

Economic Implications of National Food Security Act, 2013

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Abstract

“All that glitters is not gold”

The new National Food Security Bill of India 2013 brings to its citizens the benefit of purchasing cereals at a subsidized price and even shall provide pregnant women, and certain categories of children with free meals.

The question that lies are about the problem the country faces even after such benefits?

Feeding the poor and winning their support is the main aim which the government wants to fulfill by implementing this Bill. Even though India is the world's largest producer of rice wheat and sugar, it is unable to export much. Congress selfishly has focused on their profit levels and has neglected the future benefits of the citizens.

It is believed that fiscal deficit situation shall worsen with incoming of inflation. There are instances found that still proper food does not reach the people. Either the food is not affordable or does not be of good quality. We think that rather fighting on to provide cheap food one must focus on providing proper quality of food.

Therefore, authors emphasize on diplomacy of the Food Security Bill which depicts good politics but bad economic policy.

Keywords: subsidized rates, food inflation, depreciation, food security.

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Introduction

Rice at rupees 3, Wheat at rupees 2 and Coarse grains at rupees 1 per kg! Doesn't this sound overwhelming? Doesn't it call for joy? Absolutely the answer is yes but as said all that glitters is not gold similarly things that sound good need not be good all the time. Subsidized food rates may bring joy but will built a bigger grave afterwards. The new National Food Security Bill of India, 2013 brings to its citizens the benefit of purchasing cereals at a subsidized price as mentioned above and even shall provide pregnant women, lactating mothers, and certain categories of children with free meals on a daily basis. The intent of the National Food Security Bill is spelled out in the Lok Sabha committee report, which states, "Food security means availability of sufficient food grains to meet the domestic demand as well as access, at the individual level, to adequate quantities of food at affordable prices." The report adds, "The proposed legislation marks a paradigm shift in addressing the problem of food security – from the current welfare approach to a right based approach.²This ambitious proposal should be given approval keeping in mind that India is a home to one third of the world's poor, with 70 percent malnourished children and more than a billion people dying because of hunger related diseases. This Bill is the biggest experiment known till date in the food sector as it plans to double its food subsidies to 2 percent of the GDP.³

But the main question that lies here are what the problem all about is if everything is going on beneficial for the country and its people?

It is very rightly said that when one is aiming for high goals and aspirations for one's country and those goals are affecting the other countries also decisions have to be such that are for the betterment of all. There has to be a middle ground that shall be acceptable to all. This Bill is just a trump card for the UPA government when they are about to lose everything in the upcoming elections. The government has already budgeted 900 billion rupees for the scheme in the current fiscal year ending March 2014. If the bill is passed, it will need to come up with as much as 1.3 trillion rupees in 2014/15, adding to a total subsidy burden that already eats up about 2.4 percent of

² "National_Food_Security_Act,_2013"<http://en.wikipedia.org/wiki/>

³ "food-security-bill-good-politics"<http://www.deccanherald.com/content/213752/.html>

gross domestic product.⁴ Even the critics have quoted “the food bill is little more than an attempt to help Congress, reeling from corruption scandals, win re-election in a vote expected by next May.”⁵

Be it however beneficial for the people the global aspect also needs to be kept in mind. And only global aspect, this upcoming scheme will affect the Indian Growth Process severely. With the Food Security Bill came the report of RBI which stated that the bill was an invitation to inflation in India. It would slowdown in revenue collections and higher spending on subsidies may make it challenging for the government to achieve the fiscal deficit target of 4.6 per cent of the Gross Domestic Product (GDP) this financial year (2011-12).⁶ The fiscal deficit situation shall worsen but moreover it will result in worsening the Indian trade deficit as these program ones implemented shall require a 70-80 million tones of more food grain every year. Every year 225-230 million food grains are produced with a bumper crop year when the output is a million tones more.⁷ Where will the rest come from? It becomes obvious that Indians will then go for the option of Imports! This will lead to nothing but Food Inflation.

Analysts at Kotak Mahindra Bank said that besides skewing the food inflation to a higher side, the move will also result in rise in prices of food grain for non-beneficiaries of the programme. “There will be pressure on prices of food for those outside this scheme,” an economist of Kotak said.⁸ Reducing fuel prices would have been a better way of mitigating the costs while it is not very certain as to whether the Bill will be passed by the government or not because the Finance Minister himself is worried for the deficits. Finance Minister Palaniappan Chidambaram said in March the rollout of the new food subsidies was unlikely to happen before the middle of the current fiscal year, which started April 1, curbing the financial cost. Chidambaram aims to cut the fiscal deficit to fewer than 4.8 percent of GDP in the current year from around 5 percent in 2012/13.⁹

⁴“ india-food-subsidy-bill-idINDEE9460AY20130507” <http://in.reuters.com/article/2013/05/07/>

⁵ ibid

⁶“ food-security-bill-good-politics” <http://www.deccanherald.com/content/213752/html>

⁷ ibid

⁸ Ibid

⁹d-about-impact-of-indias-food-bill-on-global-markets-47381.html

Feeding the poor and winning their support is the main aim which the government wants to fulfill by implementing this Bill, but this is not what needs to be achieved. You cannot act as emotional fools and neglect the economic aspect. If there is money in the economy everything seems flourishing but without money not even a single grain of food will be achieved by anyone one of the citizens. Inflation is a home to price rise and what can you aspect in a country like India where people are relatively below the poverty line. Even small product of necessity becomes extensively expensive. Even though India is the world's largest producer of rice wheat and sugar, it is unable to export much rather it spends all in fulfilling its own people's stomach and it is very true that if in such a country you promise free meals the public will support you. But the Congress selfishly has focused on their profit levels and has neglected the future benefits of the citizens. The law would have little effect on India's export volumes in a good crop year, but "in a year of shortage, there could be some impact" on international markets, a Singapore-based trader said."¹⁰ The main issue here lies is that the government is trying to make over its corruption scandals by providing this Bill, proving to be the most concerned one's for the citizens of the country.

The WTO organization's new chief Roberto Azevedo said India's food security law will raise subsidy levels and the issue needs to be addressed in a positive manner. Some members of the WTO, especially developed nations that are big commodity exporters, have raised concerns that its large stocks of wheat and rice could lead India to dump those on global markets.¹¹ It is believed by WTO that India shall be breaching its commitments with WTO so they are searching for some solution. WTO also stands stranded when it comes to the new Food Security Bill as even according to them it is an invitation to Inflation. The WTO chief said that trade ministers should engage and try to find a long-term solution. India is demanding amendments to the Agreement on Agriculture (AoA) under the WTO so that it can give more food subsidies to poor without attracting penalties.¹² With an increase in the food prices, the number of poor in developing countries has also increased and since AoA was framed the subsidies have gone up substantially and if this policy is implemented, there will be a 10 percent rise in the food subsidies. Countries like the US and Canada have raised

¹⁰“ india-food-subsidy-bill-idINDEE9460AY20130507” <http://in.reuters.com/article/2013/05/07/>

¹¹“wto-is-very-worried-about-impact-of-indias-food-bill-on-global-market” <http://www.firstbiz.com/economy/ s-47381.htm>

¹² Ibid

concerns over India's food security legislation at the World Trade Organization (WTO). They have also asked India to explain the effect the legislation will have on global stocks and commodity prices.¹³

The issue that has been brought up by the authors in this article is what effect will the Food Security Bill have on the exports? According to India's Food Ministry, there will be no such impact on the export of rice or wheat. The Ministry told local sources that about 62 million tons of food grains are required to implement the Food Bill, compared to around 73-75 million tons of food grains purchased from farmers for the central pool annually.¹⁴ The Times of India says, "Government efforts to push down food prices have primarily focused on clamping down on traders by imposing stock limits on rice, oilseeds and pulses and banning futures trading in a few products. But it fails to note that one of the most important reasons for rising grain prices is excessively large food stocks of around 66 million tonnes, which have been accumulated for meeting the needs of the pending food security Bill."¹⁵ It is by proof that is seen that the price of rice has gone up over 40 percent and there has been a rise in the price of the food.

Most interesting part of the Bill is the part which speaks of food security becoming the long term right of the people. There are instances found that still proper food does not reach the people. Either the food is not affordable or does not be of good quality. Be it the rural or the urban areas, proper food intakes need to be supplied. We think that rather fighting on to provide cheap food one must focus on providing proper quality of food. In the same time instead on focusing on providing food to people one must even focus on people being able to provide food for them. People shall have the means to buy it without depending on the government. Thus it is believed that the Food Security Bill is just making the people dependent on the government. A proper government should first make policies to make the people of the country eligible to buy food for them. Policies of the Indian government on Agricultural development has made farmers dependent on heavy inputs from governments which has resulted in ecological degradation leading the farmers to a situation where

¹³ "wto-is-very-worried-about-impact-of-indias-food-bill-on-global-market" <http://www.firstbiz.com/economy/s-47381.htm>

¹⁴ "impact-rice-exports-says-food-ministry" <http://www.oryza.com/content/india%E2%80%99s-food-bill-won%E2%80%99t->

¹⁵ Ibid

their income is not sufficient enough to meet their needs. The horrifying rates of suicide in many parts of India, including in the heart of Green Revolution regions, are witness to the short-sightedness of such policies and strategies.¹⁶ Exports of cheap agricultural goods have affected the local producers of many items and even the growing export deprives the small scale producers. If the Bill goes on as it is it might meet the demand of the citizens but shall built a grave for food security of the people.

It is believed that the proposed food security law will worsen India's economic imbalance and ill raise the government spending on food subsidies to about 1.2% of GDP per year. Slow economic growth, rising inflation, deficit in the account and depreciating value of rupee will be the outcomes of the Bill. The Bill is believed to have a cascading inflationary effect in the whole system. In case of monsoon failure and low agriculture output in the country, India will have to import grains, which is an additional burden. As good portion of the grains under the security bill would be procured from the domestic grain supply, there is a possibility of creating artificial scarcity in the open market leading to raise in food grains prices.¹⁷

The Food Security Bill shall look like an overwhelming policy for all the citizens but it shall have devastating results. The authors bring to the notice of readers that the Food Security Bill will have a significantly negative impact on the economy. Inflation, slow economic growth rate and depreciating value of money are some known evidences. As of know things don't look very bright and the nation expects a further downfall in the economy if the Bill is implemented. Thus,
"All that glitters is not gold"

¹⁶“o-food-security-without-ecological-and-livelihood n-security” <http://infochangeindia.org/environment/politics-of-biodiversity/.html>

¹⁷“ what-is-food-security-bill-and-why-it-could-be-a-burden-1252819” <http://news.oneindia.in/2013/07/05/.html>

