

III

Management of the Food Economy

Public Stocks and Food Security

5.31 A well-targeted and properly functioning Public Distribution System (PDS) is an important constituent of the strategy for poverty alleviation. The PDS, seeks to enhance food security particularly for the economically weaker sections of the society. In the country's food management policy, maintaining a buffer stock constitutes an essential parameter for ensuring food security

through the public distribution system. Box 5.3 briefly describes the buffer stocking policy of the Government.

5.32 PDS is operated under the joint responsibility of the Central and State Governments. The Central Government takes the responsibility for procurement, storage, transportation and bulk allocation of foodgrains, at subsidised prices. The responsibility of distribution to consumers including target groups through a network of 4,63,000 fair price shops (FPSs) rests with the State Governments.

BOX 5.3 Buffer Stocking Policy

Maintaining a buffer stock is an important constituent of the Government's food policy, as agriculture in India still remains dependent on the vagaries of nature. The buffer stock provides the basic and most flexible instrument for moderating short-term effects of supply or production shortfalls. The concept of a buffer stock was first introduced during the 4th Five Year Plan (1969-74) and a buffer stock of 5 million tonnes of foodgrains was envisaged. The buffer stock figures are normally reviewed after every 5 years. The current buffer stock level operational from 1998 is valid till March 2002. The prescribed buffer stock level during a year ranges from a maximum of 24.3 million tonnes in July to a minimum of 15.8 million tonnes in April.

	Minimum Buffer Stock Norms <i>(Million Tonnes)</i>			
	January	April	July	October
Wheat	8.4	4.0	14.3	11.6
Rice	8.4	11.8	10.0	6.5
Total	16.8	15.8	24.3	18.1

The actual quantity of buffer stocks to be maintained largely depends on factors like the procurement price, expected shortfall in production, magnitude and frequency of shortfalls in supply resulting from shortfalls in production, level of procurement, expected population growth, demand/requirement of foodgrains, cost of holding the buffer stock, and the possible utilisation of surplus stocks in new welfare schemes etcetera.

Public stocks of foodgrains have two major components:

- (i) Operational Stocks for regular distribution under the PDS
- (ii) Buffer Stocks for easing out fluctuations in consumption and prices arising out of instability in the production of foodgrains. These are held as a part of a long-term strategy to meet emergent situations and are utilised for offsetting production irregularities.

Current Situation

As compared with the buffer stock norm of 16.8 million tonnes for January 1, the stock position as on January 1, 2002 at 58 million tonnes was way above the norm. (Table 5.9) This is a great cause for concern. The reason for the mounting stocks of foodgrains much above the stipulated norms is that while procurement of foodgrains by the FCI has been high, offtake of foodgrains under the Public Distribution System has been very low. A Technical Group on Buffer Stocking Policy has been constituted to look into details of maximum and minimum level of national buffer stocks along with grain mix and to suggest the operational level for the same.

Consistent increases in procurement prices have caused procurement to rise but offtake remains low because of market prices being lower than the rates being offered at the PDS outlets for the Above Poverty Line category. Another area of concern is that, large public stocks of foodgrains increase the carrying cost of foodgrains and have serious subsidy implications (Table 5.13), which in turn has a bearing on the fiscal deficit. A large buffer stock is therefore as harmful as a small one. Financing of these buffer stocks lead to an increase in the food credit.

Year	Trends in growth of Food Credit <i>(Rs crore)</i>		Growth (Per Cent)
	Outstanding	Incremental	
1995-96	9791	-2484	-20.2
1996-97	7597	-2194	-22.4
1997-98	12485	4888	64.3
1998-99	16816	4331	34.7
1999-00	25691	8875	52.8
2000-01	39991	14300	55.7
2001-02*	51763	11772	29.4
*upto December 14, 2001			

The food economy today faces a problem of plenty. Public stocks of foodgrains are much more than what the market or PDS can absorb. Policy steps should be directed to resolve the problems of excess stock of foodgrains, tackle the problem of acute shortage of storage space, avoid the increasing carrying cost of surplus stock and ensure the effectiveness of the price support measures for the farmers. It may however be kept in mind that a temporary glut can be dealt with, through measures such as lowering the issue price and attempting to export if possible. But, if the surplus situation persists because of higher MSP and inability of the domestic market to adjust to each year's change in MSP, there may be a need to re-formulate the agricultural price support policy framework.