

Economic Implications of excessive public stocks

5.50 The FCI incurs costs for procuring, transporting, handling, storing and distributing of foodgrains. The total cost is apportioned between economic cost and buffer carrying cost. The economic cost consists of the acquisition cost (which includes MSP etc) and the distribution cost. MSP accounts for nearly 45 percent of the economic cost in case of paddy(common) and 75 percent in case of wheat. State taxes and other procurement incidentals account for about 6-7 percent of the economic cost for rice and about 18 percent for wheat.

The rest is storage and distribution cost. FCI's economic cost of rice and wheat has been rising sharply over the years. Much of this is due to large increases in MSP. (Table 5.18)

5.51 Excess procurement due to higher MSPs and mounting stocks of foodgrains much above the levels required for food security, have led to elimination of private trade and higher commitments for Government subsidy. The food subsidy increased from Rs 2,850 crore in 1991-92 to Rs 12,010 crore in 2000-01. For 2001-02 the estimated food subsidy is Rs 13,670 crore of which Rs 5,680 crore alone constitutes buffer subsidy. The buffer subsidy which was Rs 1,494

TABLE 5.16
Monthly Per Capita Food and Foodgrain Expenditure to Total Consumption Expenditure

(Per cent)

Year (NSS rounds)	Share of Food Expenditure in Total Consumption Expenditure		Share of Foodgrains Expenditure in Total Consumption Expenditure	
	Rural	Urban	Rural	Urban
1972-73 (27th Round)	72.9	64.5	46.0	27.1
1977-78 (32nd Round)	64.3	60.0	37.3	24.5
1983 (38th Round)	65.6	59.1	36.3	22.9
1987-88 (43rd Round)	64.0	56.4	30.6	18.7
1993-94 (50th Round)	63.2	54.7	28.3	17.3
1999-2000 (55th Round)	59.4	48.1	26.2	15.3

TABLE 5.17
Share of Expenditure on Foodgrains, Fruit/Vegetables & Milk, Meat, Egg, Fish in Total Food Expenditure

(Per cent)

Year (NSS Rounds)	Expenditure on Foodgrains		Expenditure on Fruit & Vegetables		Expenditure on Milk, Meat, Egg & Fish	
	Rural	Urban	Rural	Urban	Rural	Urban
1972-73 (27th Round)	63.10	42.02	10.15	9.92	13.44	19.53
1977-78 (32nd Round)	58.01	40.83	9.95	10.67	16.17	21.67
1983 (38th Round)	55.34	38.75	11.43	12.01	16.01	21.66
1987-88 (43rd Round)	47.81	33.16	12.66	13.83	18.59	23.23
1993-94 (50th Round)	44.78	31.63	14.40	14.99	20.25	24.13
1999-2000 (55th Round)	44.11	31.81	14.48	15.59	20.37	24.53

TABLE 5.18
FCI's Economic Cost of Rice & Wheat
(Rs/quintal)

Fiscal year	Economic cost	
	Wheat	Rice
1991-92	391	497
1992-93	504	585
1993-94	532	665
1994-95	551	695
1995-96	584	763
1996-97	663	858
1997-98	798	937
1998-99	800	995
1999-00	872	1111
2000-01	830	1148
2001-02	839	1174

crore in 1995-96 has risen to Rs 4,233 crore in just 5-6 years indicating a rise of about 200 percent (Table 5.19).

5.52 Higher procurement together with the reduced offtake witnessed in the last three years has resulted in a much larger buffer stock, entailing much larger buffer carrying costs (comprising freight, storage, interest charges etc.) In 1997-98, the buffer component of the food subsidy bill was only 13 percent, which has today risen to an alarming 42 percent. Large volumes of unsold public stocks of foodgrains push up the carrying cost, which in turn raises the subsidy burden thus aggravating the attempt to contain the fiscal deficit.

TABLE 5.19
Food Subsidy
(Rs crore)

Year	Food Subsidy	Buffer component	Buffer subsidy as percent of food subsidy
1997-98	7500	937	12.5
1998-99	8700	1552	17.8
1999-00	9200	1754	19.1
2000-01	12010	4233	35.2
2001-02(BE)	13670	5680	41.6

5.53 Higher procurement prices invariably edge out private trade thus causing FCI to procure more than what is required for food security. Low volumes of foodgrains available with private trade often leads to higher market price during lean season due to inadequate supply in the market while public stocks lie unutilised in Government godowns due to poor offtake. Open market sale by the FCI at a much lower price than the economic cost thus becomes the source of supply to private trade and roller flour mills.