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## Doing a number on the Food Security Bill

📅 11 November, 2013



### Ashok Kotwal

Editor-in-Chief, Ideas for India; University of British Columbia

[ashok.kotwal@ubc.ca](mailto:ashok.kotwal@ubc.ca)



### Milind Murugkar

Pragati Abhiyan

[milind.murugkar@gmail.com](mailto:milind.murugkar@gmail.com)



### Bharat Ramaswami

Ashoka University

[bharat.ramaswami@ashoka.edu.in](mailto:bharat.ramaswami@ashoka.edu.in)

In a [recent article](#), Kotwal, Murugkar and Ramaswami pointed out errors in estimation by Surjit Bhalla that led him to assert that the Food Security Bill will increase cost of food subsidy by 336%, and presented correct costs of the Bill. Bhalla then defended his methodology and calculations and criticised the authors' arguments. This article responds to Bhalla's defence, and says that the astronomical

*estimates of the Bill are irrelevant.*

In an article published in the Indian Express on September 4, 2013 (<http://www.indianexpress.com/news/rotting-food-rotten-arguments/1164123/>), Surjit Bhalla takes us to task for critiquing his earlier estimates of the cost of the Food Security Bill (FSB) (<http://goo.gl/qoIbd3>). Bhalla asserted that subsidy expenditures would more than triple and the FSB would cost the government Rs. 314,000 crore (\$51.2 billion approx.) annually or 3% of the Gross Domestic Product (GDP). We argued that Bhalla was barking up the wrong tree and that the main things to worry about were not costs of this order. The things to be concerned about ought to be leakages, the bias against local cereals, and how minimum support prices could discourage production of pulses, fruits and vegetables.

### Entitlement vs. actual receipt of grain

We pointed out that his analysis had two errors that wildly inflated costs: (a) a purely arithmetic mistake, and (b) an error of interpretation. The interpretation error is as follows. Bhalla thinks the 5 kg per capita grain entitlement mentioned in the Bill is what beneficiaries must receive. Considering the leakages and waste, the government must release much more grains for this to happen. Given the current leakage of about 40%, Bhalla would have us believe that the government will have to release 8.33 kg of grain per month for every beneficiary to end up receiving 5 kg.

This is plain wrong. As the FSB makes clear, the government commitment ends with the supply of 5 kg per capita per month even if, due to leakages and waste, beneficiaries receive much less. If the current rate of leakage continues, beneficiaries may receive only 3 kg per capita per month.

### Grain requirement under the Food Security Bill

In response to our points, Bhalla completely abandoned his earlier methodology without acknowledging his mistakes, especially the one of arithmetic. Since he makes no attempt to defend his methodology against our critique, we can only assume that he realised that he had made errors. Yet, he has arrived at almost the same figure now by a totally different route. In order to achieve his goal of showing that the costs are that high, he has created new categories of additional

costs such as production and storage costs that never appeared in his first attempt. These costs make no sense unless the central government's commitment to supply grain to the Public Distribution System (PDS) system goes up dramatically. But do they?

The grain required by the FSB has two components: that which is needed by the PDS and a much smaller amount needed for other welfare programmes such as mid-day meals, nutrition programmes and so on. The central government obligation to the PDS under the FSB is of the order of 55 million tonnes including 2.9 million tonnes to protect the existing allocation to the states under the present Targeted Public Distribution System (TPDS). Guess how much grain the government supplied to the PDS in 2011-2012? The answer is: 51 million tonnes!

What about other welfare programmes? The government estimates these would require 6.5 million tonnes of grain. Given that the government already funnels about 4 million tonnes into such programmes, this cannot be the source either of the fantastic increases in costs imagined by Bhalla.

If FSB does not require a quantum increase in PDS supply, what justifies the costing of additional production and storage? India does face a formidable challenge, especially with climate change, in making sure the output of food staples keeps pace with population. The FSB does not change the severity of this test.

### Costing the Food Security Bill

Among other things, he repeats the error of interpretation. Instead of defending his interpretation of the Bill or at least honestly acknowledging the source of the disagreement, he bizarrely accuses us of claiming "leakages are now zero".

If that's what we were assuming, why would we earlier write this: "The major concern about the NFSO is not its immediate cost. The major concern ought to be how to ensure that the full benefits are received by households. How can leakages be stopped? The costs to think about are those borne by households and not by the government."

Bhalla also castigates us for producing a wild underestimate of Rs. 85,000 (\$1,383 approx.) as the total cost of the Bill. That's not what we did. We said that if one

follows his methodology but corrects the errors (a) and (b), one ends up with this figure.

Even this figure is wrong, as we pointed out. That is because Bhalla made yet more mistakes in his calculations. In his eagerness to inflate the cost estimate, he carelessly ignored some actual sources of cost increase. The reader can check what we actually wrote:

“The ‘minions’ at the finance ministry whom Bhalla scorns estimated the total cost of R1,25,000 crore (approximately \$20.4 billion) because they rightly included the cost of associated welfare programmes as well as the cost of implementing the programme.”

Thus, we were saying the government estimates were in the right ballpark after all. We did not reduce it by 47%! Bhalla arithmetic has this property that in the search for a survivor, namely truth, one has to step over not one but many dead numbers asking for burial.

### Concluding remarks

As we explained, what the FSB does is that it creates smaller entitlements for a larger set of people in such a way that the government’s total grain commitment hardly goes up. As we have pointed out even in our last article, many problems with the existing system of distributing food subsidies remain, the foremost among them being the continued reliance on a leaky PDS, but Bhalla’s imaginary fiscal Godzilla is not one of them.

Nobody can accuse Bhalla, however, of lacking a sense of humour. After making repeated unsuccessful attempts to come up with a cost estimate that would be close to 3% of GDP, he suggests that his detractors have an ideological bias.

*‘Doing a number on FSB’ by Bharat Ramaswami, Milind Murugkar & Ashok Kotwal  
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