LONG TERM ECONOMIC EFFECTS OF FOOD SECURITY BILL IN INDIA - AN ANALYSIS

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Abstract: *Food Security is one of the major challenges confronting the world today. Food security is inherently interlinked with other current global challenges of economy. The economic, financial, technical and environmental concerns in recent years have exacerbated global food security problem. If PDS meet the challenges of efficient and accountable implementation of food security scheme, it can ensure people have regular physical and economic access to sufficient food to meet nutritional needs. The report of the 33rd meeting of the Technical Advisory Committee on Monetary Policy stated, "...Food prices are still elevated and the food security bill will aggravate food price inflation as it will tilt supply towards cereals and away from other farm produce (proteins), which will raise food prices further members desired that the Reserve Bank impress on the government the need to address supply side constraints which are causing inflationary pressure, especially on the food front. The food security bill, if implemented honestly, will cost 3 per cent of the GDP in its very first year*

Keywords: *Food security, Functional foods, Food legislation, Food safety, Food- inflation, GDP, Trade liberalization*

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INTRODUCTION

Food security has been defined as a situation where the food entitlements of all household members or all members of the society, if we consider food security on the national level are sufficient to supply the food they need for a healthy and active life Food entitlement is the result of availability and access, or, expressed in economic terms, of supply and demand. In order to be able to trace the effects of macro-economic policies on individual and household food security, the relevant linkages between the macro- and the micro-spheres need to be detailed. Both are linked through what is called the meso-economy, composed of markets and infrastructure as critical elements. Economic parameter changes on the macro-level are passed through the micro-economy down to the micro level, where they manifest as supply and demand factors. Now World Trade Organization (159 member WTO) reached a agreement that Will-boost-global-trade-by-$1-trillion.The deal allows nations such as India to fix a Minimum Support Price (MSP) for farm produce and to sell staple grains to the poor at subsidized rates. It also permits countries to store food grains to meet contingency-requirements. The draft agreement, which will protect the right to food and allow India to go ahead with its $20 billion food security scheme, is expected to be adopted by the plenary later in the day. It is recognition of the right of developing nations for public stock-holding of food grains to ensure food security for their citizens, According to the proposal, all schemes providing support in relation to procurement for public stock-holding programmers for staple food crops will be protected-from-WTO-litigation. All traditional staple food crops, without any numerical limit, will be covered under the decision this decision provides legal certainty and also commits to work towards updating the rules under-Agreement A point to remember here is that, this estimate 1.2 lakh crores to 2.4 lakh crores is just for the subsidy the government will be offering. The additional expenditure that is required to set up system through which this scheme will be brought to the common man, *setting up operations, movement of the food grains, storage of the grains and so on is not part of this estimate*. If we include all those factors the actual bill the government will food will be much higher than this estimate.

FACTS AND FACTORS OF THE PROJECT

The Central Government, being the control center for all allocations of finances and/or other resources, is responsible directly or indirectly for the implementation of food security.

There are several factors that determine the implementation strategies and success of food security. These factors may be categorized as:

1. **Market Demand related Factors -** Macro-economic policy and the decision to change certain crucial macro-economic parameters can have both a direct impact on a country's food supply and an impact on the price incentives facing domestic producers. Direct effects are most likely to take place through changes in fiscal policy. Changes in the foreign exchange rate, usually devaluation, can also have an effect on the provision of government services, to the extent that these services use imported goods, such as fuel, or imported capital equipment. This may be particularly important for the upkeep of state-owned infrastructure, such as roads and market places, all important in the decision to provide food products to the market, rather than keep them for household consumption.

2. **The prices farmers face** are very important, both for the quantity of food produced domestically, but also for the amount offered on to the market, to meet the food demands of both urban and rural food-deficit households. These prices affect which commodities are produced, whether they are food or non-food crops, and the overall level of resources, land, labour and capital, invested in the agricultural sector.

3. **The foreign exchange rate** determines the relative prices of traded goods versus non-traded goods. An overvalued exchange rate tends to lead to higher prices for non-traded goods, relative to traded goods. Most agricultural commodities, whether food or non-food, are internationally traded goods, the only possible exception being very bulky, low value root crops, such as yams. However, a devaluation of the exchange rate will only improve the domestic supply of food commodities if two conditions hold. Firstly, producers must receive the benefit of the increased border price, rather than the increases accruing to traders or state marketing boards. Secondly, non-price factors in the agricultural sector must be conducive to increasing production.

4. **The foreign exchange** rate will also influence the price of agricultural inputs such as fertilizer, pesticides and fuel for tractors. In addition the domestic price of internationally traded agricultural inputs and outputs can be distorted not just by an overvalued exchange rate but also by taxes, excise duties and trade controls imposed by national governments to raise revenue or protect certain domestic industries. Changes in these will affect the

incentives facing producers and traders in the food sector, as will changes in the regulations affecting domestic markets.

5. **Macro-economic policy** will also affect the availability of imported food. When there are tight balance of payments constraints, then these constrain the country's capacity to import food to relieve domestic shortages. Devaluation will increase the price of imported food, and if there is no response from domestic agriculture, then the overall availability of food in the country may fall. A country's access to concessionary food imports, or food aid, may be improved if it is perceived to be following a stable and sustainable set of macro-economic policies.

6. **Macro-economic policy and access to food -**Individual and household access to food is determined by the prices they have to face in the market for food and other basic needs, their income from their own labor, either in the labor market or through selling their own production and services, particularly in the informal sector, and through entitlement to state benefits and subsidies. The demand for labor and the prices at which labor, goods and services are exchanged are all dependent on the important macro-economic prices, the wage rate, the interest rate and the foreign exchange rate.

7. The **foreign exchange rate** affects the relative prices of tradable and non-tradable goods and services. Increases in the price of food commodities which benefit food producers can reduce the food security of net food purchasers. Equally, other basic goods such as clothing and fuel are also likely to rise with a devaluation, putting pressure on limited budgets. **Trade liberalization** may help reduce the price of goods which have benefited from protected domestic markets, such as locally manufactured textiles, but in general a combination of trade liberalization and exchange rate devaluation will tend to raise the price of most basic needs commodities and reduce the price of labor-intensive services, a double effect to the urban poor.

8. **A tight monetary policy** will raise interest rates and make credit less available. This will have its major effect on the food insecure through its impact on the demand for labor. If a tighter monetary policy has a contractionary effect on the economy, then this may affect the income earning possibilities of the most vulnerable groups of the population. Also those who borrow to meet their food requirements, for example in the pre-harvest season, may face higher implicit interest rates in their borrowing arrangements.

9. **Fiscal policy reforms** can take a number of forms, most of which have the potential for a negative impact on the poor. The most obvious is when governments feel they can no longer afford to maintain existing consumer food subsidy programmers. It must be stressed that many of the countries who have undergone policy reform in the last few decades had no choice but to make modifications in their overall approach to economic development, as their economies were in unsustainable positions. The problem facing policy makers is to protect the short-run food security of the most vulnerable while achieving the conditions for medium to long run sustainable development.

10. **Technical Factors -**Food security indicators and measures have evolved over time from derived measures, which explores country level household income and expenditure surveys to estimate per capita caloric availability towards fundamental measures, which capture the subjective nature of inadequate access. In general the objective of food security indicators and measures is to capture some or all of the main components of food security in terms of food availability, access and utilization or adequacy. While availability (production and supply) and utilization/adequacy (nutritional status/anthropometric measures) seemed much easier to estimate, thus more popular, access (ability to acquire sufficient quantity and quality) remain largely elusive The factors influencing household food access are often context specific, thus the financially and technically demand to collect and analyze data on all aspects of household's subjective experience of food access and the development of valid and easy-to-use measures remain a huge challenge.

11**. Financial Factors -** The selling price of any average quality Rice is around Rs. 20 per kg. So, if the Government is planning on selling it at Rs. 3 per kg, then the difference Rs. 17/- will be the subsidy the government is offering. So, for 5 kgs the subsidy is Rs. 85/- per person. For 85 crore people imagine how much subsidy the government has to give. You can take the average selling price of all these items that come under this bill, subtract the selling price from market price and voila, you will end up with the total subsidy per person. The highlight is, this is on a monthly basis. Which means, the government will incur this subsidy bill every month and forever. An estimate by the Government suggests that the overall impact this Food Security Bill will have on its tax payers will be around 1.2 lakh crores. Economists and industry experts feel that this estimate is highly optimistic and may go up to 2.4 lakh crores.

Financial Facts- Another important point is that, the food security scheme is an ***open ended scheme***. This means that, there is no end date or expiry date for this scheme. It will be a never ending phenomenon that covers 67% of our population irrespective of whether they need that subsidy or not. This means, as our population goes up, the expenditure too would keep going up. The government is using our GDP for comparison purposes and is saying that the expenditure for this Food Security Bill will be between 2-3% of the nation's GDP. GDP stands for Gross Domestic Product and is the total value of all goods and services that are produced within our country. It does not refer to the total amount of money the Indian Government earns through taxes and other revenue channels.
The projected Income for our country in the financial year 2013-2014 is around 11.2 lakh crores. This is the difference between our total revenue/earnings and the loan interest & repayments we do from the various entities we have borrowed money from.
So, 1.2 lakh crores as a % of 11.2 lakh crores works out to 10.7% and if we take the higher limit estimate of 2.4 lakh crores the % soars to 21.4%
The government is proposing to spend between 10-20% of its gross income to meet the cash needs of this Food Security Bill. This scheme will put immense pressure on the nation's fiscal deficit.

Fiscal deficit is defined as the difference between what a government earns and what it spends. If the government has to spend 10-20% of its income on this scheme, it means that the corresponding amount has to be reduced from other schemes like Infrastructure projects or educational projects and so on. The nation's income is not going to go up by 20% to meet this additional cash requirement overnight. So, the finance ministry will have to either borrow to meet this additional cash demand or cut expenses on other projects to accommodate-this.

12. **Economic Factors-** This is something the government sets/declares every year as the price at which it buys grains from farmers. This grain is then used by the government for all its various schemes. The grains to be distributed under this Food Security Program too will be procured like this. Minimum Guaranteed prices means, farmers will have more incentive to grow rice/wheat and other grains covered under this scheme. This might result in Vegetable production getting affected which will further affect the nation's Food Inflation. In the last 5 years, food inflation contributes to over 41% of our overall Inflation. So, by

subsidizing the price of rice, wheat and a few cereals, it might result in an unintended consequence of other items becoming costlier which will result in overall-higher-food-inflation.

An alternate to funding this scheme is for the government is to "Print Money". World History is full of classic examples where governments resorted to printing more currency to fund its cash requirements. This is never a good idea and will result in the country's overall Inflation going higher. This will result in much lower savings. Lower Savings and lower surplus income means - people will spend a lower amount of money on consuming good and services and therefore the economic growth will slow down further.

Importing of Gold and Petroleum products is the biggest contributing factor to our nation's Current Account Deficit. The Food Security Bill guarantees food for the people covered under the scheme. So, if in a particular year, the country production of either rice or wheat is not sufficient we would be forced to import it. So, if we start importing rice, wheat or any other food grains, it will further widen the Current-Account-Deficit. The Rupee is bleeding left, right and center. It is falling freely and God knows when it will stop. Anyways, lower savings and wider current account deficit will impact the rupee. If India does not save enough money, it means that, we will have to borrow capital from foreign countries/investors. When these foreign borrowings need to be repaid, it will almost always be using dollars. This will put pressure on the rupee and lead to further depreciation against the dollar. On top of this, buying rice or wheat from the international market means, we will be paying in dollars. This will lead to increased demand for the dollar and result in further depreciation of the rupee.

13**. Environmental Factors -** In most developing countries, land-and-water-based occupations consisting of crop husbandry, animal husbandry, fisheries and forestry are the major sources of employment and income in rural areas. In this context, agriculture assumes a more significant role in the development of national and global food and nutrition security systems than just being the source of food. Therefore, in predominantly agricultural countries, importing food would have the additional consequence of enhancing rural unemployment, when this is done to compensate for inadequate national attention to agricultural development. Thus food security has to be viewed in the contexts of food production, job creation and income generation. An additional issue of overriding importance, if we are to ensure that today's progress is not at the expense of tomorrow's prospects, is that of conservation of the ecological base for sustained agricultural production. The various issues relating to the sustainable production of food for the growing population have been dealt with by the Panel on Food Security and Environment, of the World Commission on Environment and Development (WECD, 1987).Although the problems we face today to promote sustainable nutrition security are staggering, we will have to be prepared to face the challenges of the future, particularly in relation to probable changes in climate. These include changes in precipitation and temperature, induced by increasing concentrations of CO2 and other industrial gases in the atmosphere. Also, with damage to the ozone layer, the incidence of UV radiation is likely to increase. We do not know the potential impact of higher levels of UV radiation on the yield of crops. These changes will have a visible impact in about 25 years from now. Whatever the magnitude of the changes may be, it will be prudent to make the scientific investment necessary to face different climate scenarios.

The government faces several challenges in the implementation food security some of those challenges have been generalized and listed below:

1. **Lack of Financial Resources:** India, being a developing country with majority of its population unemployed, struggles to meet its financial needs. Representative of this is the persistent budgetary deficit. The Central Government faces a major challenge in allocating these scare finances to various projects and sectors. Due to this scarcity, the financial requirements during project implementation are often let unmet. Lack of finances is a major challenge that abrupt project implementation.

2. **Lack of Technical Resources and Know-How:** India is primarily an agricultural country, with majority of the population engaged in agriculture in some way or the other. With the changing times, the focus has been turned to the tertiary sector or the service sector. There is immense difference between the demand and supply of technical know-how. Most people do not opt for technical jobs but rather prefer a bank or government job. Those who actually are qualified in technical jobs prefer to migrate from the country. All of this results in a chronic shortfall of technical acumen. Therefore, the technical know-how

needed for the implementation of any project often has to be brought in from a foreign land, which in turn elevates the cost of implementation of the project.

3. **Lack of Man-Power:** According to the Census of India, majority of the population of the country can be categorized into a group unfit to work. This group includes both the young children as well as the senior citizens. Due to such characterization of the population, the potential man-power shrinks to almost 1/3rd of the population. This in turn results into a shortage of man-power. Implementing a project with very little man-power becomes a herculean task for the central government.

4. **Political Disharmony**: The political parties in the Indian political scenario primarily aim to embarrass the opposition with various tactics. Very little ratio of the political parties actually works towards the betterment of the country. There is wide-spread political disharmony across the center and the states. Every time the ruling party proposes a plan or implements a scheme, the opposition comes up with several excuses to slam the government's efforts. Political parties, in India, work against each other instead of complimenting each other's existence. Under such circumstances, project implementation becomes a challenging task for the Centre.

5. **Poor Communication:**

Food security scheme may face regulatory challenges, the real challenges that will affect the effectiveness of the initiative lie elsewhere. A lot of infrastructure, storage and distribution issues will have to be addressed on a war footing by the government. Some of the specific logistics problems the government will have to deal with are: Procurement of food grains, Fair price purchase, Quality Assurance, Distribution Network Pilferage and Leakages and Supply, Managing the Supply Chain. The Government will also have to deal with another set of problems such as Minimum Support Price (MSP) of food grains, poverty categorization of citizens, alterations to be brought in the existing Public Distribution System (PDS), irregularities, corruption, grievances redress, and vigilance committees.

6. **Corruption:** The biggest evil faced by the country today, is corruption. Starting from an office clerk, to the head of a project, almost everyone in the governmental department is corrupt. Bribery and 'black money' run a parallel economy in the country. Pertaining to such high levels of corruption, it is just to think that most of the funds allocated by the government is distributed amongst the employees themselves and the remaining scanty

balance is then utilized for project implementation. As a result of which, the quality and quantity of the project work suffers and most of the goals or objectives set by the government for the project are left unfulfilled.

CONCLUSIONS

A key factor in the economics of development projects is being unable to control costs due to planning uncertainties and process delays. Many of these barriers and difficulties are likely to be worse in complex or strategically important projects. This has implications for the type of approach required to address these matters. Corruption is all pervasive in the entire chain involved in PDS. It continues to remain a formidable problem. It is true that most of the functionaries under them in the department are typically callous and resort to corrupt practices. According to Supreme Court of India It (corruption) is in fact a cancerous growth and has to be chopped off. Patchwork methods will not do. Central Government gives a whooping sum of Rs. 28,000 crore to subsidies food for the poor. But till the recommendations given by the committee are put in place, the poor will go on suffering at the hands of corrupt officials, dishonest FPS owners, transporters and possibly to a large extent by unscrupulous millers as well,

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