

NOTE

Of Food and Bureaucracy

Bharat Jhunjhunwala writes :

A HUGE ARMY OF government servants has been created over the last sixty years ostensibly to secure welfare of the people. Most money spent on welfare schemes is used up to pay salaries and perks of these government servants and in the leakages that provide benefits to them. Burning example of this is the Food Security Act (FSA) cleared recently by the Cabinet. About 75 percent of rural and 50 percent of urban households will be provided seven kg food grains per person per month at a price of less than Rs three per kg. The underlying intention of removing hunger is to be wholly welcome. Hungry people do not make a global power.

The proposed law is being opposed on grounds of the unbearable fiscal burden. The food subsidy bill today stands at about Rs 63k crore. This will rise by another 60k crore, including the administrative expenditure of Rs five per kg to be incurred by Food Corporation of India. Some writers have stated that the burden will further increase by another 100k crore on account of investments for increasing agricultural production. Attributing this investment to the FSA is unwarranted. This investment is required on grounds of food security of the country and should be done even in absence of the FSA.

The argument of unbearable fiscal burden is not acceptable. The two crore government employees constitute the bulwark of India's middle class. About Rs 500k crore per year is paid to them as wages. Average wage of an employee of Public Sector Undertaking was Rs six lacs in 2009-10. Against this huge amount, the FSA provides a subsidy of mere Rs 1,500 per person per year. The middle class intelligentsia does not find a burden of 500k crore unbearable but that of 60k crore to be so!

Yet, shortcomings in the FSA need to be removed. The problem of selecting the beneficiaries will persist. Studies show that many poor are excluded from the BPL lists while many better-off families are included. Then there is problem of delivery. A World Bank study found that only 41 percent of the food grains reached the beneficiaries. Maybe, only three-fourths of this, or 30 percent of the total would have reached the poor households. Remaining 70 percent is misdirected or leaked.

The gravity of this leakage needs to be appreciated. Say, the Government purchases 10 kg wheat at Rs 15 per kg for Rs 150. Additional expenditure of Rs five per kg is incurred by the Food Corporation. Total cost is Rs 200. Now three kg reaches the intended poor beneficiaries. They could have bought the three kg wheat from the open market for Rs 45. They get it for Rs nine. They get relief of Rs 36. The Government incurs an expenditure of Rs 200 to reach a relief of Rs 36!

Suggestion is that the proposed budget if Rs 125k crore for the FSA may be distributed to the 120 crore citizens of the country at Rs 1000 per person per year. Every citizen would be able to buy about 66 kg wheat per year or 5.5 kg per month—nearly same as proposed in the FSA.

The rigmarole of classifying people into APL and BPL households will be wholly eliminated. The poor will no longer have to carry the stamp of being poor on their forehead. The money paid to APL families can be recovered by imposing an equivalent surcharge on Income Tax. Every citizen will get not only food security but also be able to use the money for medicines and enhance his life security.

Cash transfer schemes are being implemented across the world today. The 'Familias en Accion' scheme in Colombia provides cash incentives for a student passing the High School. A World Bank study found increase of 12 percent in the number of students passing. About Rs 1,000 per month is provided to the beneficiaries in the Philippines subject to hospital delivery, immunization and schooling of the child. The Bolsa Familia program in Brazil provides cash incentives for health checkup and admission to school. Food subsidy is being distributed in cash in Mauritius. Success of these programs establishes that the poor are quite capable of handling cash properly. Indeed, the cash transfer scheme in lieu of FSA can be made conditional to a person casting his vote or other social objectives.

Cash transfers are being opposed most vehemently by the bureaucracy and Left parties. Opposition by the bureaucracy is understandable because cash transfers will remove the stream of ill-begotten benefits they are deriving presently. Opposition by the Left parties is indeed unfortunate because their ideology is anchored on the people's welfare. They should reconsider their approach. ☐☐☐