The Cost of Food Security

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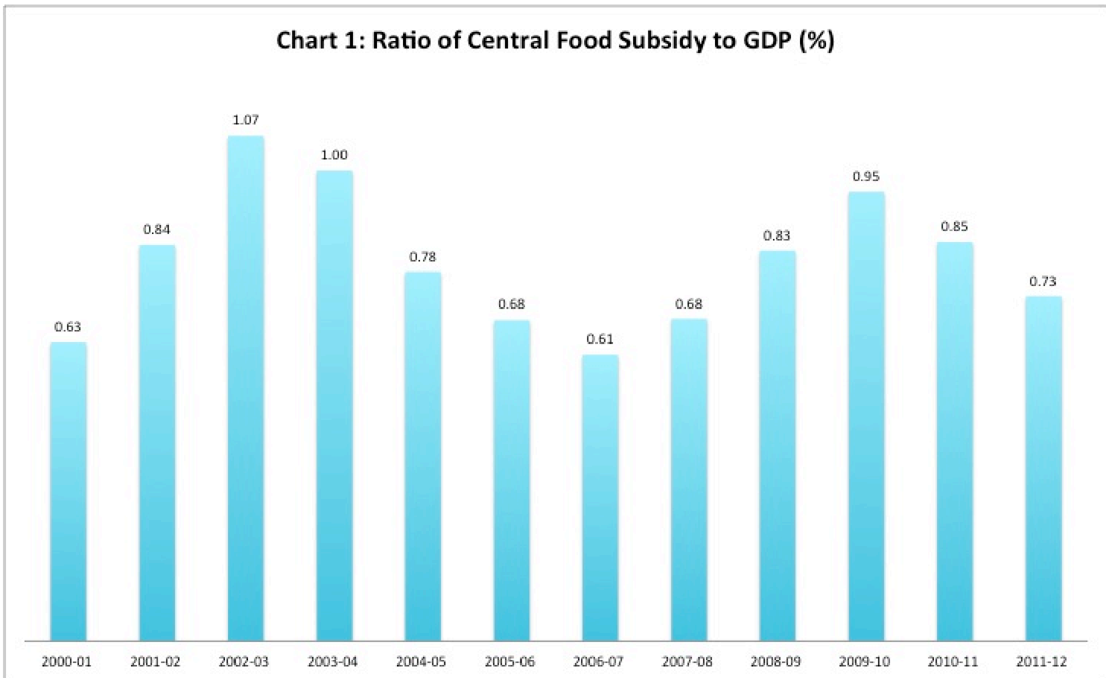
The Parliamentary Standing Committee on Food, which examined the draft food security bill, has recommended one more version in terms of the coverage and support that the Act should guarantee. It has reportedly argued for mandatory coverage of 67 per cent of the population based on multiple criteria that would separate the population into groups either “included” or “excluded”. However, it has scaled down the monthly entitlement of subsidised grain to a uniform 5 kg per month for every person covered under the act. Assuming five persons per household, that amounts to an entitlement of 25 kg per household per month. In the view of the committee, identified beneficiaries should be provided the stipulated quantity at Rs. 3, 2 and 1 per kg respectively for rice wheat and millets.

There is no unanimity here. One member of the committee, T.N. Seema, submitted a note of dissent objecting to, among other recommendations, the reduced entitlement and the cap on coverage. This is not surprising since the Left in and outside Parliament, civil society groups like the Right to Food Campaign and many analysts and academics have been arguing for universal coverage on the grounds that targeting would in many ways defeat the purpose of the bill. The recommendations of the Standing Committee not only fall short of this but put out a scheme which is one among the many involving less-than-universal coverage.

The government’s draft bill, for example, seeks to cover 63.5 per cent of the population, consisting of 75 per cent of the population in rural India and 60 per cent in urban India. These proportions have been broken down into “priority” and “general” groups with the former eligible for 7 kg of subsidised grain at the low prices mentioned above, whereas the general category will be eligible for 3 kg each at half the economic cost of grain distributed through the public distribution system. The National Advisory Council (NAC), on the other hand, had made a case for providing food grains using the Rs. 3-2-1 pricing formula to 75 per cent of the population (90 per cent in rural areas and 50 per cent in urban areas) divided into “priority” (46% rural; 28% urban) and “general” (39% rural; 12% urban) categories. Priority households were to be entitled to 35 kg of subsidised food grain per month and general households to 20 kg, at a price not exceeding 50 per cent of the minimum support price (MSP).



Finally, the Expert Committee set up by the Prime Minister and chaired by C. Rangarajan, which took on the task of pruning the NAC's recommendations, elected for a substantial reduction in the population that is to be guaranteed access. It favoured a scheme that would "restrict the assured delivery of foodgrains at Rs 2 per kg for wheat and Rs 3 per kg for rice, to the really needy households and cover the rest through an executive order with a varying quantum depending on the availability of foodgrains." This would in effect give the government the option of dropping those not "really needy" from the scheme. The "really needy" households were defined as the set of those falling in income terms below the revised official Tendulkar poverty line plus an additional 10 per cent above that line. This was a clumsy concession to keeping coverage equal to at least the "priority" section identified by the NAC.

Given this potpourri in terms of schemes defined by coverage, quantum of access and price, the debate is being shifted from one between those demanding universal coverage and those wanting to restrict the right to food to the so-called needy, to one about how much of India's current population should be seen as needy. However, there can be no agreement on what being "needy" means, as the scorn widely poured on the government's earlier poverty line made clear. And having a multi-dimensional perspective on deprivation, while appropriate, creates significant difficulties in identifying beneficiaries leading to errors of exclusion.

The real reason why such targeting is still favoured by sections in government is that they see it as a way of reducing the cost of the programme. This effort to reduce cost has been backed by arguments to suggest that a food security programme with universal or even extensive coverage would either be infeasible because of inadequate food supplies or would be impossible to sustain because of the burden it would place on the government's budget.

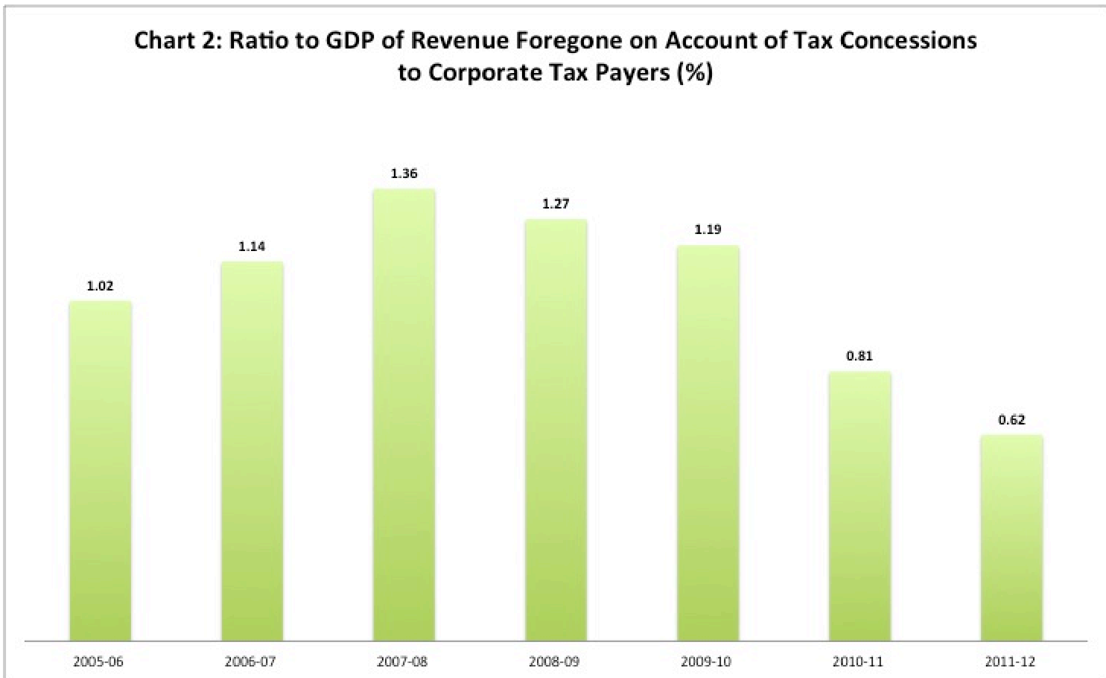
In the elaboration of the first of these arguments the emphasis is on the inadequacy of the domestically available surplus of foodgrains and the fact that if India places a significant demand in global markets to support its food security programme it would result in a spike in prices that would be damaging for all. That such arguments, advanced by both the Rangarajan Committee and the Parliamentary Standing Committee, could even be made is shocking. It amounts to stating that production in India is not in current circumstances and can never be adequate to support an effort to ensure minimum access to food at affordable prices for that segment of the population that would choose to avail of grains supplied through the PDS. Besides the fact that this judgement is based on questionable assumptions on availability and offtake, it also ignores the fact that India's current plight is the result of long years of neglect of agriculture and food grain production (refer "Wages of Neglect") that has resulted in a long-term decline in the per capita availability of food grain in the country. This neglect is now being made the reason to prune the food security programme by a government that celebrates the high growth rates of recent years and makes tall claims about India's current position in the global order.

The other argument, which has been the focus of the case against an extensive or universal food security programme, is that the cost involved is too high for a government already burdened by a high fiscal deficit. It may be useful to reiterate once more that a fiscal deficit can also be pruned by mobilising more resources through increased taxation, reduced tax concessions and better implementation. The controversy surrounding the capital gains demand made on Vodafone makes clear that this government is committed more to incentivising investors, including foreign investors, than to mobilising resources to finance crucial expenditures.

To conceal the failure to mobilise required resources official discussions on the food security programme quote absolute numbers of the subsidies entailed in even the current programme and the way they have risen over time in nominal or current price terms. This, to start with, exaggerates the real increase in food provided. Thus while the central food subsidy bill rose in nominal terms from Rs.23,280 crore to Rs. 60,573 crore between 2004-05 and 2011-12, the figure in 2011-12 after adjusting for inflation in the wholesale prices of food articles between those dates was Rs. 30,239 crore. One reason why food prices rise is the adjustment that the government has to make to the Minimum Support Price for food grains to compensate for cost of production increase. To use that to declare food subsidy as the burden is clearly disingenuous.

But without making this clear nominal figures are quoted and taken as being irrefutably indicative of how burdensome it is. The Rangarajan Committee estimated that the subsidy required to support the NAC's scheme could go up to Rs. 92,000 crore and the Parliamentary Standing Committee estimates the subsidy required to support its recommendations at Rs. 1.12 crore. These figures are controversial and involve strong assumptions.

Further, besides the inflation factor, there is another reason why absolute figures convey little. Take for example the numbers reported in Chart 1 giving the ratio of actual food subsidies over the last decade relative to GDP. In most years subsidies have amounted to between 0.6 and 0.8 per cent of GDP, and touched 1 per cent in only a single year. Raising this figure to more than one per cent is a reasonable demand given the fact that the World Food Programme estimates that, despite high growth over two decades and more, a quarter of the world's hungry population resides in India and around 43 per cent of children under the age of five years are malnourished.



Moreover, Chart 2 shows that during the 2000s, when corporate profits were soaring, tax concessions in different forms provided to the corporate sector amounted to well above one per cent of GDP. Thus the sum estimated by the Parliamentary Standing Committee as needed to support its recommendation was at 1.35 per cent of GDP in 2011-12, less than the 1.36 per cent of GDP transferred to the corporate sector through these concessions in 2007-08. And corporate tax rebates are only one form in which the corporate sector is favoured, as the controversies over spectrum sale, coal blocks and even gas pricing suggest. Anyone with a sense of social priorities should, in the circumstances, recognise that the argument that the money is not available is without much basis. What is lacking is the will to mobilise the surplus and allocate it to where it is needed most.

* This article was originally published in the Hindu on January 20, 2013