Chapter-I

Public Distribution in India
CHAPTER -I

Public Distribution System in India

The chapter presents the meaning, concept, objectives and growth of PDS in India. Organisational network and revamped PDS has also been included in this chapter.

1.1 Introduction

The birth of the concept of Public Distribution System, its relationship with the economic function of distribution and the elements of PDS need to be known before any systematic evaluation of its working in the present form is undertaken. The concept of PDS can be traced back to the economic system followed by a country.

The role of the Government in an economy varies according to the economic system followed by it. In a capitalistic system the role of the Government in controlling business enterprises is reduced to a minimum and vice-versa, in a socialistic system. Irrespective of such an economic system, the Government modern days try to control the working of the economic system, through economic planning and active participation in the industrial activities. (S.Shankaran,1981)¹. As such, in a mixed economy the Government, through effective and rational interference in the economic, business, monetary and fiscal sectors, tries to achieve its goals and objectives of welfare. Thus any economy using its economic plans as a mechanism of control of its activities is known as "Planned Economy." To get an enlarged vision of the planned economy and the
place of distribution function, it becomes imperative to look into the basic features of such an economy.

Planned Economy aims at systematic utilization of the available resources at a progressive rate so as to secure an increase in output, national dividend, employment and social welfare of the people. In the words of Prof. A. Watterson, "Planned Economic system is an organized, conscious and continual attempt to select the best available alternatives to achieve specific goals, involving the economising of scarce resources. It has been used for a variety of ends, by different societies and in different ways. It is not limited to socialistic solution. It can be and is used by democratic and capitalistic countries."

(A. WATTERSON, 1996)

It is a fact that the planned economy operates with time bound economic plans which are based on the economic policies and implemented through the triangular mechanism consisting of:

1. Outlays by the government
2. Institutional reforms and policies and
3. Control and guidance of the market in order to accomplish the desired results in the economy. However, the fact remains that the scarcity of resources in a country and unlimited wants of the people forming the basis of economies cannot be disregarded. Further, resource scarcity is one of the inevitable factors for developing economies like India. When the resources are limited, the main problem a country has to face is the allocation of available resources to various development areas. In this context, distribution function turns out to be an important area of concern.
for planners. To put it in other words "distribution" will become a major problem. In utilizing the limited resources certain fundamental issues will arise which can be confined to the following three areas (S. Shankaran, 1981). 

i) What commodities should be produced and in what quantities?
ii) How to produce the commodities? That is, by whom and by what methods should the commodities be produced?
iii) By whom are the goods to be produced?

In practice, these issues arise due to imbalance between the growth of different sectors and between demand and supply of various products (Baljit Singh, 1987). These constraints force the planners to minutely look into the distribution system in an economy.

1.2 **Meaning and Concept of Public Distribution System:**

The word distribution in its broadest sense indicates the combination of various resources in an economy classified into four factors of production so as to optimize output and ensure balanced growth of all sectors (R.M. Sundrum, 1983).

The composition of output in any economy is according to the major factors of the economy.

In order to ensure economic growth as rapidly as the resources permit, effective demand should be pushed to the limit of potential supply and this is the function of distribution. The problem here is allocating the given resources among the sectors in such a way that there is a adequate effective demand for the
outputs produced with this allocation. (Lewis, W.A, 1976)^6. To put it is other words, the produced goods and services will be distributed in accordance with the distribution of income and wealth in an economy. If it is the case, then it will further aggravate the situation i.e. wealthy will become wealthier which will be detrimental to the basic objectives of a planned economy.

A public distribution is the whole or part of distribution system in principle owned and controlled by public authority on behalf of the general public or specific group thereof. The concept of PDS in India has some specific connotations. It is not a system of distribution under public ownership as in the case of many socialistic countries, nor is it an independent system of consumer cooperatives of the type found in Scandinavian countries. PDS in India is a retailing system supervised and guided by the state.

Public Distribution System is a scheme under which the Government organizes the procurement of some basic essential commodities such as rice, wheat, sugar imported edible oil, levy sugar, kerosene etc., and arranges for its distribution to the public through a network of FPSs at controlled prices. The Central Government has assumed responsibility for the procurement and supply of key essential commodities like wheat, rice, sugar, levy sugar, imported edible oils and kerosene oil etc. to the states and Union Territories.

Public Distribution System aims at ensuring regular flow of essential articles of standard quality to the general public particularly to the vulnerable sections of the society at reasonable prices. Thus a sound PDS can serve as countervailing force against unfair practices of the private trade.
A public distribution system can be defined as a system which has evolved through Governmental intervention and which comprises five components consisting of a production sub-system, a pricing sub-system, a procurement sub-system and a supervisory sub-system. The lack of any one or more of these sub-systems would, therefore, mean that the system would not be a public distribution system.

1.3 **Objectives of PDS**

The PDS as a device to introduce planned distribution of essential items in place of unplanned or automatic distribution started in our country during the Second World War. The dawn of independence led to a greater emphasis on the need for an uninterrupted supply of essential goods everywhere so that none died of hunger. The last few decades witnessed tremendous improvement on the food distribution front especially in the network operation of FPSs and coverage of commodities. The foremost objectives of PDS are spelled out as under:

(i) To protect the low income groups from hunger by guaranteeing them supply of certain minimum quantities of foodgrain at reasonable prices.

(ii) To remove the imbalance of supply and demand for consumer goods.

(iii) To check hoarding and black marketing in essential commodities.

(iv) To ensure social justice in the distribution of basic necessities of life by keeping in check the fluctuations of prices in goods of mass
consumption.

(v) Stabilization of food prices and prices of other key essential items.

(vi) Reduction in the year to year fluctuations in the over all availability and per capita availability of foodgrains.

(vii) Steady supply of the essential commodities at fair prices to protect the real purchasing power of the consumers, especially those items belonging to the poorer sections of the society.

(viii) Effective supplementation to the Government's programmes for alleviation of poverty and reduction of malnutrition.

(ix) Equitable distribution of basic essential commodities between different income group / different regions and areas.

(x) To ensure remunerative prices to the farmers by efficient procurement system of food grains.

(xi) To safeguard the interest of the consumers against excessive rise in the prices.

1.4 **Growth of PDS in India.**

The PDS operated through the Fair Price Shops scheme was first introduced in India in the beginning of the Second World War in 1939. The scheme has continued to exist since then, though in the intervening years there have been several significant changes in its form, the role assigned to it, and in the various operational policies adopted to keep it going. Also, in the context of the overall food policy, the emphasis on PDS has varied greatly during this period.
We now propose to look into the evolution process of its form and role and examine its role vis-a-vis the task envisaged to it in different situations. The First Decade of PDS (1940-1950)

The system of FPS was first introduced in Bombay, soon after the war broke out in 1939, with the objective of keeping a check on the speculative activity among private traders—a common phenomenon during war. This was followed by the extension of the system to several other States like Bengal, Uttar Pradesh, Bihar, Madras, etc. The main beneficiaries from the system were the Central and State Government employees, industrial workers and labourers. It was, in spirit, a precautionary step.

In 1942, as it became evident that the food situation would continue to be precarious (the occurrence of famine in Bengal), the system of FPS was turned into the 'Rationing' system. This implied a considerable increase in Government's responsibility to make the grain available, but it also meant regulated (and to some extent curbed) consumption of foodgrains. Thus, under the rationing scheme the objective of regulation of the private traders' behavior became more or less redundant. This was followed by the appointment of the Foodgrains Policy Committee (GOI, 1943) entrusted with the task of recommending a food policy for the coming War Years. The committee strongly recommended continuation of the rationing scheme. Among the recommendations made the following were the most crucial:

a) Rationing should be introduced with respect to all the foodgrains; and

b) Rationing should be extended to all classes and sections of the population.
3) Statutory rationing was the main instrument tried by the government to regulate consumption and also to keep a regulatory check on the open market prices;

4) To assure reasonable prices to the consumers covered under the 'rationing' scheme, supplies were sold at the subsidized prices;

5) Protection under rationing was provided only to the population living in the big cities, in other words, the targeted population for the coverage was decided on the basis of its dependence on the market to meet its requirements and not on the basis of the purchasing power of the different population groups;

6) The role assigned to the PDS was an odd mixture of PDS as a 'relief giver' and PDS as a regulatory force in the market;

7) And finally, as evidenced by the remark of Foodgrains Procurement Committee, clarity about the role of PDS was missing from the policies;

During this period of control, decontrol, and reimposition of control there is hardly any evolution to be noticed in the role of the PDS. However, the form of PDS, which started as a temporary arrangement and became a permanent feature due to chronic shortages, did evolve itself in two ways, (i) in terms of its size, and (ii) in terms of nature by which it came to be recognized as a semi permanent feature of the good economy.
In addition, the committee advocated maintenance of a reserve stock so that psychologically people would have more faith in the rationing scheme and recommended inclusion of the rural areas under the scheme.

In 1947, the second Foodgrains Policy Committee was appointed to review the situation (GOI, 1947). The committee concluded that the system of food controls was unable to fulfill the purposes for which it was intended. It recommended that dependence on imports should be reduced. However, implementation of the above recommendations proved to be unsuccessful. Immediately after the implementation, i.e., liberalization of trade, prices started rising steeply. Therefore, the Government was forced to revert back to its old policy of controls.

The situation between 1947 and 1950 was reviewed by the Foodgrains Procurement Committee (GOI, 1950). The report, after noting the lack of any well defined and well coordinated policy, highlighted a few serious contradictions in the policy like the existence of control over foodgrains prices vis-a-vis no control over other agricultural commodities, and its influence on production, the government's declared policy of feeding the vulnerable section with an effort to reduce imports simultaneously whereas the reductions in imports were determined by financial constraints rather than need, and the Government's efforts to stabilize prices allowing, at the same time, the open market prices to find their own level. Based on this review the following emerge as characteristic features of the decade 1940-1950:

1. The period was one of chronic shortages;
2. Shortages were met mostly through imports as production did not register any appreciable rise;
The Second Decade of PDS (1950-1960)

The second decade of PDS started with a bad crop in 1950, coupled with a commodity boom - a result of the Korean War, and therefore the foodgrains prices were ruling at an all time high. The rationing policy continued. The availability and price situation could be saved only by a loan of two million tons of wheat from the US Government. Thus, the rationing policy, in 1950-1952, played the role of curbing the consumption, protecting the vulnerable section (mostly in the urban areas), and attempting to keep the prices under check by augmenting the supplies through imports.

The difficult situation changed considerably in 1952-53. Two consecutive years recorded an increase in foodgrains production, prices in the open market ruled low and this easy position led the government to cut down statutory rationing. However, during the transition period, FPSs were continued (in the place of statutory rationing) to have a regulatory influence on open market, probably an outcome of the bad experience in 1948. Procurement which the government had decided to continue and impose a little more strictly, in the earlier years, was suspended. Easy availability and low prices continued till the middle of 1955. The sudden increase in prices, more in case of coarse grains, was an outcome of sudden deterioration of the production of millet in 1955, and the knowledge that the Government had very little in the form of stocks of wheat and no stock of millet.

A new turn came in the PDS policy from 1956, after the agreement under PL 480, under which the US Government agreed to supply 3.1 million tons
of wheat and 0.19 million tons of rice during the next three years. As a result of this assured supply in the following years, the stated objective of the distribution policy changed to bring down the price level in the open market, from the objective of having a regulatory influence on the open market prices. To meet the objective of lowering prices, or in other words the objective of reversing the trend in the open market prices, large quantities were made available at FPS, and free issues were made at prices far below the open market prices. The explicit philosophy of the Government was to sell the imported foodgrains, which it obtained at concessional terms under PL 480, at no profit. During these years of plentiful supply for the FPS, there were no identity cards or ration cards issued to the consumers and only regulation was through a specified maximum quantity that could be purchased at a time. However, retailers were required to maintain books of account showing all transactions.

The Foodgrains Enquiry Committee (GOI, 1957) that submitted its report in 1957 fully endorsed the import policy of the Government. It made a case in favour of the continuation of the FPS scheme in operation. However, it, for the first time after the Foodgrains Policy Committee (1943), reiterated the need to build up a buffer stock. It further recommended that since there were no increases in the production visible in the short run, Government should try to build up a reserve stock through imports, and more and more marketed surplus should be channelized through the FPS system. In making its recommendations, the Committee took into account the same old definition of the policy which had been the guiding spirit in the past, i.e., "It will be necessary to undertake some form of compulsory procurement for replenishing the reserve stocks and maintaining
the supplies to the vulnerable sections of the population at reasonable prices."

In 1959, the Government tried 'National Trading' in foodgrains and to operationalise the scheme, it fixed the maximum prices at the retail and wholesale level at which the foodgrains could be sold. The scheme was applicable only to wheat and rice. However, after the implementation of the scheme it was found that the ruling open market prices (more frequently termed as the black market prices) were much higher than the government fixed maximum, as a result of which very little grain was openly coming to the Mandis. Once again, within one year of introduction, the Government was forced to withdraw the scheme in 1960. However, the issue of imported foodgrains at artificially low prices from the fair price shops continued as before.

Thus during the second decade of PDS also, overall shortage continued barring the years 1953 and 1954. The 'rationing form' of PDS aimed at curbing the demand and thus keeping the prices in check gave way to the FPS form of PDS, where the objective was that of lowering open market prices through increased supplies. This also increased consumption, with its almost complete dependence on the concessional imports for the purpose of increasing supplies. The effect of lowered prices on foodgrains production did not concern the policy makers.

In terms of the evolution of PDS, we noticed that during the second decade it evolved from the rationing system as the FPS system with its large dependence on imports.
The Third Decade and After (Post 1960 period)

The year 1961 also began with large wheat supplies received under PL 480. A new contract was signed under which the US Government promised to give 16 million tons of wheat and one million tons of rice in the next four years. Supplies, through the FPSs, like before, were made available freely and pushed to the point of situation at artificially low prices. The objective all the while was maintaining a low level of prices. The building up of a buffer stock that the Foodgrains Policy Committee had recommended through only imports, was ignored during these years.

The situation of easy availability for FPS did not last very long. Throughout 1964-65, prices showed a rising trend and the Government was forced to introduce rationing in all the major cities and industrial towns in 1965 in a bid to contain the price rise. Also in the year 1965, the Food Corporation of India was set up with a goal of building up a buffer stock of five million tons. The original idea was to build up a buffer through internal procurement mainly but due to two consecutive drought years that followed, the scheme could not be made operational. During 1966-67 the whole effort of FPS system was to improve availability that had suffered a serious setback due to severe drought. For this purpose, FPS outlets were increased in number, the supply was regulated and some controls, like the specified quantity to be issued were imposed.

Around 1967-68, the name of the FPS Scheme was changed in the Government Policy Documents. It began to be called the "Public Distribution System" (PDS). But in practice the role and organisation of the system remained
unchanged. In philosophy it still remained an 'ad hoc' programme, with no clear role defined for the PDS on a continuous basis. In keeping with this approach the Agricultural Price Commission recommended the curtailment of public distribution programme because of the diminutions on the pressures of demand on fair price shops following a general improvement in the availability of foodgrains, for the year 1968-69 (GOI, APC).

A new phase of PDS emerged in 1969, exactly 30 years after its beginning. The Fourth Five-Year-Plan set out the following guidelines for PDS:

1) The PDS is needed, on a regular basis, for the country to provide help to the rural people, and to some extent, for generating a downward pressure on the open market prices.

2) To build up a buffer stock as per the earlier plans.

3) The requirements of the PDS should be met through the internal procurement of foodgrains.

Probably on the basis of the above, the Agricultural Price Commission for the Kharif season of 1969-70 recommended that:

"The opportunity provided by the good crop be availed to extend the PDS to the vulnerable segment of the rural population and to procure, for that purpose, substantial quantity of coarse grain."

The Government's plan for PDS was, however, thrown completely out of gear in 1970-71, ironically the year in which the country's foodgrains production recorded a substantial jump. The supply position was relatively very
good, the open market prices were low, the Government godowns were full of 
grain and there was a sudden drop in the off-take from the PDS. In the absence 
of any concrete plan and due to substantial reduction in the PDS off-takes, the 
policy makers' main worry changed to bring down the level of stocks to a 
reasonable level. However, like it had happened in the past, the situation 
changed from good to bad very fast. The year 1973 (the year of nationalization 
of wholesale trading in wheat) turned out to be a shortage year. The stocks 
available with the Government played the role of buffer stocks. During this time 
the increased supplies through PDS helped a great deal in augmenting the 
availability position. However, the extent of subsidy in the form of artificially low 
prices, in comparison to the earlier years, was reduced. The second consecutive 
drought year 1974-75 was much worse than the preceding year. Since stocks 
with the Government had already exhausted, imports figured again in meeting the 
requirements of PDS. The quantity of foodgrains made available through the PDS 
outlets was determined by the constrained supplies rather than demand as in 
1970-71 and 1971-72. In the meantime, the price kept rising at a very fast rate 
and PDS could not play the role of containing the price level. The price rise 
phenomenon was an outcome of the runaway inflation in the economy, 
considerably aggravated by drought conditions.

Despite the experience of 1971, when the off-takes from the PDS 
had reduced considerably, against the Government's plan of having a regular PDS 
to help the rural poor, no deeper and clear understanding was visible in the Fifth 
Five-Year Plan. The draft Fifth Five-year Plan (GOI, 1972) contained no 
guidelines or even a statement of the strategy for PDS. In relation to foodgrains, 
it only said "In so far as the foodgrains are concerned the basic objecting is to
build up an effective public distribution system". It further threw up an area for consideration about the ways and means for feeding the system during the lean years, stressing that most supplies would have to come from indigenous sources. About the subsidy aspect, the draft states that the food subsidies during the Fifth Plan period would have to be kept within a reasonable limit. But as the circumstances would have it, against the Government's declared policy, in 1973-74 and again in 1974-75, the Government had to import large quantities to combat the scarcity condition caused by the droughts, and to keep the PDS functioning to overcome the difficult availability situation. So, again the role assigned to the PDS reverted to that of emergency relief, which is a short term goal, and not one of protecting the rural vulnerable section on a regular basis as envisaged in the earlier plan.

The confusion about the role of PDS was again confirmed when the National Commission on Agriculture (GOI, 1975) made recommendations contrary to the stated objective of protecting the vulnerable sections in the rural areas. The Commission recommended that the PDS should cover the following on a regular basis:

i) All cities and towns with population over one lakh (except surplus areas in the surplus states and the cities in Jammu and Kashmir, and Kerala).

ii) All industrial town workers covered under All India Consumer Price Index Numbers for Industrial Workers,

iii) Chronically drought prone areas excluding those already included under (i) and (ii) above.
iv) Areas affected by serious floods (for 3 months in a year), and

v) Urban and rural areas in Jammu and Kashmir, and Kerala as covered under the existing schemes

This review of developments during the third decade and after brings out the following points in relation to the evolution of PDS.

1) Some evolution in terms of understanding of the role of PDS was visible in the policy documents. However, the clarity obtained at one stage was suddenly lost due to a very fast and unexpected change in the situation after 1970.

2) The evolution of the form of PDS was intriguing during the mid-sixties when the Government returned to its old policy of rationing, the time perspective was missing. Later, this situation changed with an awareness about the time perspective and thus the Government's desire to have a PDS operating on a continuous basis. This was, however, never translated into the operational policies - a consequence of which was seen in 1971.

3) Contradictions brought about in the policies by the Government's wish to keep a check on the price level, its desire to protect the economically vulnerable section of the population, the desire to cut down the PDS subsidies to new and lower levels, and to keep a PDS running with its major coverage confined to the urban areas etc. were never fully appreciated. This led to status quo. \(^{(1)}\)
1.5 Organisational Network of PDS

Organisation is a harmonious inter-relationship of living things for their effective functioning. Further, it is a structure enabling a group of persons to work together with a team spirit. The evolution of all forms of life and human society demonstrate the need for organisation. Three kinds of work must be performed whenever organisation takes place. These three Universals are the division of labour, identification of the source of authority and the establishment of relationships. Management is a complex of personal and administrative skills. It is also viewed as a technique of leadership. Management may be defined as a body of systematized knowledge, based on general principles which are verifiable in terms of business practice\(^2\).

The focal point in the organisation of the PDS has been the concerned department dealing with civil supplies. The organisational setup of the departments differs from state to state, keeping in view the volume of work of procurement and distribution of essential commodities.

There are four agencies associated with PDS, namely the Departmental Machinery, Statutory Corporations, Co-operatives and Private Traders.

1.5.1) Departmental Machinery

a) Central Machinery
The Departmental Machinery has to continue to play its role in over seeing the implementation of Government policies covering PDS. At the centre the Departments of Food, Agriculture, Civil Supplies, Co-operation, Industries, Small Industries, Foreign Trade etc. have a joint responsibility for supporting the system corresponding departments functioning at the state level have an equal responsibility for successful implementation. The sponsoring department of Civil Supplies at the Centre is taking a lot of initiative. Nevertheless, we are of the view that the government machinery is not trying to find solutions to some of the very sensitive issues which are crucial to the success of the scheme. For instance, making the producers part with a significant percentage of their output for sale through PDS needs statutory commitment to be imposed on them.

The attitude of the manufacturers in the past to the Schemes concerning allocation of capacity for items like Janatha Soap, Janatha cloth and Janatha paper is too well known and needs no elaboration. The private manufacturers have assiduously built up mass markets for their goods and have patronised their own networks of wholesalers and retailers. Asking these manufacturers to have to set apart 20 per cent of their output and hand it over to NCCF or NAFED may or may not work on a continuous basis. Secondly, this linkage is proposed to be left to the care of State Governments who have to negotiate with the manufacturers and make sure that the PDS supply line does not go dry. We are of the opinion that the Central Government has to act much more positively and given the necessary statutory support to States, if necessary by invoking Essential Commodities Acts.
b) **State Level Machinery:**

It is noticed that there is an ample scope for improving the quality of working the concerned departments dealing with food supplies and related matters at the State level. The entire machinery has been conditioned to handle the problems of scarcity. Scientific marketing systems were irrelevant to their purpose. The rationing authority worked with a condescending attitude which is normally seen in welfare centres and relief camps. Demand projection to them was a wasteful exercise so long as the supply through PDS was far below the demand for those items supplied.

But the circumstances have changed. The PDS of the future will no longer be a mere ration shop. It is expected to sell a wide range of non-rationed articles as well. The official machinery is entrusted with the task of getting these 'other articles' from the manufactures by persuasion or compulsion. These changed circumstances justify the need for a thorough overhaul of the Departments of Civil Supplies in the respective States.

1.5.2) **Statutory Corporations:**

i) **Food Corporation of India:**

The Food Corporation of India (FCI) is the main agency responsible for the execution of the food policies of Central Government. Functions of the FCI primarily relate to the purchase, storage, movement, transport, distribution and sale of food grains and other food stuffs on behalf of
the Central Government. It is also engaged in the handling, storing and
distribution of sugar for some states. The Government of India lays down the
prices of foodgrains which are to be purchased/procured and issued, the incidental
charges and the quantum of allotment to the States/UT's as also other relevant
policy matters.

**ii) Central and State Warehousing Corporations:**

The Central and State Warehousing Corporations are no doubt
giving a very good backup support to the wholesale stockists like FCI, STC, etc.
But they are not attracting enough custom from the individual farmers and
stockists. Even the recent enhancement in the rate of rebate from 5% to 10%
does not seem to improve the position. It is relevant to probe further into this
imbalance in the utilisation of the storage capacity.

The main objective of the CWC is to provide scientific storage and
traders. In general, the various functions of CWC are as under:-

a) To require and build godowns at suitable places.
b) To run Warehouses for storage of agricultural produces, manures,
fertilizers, agricultural implements and other notified commodities.
c) To arrange transport facilities for the above things to and from
warehouses.
d) To subscribe to the share capital of state warehousing
corporations and to provide them necessary guidance and help.
e) To act as an agent of government for the purchase, sale storage and distribution of the above commodities.

f) To render custom service to the farmers, traders etc.

g) To render outdoor disintestation custom service to the farmers to traders millers and food processing industries.

iii) **Civil Supplies Corporations:**

Now that many of the states have set upon their own Civil Supplies Corporations, the FCI should plan for progressive decentralisation of its procurement and distribution activities beyond buffer stocks to these Corporations. This will incidentally solve the problem of FCI and CSCS buying foodgrains at different prices and then buying with each other to dispose of the stocks. Our investigations showed that the civil supplies corporations were seen more or less as the Departments of the Governments except that they borrowed funds from banks and other sources. Here again there is an imperative need for instilling business culture into these Corporations.

1.5.3. **CO-OPERATIVES**

In India, the erstwhile Madras state was the pioneer in the field of co-operatives. The first consumer society (Hough, 1950 143) was set-up in Madras, namely, "The Triplican Urban Co-operative Society Limited" in 1904 on the eve of the enactment of the Co-operative Societies Act, 1904 with the prime aim of supplying necessities of life to its members and it has grown up as one of the largest Consumer Co-operative Societies in India. This society was formed by mostly school masters on the pattern of Rochdale. They tackled the situation
efficiently at the time of war scare in April 1942 when most of retail merchants left Madras in hurry.

Encouraged by some early success shown in Madras efforts were also made to organise societies in other provinces like Uttar Pradesh, Bombay, Bengal, Assam and Punjab, more or less on similar lines.

During the Second World War (1939-45) there was shortage of everything more particularly those of essential commodities. The government decided to distribute through co-operative societies. It gave sufficient encouragement to consumer societies. The government used consumer societies (Mukhi, 1988,231) as suitable agencies for distribution of scarce commodities and implementation of rationing schemes.

Consumer co-operatives can be organised either on a unitary pattern or on a federal pattern. In unitary pattern (Mathur, 1971, 425) a central store with individual membership is established whereas in the case of federal pattern, primary stores are organised and then they in turn form wholesale store. In India, there are both primary as well as wholesale central stores, alongwith departmental stores commonly known as "Super Bazars". The wholesale stores have organised their state-level federations. The state federations in turn organised themselves into National Co-operative Consumer's Federation of India Ltd. (NCCF) with its head quarter at Delhi.

Thus, Consumers Co-operative Societies have four-tier structure (chart 1.1) which consists of the National Co-operative Consumer's Federation, State Level Co-operative Marketing & Consumer's Federations, District Level Federations and Primary Consumer Co-operative Societies at base-level as shown in chart 1.1. below:-
Structure of Consumer's Cooperative Societies in India

National Cooperative Consumer Federation
(At National Level)

State Cooperative Marketing and Consumer's level Federation
(At State Level)

Central Whole-Sale /District Cooperative Marketing and Consumer Federation
(Tehsil/Distt Level)

Primary Consumer Cooperative Societies/Stores
(At Base Level)

Chart 1.1
The co-operatives at different levels are undertaking the job of distributing the goods. The illustrating discussion on these cooperatives has been mentioned in the following paras.

i) **Federal Co-operatives:**

The real beneficiaries of the PDS seem to be the Co-operative Federations at National and State levels. The concepts of thrifts, self help etc. seem to remain only in their by-laws and Articles. They get free equity and cheap credit, employ paid staff and enjoy monopoly over the trade they handle. The way they manage the wholesale trade for and on behalf of the Government does not give an impression that they are in any way more efficient than the private wholesalers. The only reason which justifies continuing that patronage to them is the fact that they are amenable to higher degree of operational control.

The margin they get for wholesale distribution seem to be excessive in relation to the services they render. One of the frequent allegations against the wholesalers of cloth, paper etc.; is that they do nothing more than preparing invoices and issuing dispatch instructions to the manufacturers. The stocks quite often more from the mills direct to retailers. We wish that NAFED and NCCF at the national level and the marketing/consumer federations at the State level are not guilty of this type of spurious services rewarded by sumptuous margins. The margins they get may appear to be reasonable in terms of percentages. But the volumes of turnover that passes through their total earnings
are bound to become fat. We suggest a probe into the economics of these corporations.

A far more important factor to be toned up is the administrative efficiency in these federations. For historical reasons the co-operative movement continues to be a movement dominated by the government machinery. Most of the key posts of Managing Directors, General Managers, Chief Accounts Officers etc., have become the closely guarded preserves of the Senior Officials of the Central and State Departments of Co-operation, Marketing, Accountant-General etc. Entry to these positions through open market is rendered difficult by keeping the scales of pay on par with the salaries of the Government officials. For reasons of safety of public funds the State reserves for itself the right to appoint the senior personnel for those Corporations.

While there is nothing wrong in the government maintaining a reservoir of trained professionals to be deputed to manage such corporations. But in practice the choice is made for reasons other than efficiency on proven competence. We came across instances where relatively junior officers holding the ranks of Assistant Registrars or Deputy Registrars placed in charge of Co-operatives in which the turnover runs to several crores. This is allowed and justified quite often on the ground that the government official are honest and that if they are not it is easy to punish them. Generally the office bearers and officials working in these co-operatives get compartmentalised into the district teams as 'officials' and 'non-officials'; Each team works for its own self preservation; officials work on the presumption that non-officials office bearers are inefficient, self seeking and in some cases even corrupt Similarly the so-called 'non-official' employees of the Co-operatives work as second class citizens. The key positions
are monopolised by the official groups and non-officials are used for clerical errands. They look at the 'officials' with fear and envy.

(ii) **Retail Co-operatives**

Our field studies in Kerala and Andhra Pradesh have brought out the fact that the Co-operatives are gradually withdrawing from the retail distribution of good grains and essential commodities. The main reason given is that their overheads are high and the slender margins available on PDS stocks is not adequate to cover their overheads. Most of the units incurred losses and therefore pulled out. They plead that they cannot compete with the retailers who manage the shop without any overheads.

At the same time the Government of India is trying to interest more and more co-operatives in PDS work. While there is no disagreement on the policy of patronising them, the hard fact is that with rare exceptions these institutions down their shutters at the sight of competition. They have succeeded as agents of the state for selling monopoly items which fetched them high margins. But for some reason or the other they have failed to get into a commanding position and replace the private trader who still thrives at the corner shops. As against every one successful consumer co-operative, there are ten others who are sick and the reasons behind it include corruption, mismanagement and wrong policies.

We are of the opinion that there is a need for a high level probe into the functioning of consumer co-operatives in India before they are considered
for money and supplement the Government efforts. The solution in our opinion lies in strengthening the vigilance machinery rather than keeping private traders out of PDS.

Once a person is licensed to run a retail outlet he should get all the facilities which a retail Co-operative could get. As already mentioned earlier, the Co-operative system is politically influential and has its own apex bodies in NAFED and NCCF. Most of the wholesale allotments pass through these apex bodies. It will be a fatal mistake if these bodies start patronising co-operatives in preference to private retailers. The discrimination should end once the licenses are given.15

1.6 The Revamped Public Distribution System:

The government has been giving importance to strengthen and streamline PDS to improve its reach to far flung, hilly remote and in accessible areas where a substantial section of the poor live. The programme of Revamped PDS was launched by the Prime Minister on 1st January, 1992 in about 1700 blocks covered by area specific programmes such as Drought Prone Area Program (DPAP), Integrated Tribal Development Projects (ITDP), Desert Development programme (DPP) and certain Designated Hill Areas (DHA) identified in consultation with State Governments for special focus for improvement of the PDS infrastructure. In order to improve the functioning of PDS in backward areas of country, in October 1995 RPDS coverage was extended in principle to 2446 blocks covered under Employment Assurance
Scheme. The programme of action under the RPDS included:-

(i) The area approach for ensuring effective reach of the PDS commodities especially to these areas.

(ii) Delivery of PDS commodities by the State Government at the door steps of fair price shops in the identified areas wherever feasible.

(iii) Additional ration cards to be issued in the identified areas to families who have not been issued family cards so far.

Simultaneously, efforts to be made to eliminate bogus units/cards in the entire State/UT especially in the Urban areas.

(iv) Infrastructure requirements such as additional fair price shops and additional storage capacity to be met in the identified areas according to a time bound plan.

(v) Additional commodities such as tea, salt, pulses, soaps etc., to be included for distribution using PDS outlets, subject to local needs and availability.

Government has also taken two important decision with regard to the Revamped PDS areas. They are:-

i) Central Issue Prices (CIP) of wheat and rice for supply to blocks identified under RPDS have been reduced by Rs. 50/- per quintal.

The state Governments/UT administration have been advised not to add more than Rs. 25/- per quintal over and above the CIP and distribute the food grains according to the people living in these areas. The special benefit, so far confined to ITDP areas only,
would now extend to other areas identified under the Revamped PDS.

(ii) In order to augment supply to the Revamped PDS areas, the Central Government provided an additional allocation to the extent of 3.12 million tones of wheat and rice to State/UTs for distribution in these areas for the current year. This is in addition to the normal allocation already being made by State/UTs to these areas.

Further it is estimated that six crores families living below the poverty line, would be provided 10 kgms. of foodgrains per family every month at half the normal price under the new PDS (PDS being launched from Jan. 26, 1977).

In addition, the government has also decided to provide one Kg. each of foodgrains daily to the people engaged in the Employment Assurance Scheme (EAS) and Jawahar Rojgar Yojana (JRY) at half the normal price. The minister said adding the state governments were directed to identify such people under various schemes.

About 166 lakh tons of foodgrains (71 lakh tons of wheat and 95 lakh tons of Rice) was required for meeting the requirement for the whole year under the new PDS additional 12 lakh tons would be needed annually for meeting the requirement under (EAS) and (JRY) schemes.
1.7. **Significance of Public Distribution System in India:**

Public Distribution System which acquired prominence in India during the Second World War period, has evolved over the years as a major policy instrument of the government to ameliorate difficulties caused by shortages and price increases of foodgrains and other essential items. The commodities supplied at subsidized prices through PDS are aimed to benefit the more vulnerable sections of the society.

The PDS in India has come of age. The states used to open ration shops and fair price shops during wars or famines in the distant past. The objective was to ensure equitable supply of food grains at fair price in areas of scarcity. It was based on the assumption that the 'Non-producing' Urban population was highly vulnerable to the exploitation by the private trades. Those who lived in cities had the regular sources of income and constituted the epicenters of demand. If the Government can take care of urban needs, the pressure in other places would be less and the general price level would tend to be less unstable.

PDS is basically a retailing system operating under the supervision, guidance and control of state. Co-operative societies and ration shops are the main retail outlets. These are known as 'Fair Price Shops'. The items to be distributed through these shops are decided by the government, but emphasis is given for essential commodities like rice, wheat, cereals, pulses, cooking oil and clothing etc. Soaps and other items are now being added. State Governments have the freedom to add new items. The system is highly beneficial.
to the poorer sections of the people. It has succeeded to a great extent in controlling the price rise in the market. Poorer people areas as assured of a fixed quantity of items. in this way, PDS has become part and parcel of the retail distribution system in the country²⁹.

The Public Distribution Schemes has been formulated jointly by the states and the center. Public distribution of essential commodities which may be termed as the extension of the concept of management of essential services by the state, is supposed to ensure growth with justice, which, in turn, is undoubtedly an integral part of the overall economic strategy. It is absolutely necessary that the poor consumers should not be left at the mercy of the free market system²⁸. The PDS continues to be a major component of our strategy for growth with social justice. The Centre, States and Union Territories have joint responsibility in making the system a success. The working of the system is periodically reviewed in consultation with State Governments and corrective measures are taken accordingly. At the centre, advising council functions to review its working from time to time. In the states/Union Territories, Consumer Advisory Committees at District, Block and Village levels oversee the working of the fair price shops.
References


