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Excess stocks of the Food Corporation of India must be released to the poor

Jean Dreze writes: Releasing food is all the more crucial as the emergency cash transfers proposed by the finance minister are likely to have severe limitations.

Written by **Jean Dreze** | Updated: **April 9, 2020**

A serious relief package would include releasing excess stocks to the states in large quantities. (Illustration by C R Sasikumar)

How would you feel if a family were to let its weakest members starve, even as the house's granary is full to the brim? That is what is happening in India today. Everyone knows that the country has large food stocks, and that some of this could be used to protect people from hunger during the coronavirus crisis. The enormity of the situation, however, has escaped many observers.

Twenty-odd years ago, the People's Union for Civil Liberties (PUCL) filed a writ petition in the Supreme Court asking for the country's gigantic food stocks to be used for public works and other social security schemes. This public interest litigation paved the way for important food security initiatives such as mid-day meals, public distribution system (PDS) reforms, and later on, the National Food Security Act (NFSA). Taken together, these food-based schemes involve the distribution of some 50-60 million tonnes of rice and wheat every year. Yet, food stocks have continued to grow because procurement levels have also increased.

When the PUCL petition was filed, in 2001, the foodgrain stocks of the Food Corporation of India (FCI) were approaching 50 million tonnes — a record at that time. During the last five years, they have not only exceeded that level every year, but have also grown further by leaps and bounds. Last year, in June (when the stocks normally peak), foodgrain stocks crossed 80 million tonnes — more than three times the buffer-stock norms. This year, they have reached a staggering 77 million tonnes in March, before the rabi harvest, when food stocks typically rise by another 20 million tonnes or so. Public food storage on this scale has never happened in India before. Meanwhile, the shadow of hunger looms large as the lockdown devastates people's livelihoods.

The finance minister did not do them a big favour by doubling PDS rations for the next three months — something like that was needed, in any case, to make space in FCI's overflowing godowns for rabi procurement. A serious relief package would include releasing excess stocks to the states in large quantities.

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Why is it proving so difficult? One reason has to do with food-subsidy accounting. The food subsidy essentially pays for the losses FCI makes when it buys at minimum support prices and sells at much lower PDS prices, and also the money spent on transportation and storage. As it happens, however, the food subsidy does not enter the central government's accounts until stocks are released. That is why the finance minister had to budget Rs 40,000 crore in her relief package simply to release some excess food stocks into the PDS. In economic terms, releasing excess stocks is costless, and even saves money. But in accounting terms, it is expensive. This anomaly makes it harder to release food stocks: Credit-rating agencies watch the fiscal deficit, not the food economy.

Now, let us consider this from the angle of state governments. Take Jharkhand. The state has a major problem of exclusion from the PDS — there are pending ration-card applications from seven lakh households, including many poor ones. The central government does not provide any food assistance to them under its relief package. If the Jharkhand government wants to distribute some food to these excluded households, it will have to pay the FCI for it at the so-called economic cost — well above the market price.

Providing seven lakh Jharkhandi households with emergency ration cards for, say, six months at the standard NFSA rate of 5 kg per person per month would require just one lakh tonne of foodgrain, or barely one-tenth of one per cent of the FCI's food stocks. This would make a tiny dent in the stocks, yet go a long way in averting hunger in one of India's poorest states.

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Thus, there is a strong case for the central government to release more food stocks to the states for free (or at a nominal price), over and above existing allocations. These special food quotas could be used not only to enhance monthly rations and reduce exclusion errors in the PDS, but also for emergency relief measures such as community kitchens. With private trade hampered by lockdowns, this would also help to contain local food inflation.

Releasing food is all the more crucial as the emergency cash transfers proposed by the finance minister are likely to have severe limitations. First, the amounts are small — for example, Rs 500 per month for three months to Pradhan Mantri Jan Dhan Yojana accounts held by women, the flagship provision. Second, exclusion errors are likely to be substantial — many poor households have no operational PMJDY account (there is, alas, little data on this). Third, there is the challenging issue of mass disbursement of cash in this crisis. In the poorer states, the density of rural banks is very low. Business correspondents (extension counters of the banks) are not safe at this time because they use fingerprint authentication. If their work is suspended, rural banks are likely to be massively overcrowded. Resolving this issue may take time.

Meanwhile, even finding out whether and where relief money has been sent is going to be an ordeal for many poor people. Some of them will have to make expensive trips to distant banks and queue there for hours just to make enquiries. Some will be told that the computer is down, others that their account has been frozen for lack of biometric verification, others still may not reach the head of the queue. I am not inventing a problem: All this has been observed recently in Nagri Block (near Ranchi), where the Jharkhand government tried and failed to replace the PDS with so-called direct benefit transfers.

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In short, food transfers are bound to play a big role in keeping poor people alive in the next few months. Food schemes such as the PDS and mid-day meals are in place in most villages, it is mainly a matter of reinforcing them. For this to happen, the central government must unlock the godowns and give plenty of food to the states. Never mind if the step takes the fiscal deficit a notch higher due to muddled accounting.

This article first appeared in the print edition on April 9, 2020 under the title 'Break the food lockdown'. The writer is visiting professor at the Department of Economics, Ranchi University