NATIONAL FOOD SECURITY BILL - WILL IT FEED THE PEOPLE OR STARVE THE EXCHEQUER?

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ABSTRACT

Both the Upper House and the Lower house have passed the National Food Security Bill the pet project of Ms Sonia Gandhi president of the Congress party and a Member of Parliament. The bill aims to provide 5 kilogrammes of rice wheat and coarse grains at a subsidized rate of Rs 3, Rs 2 and Re 1 respectively through the Targeted Public Distribution System (TPDS). It is estimated by the government that the bill will cost 1, 24,723 crores per year. The bill while covering all the households in the extremely poor households Antyodaya Anna Yojana (AAY) category will cover only 71% in the above the poverty line category (APL). In all the bill it is said will support 75% of the rural population and 50% of the urban population. The implications of this bill in terms of increasing fiscal deficit and the concurrent inflation, increasing current account deficit and the effect on a already depreciating rupee have been discussed. This paper raises doubts and highlights some of the unanswered questions of this bill. The paper concludes by saying that the bill should focus on the limitations to make the implementation process a smooth one.

INTRODUCTION

India is one of the high growth economies of the world. But it is beset with a number of paradoxes. One of the best known one about the food economy. It is the one that 42 per cent of the children are malnourished but the warehouses are bursting with rotten foodgrains. The question that arises is the one of whether there is some way that that the excess food could reach the malnourished. The foodgrains exports have touched a record high but the per capita food availability at home is declining. India is losing money on every ton that was exported. This meant that the exporters made profits but the exchequer lost. There are more facts to be observed about the Indian economy. More than one-third of the world’s poor are living in India. It is ranked below many of the African countries in the Global Hunger Index and the Human Development Index. Since many are poor they do not have access to food leave alone nutritive food. While these poor go to bed hungry it is projected that after the wheat harvest the buffer stock would touch 90 million tons against the buffer stock norms of 30 million tons. It is in this background that both the Upper House and the Lower House passed the National Food Security Bill (NFSB) a flagship programme of the United People’s Alliance (UPA). The bill aims to provide long term sustainable food and nutritional security to the poor. "We gave the opportunity to provide food to everyone, especially weaker sections of our society that have not benefited from India's economic prosperity," said Sonia Gandhi, president of the Congress party and a
member of Parliament But the opposition in the Parliament had its own take. The Gujarat Chief Minister said about the bill- "In a nation concerned about meeting nutritional requirements, it is a bill that will push the nation towards malnutrition. The proposed Food Security Bill will keep the poor hungry and snatch away his food,"

**HIGHLIGHTS**

The main highlight of the NFSB bill was that it would deliver 5kgs of rice, wheat and coarse cereals per family per month at a subsidized rate of Rs 3, Rs2 and Re 1 respectively through the Targeted Public Distribution System (TPDS). The bill proposes to provide supporting nutrition to pregnant women, lactating mothers and children. The bill it was said supported 75% of the rural population and 50% of the urban population. It was estimated by the government that the bill will cost 1,24,723 crores per year. But there are other opinions on the cost of the bill. The Commission for Agricultural Costs and Prices (CACP) of the Ministry of Agriculture in a research paper titled “National Food Security Bill – Challenges and Options” estimated the cost of the food security scheme for over a three year period to be Rs 6,82,163 crore. It is estimated that the cost of the bill in the first year alone would be Rs 2,41,263 crores. Economist Surjit Bhalla estimated the cost to be Rs 3,14,000 crores or around 3% of the gross domestic product (GDP). While the food security bill put huge burden on the exchequer, the tax receipts to fund the subsidy have not kept pace. The tax collections in the first quarter of 2013-14 had been below expectations. This implied that the cost of food security will form a higher proportion of the total government receipts than the numbers actually tell us. The problem gets further intensified when the cost of the implementation is looked at. The CACP points “additional expenditure (that) is needed for the envisaged administrative set up, scaling up of operations, enhancement of production, investments for storage, movement, processing and market infrastructure etc. have not been taken into account.” A point to be further noted is that the food security scheme was an open ended scheme. According to Nitin Pai, Director of The Takshashila Institution, “The scheme is open-ended: there’s no expiry date, no sunset clause. It covers around two-thirds of the population—even those who are not really needy. This means that the outlays will have to increase as the population grows.” According to one estimate, when the government sold the rice at at Rs 3 per kg it is subsidizing to the extent of Rs 16 per kg and given that the 62 million tons was provided the size of the subsidy is estimated to be around $24 billion.

Yet another important implication of the food security bill was looked at by critics. This was with regards to the household identification system. In general the bill will expand the number of households who got food entitlement. But it had varying impacts on the individual households. The TDPS system had three classifications. Households above the poverty line (APL), households below the poverty line (BPL) and the extremely poor households Antyodaya Anna Yojana (AAY). The food bill proposed to cover all the households in the AAY. They will get the same benefits in the new scheme. The BPL households will however see a reduction in the entitlement. They will get a 2 kg reduction in their monthly entitlement. These households it was pointed out will receive 5 kgs at a lower price. But the reduction in their previously eligible quantity will outweigh the reduction in price. The APL category saw a mixed impact. The bill covered 71 per cent of the households who got a 2 kg increase and a reduction in price in the APL category.
IMPLICATIONS

As mentioned earlier the food subsidy bill entails a huge expenditure on the part of the government. This subsidy will increase the fiscal deficit. The government to finance the deficit has two options. The first one is to borrow. But government borrowing will crowd out private borrowing. This is because the private sector (banks or companies) will have to compete with the government for the savings. Hence to attract more savings the private sector will have to offer higher interest rates. The era of high interest rate will continue and hamper economic growth further. The second option with government is to print more money. But this will lead to a situation of too much money chasing too few goods and will cause the prices to rise. There were other reasons as to why the price will increase. The government every year declares a Minimum Support Price (MSP) for rice and wheat. This is the rate at which the government buys rice and wheat from the farmers. The grains bought are distributed to the people under various schemes of the government. If more grain has to be procured, the government will have to raise the minimum support price which will prop up food inflation. Further according to the CACP “Assured procurement gives an incentive for farmers to produce cereals rather than diversify the production-basket. Vegetable production too may be affected – pushing food inflation further”

The inflation mentioned above will lead to lower savings. This is because people will have to spend higher proportion of their incomes to meet the expenses. Lower savings has two implications. Lower savings meant lower funds available for investment. Lower investment will imply lower economic growth. The second implication is that if India does not save enough, it has to borrow capital from abroad. When the country borrows it had to pay back in dollars. India therefore will have to buy dollars. This will put pressure on the rupee and force it to depreciate. There is yet another fact that can put pressure on the rupee. In a particular year if the country does not produce enough rice and wheat it will have to import. This is easier said than done. “Rice is a very thinly traded commodity, with only about 7 per cent of world production being traded and five countries cornering three-fourths of the rice exports. The thinness and concentration of world rice markets imply that changes in production or consumption in major rice-trading countries have an amplified effect on world prices,” a CACP research paper points out. To import the government will have to buy dollars which will put further pressure on the rupee.

It has pointed out by many that the most difficult challenge for the food security bill is the extremely “leaky” PDS to distribute the foodgrains. “A recent study by Jha and Ramaswami estimates “that in 2004-05, 70 per cent of the poor received no grain through the public distribution system while 70 per cent of those who did receive it were non-poor. They also estimate that as much as 55 per cent of the grain supplied through the public distribution system leaked out along the distribution chain, with only 45 per cent actually sold to beneficiaries through fair-price shops. The share of food subsidy received by the poor turned out to be astonishingly low 10.5 per cent.” The CACP estimates that the PDS has a leakage of 40.4 per cent. The research paper further pointed out that “In 2009-10, 25.3 million tonnes was received by the people under PDS while the offtake by states was 42.4 million tonnes- indicating a leakage of 40.4 percent.” We have to remind ourselves of what Rajiv Gandhi once said, that only 15 paise for every rupee spent by the government on welfare schemes reach the poor, the first and foremost action should be to plug the leakages in PDS, which hover around 40%.
Another very important implication of the bill has been mentioned earlier. It is that of the subsidies. The food subsidy bill will increase the food subsidy by around $4 billion to roughly $20 billion a year, adding to the burdens on a government already struggling to contain its budget deficit and deal with a slowing economy and depreciating currency.

The government earlier in the year made an announcement that it would give direct cash transfers to the poor. It has been further reiterated by the government that where it is not able to make food subsidies available, it will make cash payments for the food directly to the bank accounts of the beneficiaries. The government of Delhi has already started to distribute subsidized food through the PDS. It has also started to make cash transfers for kerosene allocations. This turned out to be an unsuccessful exercise. People had the money but there was no kerosene. It has been pointed out that the subsidized food will distort the market. Farmers who cannot sell in the government assured programme will lose out in the open market as prices will be forced down. When there are seasons of deficient rainfall the country will have to import foodgrains. This will lead to global food inflation.

There are few more implications about the food bill. The bill promises 5 kgs of cereals per month per person. But consumption is 10.7 Kgs pppm. This means that the poor will still have to go to the market to make good the deficiency. Also the poor will have to go to the market for fruits and vegetables and protein foods as their consumption basket has now largely diversified. So in such cases it is best for the government to bring down the food inflation from the current level of 12% to less than 4 %. Also if the bill has to be implemented seriously the government will have to take care of its resources by cutting down subsidies on energy (power, diesel, gas) and fertilizers. This is not likely to be done by the government as it is the election year. But if the subsidies are not cut it will increase the fiscal deficit and lead to inflation. Taxes will also have to be increased to finance the huge fiscal deficit.

**SOME UNANSWERED QUESTIONS**

There are many unanswered questions with regard to the food subsidy bill.

- The first question is the one of as to how the higher expenditure will be financed. As discussed earlier the bill imposes a huge burden on the exchequer. The government has two options. Firstly it can increase the taxes. But this cannot be done as the structure is optimum already. Deepening of taxes will lead to dissent and widening will lead to more pressure on the tax administration. The second option is to borrow. This as seen earlier will put pressure on the Indian rupee.

- The other important question is the one of what is the method to be adopted to identify the beneficiaries. The method suggested and adopted should be the one that eliminates middlemen from siphoning off the foodgrains.

- The next question is once the beneficiaries have been identified how to target them. Who is poor? What are the indicators of poverty? The bill says that the states will provide the list but the states have no such list either. It is no doubt that the government has
constituted various committees to look into measures of poverty. But the threat remains that each of these committees will come up with different methods.

- A very serious issue bothering people is the one of what the government would do in a year of drought or flood. The government will have to import and this would increase the current account deficit and put pressure on the rupee.

- Each district will have a grievance officer who will deal with complaints about implementation. They have the authority to punish people who are not giving out the food. But we do not know how effective he would be.

- Some states like Chhattisgarh, Tamil Nadu and Delhi already have a food subsidy programme in place. It is therefore not clear as to whether the two programmes will run together.

- It has been further felt by the Agriculture Minister Sharad Pawar that of the small farmer might not bother to grow his own crop as he is getting it cheaper in the government scheme. This reaction from the small farmers might decrease overall production.

- The Gujarat Chief Minister Mr Narendra Modi raises apprehensions that if each state evolves its own method for identifying the poor it will violate Article 14 of the Constitution.

To conclude it can be said that the National Food Security Bill will turn out to be an expensive proposition for India. It has triggered off a huge debate between people who believe that the food subsidy will be good and those who believe that it will be better off if the government money could be spent on irrigation and other infrastructure to help increase production and reduce prices. It is said by many that we should learn lessons from the Mahatma Gandhi National Rural Employment Guarantee Act which provides 100 days of work to the poor at 100 rupees a day. The same programme it is felt could be strengthened to make it more effective and help the poor. Such a well architected programme will improve the nutritional and food security of the poor people. In all it can be said that the NFSB is a complicated programme that will impact the country in many different ways. Only time can tell whether the benefits will outweigh the limitations. The government will do well if it accepts the limitations and works at it to deliver a more effective which can be successfully implemented.

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