Editorial

15 August, 2002

THE HINDU BUSINESS LINE

Panel on long-term grain policy

Populism under a new garb

Uttam Gupta

IT IS believed that the Abhijit Sen Committee has recommended that the existing minimum support price-based system of open-ended procurement by the Food Corporation of India (FCI) should be continued. However, it has called for rationalising the MSPs to reflect the actual 'C-2' production cost incurred by the farmers.

The C-2 production cost covers all cash expenses borne by the farmer on seeds, pesticides, fertilizers, electricity, interest on crop loans, cost of hired labour and machinery etc. It also includes the imputed value of his family labour, rental on land and owned capital stock (tractors, tube wells, and so on) so as to reflect their opportunity cost.

The Committee wants the Commission on Agricultural Costs and Prices (CACP) to go strictly by C-2 costs in more 'efficient' regions. These being Rs 500 per quintal for both wheat and paddy (as calculated by the Committee), the MSP should be lowered from the existing Rs 620 per quintal and Rs 560 per quintal respectively to this level.

In a bid to appease a powerful section of the farming community, over the years, the Government has allowed procurement of the grains at prices higher than the level recommended by the CACP. This aberration can be corrected only if the Committees' concurrent recommendation for empowering CACP as a statutory body is also accepted.

The reduction in MSP to the level of C-2 cost is expected to generate a saving in food subsidy of about Rs 4,000 crore. But, the Committee does not want this money to stay with the exchequer. Instead, it has recommended that this should be returned to the farmers by way of direct income support. In effect, there will not be any saving if the Government accepts this recommendation as well.

The panel has further recommended that this money be routed through the State governments who could offer this to the farmers either as direct per hectare transfers or as crop insurance subsidy. Disbursing this money by itself will entail substantial expenditure on the overheads and other administration costs. Overall, therefore, the Government will stand to loose.

The Committee has argued that having reduced the procurement price, there is need for 'compensating' the farmers. What is this compensation meant for? The reduction in price is intended primarily to remove the cushion which was already built in to it. The proposal for returning the differential amount will 'negate' the very purpose of rationalising the MSP!

It will not be fair to blame the Committee alone for the inherent contradiction in its recommendations. For quite some time, the powers that be have been talking about replacement of the existing dispensation of procurement at MSP completely by a system of providing direct income support to the farmers. The latter is widely prevalent in the US and European Community countries.

In the developed countries, the subsidy given by way of price support is considered bad as it 'distorts' the market and leads to 'inefficient' allocation of resources. On the other hand, direct income support is considered to be free from these distortions. The policy-makers have not remained unaffected by this perception. They were keen to see their views fully reflected in the report of the panel.

The recommendation of the Committee for direct income support in a 'truncated' form could be an attempt to accommodate their views without disturbing the apple cart. This might have also been prompted by the need to test the waters before the Government actually decides to go for it whole hog. In order to assess whether the concept is workable in India, certain basic facts need to be looked into.

Unlike in the developed countries where the cultivating farm households run in a few thousands, in India, they are in millions. Whereas, in the former, administering a system of direct income support is easy and cost-effective, in the latter, this is not only complex and daunting, but also entails enormous cost. And, here, we should not miss the most important point about the 'quality' of the administration.

The fact that there is corruption at all levels is not hidden from anyone. This singular factor can seriously undermine the implementation of a programme involving cash payments directly to the farmers. A former prime minister made a statement that only 15 percent of the funds allocated under the anti-poverty schemes actually reach the intended beneficiaries. The situation on the ground has not changed much during the last decade.

In view of above, the Government should not even think of giving cash assistance to the farmers. This will tantamount to opening another channel of corruption leading to prosperity of unscrupulous officials at the cost of the exchequer.

> The Government's decision to subsidise export of foodgrains is inexplicable. It builds up a mountain of stocks by resorting to indiscriminate procurement on the one hand and steep increase in central issue price, leading to poor offtake on the other. And then, in a bid to get rid of these, it allows subsidy on sale to consumers abroad.

It would be commendable if only it can ensure that under the existing dispensation, all the farmers, including the weak and the vulnerable, get the reasonable price fixed by the CACP.

In the medium-to-long term, we need to move towards a situation under which the farmer simply does not have to depend on price support from the FCI.

To realise this goal, the Government should remove restrictions on the movement of grains, do away with the exclusive rights conferred on designated agencies, allow freedom of buying and selling to anyone and, above all, undertake investment in infrastructure, namely rural roads and storage facilities.

In the meanwhile, FCI will continue to play a pivotal role in making foodgrains available for public distribution system (the Centre's efforts to shift this responsibility to the states initiated last year have not borne fruit).

The Government should, however, implement the Committee's recommendation for capping all state taxes and levies at 4 per cent. Together with efforts to remove 'inefficiencies' in operations of FCI, this will help in reducing food subsidy.

The Sen Committee has recommended that the Government should revert to the earlier unified PDS and fix a uniform central issue price (CIP) of Rs 4.5 per kg of wheat and Rs 6 per kg of rice. This is a good suggestion. The targeted PDS (TPDS) has been a virtual non-starter. The majority of the states have not even identified the families living below the poverty line (BPL). Besides, it would be unfair to deny access of foodgrains to millions of low income households which happen to be above the poverty line (APL).

The panel has recommended that the present policy of offering grains from the central pool to the exporters at near BPL rates should be reviewed once the total stocks come down to a level which is 50 percent above the minimum buffer norm. Why should the grains be made available to exporters at subsidised rates in the very first place? Let us not forget that on this issue, the developed countries are even threatening to take us to the WTO.

The Government's decision to subsidise export of foodgrains is inexplicable. First, it builds up a mountain of stocks by resorting to indiscriminate procurement on the one hand and steep increase in CIP (including for the BPL families), leading to poor offtake on the other. And then, in a bid to get rid of these, it allows subsidy on sale to consumers abroad.

Ironically, rich foreigners are having access to foodgrains produced in India at BPL price even as millions of low-income families in this country are made to pay much higher full economic cost!

Now, in view of an unprecedented drought this year, a substantial decline in production is anticipated (the Ministry of Agriculture has estimated a reduction of 10 million tonnes during kharif).

In this scenario, apart from meeting requirements of PDS, the stock of foodgrains in the central pool will be needed for providing emergency help to areas in distress as well as for running the Food-for-Work programmes. In view of this, the policy of subsidising exporters should be 'immediately' put to an end.

(The author is Additional Director-Economics, Fertiliser Association of India. The views expressed are personal.)