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THE COST OF SUBSIDY

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

In April 1983, NT Rama Rao's government in Andhra Pradesh launched a Rs 2 per kg rice scheme considered highly populist for that time. What would one, then, say of such a scheme replicated on a national scale, supplying 25 kg of wheat or rice per month at Rs 2/3 per kg even today to three-fourth of India's rural and half of its urban population? Given the "economic cost" of over Rs 25 for the Food Corporation of India (FCI) to procure, store and distribute a kg of wheat and Rs 36/kg for rice, the annual losses on nearly 60 million tonnes (mt) of subsidised grain sales under the so-called National Food Security Act of 2013 (NFSA) are huge. But the distortion does not stop at supplying grain at prices frozen in time. It also extends to open-ended government procurement at minimum support prices (MSP) hiked year after year. The result: A Central food subsidy bill budgeted at Rs 1,84,220 crore for 2019-20 and the FCI's rice and wheat stocks of 56.5 mt as on January 1 being way above the required 21.4 mt for this date, even after providing for the NFSA.

This is clearly unsustainable. The Narendra Modi government, as this newspaper has reported, is attempting rationalisation of food subsidy by making sure that the MSP payments are firstly going not to market intermediaries, but to actual farmers by transferring the money directly into the latter's bank accounts. This complements efforts at seeding of the Aadhaar numbers of NFSA beneficiaries with their ration cards. The whole approach here is to curb "leakages" — of MSP benefits to non-farmers and that of NFSA to those who would simply divert the super-subsidised grain to the open market. Once a proper database of both farmers and NFSA consumers is built, a further targeting — limiting MSP-based procurement to only small holders and supplying subsidised grains to the genuinely poor (who will be less than the current roughly two-third of all households) — becomes possible.

But such measures merely nibble away at what is a most inefficient, market-distorting and fiscally costly way of "helping" farmers and poor consumers. The existing system is heavily biased in favour of two cereal crops, procured mainly from farmers having assured irrigation access. The interest of vulnerable consumers is best secured by the government making direct cash transfers and simultaneously building a buffer stock of all essential commodities — rice, wheat, pulses, edible oils, milk powder, butter fat and onions — that would enable effective market intervention. Such operations, in order to avoid excessive price volatility, do not require maintaining 60-70 mt of stocks. The Modi government can similarly do more for farmers, including those growing crops other than paddy and wheat, by expanding the scope of the PM-Kisan direct income support scheme. That will cost less and deliver better than the Rs 2,82,000 crore spent every year on the food, fertiliser and farm credit subsidy.

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