

## Food subsidy

5.53 Producers and consumers and, within this group-the vulnerable sections of the society - are the major beneficiaries of food subsidy. The subsidy incurred on the supply of foodgrains through the PDS at below FCI's economic cost constitutes the consumer subsidy while the producer subsidy is the direct offshoot of the price support based procurement operations of the Government. The producer subsidy together with the cost of maintaining the buffer stock accounts for the cost of buffer stock operations. The consumer subsidy together with the buffer carrying cost constitute the food subsidy.

5.54 The food subsidy bill has increased from Rs.6600 crores in 1996-97 to Rs.21,200 crores (budgeted) in 2002-03 (Table 5.15). Though pruning of the existing subsidy level is imperative and could be done by reducing operational inefficiency, the interests of the poor also have to be safeguarded. The surplus stocks of foodgrains with the Government provide a vital resource for providing income support to the poor and the vulnerable. Better targeting of subsidies is now beginning to be visible.

5.55 Minimum Support Prices (MSP) lay the floor for the market price of foodgrains, especially the two dominant foodgrains - rice and wheat. With sharp increases in MSP every year despite surpluses having replaced shortages, the MSP has become the maximum selling price instead of being the floor price. This coupled with the system of open-ended procurement has made FCI the buyer of the first resort resulting in huge accumulation of surplus public stocks of foodgrains, leading to much higher commitments for Government subsidy. FCI

Year	Food subsidy
1996-97	6,066
1997-98	7,900
1998-99	9,100
1999-00	9,434
2000-01	12,060
2001-02	17,612
2002-03 (BE)	21,200

Source : Budget documents

has thus become the main buyer, stockist and seller in the domestic market. It is also the main exporter.

5.56. High statutory levies (including mandi charges, cesses and fees to commission agents) on grain purchase, not only discourage private trade but also increase FCI's cost, thus putting a pressure on the food subsidy bill. The levies imposed by the State Governments (*ad valorem*) differ from State to State and are highest in case of Punjab, Haryana and Andhra Pradesh.

5.57 The High Level Committee on Long Term Grain Policy recommended that Government may, for open-ended procurement, in future announce a gross price, inclusive of MSP and a uniform 4 percent allowance for State taxes as the price that its agencies would be allowed to pay. It would be better for the Centre and States to agree on a ceiling on statutory levies, and announce MSPs which farmers could actually expect to receive net of all compulsory levies.