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Why the Food Security Bill is neither populist nor unaffordable

Synopsis

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By Ashok Kotwal

Criticism of the National Food Security Bill (NFSB) has led to the government dropping the idea of issuing an Ordinance and, instead, saying it would try to get the Bill passed in a special session of Parliament.

But doubts persist over the very concept of the Bill. Is it not extravagant to subsidise food for such a large part of the population when the poor constitute only 30 per cent of the population? Can a poor country afford such spending? Isn't the Food Bill just corruption by another name? Wouldn't the Bill lead to a virtual takeover of the grain trade by the central government? As a rising tide lifts all boats, should we not invest in growth rather than spend on consumption? These are all valid questions and we will attempt to answer them.

In a nutshell, we think the Bill is neither populist nor unaffordable. Some of the anxiety over the cost, corruption and the government's ever-increasing role in the grain market stems from the assumption that PDS will remain forever the main vehicle of delivering the food subsidy. But if the government develops the necessary infrastructure — e.g., UID-linked bank accounts — states will be encouraged to switch to cash transfers. The extra costs of government storage and distribution will then be saved and the problems caused by the distortion of the grain trade will be mitigated. Many worries that arise from the identification of the food Bill with the PDS will disappear.

The Right to Food campaign is right to stress the need for a food subsidy with near-universal coverage but is wrong in its visceral opposition to cash transfers. The result is a food Bill written wholly in terms of an expansion of the PDS. Suggestions for reforms such as cash transfers and the use of biometric ID have been shunted to an obscure chapter despite the fact that the Delhi government has already opted for delivering the food subsidy through cash transfers.

Anyone who has had a cursory look at the food Bill tends to assume it is just expanding the present PDS and, thus, worsening existing problems of leakage, corruption and high costs of storage and distribution. This makes people antagonistic toward the idea of the food Bill. The opposition of the Right to Food campaign to even experiment with cash transfers has harmed the poor by making people sympathetic to the critics of the food Bill.

Cash transfers are often opposed on the grounds of paternalism. “If we give cash to the poor, they might blow it on frivolous things. If we give them food, they will be better nourished.” This can work as an argument for midday meals but not as a justification for PDS, which is nothing but an income transfer: the effect of the subsidy is that households save the money that would have otherwise been used to buy food at market prices.

Why do we need such an income transfer? Because about 90 per cent of India’s labour force makes a living in the informal sector. For inclusive growth, we need to invest in education and skills and remove constraints to the absorption of labour by the formal sector. But we also need to improve productivity in the informal sector, which depends on human capital and access to credit. Financial aid that gives the poor some flexibility in managing their affairs helps improve the productivity of their time. What looks like consumption also works as investment.

But if “the poor” are only the bottom third or so, why offer food subsidy to the bottom two-thirds of India? We often talk about the poor as if it is a well-defined group, but that is hardly the case. The official poverty threshold is low. Many people above the threshold are also poor and look just like the people below the threshold. As a result, there is no reliable way in which subsidies can be targeted only to the people below the official threshold.

Finally, there is the issue of costs. Official projections are that it would cost close to 1.5 per cent of GDP. But even in the most pessimistic scenario, our GDP is expected to grow at 5 per cent per annum in the near future. If we think of the fact that the Bill will cost less than one-third of the growth in the national income next year, it does not seem that unaffordable, especially given its value to the millions who will receive it.

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