

Policy Issues Concerning Food Security: Taking Note of the Small Producers

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While there is a need to increase food production particularly that of cereals, any strategy which seeks to do so by displacing farmers and promoting big capital dominated/corporate owned farming without creating ample employment opportunities elsewhere, is only going to worsen the food security scenario. To be able to pursue a farm policy in the interest of small farmers the state must play an active role and provide support, instead of diluting its intervention in agricultural markets and allowing private speculative/monopolistic interests to take over.

The passing of the National Food Security Act (NFSA) by the UPA II government and the stand-off between India and advanced countries on the issue of food security in the recently held WTO Ministerial Conference in Bali has brought our food security policy into much limelight. Even before all this, the issue of increasing (and often rotting) food stocks in government storages and continuance of distressing levels of hunger in the country has lent an uncomfortable piquancy to this issue. NFSA's intent to cover nearly two-thirds of the country's population under a subsidised food programme, which is expected to expand the number of people under food security net, and India's defense of its food security policy space against international pressure in Bali seem to indicate that food security figures high on the policy making agenda in the country.

As per the Food and Agriculture Organization's (FAO)¹ definition "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life".² It goes without saying that in today's world a complex dialectic of issues are involved in pursuit of such a goal. The following discussion would try to examine how coherent is India's food security policy vis-à-vis some of the key factors, which determine food security.

Centrality of Cereals in Food Security

The Right to Food Campaign has criticised the NFSA for only trying to provide food grain security instead of nutrition security³. However, the present discussion shall confine itself to discussing the issues around cereals for the reasons described below.

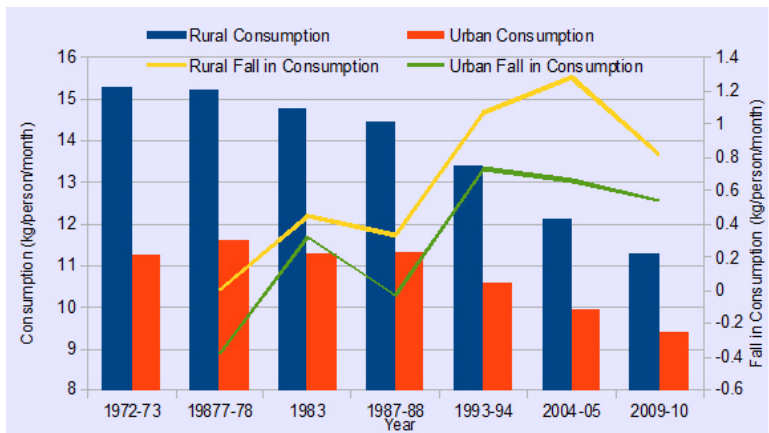
The National Sample Survey Organization (NSSO) data shows that per capita cereal consumption has been falling at an increasing rate in the period after economic reforms, as shown in Figure 1. Given the fact that cereals still provide for more than 50 per cent of calorie contribution in both rural and urban areas⁴, this should have been seen as an alarming sign in terms of food security. However, the dominant view in policy circles has been to attribute this acceleration in falling consumption to increase in income levels of the population and factors such as declining calorie needs.⁵ Since, income data is not available for the Indian economy, the claim of increasing incomes triggering a decline in cereal consumption, deserves some scrutiny.

Two points are in order vis-à-vis such claims. Firstly, claims of falling poverty during the reform period are based on a faulty method where the original practice of poverty line expenditure enabling the fulfillment of Required Daily Allowance (RDA) of calorie norms has been abandoned, thus making poverty figures not only gross underestimates but also non-comparable in time as well as across states (Patnaik).⁶ A direct calculation by the same author on the basis of fixed calorie norms shows worsening poverty during the last two large sample rounds of the NSSO in 2004-05 and 2009-10 (Patnaik....).⁷ These findings pose serious questions on the claims of increase in income levels leading to decline in cereal consumption.

Secondly, it must be kept in mind that there are two parts of cereal demand in an economy: direct and indirect demand. While the former represents cereal consumption in staple forms like cooked rice, chapati, etc., the latter includes consumption of cereals that go into the production of feed for meat products and other such indirect usage. It is the sum of these two which constitutes the total demand for cereals in an economy. Graph 1 from Yotopoulos⁸ shows the relation between cereal demand and income levels. As income levels raise direct demand for cereals first increases and then decreases, whereas indirect demand keeps on increasing. The total demand for cereals, which is a sum of the two components, increases with increasing income levels.

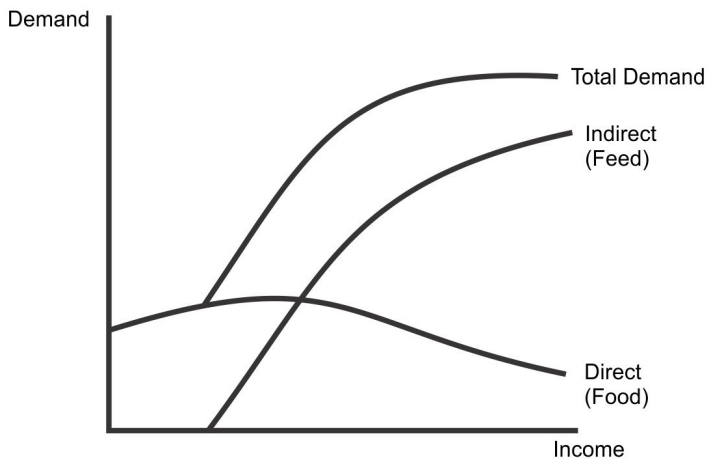
The arguments presented above take us to the question of macro level trends in cereal consumption and production in India.

Figure 1: Trends in Cereal Consumption in India



Source: Calculated from various NSSO Reports

Graph 1: Demand for Cereals, total, direct and indirect according to income



Cereal Production and Availability

The achievement of 3.6 per cent rate of growth in agricultural sector during the 11th Five Year Plan (FYP) and food grain production crossing 250 million tonnes recently has generated a lot of enthusiasm about the state of Indian agriculture. It is indeed true that India is one of the biggest producers of both rice and wheat in the world. There has also been an increase in cereal exports from India during the reform period, which has been celebrated as a success story. However, what matters from the point of view

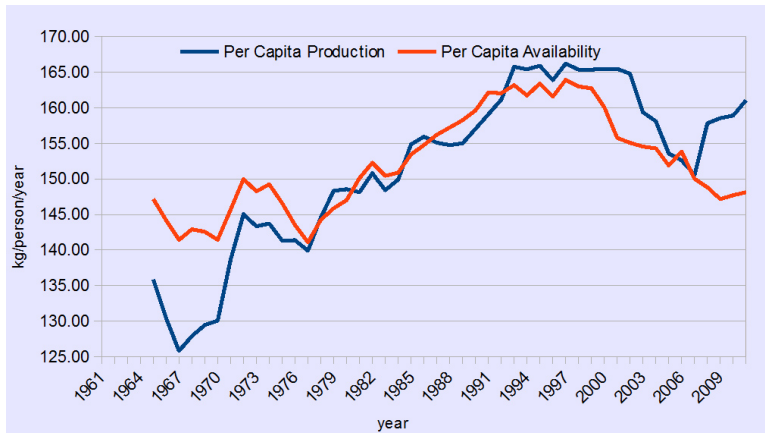
of food security are not total but per capita production and availability levels in a given economy. Availability (production+net imports-addition to stocks) is important because it gives an idea about the aggregate demand (direct+indirect) for cereals, thus making per capita availability a rough measure of per capita consumption.

A look at Figure 2, which gives per capita production and availability trends for cereals in India, reveals a picture, which is starkly different from the buoyant scenario being painted on the basis of increasing production levels. It can be seen that both per capita production and availability of cereals show a declining trend since the beginning of the reform period in the country. Although, there has been an improvement in the per capita production figures during the 11th FYP period, per capita availability has continued its downward trend.

It is to be noted that per capita availability of cereals has been less than per capita production consistently during the reform period, even though per capita production itself has been falling. What it means is that the demand for cereals fell faster than its production, which has enabled increasing exports and accumulation of stocks. When these trends are read together with the arguments given in the previous section, it is clear that accumulation of stocks and increase in cereal exports point towards demand deflation led decline in per capita availability rather than a glut of cereal production in the country. The Planning Commission has added a note of caution on the complacency about current trends in food production in the 12th FYP document. It says

Another important and related issue is the likely future demand for food. The Twelfth Plan Working Group on Crop Husbandry, Demand and Supply Projections, Agricultural Inputs and Agricultural Statistics has made projections for food grains and other food items by the terminal year of the Twelfth Plan, that is, 2016–17 ... which would suggest that present levels of cereals production already exceed likely demand at the end of the Twelfth Plan. These projections are based on actual past patterns of observed demand and the fact that cereals consumption per capita has declined since at least mid-1990s. However, it is also the case that India has very high levels of malnutrition and, although there are many reasons for this, deficiencies in calorie intake remain one of the most important. With cereals supplying over 50 per cent of total calorie intake even now, falling cereals consumption is the main reason why per capita calorie intake has not increased despite rising incomes. It is not just that the share of cereals in total food expenditure is falling; even poor people are reducing the share of income spent on all foods in order to meet other non-food needs. In such a situation, where there is a disjunction between such a basic element of human development as nutrition and other demands in an increasingly consumerist society, there is need to ensure that minimum nutrition requirements are actually met(GoI..., Volume II, chapter 12, p 17).⁹

Figure 2: Per Capita Production and Availability (5 year moving average) of Cereals in India



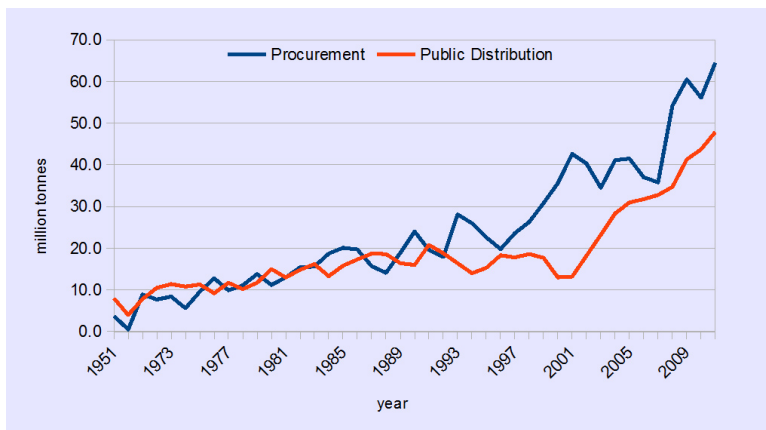
Source: Table 1.16, Statistical Appendix, Economic Survey¹⁰

The foregoing discussion has shown that declining cereal consumption is a result of demand deflation owing to lack of purchasing power rather than an increase in income levels.¹¹ Unless efforts are taken to guarantee access of food grains to those who do not have the economic wherewithal for fulfilling their nutritional requirements, food security would remain an elusive goal. This brings the question of government intervention into focus.

Government Intervention and Food Grain Management Policy

The Public Distribution System (PDS) is run by providing subsidized food grain to people out of the stock procured by the Government from farmers at Minimum Support Prices (MSP). Food Corporation of India (FCI) is the nodal government agency for procurement and distribution of food grains. The PDS was made into a targeted scheme in 1997, when a difference in issue prices of food grains was introduced on the basis of Below Poverty Line (BPL) and Above Poverty Line (APL) cards. Later an additional category of Antyodaya Anna Yojana (AAY) was added for the extremely poor. The period after shift from universal to targeted PDS has seen a large decline in the off-take from PDS and, hence, an increasing gap between the two, which led to accumulation of large amount of food stocks. Figure 3 shows these trends.

Figure 3: Procurement and Public Distribution of Cereals



Source: Table 1.17, Statistical Appendix, Economic Survey

It is generally perceived that the government has been acquiring much more food grains than it requires. Arguments have also been made that increase in MSP in the past few years has exacerbated this trend. In an economy where the government does not have to run a food security programme, its procurement should be limited to maintaining buffer stock levels for dealing with food shortages during emergency situations. In case of India, the gap between procurement and public distribution has been inferred as evidence of excess procurement by the government. However a different picture emerges from the facts given in a Performance Audit of the FCI¹² done by the Comptroller and Auditor General (CAG) in 2013. It makes two important points:

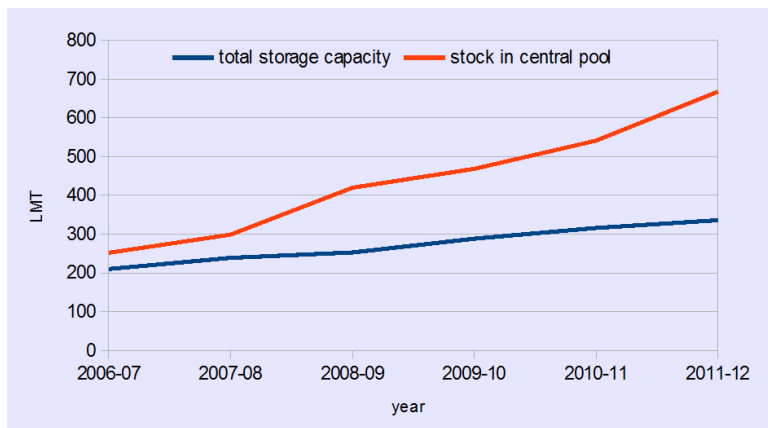
- During 2006-07 to 2011-12, the average procurement of 514 LMT by various agencies for the central pool was lower than the average allocation of 593 LMT made by the GoI for TPDS; Other Welfare Schemes (OWS), etc.
- In the last three years, 2009-10, 2010-11 and 2011-12, the gap between allocation and procurement was 46, 118 and 75 LMT, respectively. This shows that current procurement levels would not be enough to meet the allocations required in the future, should the NFSA come into effect. In the past, the situation has remained under control because lifting against the sanctioned off-take has been much lower: the figures being 80 per cent and 77 per cent in 2009-10 and 2010-11 respectively. The Food Ministry has claimed that existing levels of procurement are adequate given the gap between allocation and off-take.

The sum total of state-wise quota of food grains fixed in the NFSA is 54.92 million tonnes (2740GI.p65 - E_29_2013_429.pdf) which is much more than the average procurement in the last five years ending in 2011. Thus, it appears that if the NFSA indeed brings the

targeted two-third population under its coverage, providing for food grains can become a serious problem. Clearly, like the false sense of over-production on the basis of demand deflation, notion of over-procurement also rests on lower than sanctioned off take from the PDS. It is important to note here that because of the NFSA not adopting a universal approach, it would continue to remain susceptible to wrong exclusion, which marked the TPDS. In such case, there would be no shortages but dilution of NFSA's main objective of providing food security to poor people would take place.

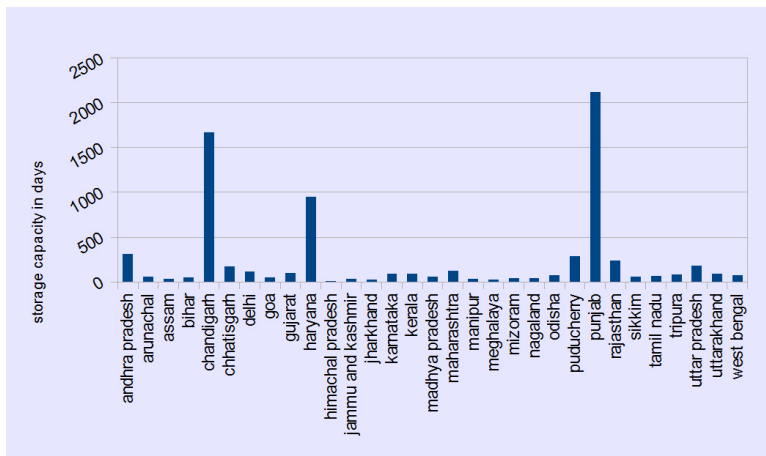
Even if the government wanted to increase its procurement, it would face a serious infrastructural bottleneck in terms of shortage of storage facilities. Figure 4 shows the growing gap between stocks and storage capacity using data provided by the CAG Audit. Not only is there a lack of storage capacity, it is also concentrated in a handful of states as shown in Figure 5. Having failed to create additional storage capacity through the Private Entrepreneur Guarantee (PEG) scheme, the Government has rightly decided to construct additional storage space by using the MGNREGA¹³, which would hopefully help prevent wastage of food stocks and also allow expansion of procurement activities from the currently regionally skewed patterns.

Figure 4: Storage Capacity and Stocks in Central Pool



Source: Figure 3.1 CAG Audit¹⁴

Figure 5: State-wise Position of Storage Capacity (in days) vis-à-vis the Requisite 120 Days for Operational Stock as on March 2012



Source: Figure 3.3, CAG Audit¹⁵

However, as was seen during the recent WTO Ministerial, the policy space for undertaking procurement activities faces an additional constraint of WTO restrictions on providing domestic support.

Implications of WTO Commitments

As per the Agreement on Agriculture (AoA) under the WTO, procurement of food stocks for food security purposes at administered prices is considered to be under the Amber Box category, which is subject to a limit of 10 per cent of value of production in the case of developing countries. The actual method of calculation of domestic support in case of procurement involves multiplying the difference between prices at which procurement is made (MSP in India’s case) and fixed External Reference Price (ERP) of 1986-88 period defined in Paragraph 9, Annex 3 of the AoA with the total quantity procured. Given the increase in food grain prices and cost of cultivation, MSPs have had to be increased in the recent period, which has in turn led to an increase in the effective support arising out of procurement. It was for this reason that the G 33 group of developing countries wanted suitable amendments in Annex 2 of the AoA, which was one of the major items for discussion in Bali. However, in keeping with the fundamental asymmetries between the advanced and third world countries, what has emerged out of Bali is an acceptance of a “Peace Clause” for 4 years as an “interim solution” with a lot of restrictions being attached to the original G 33 proposal.¹⁶ This is despite the fact that the present subsidy regime in the AoA allows developed countries especially the USA to spend large amounts on its food security programme in violation of AoA requirements and the fixing of ERP

to 1986-88 period was subject to review in the original agreement.¹⁷ While India would struggle to furnish the information required in the “Peace Clause”, arguments have been made to change India’s food security programme to suit WTO requirements by many commentators.¹⁸ Even before the debate on G 33 proposal started, similar proposals calling for dilution of procurement and providing direct cash transfers instead of food grains have been made by various academics including those having key positions in policy-making establishment.¹⁹ Two fundamental questions need to be posed vis-à-vis such arguments.

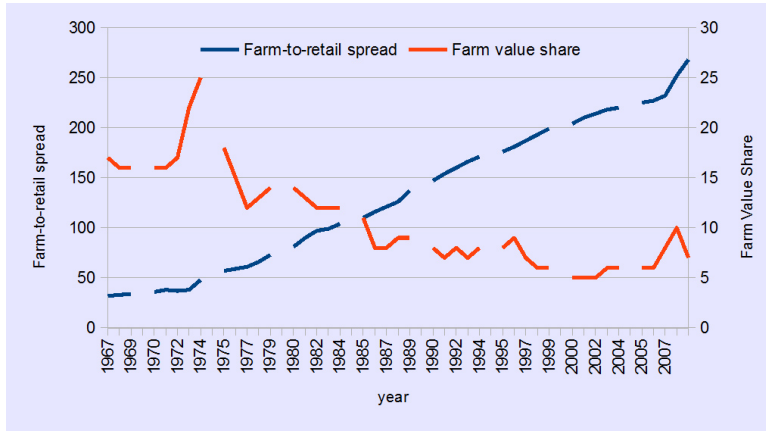
First is the issue of running an effective food programme based on direct cash transfers? Firstly, financial inclusion through banking is yet to be achieved, and UID based system of cash transfers would lead to further exclusion and confusion. Notwithstanding this, given the increased volatility and inflationary situation in food prices, a nominal cash transfer based programme would always be vulnerable to corrosion in its ability to provide the requisite amount of food grains. In case of an indexed cash transfer programme, however, another set of considerations need to be taken into account. It is correct to assume that those who benefit from the NFSA would add to the demand for cereals, given the enhancement in their purchasing power through direct cash transfers by the government. Such a large increase in demand is likely to add to existing demand in the market. In a scenario where the government does not procure grains, it is likely to lead to an inflationary spiral by speculation and other means as those indulging in such acts would be assured of fixed and price inelastic demand, because the beneficiaries are entitled to price indexed cash transfers from the government. This could lead to an increase in government expenditure, which would add to the profits of private traders in food grains. Additionally, given the Fiscal Responsibility and Budgetary Management Act, which sets an upper limit on the fiscal deficit, such an increase in expenditure *ceteris paribus* would necessitate a reduction of expenditure on other sectors, which, experience suggests, are more likely to comprise spending on key social-sector and rural development.

Another issue of importance is the agrarian sector, which is dominated by small and medium farmers²⁰ whose economic power is much less compared to that of large private buyers. A discontinuation of MSP based procurement by the Government is bound to remove any pressure whatsoever on the private buyers to offer remunerative prices to small farmers who are hard pressed to sell their produce immediately after harvesting to pay for input costs. Contrary to the claims of big retail/private sector leading to increased income for farmers, empirical evidence points to the opposite. The US, where the private sector has a big role in the food grain market has seen an increasing farm-retail price spread for most commodities as shown in Figure 6.

This would lead to a further deterioration in the agrarian crisis by adding to its unviability. Unlike the US where farmers overcome the difference between costs of cultivation and

market prices through direct income support, it is simply impossible to provide any such support in India given the sheer magnitude of population dependent on agriculture. Given the bleak scenario of creation of decent employment outside agriculture in the country, any further deterioration in farm incomes is only going to add to food insecurity and distress in the economy.

Figure 6: Price Spreads and Farm Value shares for cereal and bakery products in US (percent)



Source: USDA Data²¹

Conclusion

The agrarian crisis during the reform period accompanied with ‘jobless growth’ has led us to a situation where demand for cereals has fallen at an increasing rate compared to fall in per capita production. This has prevented a precipitation of a major food shortage in the economy. Unless the problem is addressed, the crisis cannot be overcome. While there is a need to increase food production particularly that of cereals, any strategy which seeks to do so by displacing farmers and promoting big capital dominated/corporate owned farming without creating ample employment opportunities elsewhere, is only going to worsen the food security scenario.

To be able to pursue a farm policy in the interest of small farmers the state must play an active role and provide all support, instead of diluting its intervention in agricultural markets and allowing private speculative/monopolistic interests to take over. Any fetters to such a strategy from regulations in WTO, which is unabashedly biased in favour of corporate controlled agriculture and big corporations dealing in agricultural inputs and outputs, must be countered by building effective and principled alliances with other developing countries which face similar challenges.

Unfortunately, the present thinking on this issue leaves a lot of ground to be covered.

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¹ An intergovernmental organization, FAO has 194 Member Nations, two associate members and one member organization, the European Union.

² “Trade Reforms and Food Security.”

³ Why the Parliament should reject the standing committee’s recommendations on the Food Security Bill: RTFC, <http://www.im4change.org/latest-news-updates/why-the-parliament-should-reject-the-standing-committees-recommendations-on-the-food-security-bill-rtfc-19099.html>

⁴ As per NSSO Report Number 540 (66th Round in 2009-10) calorie and protein contribution of cereals is more than 60 and 50 per cent in rural and urban areas, respectively.

⁵ For example, see Section 3.13.4 p 46-47 NSSO Report Number 538 on Level and Pattern of Consumer Expenditure (66th Round in 2009-10).

⁶ Patnaik, “Neoliberalism and Rural Poverty in India.”

⁷ Patnaik. “Poverty Trends in India 2004-05 to 2009-10.”

⁸ Yotopoulos, “Middle-Income Classes and Food Crises.”

⁹ Chapter 12, page 17, Volume II “Twelfth Five Year (2012-17), Planning Commission, Yojana Bhawan, Government of India.”

¹⁰ The Union Budget and the Economic Survey. Also, The Population estimates used for getting per capita figures have been calculated by first calculating the rate of growth of population in each decade by using census figures and then interpolated for each year. The annual population figure used in the Economic Survey seems to be inappropriate. For example during 1991 to 1995 the increase in population each year (1991 to 1992 and soon) is 19.1, 16.1, 16.1, 16 and 22.1 million, respectively. There is no basis for such fluctuations in annual population growth

¹¹ Rise in wages (after the implementation of MGNREGA) and expenditure levels is often posed as a counter argument to this claim. However, the trends in per capita availability of cereals do not show any evidence of increasing cereal consumption. The arguments which seek to justify a voluntary reduction of cereal demand have been critically discussed in Basu and Das, “Poverty-Hunger Divergence in India.”

¹² “Report No-7 of 2013.” http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/union_audit/recent_reports/union_performance/2013/Civil/Report_7/Report_7.html

¹³ “To Check PDS Leakage, States Allowed to Build Godowns - The Hindu.”

¹⁴ “Report No-7 of 2013.”

¹⁵ Ibid.

¹⁶ “Right to Food Wins ‘Defensive Battle’ in World Trade Organization Deal.”

¹⁷ Dhar and Kishore, “Prospects of the Bali Ministerial.”

¹⁸ “India Should Stand Its Ground at Bali - Livemint.”

¹⁹ For example see Parikh, “Right to Food and Foodgrain Policy.” and Basu, “India’s Foodgrain Policy.”

²⁰ Definition of various types of farmers based on size of land: Marginal holdings (of size 1 hectare or less), small holdings (size 1 to 2 hectares), semi-medium holdings (2 to 4 hectares), medium holdings (4 to 10 hectares), large holdings (over 10 hectares)

²¹ “USDA Economic Research Service - Price Spreads from Farm to Consumer.”