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Don't hit the poor any more

The stiff hike in the issue prices will put foodgrains beyond the reach of the poor consumer. The government needs to refrain from such increases not as a matter of political expediency, but, primarily to keep inflation under check and prevent accentuation of poverty, says Uttam Gupta.

THE recent increase in the issue price of wheat and rice sold through the public distribution system is being sought to be justified in terms of the hike in procurement prices sometime back.

Just before the commencement of the rabi 1993-94, the procurement price of wheat was hiked from Rs 330 to Rs 350 per quintal. Likewise, the price of paddy was raised from Rs 270 to Rs 310 per quintal. This translates to an increase of Rs 20 and Rs 40 per quintal each for wheat and paddy, respectively.

In the January 1993, when the procurement price of wheat was raised from Rs 250 to Rs 330 per quintal i.e. an increase of Rs 80 per quintal, the PDS issue price was also raised simultaneously. The latter was increased from Rs 230 to Rs 280 per quintal representing an increase of Rs 50 per quintal.

The revised procurement price of wheat at Rs 330 per quintal included an element of Rs 25 towards bonus which was not allowed earlier. Without this, the increase in the procurement price would be Rs 55 per quintal, which is not very much different from the increase of Rs 50 per quintal allowed in the PDS issue price of wheat.

Similar compensating influences may be seen in respect of paddy. In July 1992, its procurement price was raised from Rs 230 to Rs 270 per quintal which translates to an increase of Rs 40 per quintal. In terms of rice, this would imply an increase of Rs 60 per quintal (assuming one unit of paddy equal to 2/3 unit of rice). Only a few months later i.e. in January, 1993, the PDS issue price of rice was increased from Rs 377 to Rs 437 per quintal. This translates to an increase of Rs 60 per quintal, which matches with the increase in procurement price.

Going on the basis that consumers of foodgrains must necessarily pay for whatever increases are allowed in the procurement prices, the record was clean and straight until the latest increases in the procurement prices announced just before the start of rabi 1993-94.

If now again the mismatch has to be bridged, then the increases in the PDS issue prices can at best be to the extent of the increases allowed in the procurement prices i.e. Rs 20 and Rs 40 per quintal, respectively, for wheat and paddy or Rs 60 per quintal for rice. The contemplated increases of Rs 65 per quintal and Rs 100-110 per quintal in wheat and rice, respectively, appear to be totally unjustified.

Coming close on the heels of the increase in the price of the LPG cylinder (notwithstanding substantial lowering of the customs duty from 85 per cent to 25 per cent), such a step seems to give an indication that the government is insensitive to the interest of the poor and acting in total defiance of the objectives for which the PDS is meant.

The objective bears repetition i.e. making available to the poor consumers essential items of food in the desired quantities at prices they can afford. If the consumers have to pay a price for the bare essentials determined purely on a cost plus basis, they would much prefer to buy things from the free market.

As it is, buying essential commodities from the ration shop is a painful and sometimes, even horrendous experience. On top of that, if consumers are required to pay a price, which is not very different from the free market price, the very rationale for the PDS comes into question.

In fact, because of this there has been substantial drop in lifting of foodgrains by state governments for distribution through their networks. No wonder then that the Centre's bumper foodgrains inventory of about 25 million tonnes may look illusory. In turn, this has meant FCI being saddled with high cost of storage and inventory holding even as the state PDS machineries have been rendered infructuous.

The only apparent justification for the contemplated steep increase may have been the rise in subsidy on food. Whereas recent reports talk of a likely outgo of Rs 3,500 crore on this account, during 1993-94 (as against a budgetted level of Rs 3000 crores), the actual may finally be not less than Rs 4,000 crore. Bewildered by this, and scared by the overall slippage in the target of fiscal deficit, the government chose to adopt a course, which may be less painful to itself, but, is not certainly without serious pains to the poor consumers.

Undoubtedly, rise in food subsidy is a problem area. And so is its potential inflationary effect through the deficit financing route. But the issue has to be addressed in totality and not merely by concentrating on one end of the spectrum. We need to ask the basic question as to why the food subsidy has increased to its present level.

When the government announced, in January 1993, a steep increase in the procurement price of wheat to Rs 330 per quintal, that was even more than what the Commission on Agricultural Costs and Prices (CACP) had recommended i.e. Rs 310 per quintal.

There does not appear to be any scrutiny of the input/output linkages that would enable one to assess whether the increases in the procurement prices are justified by the input cost increases. Moreover, whatever exercises are done, and may be forming the basis for price revisions, are not transparent.

That leaves lot of scope for manoeuvrability resulting in incorporation of the effect of input cost increases on a more than proportionate basis or reductions not getting adequately reflected. For instance, one is not sure whether the effect of ad hoc subsidy on fertilisers given almost immediately after the decontrol in August 1992 was reflected in the calculations of the procurement prices.

If increasing subsidy is a serious concern, then it is important to know what level of fertiliser prices went into the computation of the revised procurement prices announced in January 1993. The same applies to the more recent increases announced at the time of rabi 1993-94. The logic holds true for other inputs e.g., seeds, irrigation, pesticides etc.

Then, we have the procurement, handling and distribution cost incurred by the FCI and its agencies, which are never discussed in the public fora, not even in the Parliament save some scanty information provided in reply to members' questions. Buffer foodgrains stock may have given us added confidence but, its mismanagement also adds to the overall cost of operations and, in turn, the food subsidy bill.

Food subsidy bill is high also because the PDS still has within its ambit a large number of well-to-do people. Some of them might, on their own, opt out of it if they were free to exercise their choice. The government has reiterated its resolve to take them off time and again. But, the decision is still to be implemented.

Of late, the government may even be thinking in terms of reversing gear, as recently a parliamentary committee is reported to have expressed being in favour of retaining even the better off within the purview of the PDS.

There is a general refrain that subsidies upset the government's fiscal budget. But, that is not the only factor. A major threat arises from increases in revenue expenditure, including the government establishment expenses, apart from the serious destabilising effect of high interest cost, which alone is almost 40 per cent of the total revenue expenditure.

The latter is only a reflection of the rampant profligacy systematically practised in the past. Consequently, even if both food and fertiliser subsidy were to be completely eliminated, substantial revenue deficit would still remain. This is no argument in defence of the former, but only, to indicate the need for striking a sense of proportion even as we seek to deal with the question of balancing the budget.

This is relevant even from the point of view of containing inflation. The case for increasing administered prices and, in particular, even the issue price of foodgrains, is that this helps contain budget deficit. On the notion that the latter is more inflationary, the government has let the former go unchecked.

Thus, even as the budget deficit continues to rise (because factors other than subsidy have remained largely unattended), increases in the administered prices have further aggravated the inflationary tendencies.

We need to assess the question of issue price of foodgrains from this broad perspective. Increase of the magnitude reported would not only put food beyond the reach of the poor consumers, but could also be seriously inflationary. The government needs to refrain from this increase not as a matter of political expediency, but, primarily with a view to keep inflation under check and prevent accentuation of poverty in the country.

The problem of rising food subsidy has to be tackled at the source, namely thorough scrutiny of the increases in the procurement prices allowed to farmers, handling and distribution expenses of the FCI and trimming the coverage of the PDS only to the needy.