

FOOD SECURITY BILL

Socially appealing, economically unpalatable

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The Union Cabinet has approved the National Food Security Bill (bill), 2011 which provides legal entitlement to food grains at a cheaper price to ~63% of the country's population. The bill, to be passed by parliament to become law, seeks to cover a much larger proportion of population, leading to a positive social impact. However, besides increasing the burden on the fisc, the bill can potentially lead to higher inflation and pilferages. In sum, the introduction of this bill at the time when economy is facing headwinds from all corners would further worsen already weak sentiments as the negative impact outweighs positives from the social angle.

The Cabinet has given its nod to the National Food Security Bill (bill), 2011 which provides legal entitlement to food grains at a cheaper price to ~63% of India's population. As per media reports, the Govt is expected to table the bill in the ongoing winter session. Once the law is enacted, as per the Cabinet note, food grain requirement would go up to 61mn tonnes as compared to present need of 55mn tones which would translate into a subsidy bill of ~INR950bn, much higher than this year's budgeted ~INR606bn (Edel Estimates at ~INR700bn).

In terms of coverage, the bill deals with ~63% of the country's population with 75% in rural India (of which 46% is priority) and 50% in urban centres (of which 28% is priority). The bill aims at an entitlement of 7kg of food grains per person per month to priority households at a cost of INR3/kg for wheat, INR2/kg for rice and INR1/kg for coarse grain. For population other than priority category (termed general category), the bill seeks to provide 3kg food grain per person per month at not more than 50% of Minimum Support Price (MSP). The priority households can be defined as those falling below the official poverty line plus additional population equal to 10% of BPL households. As per this definition, 46% of rural and 28% of urban population come under priority households.

Importantly, the bill covers less than 75% of the population, as recommended by the National Advisory Council (NAC). However, the coverage is much larger than the one proposed by an Expert Committee (EC) appointed by the PM. According to EC, the coverage should be restricted to priority households, leaving out the general category.

At a time when the domestic economy is facing heavy headwinds, external economy remaining in a fragile state and the fiscal deficit is expected to be way higher than the budgeted, introduction of the food security bill would further worsen the macro-economic situation in the country. While it would provide food and nutritional security to a large swathe of population, the timing and implementation remain questionable. The main criticisms are as follows:

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- 1) High costs: While the direct impact of the Food Security Bill is expected to be ~INR950bn per year, the total financial liability (as per the ministry of consumer affairs, food & public distribution) to implement this would be in the region of INR3.5trn (including costs to raise agricultural output, create storage space etc). This would add a huge burden to the already stretched fiscal resources.
- 2) Inflationary effect: For the act to be implemented, the total requirement of food grains is ~61mn tonnes. In contrast, the maximum public procurement of wheat and rice has never crossed 60mn tonnes. In order to meet requirements of the bill, procurement would have to be speeded up. Such a rise in procurement without a comparable hike in production levels will be potentially inflationary. This was the main concern of EC which sought a limited coverage under food security law.
- 3) Increase in wastages: Currently, there are serious lapses in the Public Distribution System (PDS) which translate into huge leakages. In fact, a Planning Commission study (2005) has estimated a leakage of ~58% in Below Poverty Line (BPL) category grains in the PDS. A significant increase in the coverage without fixing loopholes would enlarge pilferages, leading to higher wastages of resources.

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