

Unavoidable subsidies

Until progress is made in augmenting the incomes of the poor, subsidies will have to continue, says Uttam Gupta

SIX months after the Prime Minister promised sop to all the persons below the poverty line through the revamped public distribution system (RPDS) on August 15, 1996, the latter are still in the dark as to whether there is any relief in store for them; if so, how much? Some indication of this may be gauged from the package presented by the government at the recent steering committee meeting of the United Front (UF).

According to this, the supply of foodgrains, e.g. wheat to the poor family would be 10 kg at Rs 3 per kg, and another 10 kg at Rs 5.25 per kg, thus entailing a total expense of Rs 82.5 ($10 \times 3 + 10 \times 5.25$). Under the existing set-up, every ration card holder, including the poor, is entitled to 20 kg at an issue price of Rs 4.02 per kg. In other words, he spends Rs 80.4. Clearly, under the proposed package, he will be worse off.

Unhappy with this, the Left constituents in the UF are reported to have given a counter proposal. This involves offering 10 kg at a price of Rs 2.01 per kg, and the remaining 10 kg at a price of Rs 4.02 per kg. This would thus entail an expenditure of Rs 60.3 ($10 \times 2.01 + 10 \times 4.02$). Although this makes the poor better off, it is unacceptable to the government in view of the higher subsidy burden.

Even as the steering committee has asked for a review, it is most likely that consensus will evolve on the government's initial package albeit with some marginal changes. Far from getting a big bonanza as promised, the poor will thus be further impoverished. The extent of the loss may, in fact, be much more than what is apparent from the numbers mentioned above.

Taking about 350 million people living below the poverty line and family of four on an average, the number of families required to be brought within the fold of the RPDS is 87.5 million. At 20 kg per month per family, the total supply of foodgrains from the distribution network will have to be about 21.0 million tonne to cover all of them.

The existing infrastructure is not equipped to handle this much on a sustained basis. In fact, the maximum quantity ever sold through the PDS was 20.8 million tonne during 1991-92. In subsequent years, it declined,

going down to as low as 14.0 million tonne in 1994-95. With the government not inclined to take out the better off from the ambit of PDS either, the effective availability for the poor will reduce further.

In view of the above, it is unlikely that each poor family would get its full quota of 20 kg. A likely situation would be one in which it shall get only 10 kg from the RPDS. This, indeed, is the number that the PM talked of while announcing the scheme initially. The poor will thus be forced to buy the balance of 10 kg from the market at a substantially higher price

the network, it should be possible to assure 20 kg per month to all the poor families.

The second important issue relates to the price. As against the prevailing issue price of Rs 4.02 per kg, the price paid to the farmer after the recent hike is Rs 4.15 per kg. Together with handling and distribution cost of about Rs 1.5 per kg, the cost of supply works out to Rs 5.65 per kg. Already, there is substantial subsidy of Rs 1.63 per kg.

Against this backdrop, any talk of reducing the issue price is meaningless.



than the offer price of Rs 3.0/5.25 per kg from the RPDS.

Taking the market price at a minimum of Rs 7 per kg and such purchase being a substitute of the higher price quota, 20 kg will thus cost him Rs 100 ($10 \times 3 + 10 \times 7$). In case, however, this is to replace the lower priced quota, the consequential burden will be even greater at Rs 122.5 ($10 \times 5.25 + 10 \times 7$).

The government should refrain from talking abstract. Considering the constraint of infrastructure, it is impossible to cover the needs of all sections. As a first priority therefore, the PDS should be restructured to exclude the non-poor and address the needs of only those living below the poverty line. With the suitable toning up of

There is no point in harping on a step which cannot be implemented. The government should, however, endeavour to maintain the price at the existing level. There are inefficiencies, leading to an unjustifiably high cost of handling and distribution. Reducing or eliminating these inefficiencies should receive top priority.

The Food Corporation of India (FCI) should be run as an autonomous body, and not as an extension of the government. It should be entitled to a reasonable margin on the basis of each tonne for handling and distribution cost. In fact, such a system is already in operation regarding the handling of imported urea. This would force the FCI to reduce cost and minimise wastages.

Third, there is need to curb the rampant misuse of the PDS. Several states do not even realise their full quota of supplies. In Bihar for instance, the lifting is a meagre six per cent. There is also large scale diversion of supplies meant for the PDS. Because of this, despite having ration cards, majority of the poor do not have access to food. Minimisation/elimination of such misuse can greatly improve the lot of the poor without any additional liability on the exchequer.

For adequate nourishment, a poor person needs 400 gram of cereals per day as unlike the better off, he does not even have the option of supplementing the calorie intake by using other items like milk, egg and vegetable etc due to meagre income. On this basis, the monthly requirement of the poor family works out to 50 kg.

In view of this, restricting supplies from PDS to only 20 kg will put the poor to serious hardship as the remaining 30 kg has still to be bought from the market at a much higher price. In the medium to long term, therefore, the government should aim at increasing the supplies from the PDS in stages, and back it up by augmentation of the infrastructure.

Undoubtedly, this would lead to increase in subsidy. But then, what is the alternative? In some quarters it is suggested that instead of subsidy focus should be on increasing the income levels of the poor. This cannot happen overnight even if conducive policies are adopted, and poverty alleviation and employment generation programmes are effectively implemented. Till such time as we can really make some progress in augmenting the incomes of the poor, subsidies will have to continue.

The government should refrain from taking an orthodox view even in developed countries like the USA, EC countries and Japan, agriculture is heavily subsidised; subsidy level in India is a pittance in the comparison. Moreover, while the subsidise rich farmers/consumers, who tend to hate subsidies even when they are meant for the majority of the poor. Whereas misuse of subsidies needs to be curbed, supply of foodgrains at affordable prices to the poor must be ensured. Supplies of foodgrains are needed to meet the needs of the poor.