Concerns with Food subsidy

Why in news?

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National Food Security Act is not clear, which has benefits despite high costs, leakages.

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What is the background of the issue?

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- In 2013 UPA government had passed the National Food Security Act (NFSA).
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- The National Food Security Act, 2013 (NFSA 2013) converts into legal entitlements for existing food security programmes of the Government of India. It includes the Midday meal scheme, Integrated Child development services scheme and the public distribution system.
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- Further, the NFSA 2013 recognizes maternity entitlements.
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- The Midday Meal Scheme and the Integrated Child Development Services Scheme are universal in nature whereas the PDS will reach about two-thirds of the population (75% in rural areas and 50% in urban areas).
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- The Present government had little option but to continue with it despite the 40%+ levels of leakages and the excessive subsidies.
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- The government, however, allowed the status quo to continue last year and, it is likely to do the same again now.
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What are the concerns with food subsidy?

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- This is unfortunate given the high cost and the leakages, given the poor seeding of ration cards with Aadhaar in many states or the lack of PoS machines in ration shops in others.
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- Indeed, with consumer inflation as low as it is it is at a decadal low of 2% and the last reading of food inflation was negatives.
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- The government had a great chance of paring subsidies, Since the present ration shop prices are barely around a tenth of FCI's cost, even if the target population was not reduced, the government could easily have hiked prices without too much of a hue and cry.
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- Even if rice prices were raised to Rs 6 and wheat to Rs 4, they would still be just a fifth of costs—indeed, over a period of time, as was done for diesel by the UPA and for kerosene by the NDA, prices could be raised by 10-15 paisa every month subject to, say, the subsidy falling to 50% of costs.
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- It is also not clearly why two-thirds of the population should be entitled to such largesse.
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What is the way forward?

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- The rural wages did stagnate for a brief period following two droughts in 2014 and 2015, they are growing again, and a good harvest this time around, should help sustain the rise.
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- Independent of what the government does on the subsidised prices, it has to move to direct cash transfers as far as possible, egging on the states to help digitise the operations.
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- This is working well for other products like LPG and there are no reason food subsidies cannot be disbursed the same way.
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- Apart from reducing leakages, a big advantage of cash payments is that FCI's inefficiencies will be reduced
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- It is possible to buy the same ration-shop-quality rice at Rs 20 in the free market instead of the present Rs 29 it costs FCI, this is a net saving to the system.
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Source: Financial Express

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