

Compartmentalised functioning

Stringent norms need to be evolved to avoid inter-ministerial wrangling, says Uttam Gupta

RECENTLY, there were reports of stalemate over the contemplated increase in issue price of wheat from the PDS because of the divergent stand taken by the two affected ministers, that is, the minister of food and the minister of civil supplies. Both have, in their own way, legitimate concerns.

For the food minister, the burden of food subsidy had already reached a staggering Rs 5,200 crore during 1993-94. During the current year, it would be even more because of the huge build-up of stocks to a record high of 30 million tonnes. The sale through PDS has declined by as much as 50 per cent compared to last year. And FCI cannot even export because of low prices in the world market. Hence, increasing the issue price of wheat, it believes, would help in bringing about some reduction in subsidy.

The minister of civil supplies is worked up because of the steep increases in the issue prices of both wheat and rice effected during the last two years. The prices in the PDS are consequently no longer very different from the prevailing free market prices. Besides, according to the ministry, the present increase would further aggravate inflation.

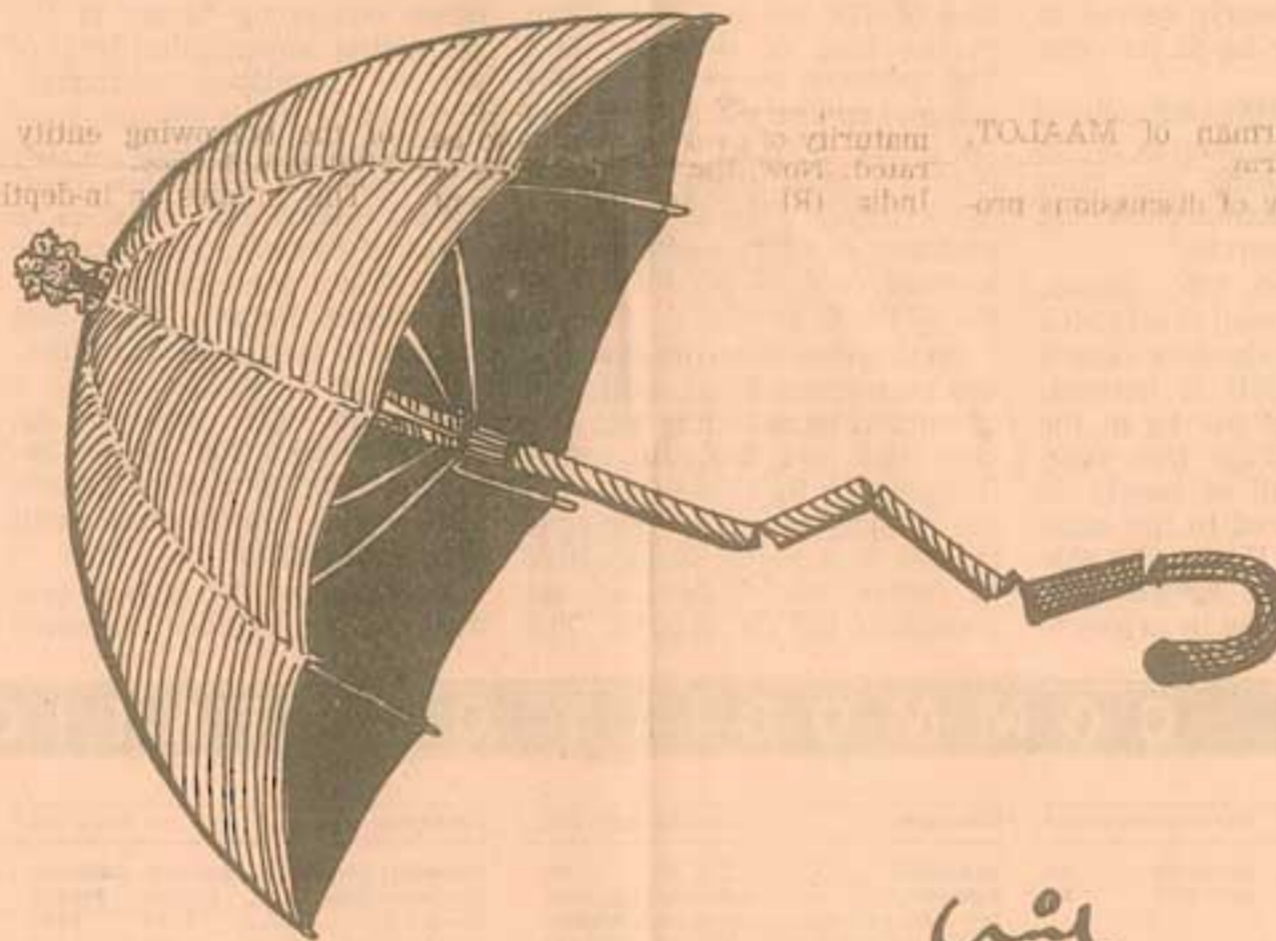
Although the ministry of agriculture is not at present involved in the business of setting issue prices of foodgrains, its connection is not only intimate but even inevitable. Being the custodian of the farmers' interest, it succeeded in getting the procurement price of wheat raised on two occasions in 1993. The first increase was accompanied by a corresponding increase in the issue price, but the second was not.

The MoA, however, would not be willing to share the responsibility for the woes of the ministries of food and civil supplies. It would argue that since the farmers were compelled to pay more for purchased inputs, mainly fertilisers, following the latter's decontrol in August 1992 and the resultant steep increase in their prices, the higher cost of production had to be compensated by way of hike in procurement prices.

This brings the department of fertilisers (DoF) into the limelight. The DoF maintains that it was primarily due to the control on selling price of fertilisers, which remained more or less unchanged for almost a

decade despite increasing cost of production and distribution. The pressure mounted and the subsidy scheme had to be abolished in the case of phosphatic and potassic fertilisers.

Thus, the otherwise highly inter-related ministries seem to be operating in water-tight compartments, galvanising their actions perceived purely in terms of the interest of their constituencies. Let us now look at the role of the ministry of finance (MoF) which does not have a constituency of its own to lobby for; instead, its prime responsibility is to ensure overall sound macroeconomic man-



agement.

The MoF should necessarily assume the role of an arbitrator in the event of differences between ministries. Considering that it holds the purse-strings, it can be expected to perform this role effectively. Unfortunately, at the level of the MoF, things have been messed up.

Instead of performing the balancing act, it has single-mindedly pursued the goal of subsidy reduction. Through this it also wanted to control inflation via bringing down the budget deficit. However, the manner in which the MoF proceeded, it achieved none of these objectives. Fertiliser subsidy increased from Rs 4,400 crore in 1990-91 to about Rs 5,000 crore in 1993-94. The food subsidy went up from Rs

2,600 crore in 1991-92 to about Rs 5,200 crore in 1993-94.

Inflation, after some reduction in the rate in 1993-94, moved into double-digits in the beginning of 1994-95 and since then has shown no sign of abatement.

At the same time, the concerned ministries are unhappy. The dissatisfaction all round is due to two fundamental reasons. First, lack of coordinated policy and administrative actions, and second, refusal to see clearly the cause and effect relationship based on facts. Let us take up the second factor first. Consider why

realities is recognised not to talk of considering them in evolving and formulating policies.

Consider procurement prices for foodgrains. To what extent an increase in fertiliser price or the cost of any other agricultural input increased the cost of cultivation is a very critical point on which facts are not properly and accurately considered. The hikes in procurement prices allowed to the farmers after fertiliser decontrol were much more than warranted.

Consider the cost of providing food through the PDS. During the last three years or so, prices paid for purchases from the ration shop are more or less the same as the procurement prices allowed to the farmers. That would mean that the staggering burden of food subsidy is being used only for procuring, handling, stocking and delivering foodgrains to the consumers. On the basis that 15 million tonnes was sold through the PDS during 1993-94 and using the revised budget estimate of Rs 5,200 crore, this would work out to about Rs 3,500 per tonne or Rs 3.5 per kg. Does it not require scrutiny? Should the MoF not insist on some norms in regard to handling cost?

The problems are not insurmountable. All the ministries need to play an enlightened role in evolving and implementing systems to check and regulate cost for economic activity coming under their respective jurisdiction based on stringent norms. For fertilisers a mechanism already exists which allows cost to the producers on the basis of norms for capacity utilisation and consumption of inputs. In MoA, although the the institution of CACP exists, the process of price determination has to be made efficiency oriented, effective and transparent. In the ministry of food, no mechanism exists even as the costs to FCI are allowed on actual basis. This gap has to be filled at the earliest.

The MoF has a major responsibility in ensuring that all ministries work strictly as per norm. It may commission independent professionals who continuously associate with the price fixing exercise and subsidy disbursement by individual ministries and also provide necessary feedback to the MoF. The MoF should also coordinate at the policy level with all the ministries for evolving a unified action plan.

fertiliser subsidy increased? The finance ministry all along worked on the impression that such subsidy went to the industry. No attention was paid to the mechanisms and the real factors that caused the subsidy to rise. This rose mainly because the Government wanted the producers to sell fertilisers at a low controlled price and made up the loss by giving subsidy.

Now, for any given level of subsidy per tonne, more production means more subsidy outgo. Second, subsidy per tonne itself increased for years even as production cost increased due to inflation. The latter has come mainly from administered price hikes of feedstock, that is, gas, naphtha, fuel oil, coal etc. None of these stark