

Subsidies for whom?

Food and fertiliser subsidies actually pay for inefficient handling and storage, says Uttam Gupta

WITH THE budget deficit out of control, subsidies take centre stage. Against the budget provision of Rs 5,250 crore on food and Rs 5,400 crore on fertilisers, the actual expenditure is expected to be Rs 5,500 crore and Rs 6,200 crore respectively.

The exchequer's loss has to be someone else's gain. The immediate beneficiaries are consumers of foodgrain. This is because both the subsidies are meant to reduce the cost of food to the consumers.

Fertilisers being an essential input, subsidies help to hold their selling prices down. Food subsidies also cover the difference between the high procurement prices which the government pays farmers and the low price at which this is sold to consumers. Expenses of procurement, storage and distribution through the PDS is also offset by subsidies. These also affect market prices by curbing stocks in the market.

Is the consumer really benefiting? The selling price of PDS rice is Rs 5.37 per kg, last fixed in early 1994. The price may go up by a minimum of 75 paise to offset the increases in the procurement prices of paddy allowed in 1994-95 and 1995-96 marketing season.

At this price, rice is unaffordable for a poor person who earns Rs 60 per month, according to official poverty measures, who would be forced to pay out a third of his income on buying rice alone. Those with lower incomes are worse off. Things are seriously wrong with management of the supply of foodgrain.

The price at which the government buys paddy for the PDS is now Rs 3.60 per kg. On the basis that 1.5 kg of paddy make up one kg of rice, the procurement price per kg of rice works out to about 5:4, which is almost the same as the price paid by the consumer. No subsidy here. So, if there is any subsidy, it goes into handling and distribution costs.

Taking the food subsidy of Rs 100 crore during 1994-95 and a quantity of about 14 million tonnes through the PDS during that year, the subsidy on foodgrain works out to about Rs 3.64 per kg. This is about two-third the price that the consumer pays at the ration shop. Taxpayers' money is used not for subsidising the poor, but to support the inefficiencies and mismanagement of the PDS.

The most serious manifestation of this mismanagement is the in-



crease in stocks in the central buffer from just about 13 million in 1992-93 to a record high of 37 million in 1995-96. This is not food security, since this is more than a reasonable buffer stock. While some deviation is unavoidable in managing operations on such a gigantic scale, monumental inventories of the type witnessed is unpardonable. Apart from the colossal waste of public money, it blocks storage space, working capital and other infrastructure which could be better used elsewhere.

The irony is that the payments to the FCI for its procurement, handling and distribution operations are on 'actuals.' There are no norms for fixing remuneration. So the FCI tries to procure as much as possible (in total disregard of how much can be disposed of) holds on to it as long as it can and spend as much as possible on overheads to inflate the actuals bill.

This has even led to heavy subsidy on sales from the buffer for exports despite the latter being inherently profitable in view of rising international demand and prices, especially for rice.

Now, the government has widened the ambit of food subsidy to include even subsidy on sugar.

The latter is meant to support a buffer of one million tonnes, the full cost of which will be subsidised on actual basis. This buffer is meant primarily to help producers.

Are fertiliser prices properly reflected in fixing the procurement/selling price of foodgrain? Often, the actual increase allowed by the government is more than recommended by the CACP, whose calculations are none too credible.

Even more disturbing is that the price realisation on market sales is substantially higher. This is despite the benefit of subsidised fertiliser price. For instance, rice sells in a broad range of Rs 10-30 per kg depending on the quality. These would have generated good profits even if fertilisers were sold at the unsubsidised price.

How much of this goes to farmers and what is taken by traders? If the bulk goes to the latter, which is quite likely, then the exchequer actually subsidises the profit margins of the traders.

Dismantling PDS or completely eliminating fertiliser subsidy to reduce fiscal deficit is not the solution.

Dismantling PDS and buffer stocks will bring in private traders

exploiting the situation to the detriment of consumers. The existence of the buffer checks their machinations and holds the price line. Moreover, a buffer is essential to deal with low-supply contingencies.

The problem is with the management of buffers and PDS stocks. The government should restructure FCI and turn it into an autonomous and professional organisation free from bureaucratic and political interference. It should be entitled to a reasonable remuneration on a per-tonne basis for handling and distribution cost, like the system for handling of imported urea. This would force the FCI to optimise its inventory, reduce the cost of handling and distribution and minimise wastage.

The PDS coverage should be restricted only to the poor and the better-off taken off its ambit. Increased transparency and openness is also required in the working of the CACP.

Of paramount importance is the need to keep a check on the market prices as the PDS covers only a small percentage of the poor. An efficiently managed central buffer is a prerequisite for this. However that alone may not be enough.

The cooperatives which are already involved in supply and distribution of agricultural inputs and have a vast network may be roped into undertaking buying and selling of foodgrain, especially in areas not covered by the PDS. The aim should be to supply a major share of the consumption needs through them at reasonable prices which would also keep private traders on their toes. However for the cooperatives to do an effective job, there is need for restructuring and strengthening besides freeing them from government control.

Reforms in infrastructure like transportation, warehousing and handling, and even state level taxes, are urgently needed to bring down the cost of these services which in turn will help reduce the foodgrain prices and subsidies.

The problem of ballooning subsidy on food and fertilisers cannot be viewed in isolation. An abrupt decision not to give subsidy at all is not the answer. That is like saying 'abolish the poor.' So long as we have poor people, some form of support is inevitable. There is an urgent need to shift our focus to improved management and better targeting of subsidies.