Draft speech of the Honourable Chief Minister of Kerala Before the NDC on July 24, 2010.

Honourable Prime Minister,
Honourable Chief Ministers,
Honourable Members of the Union Cabinet,
Honourable Deputy Chairman and Members of the Planning Commission,
Ladies and Gentlemen,

1. This meeting of the National Development Council is taking place at a time when the entire capitalist world is engulfed in a crisis reminiscent of the Great Depression of the 1930s. The Indian economy has been somewhat insulated from this crisis, largely because its integration into the world of globalized finance has been restricted till now. The Union government has cause to thank the opponents of its neo-liberal policies for this.

2. But this is not the only contrast between India and the advanced world. This contrast in output performance is also accompanied by a contrast in price performance. While the U.S. has an inflation rate that is close to zero and about to turn negative, India is experiencing double digit inflation. We cannot claim that our high inflation rate is a necessary consequence of our high output growth rate. Our output growth rate was even higher earlier this century, but our inflation rate was much lower. The acceleration in inflation in India, in contrast to what is happening in the rest of the world, has been sharp, sudden and crippling for the poor, because of its acuteness in the “food products” sector.

3. The Union government assures us that inflation will come to an end soon. But the crucial question is: when inflation comes to an end, will the *level* of prices compared to the money incomes of the working people be higher or lower than earlier? If money incomes of the working people are held constant, then inflation is necessarily self-limiting, since it rectifies the demand-supply imbalance, that caused it in the first place, by cutting into their demand. One cannot therefore derive much solace from the prediction that inflation will come to end soon, if at its end the working people are left absolutely worse off in real terms. *Only that inflation control will qualify as one, which leaves*

the absolute living standards of the working people unimpaired compared to what it was prior to the onset of inflation. And in an economy where money wages of the vast majority of the working people are not indexed to prices, this can be ensured only through a universal system of public distribution of essential commodities at fixed prices.

4. The key item here is food grains. A basic cause of the current inflation is the precipitous decline in per capita availability of food grains that has occurred in recent years. Against a population growth rate of 1.4 percent, the growth rate of food grains during 1993-94 to 2003-04 was only 0.69 percent which further reduced to 0.32 percent during 2004-05 to 2009-10. Per capita output in short has been declining for several years now. But what is even more bizarre is that as inflation has been gathering momentum the Union government has not only been exporting substantial amounts of cereals but also been accumulating a vast amount of food stocks. During 2007 and 2008, India exported as much as 16 million tonnes of cereals; and the pace of stock accumulation was such that the level of food stocks with the government now exceeds 60 million tonnes. *The decline in per capita output, combined with the rise in exports and stock-holding, has caused a fall in per capita food grain availability to a level that is the lowest ever in the last 57 years.* In 1953 the per capita availability of foodgrains in India was 155 kilogrammes. In 2009 (which reflects the 2008-9 output), it again reached 156 kilogrammes. And in 2010 it has fallen even lower since it reflects the 2009-10 output which was hit by a drought. The post-independence period in India had seen a gradual increase in the per capita availability of food grains until the end of the 1980s. With the onset of neo-liberal policies this upward trend was reversed, and now we have reached almost the very point from where we had started at the beginning of the nineteen fifties. *This is a shocking tale of economic retrogression* which no amount of celebration of our GDP growth rate can possibly obfuscate.

4. The Mid-Term Appraisal's claim, on the basis of the Tendulkar Committee report, about declining poverty during the nineties, is unconvincing for this very reason. If "poverty" is estimated to be declining in the midst of growing hunger, then something must be wrong with that definition of "poverty". All over the world as people

become better off they absorb larger food grain per capita, taking direct and indirect absorption (via processed food and feedstock for animal products) together. If per capita absorption in India has declined so precipitously, then the spread of absolute poverty must have increased rather than decreased. Indeed official data show that the percentage of rural population below 2400 calories per person per day (which has been the benchmark for rural poverty till now) increased from 74.5 in 1993-4 to 87 in 2004-5; the percentage of urban population below 2100 calories per person per day (the benchmark for urban poverty till now) also increased from 56 to 64.5 between these two dates. This is a matter of national shame.

5. To control food-price inflation, to reverse the decline in per capita absorption of food grains, to ensure that stocks do not accumulate uselessly as people go hungry, it is essential to move to a system of universal public distribution of food grains. The amount should be 35 kilogrammes per family per month at the rate of Rs.2 per kilogramme. The Food Security Bill currently under discussion must ensure this. This may require an additional food subsidy, over its current level, of not more than Rs.50,000 crores, which is less than 1 percent of GDP, and quite manageable. It will require an increase in food grain output; but this is essential in any case for the future survival of our country, though its need has been lost in the euphoria over growth rates. Drawing distinctions between APL and BPL in the presence of such pervasive incidence of hunger undermines the goal of food security.

6. The Union government has not only held on to burgeoning food stocks in the midst of the current rampaging inflation, but has even chosen this very moment to raise the prices of petrol, diesel, kerosene and cooking gas. This price-hike is sought to be justified by it by creating the impression that the petroleum sector is a loss-making one; that this loss is because domestic prices of petro-products have been kept fixed while the world price of crude has increased; and that this sector survives on large government subsidies which cannot be sustained for long. This impression is completely erroneous. Nearly 51 percent of the price of petrol and 30 percent of the price of diesel consists of taxes that accrue to the Union government's exchequer; apart from these, substantial profits of the public sector companies like Oil India also accrue to the Union government; and terms like "under recovery" do not refer to any actual losses in the sense of the

sale price being lower than the cost of production but simply compare two possible positions of profit. The price-hike therefore is a pure levy on the consumers; it has nothing to do with succour to an ailing sector.

7. This levy will hurt the poorest segments of the nation's population. For instance, the fishermen of Kerala, who earn on average an annual income of Rs.15000-20000 on which they have to support entire families, and who risk their lives daily for earning this pittance, will be crippled by the diesel price hike. So, when Union government spokesmen sometimes defend the hike by using an alternative argument, namely that it would reduce subsidies to companies and release funds for building much-needed schools and hospitals, and thereby obliquely suggest that the hike will pinch only the companies and not the final users, they are being disingenuous.

8. The hike in prices moreover is part of a policy of making petro-product prices free to move with international prices. The world price of crude, which is the basic input for all petro-products, is subject to very wild swings because of the operation of speculative forces. It was around $140 per barrel just a few months ago and is now nearly half that price. If our petro-product prices are linked to the international market then they too will be open to huge fluctuations. And if the farmers are to get remunerative prices, then their prices too will have to move up and down synchronously with crude prices, since petro-products figure prominently among their inputs. And if such movements are reflected in the market prices of foodgrains (including even the issue prices under the PDS), then the consumers will be facing wild fluctuations in the price of the most essential commodity for subsistence. They will survive in years when speculators are bearish, but perish in years when they are bullish.

9. Even the colonial government, though belatedly, after the Bengal famine had carried off 4 million victims, had woken up to the fact that the free market should not be allowed to function in food grains, that food grain prices had to be controlled and rationing resorted to for distributing minimum amounts of it. But if food grain prices are to be kept under control then a whole range of prices of major inputs needed for food production and food distribution, among whom petro-products must figure prominently, must also be kept under control. It is ironical that the Union government should re-discover the virtues of

the free market in such essential commodities almost two-thirds of a century after the colonial government had abandoned its faith in it in the wake of a horrendous famine. The Honourable petroleum Minister has given the assurance that in the event of such fluctuations the government will take appropriate countermeasures to control prices. But why should such a situation be allowed to arise in the first place?

10. The government of Kerala earnestly requests the Union government to rescind the petro-product price hike and to abandon its policy of linking domestic petro-product prices to the international market. What the country needs above all is stability in the prices of basic goods and their insulation from wide fluctuations of the sort that occur in the international commodity markets.

11. The Union government has a number of flagship programmes in social sectors, which are operated as Centrally-Sponsored Schemes. State governments have been opposed to the idea of Centrally-Sponsored Schemes for a long time and have demanded instead that the sums spent on these schemes should be handed over to the states to spend in accordance with their own specific requirements, rather than on some uniform "one-size-fits-all" basis. The Union government has not only ignored this request, but is now making available, under these Schemes, large sums of money directly to various agencies in the state, by-passing the state government budget. This erodes accountability and sets an unhealthy precedent.

12. Moreover, it has now started a practice which is likely to be detrimental as much to state finances as to the development of the social sector itself. It often starts a Centrally-Sponsored Scheme and gets state governments to fall in line and commit their plan resources to meet their share of the cost; and then it suddenly decides unilaterally to drop the scheme, or to modify the scheme, or to raise the state government's share in financing it. The state governments, therefore, having got involved in a scheme in whose formulation they had no say in the first place, are then made responsible for it to ever greater degrees at the whim of the Centre. They are thus made to act as "bonded carriers" of centrally-devised schemes. This is an encroachment on their freedom, a pre-emption of their plan resources against their will, and does no good ultimately to the social sectors.

13. I shall cite just two examples. Against the pleas of most Chief Ministers at an earlier meeting of this very august body, the Union government has decided unilaterally to reduce its share in Sarva Shiksha Abhiyan and raise the share of the state governments. Thus, the SSA which began with 15 percent state government contribution in 2001-2, and kept this ratio at 25 percent till 2006-7, has raised it to 35 percent in 2007-8 and 2008-9, 40 percent in 2009-10, 45 percent in 2010-11, and 50 percent in 2011-12. As a result, the state governments, who could otherwise have formulated schemes of their own, keeping their own specific requirements in mind, now find themselves shouldering an ever increasing burden, whose magnitude is determined again by the centre unilaterally, in a scheme that is not their own and into which they entered in the first place at the insistence of the Centre. True, the Thirteenth Finance Commission has provided grants to enable states to meet the rise in their obligation, but the cognizance of the problem by the Commission only underscores its seriousness. Likewise, under the NRHM in Kerala a number of appointments were made earlier. Now the Union government has decided to restrict NRHM funds exclusively for health infrastructure and the payment for all appointees has devolved suddenly upon the state exchequer. The Flagship projects in short have become devices for leading state governments up the garden path.

14. The Kerala government has consistently criticized flagship programmes of the Centre like the JNNURM which impose “conditionalities” on the states. But even benign-looking flagship programmes like the NRHM and SSA involve an encroachment on the states’ rights which needs to be negated.

15. The Right to Education Act, a positive step despite its lacunae, is going to place a further burden on the state governments. The amount made available by the Thirteenth Finance Commission covers only 15 percent of the estimated recurring expenditure under the SSA over the next five years, which is a paltry sum compared to what is required. The Union government must take full responsibility for financing the implementation of the RTE Act, with states’ contribution limited to some “normal” projections based on base-year figures.

16. On the other side we find that central clearance for projects of interest to the state governments takes an inordinately long time. I shall cite a

few examples from Kerala. The Kochi Metro-Rail project, a joint enterprise of the central and state governments, along the lines of the DMRC, still awaits Planning Commission clearance. And the Palakkad Rail Coach factory, for which the state government has met its obligation by acquiring the land, inexplicably finds no mention in the current year's Union budget. The cause of delay, in many cases, is the Centre's insistence on the PPP mode. This is a further encroachment on the freedom of the state governments: while PPP can be one of several modes from which the optimum is to be chosen, it cannot be simply prioritized in an arbitrary manner over all others.

17. Let me conclude with a general observation. The point of departure of the eleventh five year plan was "inclusive growth". This was an admission of the fact that the benefits of growth did not automatically "trickle down" to the working people, and that an effort was needed on the part of the State to re-distribute these benefits more evenly. Several steps have no doubt been taken by the State in this direction. But if, notwithstanding these, the people of India are hungrier today than ever before in the last fifty-seven years, then the conclusion is inescapable that the growth strategy itself must be fundamentally flawed, which requires not corrective measures but complete replacement, so that the basic inequalizing tendencies which neo-liberalism unleashes are kept in permanent abeyance.