THE BURGEONING SUBSIDY BILL

At this stage let us compare the increase of the prices of Agriculture products to that of Industrial products so that one can appreciate the fact that the Agricultural products have outpaced the manufactured products at the WPI level. We present a table¹³ that gives out the precise details of the increased prices of the agricultural products when compared to the manufactured products.

¹³ Source: Indian Economic Survey 2002-03

Index numbers of wholesale price of agricultural commodities relative to manufactured products				
Year price percent manufacturing	General Index of WP	Price index of agricultural products	Price index of manufactured products	Agriculture index as of
Base: 1981-82 = 100				
1982-83	104.9	107.3	103.5	103.7
1983-84	112.8	121.4	109.8	110.6
1984-85	120.1	129.2	117.5	110.0
1985-86	125.4	129.1	224.4	103.8
1986-87	132.7	142.8	129.2	110.5
1987-88	143.5	161.8	138.5	116.8
1988-89	154.2	170.9	151.6	112.7
1989-90	165.7	174.4	168.6	103.4
1990-91	182.7	198.3	182.8	108.5
1991-92	207.8	236.8	203.4	116.4
1992-93	228.7	255.5	225.6	113.3
1993-94	247.8	271.4	243.2	111.6
Base: 1993-94 = 100				
1994-95	112.6	116.1	112.3	103.3
1995-96	121.6	126.0	121.9	103.3
1996-97	127.2	136.4	124.4	109.7
1997-98	132.8	140.3	126.0	109.6
1998-99	140.7	157.2	133.6	117.7
1999-00	145.3	159.1	137.2	116.0
2000-01	155.7	163.7	141.7	115.5
2001-02	161.3	169.6	144.3	117.5
2002-03 **	165.8	174.5	147.4	118.4
* Composite index of the sub-groups – Food Articles and Non-food articles				

From the table it can be seen that the price indexes of agricultural products have moved much faster as compared to the manufactured products in recent years. The Economic Survey for the year 2003 has commented on the Movement of agricultural prices vis-à-vis manufactured prices and comes out in full support of the Government policy of having an exacerbated price for Agricultural products. It states “A good agricultural growth provides demand stimulus for industrial products. In the post-reform period policy emphasis shifted to liberalizing trade in agriculture. Quantitative restrictions (QRs) were dismantled in April 2001. These policy changes now provide an opportunity to farmers and agro-based industries to tap the world markets. The

new economic environment has created a conducive environment for improving the terms of trade for agriculture vis-à-vis the manufacturing sector”. **What is important for the policy analyst to note here is that the government has mistaken this artificial increase in the prices of the MSPs as a barometer of the growth in the agriculture. This is state sponsored growth and militates against the very fundamentals of modern economics. Such an artificial growth cannot be the true index of growth and remains a faulty economics model that is bound to fail sooner rather than later.**

Further, it is important to point out that our 70% of our agriculture production does not enter the markets and are primarily produced for self-consumption by the farmers. Secondly it is important to point out that to take advantage of these benefits the farmers have to reach a threshold level of development. Unfortunately, many farmers in India are small and marginal who remain resource poor even as on date. Consequently, many of the policy formulations including even improving rural infrastructure does not directly benefit the farmers, though it is conceded that these factors would improve the competitiveness of our farmers to face the global challenges in the long run.

This comparatively larger increase in prices of food grains belies the popular assumption that the Agricultural prices are lower in India when compared to the manufactured products and that the Government controls the prices of food grains. In fact by constantly increasing the MSPs the Government had allowed the market prices of the food grains to follow suit and this policy alone is a significant contributor to this unenviable situation in India.

THIS SKEWED INCREASE IN THE PRICES OF FOOD GRAINS HURT THE POOR, ESPECIALLY THOSE WHO WERE NOT COVERED BY THE PDS

In direct contrast to the above the polity and the media have sought to justify the functioning of the PDS by creating an illusion that such a system does indeed prevent inflationary increases in prices of food grains, consequently helps the poor to access food grains at an inexpensive manner and that the MSPs helps the farmers by buying their produce at an increased price. These myths stand demolished by government’s own data and statistics published from time to time, as may be seen below. **It is also to be noted that the PDS requires that the beneficiary of the system to have a permanent address, which unfortunately nearly 300 million in India do not have. In this situation to expect that PDS to work is far-fetched to say the least.**

In the analysis of the Mr. Daya Krishna¹⁴, an ex-officer of the Indian economic Service and who has also held a senior position in the planning commission PDS covers approximately 165 million people, out of which 60 million are estimated to be below

¹⁴ Daya Krishna: Golden Age to Globalization - 7000 Years of Indian economy

the poverty line (BPL). These 60 million poor formed less than 1/6 of the 400 million poor in India, who may be below the poverty line (and this figure is an estimate by various non-governmental sources and it is conceded that this is higher than the officially accepted figure of 260 millions). The remaining 5/6 or approximately 325 million remained dependent upon the market where prices of food grains had gone up because of the very large purchases made by the FCI. A system which seeks to help 1/6 of the poor by adding to the hardships of the remaining 5/6 of the poor by raising the prices of food grains, cannot be called a system that helps the poor. **Therefore, Mr. Daya Krishna concludes, "the myth that PDS helps the poor stands demolished".**

The argument that PDS prevents inflationary increases in the prices of food grains by making inordinately large purchases of food grains, and thus, reducing their availability in the open market. All the Committees appointed by the government, as also the Eighth and the Ninth Plan have recommended that government should substantially reduce their procurement of food grains and restrict their operations to the really poor families of the society. In 1999-2000, government had procured as much as 23 percent of the production of food grains, which formed more than 80% of the total marketable surplus of the production. **Hoarding inevitably leads to increase in prices and large hoarding leads to large increases in prices. No wonder, therefore, that the prices of food grains have been rising faster than the prices of manufactured articles in spite of large increases in the production of food grains and the huge stocks of food grains with the FCI. The FCI has, thus, emerged as the biggest hoarder of food grains in India and the food grain procurement policy of the Government of India been the chief factor in the increased cost of food grains in India.**

The comparatively larger increases in prices of food grains are more harmful for the poor for the following reasons:

- First, because over 80% of the poor are not dependent on the PDS and consequently are forced to buy their food grains from the market. It is also estimated that over 75% of their income is spent on buying food.
- Secondly, even increased support prices of food grains, in the absence of any proper mechanism to transfer the increased realization of food grains to farmers to the farm workers (who are substantial in number) does not translate into a benefit to the economy as a whole and farm workers are never the beneficiaries of this largesse. Thus it is all the more important that the Government does fix the MSP in line with the recommendations of the CACP and does not fix the MSP at prices beyond the absorption capacity of the economy.
- Finally, another dimension to this MSP issue is the concentration of the procurement of the food grains. According to the Economic Survey for the year 2000-03 Punjab and Haryana accounted for more than 80% of the Wheat procurement in 2002-03 and Punjab alone is estimated to have contributed to over 50% of the rice procurement. Thus while the MSP increases are based on the

production in the two states and the accompanying political pressures, the consequential impact is felt on the country as a whole. This concentration of food procurement in the two states and the mechanics of fixing MSPs are creating having their own pressure within the economy.

INCREASED FCI MARGINS MAKES DISTRIBUTION OF THE FOOD GRAINS UNECONOMICAL AND BLOATS THE SUBSIDY BILL

At this juncture it shall be appropriate for us to take an overall view of the economics of the food procurement and distribution carried out by the Government of India through the FCI. And this large increase in the prices of food grains is mainly due to the large increase in the margins of the FCI. Margins of FCI itself have risen to over 40 % of the procurement price. And, taking advantage of the high margins of the FCI, the traders have also raised their margins to a very large extent. The very high margins of the FCI have also resulted in the farmers not getting proper prices for their food grains. Between 1991-92 and 1999-00, the procurement price of wheat has been about 2/3 of the Economic Cost of wheat. The margin charged by the FCI had, thus, been about half of the procurement price paid to the farmer.

For instance during 1998-99, the Government spent Rs.90,000 million on food subsidy. Taking about 20 million tons of food grains sold through the PDS, subsidy outgo per ton would be Rs.4500 or Rs.4.5 per kg. The issue price of wheat on sale through the fair price shop being Rs.4.50 per kg, the total realization would be Rs.9.0 per kg., which is also the cost of sales. Take off from this, the price paid to the farmer i.e. Rs.4.75 per kg., the balance Rs.4.25 per kg would represent the handling and distribution cost. That is a huge 47 per cent of the total cost of sales.

HANDLING AND DISTRIBUTION USURPS A MAJOR PORTION OF FOOD SUBSIDY	
Rs./ton	
1. Food subsidy	4,500*
2. Price paid by consumer	4,500
3. Realization from sales (1) + (2)	9,000
4. Price paid to farmer	4,750
5. Cost of handling and distribution (3) - (4)	4,250
Rs.90,000 million (1998-99) divided by 20.0 million tons sold through PDS ¹⁵	

In fact Dr Uttam Gupta comments “Look at things from another angle, the price paid by consumer i.e. Rs.4.50 per kg is only Rs.0.25 per kg. lower than the price

¹⁵ Source: Fertilizer Subsidy-The Inevitable Monster by Dr. Uttam Gupta

realized by the farmer, which is Rs.4.75 kg. And, for giving this meagre benefit, the Government spends a whopping about Rs.4.25 per kg from the exchequer. The money is actually used for subsidizing the monumental inefficiencies in handling and distribution. This also gives credence to the possibility of unprecedented misuse and leakages from the system on which, even the Comptroller of Auditor General (CAG) has commented”.

After taking into consideration the retailers’ margin also, the share of the producer in the consumer’s rupee comes to about 50 paise only against the share of about 80 paise at the time of the constitution of FCI in 1965. In other words the inefficiency of the FCI caused by large-scale system leakages is the singular reason for the burgeoning food subsidy bill. Further, if one to increase producer’s share in consumer’s rupee the large margin of the FCI will have to be reduced. This would at-once benefit the consumer as well as the producer. **If only half of the expenditure incurred at the FCI is transferred to the farmer by any route whatsoever, it will give a big boost to the production of food grains in India. What is lost on the polity is that the FCI has lost its relevance in the NEP regime of the government and there is a policy mismatch resulting in such economic absurdity. It is time that the government looks into viable alternatives in reaching food to its poor.**

ARTIFICIAL INCREASE IN THE PRICES OF MSP AND LACK OF DEMAND EVEN AT SUBSIDIZED PRICES LEADS TO THE AN ACCUMULATED STOCK AND CONSEQUENTLY A BURGEONING SUBSIDY BILL

Before we proceed further let us try to capture the mechanism of MSP in brief and how it works in the Indian context. The MSP is basically the price support policy of the Government, is directed at providing insurance to agricultural producers against any sharp fall in farm prices. The minimum guaranteed prices are fixed to set a floor price below which market prices cannot fall as the farmers can sell their produce at these prices. This increase in the prices of the food grains has seriously impacted the cost of procurement of the food grains for the government and also has increased the acquisition, distribution and economic cost of both wheat and rice. The economic Survey of the Government of India for the year 2003, had the following comments on the issue of the MSPs **“With the sharp increases in MSP every year (despite surpluses having replaced shortages) the MSP has become the maximum selling price instead of being the floor price. This coupled with the system of open-ended procurement has made FCI the buyer of the first resort, resulting in huge accumulation of surplus public stocks of food grains”.**

We give hereunder a table that lays out the FCI’s procurement cost of wheat and rice.

FCI's economic cost of rice and wheat <i>(Rupees per quintal)</i>					
	1999-00	2000-01	2001-02	2002-03	2003-
04(BE)					
Rice					
A. Acquisition cost	887.30	1014.04	1052.66	1072.69	-
B. Distribution cost	187.50	166.43	151.61	133.66	-
Economic cost (A+B)	1047.80	1180.47		1204.27	1206.37
1248					
PDS issue Price of Rice					
For Above Poverty Level	905	1130	830	730	
For Below Poverty Levels	350	565	565	565	
Wheat					
A. Acquisition cost	685.51	716.60	739.13	757.64	-
B. Distribution Cost	202.00	141.66	132.17	121.52	-
Economic cost (A+B)	887.51	858.26	871.30	879.16	
921					
PDS issue Price of Wheat					
For Above Poverty Level	682	830	610	510	
For Below Poverty Levels	250	415	415	415	
Source: Food Bulletin, Department of Food and Public Distribution					

Consequent to this excessive price increase over the years, there had been excessive procurement of rice and wheat due to higher MSPs. However the off take of food grains from the Central Pool had remained very poor. This led to the accumulation of huge surplus stocks of food grains. In an effort to encourage off take and to liquidate the surplus stocks of food grains, various measures were adopted during 2001-02 which included-open market sale at prices much below economic cost, lowering of issue prices under Targeted Public Distribution System (TPDS) for Above Poverty Line (APL) families, increasing of monthly allocation for APL, Below Poverty Line (BPL) and Antyodaya families to 35 kg per month per family and utilization of food grains for various welfare schemes. All these have in turn contributed to the food subsidy bill of the Central Government.

It is important at this point to dissect the subsidy component. The Producers (farmers) and consumers and within its group-the vulnerable sections of the society-are the major beneficiaries of food subsidy. It is a moral and ethical compulsion cast on any civil society and a responsible government to take care of the poor and the destitute. The subsidy incurred on the supply of food grains through the PDS at below FCI's

economic cost constitutes the consumer subsidy while the producer subsidy is the direct offshoot of the price support based procurement operations of the Government. The producer subsidy together with the cost of maintaining the buffer stock accounts for the cost of buffer stock operations. **The consumer subsidy together with the buffer carrying cost constitutes the food subsidy. And owing to the increased MSPs over the year, which has led to the increased procurement in the quantity and the price of food grains. Simultaneously this increased cost of food grains did not translate into an increased purchasing power in the hands of the people due to a variety of reasons. Consequently the government was forced to sell food grains at extremely lower costs through the PDS. All these compounded to increase the food subsidy bill of the Government - a fact that is well accepted, perhaps admitted but never remedied.**

The Economic Survey of the Government of India for the year 2003 had the following comment to make on this price policy: **“In recent years however, the skewed price support policy of the Government has precipitated the problem of mounting public stocks of food grains much above the stipulated buffer stock norms. Central food grains stocks as on January 1,2003 at 48.2 million tons are much above the buffer requirement of 16.8 million tons”**. Thus the Government is well aware of the situation but never keen on rectifying the position.

THE PARADOX OF OVERFLOWING GRANERIES AND STARVING PEOPLE EXPLAINED IN THE CONTEXT OF THE LOCAL MARKET MECHANICS

The paradox of overflowing granaries and starving people, the only beneficiaries of the current system seem to be the local trader rather than the farmer or the ultimate consumer. For instance owing to the very high prices for foodgrains fixed by the government the only buyers of wheat in post harvest wholesale markets of (northern) Punjab and Haryana states are the Food Corporation of India (FCI) and other state agencies. The local traders are not interested in buying the same when the stocks arrive at the market, as the procurement prices remain too high for them to attempt such purchases. The traders of agriculture products buy only when the government offloads the stocks at subsidized rates. The government's grain procurement policies, which have the laudable motive of supporting farmers has resulted in government grain stocks consistently swelling - with nowhere to store it and consequently are forced to sell at subsidized prices to the local traders.

For traders it is a simple waiting game and the longer they are patient, the better, because there seems no end to the glut of grain. But neither the farmers, many of whom are already in debt, nor the government can wait to get rid of perishable stocks. Already, open-market prices for rice and wheat, the main staples, are way below the minimum support prices announced by the government. This is a depressingly pattern

and is similar to that in the previous years when traders rather than starving people benefit from a massive food subsidy offered by the government.

“This is a crazy situation -- the government is actually subsidizing the grain trade instead of ensuring that food supplies reach vulnerable people,” says Jean Dreze¹⁶, visiting professor of economist at the prestigious Delhi School of Economics. He is a close associate of Amartya Sen, the Nobel prize-winning economist who demonstrated the real relationship between poverty, entitlements and famines. Sen's celebrated theory -- that famines could be caused by economic factors other than changes in food supply -- seems to have special relevance to the current Indian situation, one where enormous strides in food production have not dented shortages.

Even India's Planning Commission has admitted in various documents that more than 30 percent of grain meant for the public distribution system (PDS) is misappropriated yearly by private traders and contractors. So entrenched is the nexus of traders and the FCI bureaucracy that it thwarted a National Storage Policy announced more than a few years ago, which invited foreign investors with modern technology to help move grain from farm gates to consumers efficiently. Consequently some of the grain was exported as cattle feed at prices lower than those fixed under the heavily subsidized PDS.

THE POOR QUALITY OF FOOD GRAINS CAUSED BY POOR STORAGE FACILITY WITH THE FCI LEADING TO WASTES AND SOMETIMES IMPORT WHEN STOCKS EXISTS

And despite such huge spending by the Government in the “Economic Costs” of the FCI, it is a matter of common knowledge that the quality of food grains distributed through the PDS is poor. But, in March 1992, people were shocked when four opposition parties of the Parliament made the accusation that the impurities in the PDS food grains were as high as 49 per cent, and pointed to the government formula introduced in 1965, which permitted the purchase of food grains having impurities up to 49 per cent. Actually, the formula had been derived on the basis of a technical evaluation of the strains and qualities of each grain in some samples and was gross overestimation of the extent of impurities. But, the question of impurities in food grains assumed great importance because of the very large number of complaints about the poor quality of PDS food grains.

During 1999, the bulk buyers (mainly roller flour millers) did not buy the wheat offered by the FCI at the price of Rs.7500-7700 per ton because of its poor quality. They imported about one million tons of wheat from other countries, because, for the same price, imported wheat was much better in quality. It was an extremely unfortunate situation. The government wanted the FCI to unload excess quantities of

¹⁶ Source: www.indiatogether.org: Ranjit Devraj

wheat in order to reduce the burden of subsidies; but the quality of FCI wheat was so bad that there were no buyers for it in the open market. Consequently, India imported wheat in spite of bumper crops and the FCI having huge stocks of food grains.

Thus the entire FCI mechanism is a failure and the Government has to find out some way out. **It may be noted that in even as late as 1997, former Agriculture Minister Mr. C Subramaniam and the author of the Green Revolution had suggested that the FCI should be disbanded and decentralised arrangements should be made for the sale and purchase of food grains in the country.**