Imbalances in India's cereal economy need more than a short-term fix

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The need of the hour is to expand distribution under the PDS. Failing that, the country is heading towards another round of wasteful stock accumulation even as poor people struggle to feed their families.

The paradox of "hunger amidst plenty" has haunted India for a long time and shows no sign of going away. On the contrary, it reached a new plane in 2020. On the one hand, the economic recession precipitated by the COVID-19 crisis and national lockdown exposed huge numbers of people to food insecurity. Many household surveys point to reduced food intake in both quantitative and qualitative terms. The latest survey, Hunger Watch, suggests that food insecurity continued well after the lockdown. The government is trying to create an impression that the crisis is largely over, but for informal-sector workers, hardship is likely to continue for a long time.

On the other hand, excess cereal stocks (mainly rice and wheat) have reached unprecedented levels and are all set to grow further in 2021. Bloated stocks reflect a growing imbalance between procurement and distribution. According to the official Foodgrains Bulletin, cereal procurement was around 70 million tonnes in 2017-18, 80 million tonnes in 2018-19, and close to 90 million tonnes in 2019-20. This year, it may cross 100 million tonnes. Meanwhile, cereal distribution under the public distribution system (PDS) and other welfare schemes has stagnated at around 60 million tonnes. Procurement and distribution do not match because they are driven by independent forces — procurement by minimum support prices (MSPs), distribution by the norms of the National Food Security Act (NFSA).

When the NFSA was being drafted 10 years ago, cereal procurement was around 60 million tonnes. The Planning Commission and finance ministry argued that it would not and should not grow further, and insisted on 60 million tonnes as an upper bound for the cereal requirements of the NFSA. Ten years later, procurement has actually grown by more than 50 per cent.

The imbalance between procurement and distribution was temporarily hidden in 2020 because additional PDS rations of 5 kg per person per month were provided to NFSA cardholders from April to November under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY). This led to the release of an extra 30 million tonnes or so, compared with normal levels. After reaching a peak of nearly 100 million tonnes in July 2020 (more than twice the buffer-stock norms), cereal stocks stopped growing. But with the recent discontinuation of PMGKAY, they are all set to grow again in 2021.

In the short-term, there is no simple way of closing the gap between procurement and distribution other than expanding distribution. With farmers demanding higher MSPs and being quite assertive about it, procurement is unlikely to decline soon (except in years of bad harvest). Exports would require massive subsidies, since MSPs tend to be higher than world prices — almost 50 per cent higher in the case of wheat today. So would the use of excess stocks as cattle feed. Large subsidies for exports or cattle feed (not to speak of ethanol) would be hard to justify. Open-market sales would

defeat the purpose of MSPs.

The case for expanding distribution arises not only from the lack of sensible alternatives but also from the need to consolidate the food security net in this crisis situation. Ad hoc measures, often prone to confusion and corruption, should give way to sustained entitlements. There are many possibilities in this regard — expanding the Antyodaya programme, updating the population figures used to calculate NFSA coverage, raising monthly cereal rations above the modest norm of 5 kg per person, and universalising the PDS in rural areas and urban slums, among others. Just to amplify the last option, universalising the PDS in rural areas at NFSA rates (5 kg per person per month) would require an extra allocation of about 15-20 million tonnes per year — barely half of the current gap between annual procurement and distribution.

Another approach would be to simply raise state-wise NFSA allocations by a fixed percentage (say 20 per cent), and let the states decide how to use the additional quotas within the PDS framework. During the last few months, many states have tried to expand the coverage of the PDS as a relief measure, but it is hard for them — especially the poorer states — to do it without central assistance.

Aside from a major gap between cereal procurement and distribution, there is also a looming imbalance between production and consumption. Cereal production has been well above 250 million tonnes for five years in a row, and is likely to cross 280 million tonnes this year. According to the second India Human Development Survey, average cereal consumption was a little below 12 kg per person per month 2011-12. Using this benchmark, aggregate cereal consumption is likely to be around 200 million tonnes today, in a normal year. Sustained poverty reduction would perhaps raise it a little beyond that, but not much. Cereals have other uses than human consumption, but it is not clear how well the surplus can be used.

This imbalance reflects the excessive focus of subsidised procurement on rice and wheat. Perhaps the all-out promotion of rice and wheat served a purpose at one time, when India faced a possible danger of cereal shortage. Today, it makes little sense. Diversification of agriculture, especially towards nutritious crops such as millets, pulses, oilseeds and vegetables, is important not only for better nutrition but also to promote equity and sustainability. This requires more balanced subsidies — for instance, higher MSPs for pulses, combined with more active procurement and the inclusion of pulses in the PDS. The feasibility of including pulses in the PDS was amply demonstrated in 2020 under the PMGKAY — this could work wonders for farmers, poor people, and the environment. Diversification also calls for other forms of public support (such as marketing arrangements, credit facilities, scientific advice, effective insurance), especially for small farmers and deprived regions.

Sooner or later, the double imbalance in India's cereal economy (between procurement and distribution as well as between production and consumption) will need more than a short-term fix. Meanwhile, the need of the hour is to expand distribution under the PDS. Failing that, the country is heading towards another round of wasteful stock accumulation even as poor people struggle to feed their families.

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