

# Food Security Bill must delegate complete freedom on subsidy targeting to states

## Synopsis

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How deluded we are when we think that when an important piece of legislation is introduced, policymakers carefully scrutinise it for some room for improvement. Indian democracy is good at passing progressive-sounding legislation that becomes unpopular later for poor implementation and a consequent feeling of letdown and therefore resentment.

Often the problems of poor implementation that surface later stem from small mistakes in design that could have been corrected at very little cost. One would think that our seasoned politicians would see how politically counterproductive such negligence is, but, alas, there is no evidence of such wisdom. Witness the way the National **Food Security Bill** is sleepwalking through its last phase. We are afraid that despite its immense promise to help the poor, it might end up in a quagmire unless the cabinet subjects it to a careful scrutiny.

After a vigorous debate, the proposed draft has indeed improved over its original form. An open letter by 45 prominent economists to **Sonia Gandhi** had stressed two things: allow alternate means of delivering the **subsidy** such as cash transfers and make the coverage near-universal by identifying the easily identifiable rich as non-recipients rather than trying to identify the poor - a near impossible task.

The first suggestion has been incorporated in the new draft while the second one has been ignored probably for fiscal reasons. Yet, it is some comfort that the coverage has been increased to 75% of the rural and 50% of the urban population; fewer poor would be excluded than under the original version. However, the main objections to targeting voiced by the economists remain just as valid.

Within the eligible group of beneficiaries, the draft bill makes a distinction between 'priority' and 'general' households. Priority households are entitled to more subsidised grain and at a higher subsidy rate than general households. At current prices, an individual in the priority category would receive the monetary equivalent of 1,330 per annum. The similar benefit for an individual in the general category is 418 per annum.

Existing methods do not allow for even a reasonable division of the population into these groups. This is not news to anybody, much less the government. Responding to the controversy over the use of a poverty line to target subsidies, the government promised the use of a 'consensus' methodology to be validated by an expert committee. Essentially, the thinking has been postponed to another day. But there is no reason to believe that a consensus solution lurks around the corner.

On the other hand, it is clear that substantial difference in programme benefits across these classifications will lead to much jostling and scrambling as households attempt to get themselves classified as 'priority'. Past experience should make us fear that many of the truly poor and deprived will find themselves tagged as a 'general' household.

Yet, there is a simple solution that does not increase the fiscal burden either. The provisions of this bill will cost the government 78,575 crore per annum. Distribute this amount equally across all individuals in the eligible population and eliminate the distinction between priority and general households.

This means a subsidy transfer of 966 per eligible person per year. In grain equivalents, it amounts to 25 kg, at the priority subsidy rate, for every eligible household (of five individuals) as against the entitlement of 35 kg for a similar sized priority household and 15 kg for a general household in the current proposal.

Equal subsidy transfer is easy to implement and does not require controversial targeting methods. It is also more respectful of our federal structure and the joint responsibilities of the central and state governments in delivering food subsidies.

While the central government supplies resources (grain or cash) to the states, it is the responsibility of the latter to deliver the subsidy to its eligible residents. Why then should the central government dictate the details of delivery arrangements to state governments? State governments should be allowed some flexibility to choose the delivery mechanism (PDS or smart cards of various types or cash transfers) as well as the decision of how it should spread the subsidy among the eligible population. Indeed, state governments have long been aggrieved that while the central government sets the targeting parameters and transfers resources accordingly, the messy business of targeting has to be done by the states themselves.

Essentially the suggestion is that the targeting parameters can be left to the individual states subject, of course, to the condition that subsidies to the priority household cannot be lower than that implied by an equal allocation across all eligible households. Since it is the states that will implement the targeting implicit in the division into priority and general households, this proposal lets them decide how it ought to be done. While some states might stick to the targeting parameters in the existing draft, it allows others to move towards equal allocations as already is the practice in a few states.

For the government, it offers a principled exit from needless controversy and allows it to secure greater cooperation from the states in securing the passage of the bill. On the ground, it allows states to implement policies where the poor do not have to fear being elbowed out of programmes meant for them. Why should the cabinet allow such a historically important legislation to go to waste through sheer inertia?

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