

Don't water down food security

Three agricultural economists explain how to reconcile the disagreements between the prime ministers expert committee and the National Advisory Council on food security.

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There comes a moment in the life of a nation when small differences of opinion are responsible for missing a historic opportunity that the nation may come to regret forever. The regret is greater when realisation strikes later that what seemed like irreconcilable differences could have been easily bridged with a little foresight. We are in such a moment now.

The Food Security Bill is a bold measure of historic importance and the present differences between the National Advisory Council (NAC) that has recommended the specifics of the proposal, and the prime ministers Expert Committee (EC) that has rejected them, have the potential to squander a great opportunity. We would like to argue here that the issues raised by the EC could be addressed by changing the means of distributing the food subsidy from the public distribution system (PDS) to a distribution based on smartcards. It would be a great folly to legislate an act that lowers the commitment on part of the government only because the government feels powerless to replace the public distribution system.

The major recommendation of the NAC is that food subsidies should cover at least 75 per cent of the population. This has a sound basis. First, even though poverty has declined over the years, nearly 80 per cent of the population still subsists on a daily expenditure of Rs 20 or less (measured in 2004-05 rupees). Therefore, much of the population is vulnerable and in need of food security.

Second, attempts to identify the most needy groups and to target subsidies to them alone are fraught with hazards. In 2004-05, as many as 50 per cent of those deemed poor by the official definition (who subsist on a daily expenditure of Rs 12 or less) did not possess the below-poverty line ration cards that would allow them to access food subsidies. Such massive "exclusion errors" defeat the very purpose of food subsidies.

The fact is that there is simply no accurate enough way of identifying the poor.

Therefore, there is little to object in this attempt of NAC to ensure that food subsidies reach the truly needy. Indeed even the EC says that it “ understands the logic of this view.

Where then does the EC part company with the NAC? The gist of the arguments made by the EC is as follows. First, the amount of grain that needs to be procured to carry out the NAC recommendation exceeds what would be available in the initial years of 2011-14.

Second, additional procurement would raise open market prices, hurting the most vulnerable sections of the population, who continue to depend on the open market for a significant part of their purchases. Third, the subsidy burden would be too high.

Let us consider these points one by one. First, the procurement constraint is real enough, and the implications even more serious than admitted by the EC report. Procurement-based universal coverage will lead the government to acquire 60-70 per cent of market surplus. The near-monopoly of government agencies will inflate prices and costs through the marketing chain.

However, as one member of the NAC, Jean Dreze, has pointed out in a recent article, difficulties in procurement are irrelevant if smartcards are used to disburse the subsidy. Under such a system, the food subsidy is directly transferred to the beneficiaries. Normal market channels cope with the demand for foodgrains from such subsidies and procurement is no longer a constraint.

To the second point, open market prices could indeed rise if there is additional demand from those who receive higher subsidies. A more plausible mechanism is that additional procurement lends more bargaining power to the farm-surplus states, and that will lead to higher procurement prices than warranted. Currently, about 70 per cent of the poor (BPL) are excluded from PDS coverage and they will indeed be hurt by such a price rise. But if the coverage is extended to a larger segment of the population, and if smartcards can further reduce the exclusion error, fewer vulnerable people will have to buy on the open market and we need to be less anxious on this account.

And to the third point, as the Expert Committee report acknowledges, the subsidy burden would be lower with smartcards than under the present system. According to a recent estimate by Shikha Jha and Bharat Ramaswami, about 55 per cent of supplies to the PDS are diverted to the open market; there would be thus considerable saving if the PDS is replaced with smartcards.

Furthermore, even if coverage is near-universal, not everybody would want to buy subsidised food. The well-off would rather avoid the inconvenience of standing in line at a ration shop and this self-selection would lower the subsidy burden. Smartcards would eliminate ration shops and queues, but since under the scheme the subsidised items would be sold only to those identified by biometric methods, the off-take would be even lower than under the present scheme; the rich would not be able to just send domestic servants to the ration shops to stand in line. The subsidy burden would be correspondingly lower.

Thus none of the objections raised by the Expert Committee would hold if the food subsidy was delivered through smartcards rather than the PDS. Is the Expert Committee opposed to smartcards? No. In fact, they recommend them as a longer-term alternative to the PDS.

So how should the NAC react to the EC report? We hope the NAC would continue to insist on the moral imperative of near-universal coverage. The NAC should also recognise the impossibility of this worthy goal through a procurement-based public distribution alone.

While a PDS-based system can be initially deployed (at the cost of lower coverage), this should be supplemented and possibly substituted by a smartcard system in a second phase.

Such a system would not be not as untested as sceptics might think. Haryana has already started experimenting with the substitution of smartcards for the PDS. The Rashtriya Swasthya Bima Yojana (RSBY) covers 60 million people in 22 states. These experiments give us more hope than the relative success of one state Chhattisgarh in making PDS work. The argument against smartcards is especially unpersuasive when we know that the PDS has been tested thoroughly and has been found to be a disastrous failure in all but one state.

Smartcards are the future. Why delay it if it ensures that most of those in need of food security can be covered? If the government waters down the bill, a historic opportunity would be lost. How long must we wait to redeem our pledge, if not in full measure, but very substantially?

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