Expenditure Reforms Commission

2.42 Expenditure Reforms Commission (ERC) has submitted two reports so far. The first report deals with Food Subsidy and the second report is in four parts dealing with (i) Rationalising Fertiliser subsidy (ii) Optimising Government Staff Strength – Some General Issues (iii) Rationalisation of the Functions, Activities and Structures in the Ministry of Coal and (iv) Rationalisation of the Functions, Activities and Structures of the Ministry of Information and Broadcasting. The recommendation of the first report regarding modification of economic cost of wheat and rice has been implemented. The second report which is in four parts, is under examination of the concerned Ministries/Departments. Some of the important highlights of the recommendations in these Reports are given in Box 2.6.

BOX 2.6

Major Recommendations of Expenditure Reforms Commission (ERC)

Food Subsidy

With a view to reduce subsidy on food, ERC has suggested series of measure which among other include :

- Efforts to ensure that quantities allocated for below the poverty line (BPL) population reach them at the prices at which the Government of India releases. To this end, State Governments would need to identify BPL population in a transparent manner.
- In those States where the total distribution under the PDS is in excess of the quantities earmarked for BPL population and at prices at or below the price at which the sales are to be made to the BPL population, the Government of India could provide the subsidy amounts directly to the State Governments, leaving it to them to procure the foodgrains required for the BPL population.
- A National Food Security buffer stock of 10 million tonnes – 4 million tonnes of wheat and 6 million tonnes of rice – should be maintained at all times.
- The cost of buffer stocks held in excess of the above requirements should be treated as "producer's subsidy" and action taken to phase it out over the next three years through. (i) moderating the increase in minimum support prices and; (ii) moving towards procurement of single (common) variety of paddy/rice, as in the case of wheat. Besides, through a suitable adjustment in the pricing mechanism, reduce procurement of paddy and increase procurement of rice through a levy system; (iii) Encouraging State Governments and private sector to enter procurement, trade and export of goodgrains through an assurance of continuity of policy over the next 15 years. The objective of the procurement policy should be to maintain a Food Security Buffer of 10 million tonnes and availability of 21 million tonnes per annum for distribution through the PDS. Thus the total average stocks to be maintained for distribution and buffer stock should be no more than 17 million tonnes or so compared to a likely level of 24 million tonnes in the current year.
- Every effort should be taken to minimise FCI's overhead charges and the methodology for allocation of FCI's overheads as between distribution and buffer stocks needs to be modified to ensure that the consumers, particularly those below poverty line are not made to pay for the cost attributable to excess stocks or FCI's inefficiencies.

Rationalising Fertilizer Subsidies

The Retention Price Scheme (RPS) has led to the development of a large domestic industry and near self-sufficiency. However, the unit wise RPS is a cost plus scheme. It results in high cost fertilisers, excess payments to industry and provides no incentives to be cost efficient. Besides, fertiliser subsidies have grown over the years. The package suggested to rationalise fertiliser subsidies takes care of the needs of small farmers and proposes to bring fertiliser prices to the level of import parity price in a gradual and phased manner over a period of time as follows :

- To protect small farmers and marginal farmers who consume a large part of their output from a loss in their real incomes arising out of increase in farm gate prices of fertilisers two options are suggested: (a) introduction of a dual price scheme under which all cultivator households are given 120 Kgs. of fertilisers at subsidized prices and; (b) expansion of Employment Guarantee Scheme and Rural Works Programmes to provide additional incomes to small farmers.
- Dismantling of the control system in a phased manner, leading to a decontrolled fertiliser industry which can compete with import albeit with a small level of protection and a feedstock cost differential compensation to naphtha/liquefied natural gas (LNG) based units to ensure self-sufficiency.
- The ERC recommends a 7 per cent increase in the price of urea in real terms every year from 1.4.2001. With this order of increase open market price will reach Rs.6903 per tonne by 1.4.2006, a level at which the industry can be freed from all controls and be required to compete with imports, with variable levy ensuring availability of such imports at the farm gate at Rs.7000 per tonne of urea. While no concessions will be necessary from this date onwards for gas based, fuel oil/light sulphur heavy stock and mixed feed stock plants, existing naphtha plants converting to LNG as also new plants and substantial additions to existing plants will be entitled to a feed stock differential with that for LNG plants serving as a ceiling.
- The farm-gate prices of nitrogenous, phosphatic and potassic fertilisers should be set to promote a desired balance of fertiliser use. In the circumstances it is suggested that once urea price is re-determined every six months, the prices of potassic and phosphatic fertilisers should be suitably adjusted to ensure the desired NPK balance. It will be useful if government could announce in advance the formula to be adopted for fixing the prices of P & K fertilizers with reference to a given urea price.

Optimising Government Staff Strength

- A cut of 10 per cent on the staff strength as on 1.1.2000 to be carried out by the year 2004-2005. Besides, an annual direct recruitment plan for all cadres to be prepared by a Screening Committee.
- There should be a total ban on creation of new posts for two years.
- Staff declared surplus should be transferred to the Surplus Cell to be redesignated as the Division of Retraining and Deployment, which will pay their salary, requirement benefits etc.
- Surplus staff should be made eligible for a liberal Voluntary Retirement Scheme recommended by the Fifth Central Pay Commission with the exception that commutation entitlements will be as at present and the ex-gratia amount will be paid in monthly instalments covering a five year period.
- Those who do not opt for Voluntary Retirement Scheme and are not redployed within one year will be discharged from service.