## Chapter III – Government Support in Food Availability & Accessibility

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The government provides support in ensuring the availability aspect of food security through various instruments of MSPs and subsidies. It also helps in securing physical accessibility to people through the public distribution system, which is run through numerous fair price shops. A study of this aspect of government support provided will help in understanding better the aspects of food availability and accessibility.

3.1 Subsidies

Various instruments have been used by the government as part of its development policy to promote growth and to fulfill its distributional objectives and subsidy is one such instrument. In the agricultural sector (which accounts for the bulk of the subsidies), input and credit subsidies have been extensively used along with support prices to boost agricultural output by promoting adoption of new technology particularly by the resource poor and risk adverse marginal and small farmers. The policy of input subsidies and price support helped in attaining the objective of self-sufficiency in foodgrains. However as Richa Singh says 'the evermounting fiscal burden of subsidies has led to a widespread and heated debate on the need and sustainability of subsidies'.\(^1\) This debate became all the more crucial for farmers as developed countries continue to support their farmers through subsidies while developing countries have had to cut back on subsidies because of AOA & WTO commitments. This in turn can affect production as farm input prices go up. On the other hand cheap subsidized agricultural products by other countries are dumped in the Indian market thus lowering farm prices and affecting farmers and their livelihood.

3.1.1 Input Subsidies – Adequacy and Relevance

Two different kinds of arguments have been forwarded as far as input subsidies are concerned. A number of eminent economists favour the continuation of

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the instruments of food and input subsidies for achieving the twin objectives of assuring remunerative prices to farmers and making available foodgrains to the consumers at affordable price. On the other hand, several other equally eminent economists have argued in favour of removing agricultural subsidies, which include among others the unsustainable and mounting fiscal burden of subsidies, distorting effect of subsidies on resource allocation, inefficient and wasteful use of scarce economic resources like water and electricity due to subsidized prices of inputs, adverse environmental impact of excessive or unbalanced use of inputs like fertilizers, prevailing regional and crop bias in use of subsidies and cornering the bulk of subsidies by rich farmers.2

Subsidy has become an important instrument of domestic economic policy. Ashok Gulati and Sudha Narayanan comment that ‘subsidy can be defined as the difference between the cost of providing the service and the charge levied for the service for the total quantum of that particular input used and this represents the financial burden that the input supplying agency has to bear on account of providing subsidized inputs’.3 The main agricultural inputs namely water, electricity and fertilizers are all supplied to farmers at prices which do not cover the costs incurred in providing them. A. Vaidyanathan points out that ‘the magnitude of unrecovered costs on these inputs has been rising at a much faster rate than public investment in this sector’.4 In 1999-2000 input subsidies on irrigation, power and fertilizers for India as a whole were estimated at Rs. 377 billion at current prices accounting for 2.13% of India’s GDP and as much as 8.8% of India’s GDP in agriculture.

Over the past two decades these subsidies have gradually swollen from a mere Rs.11.4 billion in 1981-82 to the current levels, at 1981-82 prices there has been an increase of more than 9 times over these two decades. Growth in the magnitude of these subsidies has however not been uniform and has fluctuated considerably. In the past two decades there has been spurt in growth at three points first in the mid 1980s,

2 Ibid.
the next one at the turn of the 1990s and more recently in the mid 1990s. Graph 3.1 gives the total agricultural subsidies in India over the years (1993-1994 to 2001-2002)

**Graph No 3.1**

![Graph showing agricultural subsidies from 1993-1994 to 2001-2002](image)

Note: Irrigation Figures include imputed subsidies


The National Common Minimum Programme of the Government of India pledges, ‘All subsidies will be targeted sharply at the poor and the truly needy like small and marginal farmers, farm labour and urban poor. A commitment to this effect was also made by the Finance Minister in his Budget speech for 2004-05. “I have asked the National Institute of Public Finance and Policy (NIPFP) to prepare a blueprint to accomplish these objectives.” Containment and targeting of subsidies an essential element of fiscal reforms strategy can serve the following objectives:-

- Remove economic distortions, thereby improving economic efficiency and growth.

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• Achieve redistributive objective
• Reduce budgetary burden and release previous resources and
• Improve the environment by realigning the incentive structure to favour environmentally sound practices⁶

The Report of the Government of India titled ‘Central Government Subsidies in India’ further points out that the total Central Government subsidies as a proportion of GDP amounted to 4.25% (2002-03) and 4.18% in 2003-04. Such subsidies after declining from a peak of 4.92% in 1992-93 to 3.49% in 1996-97 increased in recent years because of three reasons. First subsidies in the petroleum sector which were off budget have been explicitly incorporated in the Central Government’s budget from 2002-03. Second there has been an increase in the share of explicit subsidies. Third while input costs have gone up, recovery rates have not gone up commensurately. There has been a declining trend in explicit subsidies observed up to 95-96 which was rapidly reversed in the subsequent period. Furthermore growth in subsidies accelerated further from 2000-01. Food subsidies which grew rapidly from Rs. 2450 crore (1990-91) to Rs. 5377 crore (95-96) were still limited in absolute terms until the mid 90s. With sustained growth, such subsidies grew in overall significance. Explicit subsidies mainly on food, fertilizer and petroleum account for about 38% of total government subsidies including those ‘hidden’ in the provision of social and economic services. Explicit subsidies accounted for about 1.8% and 1.7% of GDP in 2002-03 and 2003-04 respectively.⁷

The Finance Minister in the Budget 2006-2007 has said that a consensus was being evolved to tackle the problem of subsidies. Consultations were held with stakeholders to evolve a consensus on food, fertilizer & petroleum subsidies. The aim was to ensure that subsidies were aimed at the poor and the needy.⁸ The overall subsidy bill has been pegged at Rs.46,213 crore for 2006-2007 against the revised estimates of Rs.46,874 crore and budget estimate of Rs.47,432 crore for 2005-2006. Simultaneously, however, a 10% higher spending has been estimated at Rs.5,63,991 crore for the next fiscal when growth in Plan expenditure is pegged at double the non

⁷ Ibid., pp.2-3.
Plan expenditure. Food subsidy is pegged at Rs.24,200 crore for 2006-2007 which is slightly higher than the revised estimate of Rs.23,200 crore for 2005-2006 but is lower than the budget estimate of Rs.26,200 crore. In the petroleum sector the subsidy has been retained at nearly the existing level of Rs.3,080 crore in 2006-2007 against the revised estimates of Rs.2,930 crore and budgeted estimate of Rs.3,644 crore in 2005-2006. In fertilizer, government has to contend with a bill of Rs.10,410 crore in 2006-2007, which is same as the revised estimate for 2005-2006 & is higher than the Rs.10,110 budgeted for indigenous urea. C.H. Hanumantha Rao comments that targeting fertilizer subsidies at the small and marginal farmers who constitute 80% of the holding but account for only one-third of the operated area would result in substantial saving.

Now let's look at the main inputs – fertilizer, power, irrigation (water), seeds.

- Fertilisers

To make fertilizers available to farmers at affordable prices and to encourage balanced fertilizer use, the Central Government determines and notifies the selling price of urea as well as decontrolled P&K fertilizers such as Diammonium Phosphate (DAP), Muriate of Potash (MOP), Single Super Phosphate (SSP) and complexes. As per the Economic Survey 2004-2005 the current selling price of urea and P&K fertilizers are less than the cost of production. There has been no increase in selling prices of fertilizers since February 28, 2002. A marginal increase in selling prices of fertilizers announced on February 28, 2003 was withdrawn with effect from March 12, 2003. With subsidy on urea at Rs.8616 crore and on decontrolled phosphatic and potassic fertilizers at Rs.4046 crore, the estimated total subsidy burden for fertilizer was Rs.12,662 crore during 2004-2005.

Although the N.P.K. imbalance (that peaked in the mid 90s) is much less now but the subsidy on urea continues to be much higher than in the P&K fertilizers. This promotes continuing imbalance in fertilizer use and excessive use of nitrogenous fertilizer which is leading to environmental pollution and unnecessarily eroding profit

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9 "Subsidies down, but still a drag at Rs.46,213 cr" (2006), The Times of India, New Delhi, March 1.
10 Ibid.
to the farmer. Paddy and wheat crops alone account for over half of fertilizer subsidy. Also it is the regions and states with better irrigation facilities like Punjab, Haryana, UP, Andhra Pradesh which specialize in cultivation of water-intensive crops like paddy, wheat and sugarcane that are getting a larger share in subsidies. Richa Singh comments that favourable agro-climatic conditions, better infrastructure and bias of technological change in case of superior cereals are responsible for the prevailing intercrop and inter-regional inequity in distribution of fertilizer subsidy. Over time however the use of fertilizers have increased rapidly in all states and inequalities among states in fertilizer subsidy have declined to some extent. The coefficient of variation in the share of states in fertilizer subsidy has declined from 96.4% (1981-82) to 78.6% (1990-91) and further to 72.5% (1999-2000). The coefficient of variation in per hectare fertilizer subsidy at state level is comparatively lower and has gone down more sharply from 76% (1981-82) to 61% (1990-91) and further to 50.9% (1999-2000). There is a fair degree of interclass equity in distribution of fertilizer subsidy both at the all India level as well as at the state level.

Consumption of chemical fertilizers (in term of nutrients) at 18.4 MT during 2004-2005 was higher than in 2003-2004 by 9.5%. Urea consumption in 2004-2005 was higher by 4.5% on year-to-year basis. The all India average consumption of fertilizers per hectare increased from 88.2 kg in 2003-2004 to 96.6 kg in 2004-2005. Subsidy on urea during 2005-2006 was estimated at Rs.11,053.90 crore & on decontrolled phosphatic & potassic fertilizers at Rs.5200 crore. However due to increased production/consumption during 2005-2006 & steep increase in feedstock/raw material costs, this is likely to go up.

As per the Economic Survey, 2005-2006, domestic production of nitrogenous (N) & phosphatic (P) fertilizer showed an increasing trend over the years & was estimated to be 156.03 lakh tonnes in 2005-2006. A joint venture project between IFFCO & KRIBHCO and Oman Oil Co. has been set up under the name of OMIFCO at Oman for production of 16.52 Lakh tonnes of urea & 2.48 lakh tonnes of ammonia

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per annum. The government has entered into a long-term contract with OMIFCO to buy this urea at a fixed predetermined prices for a period of 15 years. The execution of the project commenced on August 15, 2002 & commercial production started in July 2005. The urea is priced at US$ 150 per tonne FOB against international prevailing price of US$ 235 per tonne FOB. This has led to substantial savings in subsidy estimated to be around US$ 88 million till December 2005. In addition to urea, the surplus ammonia will also be available under a long term ammonia offtake agreement with IFFCO.\textsuperscript{16}

As a measure of relief, the government has increased the adhoc concession rate in respect of all types of SSP (Single Super Phosphate) from Rs.650 per tonne to Rs.975 per tonne with effect from September 1, 2005. The Department of Fertilisers had also constituted an Expert Group under the Chairmanship of Professor Abhijit Sen, Member, Planning Commission, for benchmarking phosphoric acid price with international price of DAP for purposes of determining the concession on DAP. The Expert Group has recommended that the domestic DAP subsidy should be benchmarked with international DAP prices in a transparent manner. The Department of Fertilisers is in the process of formulating a revised policy for DAP keeping in view the recommendations of the Expert Group.\textsuperscript{17}

- Irrigation (Canal water)

Ric Shand comments that the pricing of canal water is so low that it does not cover even one-third of the O&M costs of these structures, the question of getting some return on capital invested remains a distant dream; irrigation departments of different states are experiencing a financial crunch, old structures cannot be rehabilitated due to lack of funds; waterlogging and salinity problems have been increasing over time and the groundwater table is depleting in almost all pockets of India.\textsuperscript{18} Cost of irrigation is difficult to compute since the major costs are difficult to compute since the major costs are in the form of lumpy and mammoth investments in

\textsuperscript{16} Ibid., p.167.
\textsuperscript{17} Ibid., p.169.
\textsuperscript{18} Shand, Ric, (ed) (1999), Economic Liberalization in South Asia, Delhi, Macmillan, p. 394.
construction of dams, canals etc. Moreover the pricing of canalwaters did not cover more than 20% of the O&M expenses in the mid 1990s.

Out of an outlay of Rs.4500 crore under AIBP (Accelerated Irrigation Benefit Programme) in 2005-2006, the grant component is Rs.1680 crore. The states are expected to spend about Rs.2520 crore from their resources & 25 projects are expected to be completed before the end of the year. The outlay for 2006-2007 has been increased to Rs.7121 crore and the Central Government will support the programme through a grant of Rs.2350 crore. The Ministry of Water Resources will revamp the Command Area Development Programme to allow participatory irrigation, management through water user's associations.\(^{19}\)

- Power

For power, the SEBs (State Electricity Boards ) have been supplying electricity to agriculture at far below the unit cost of power supply. Infact in 2000-01 average tariff in agricultural power consumption was only 9.35% of the unit cost of power supply. Moreover as Gulati and Narayanan comments SEBs also resort to cross-subsidization to recover from other users, at least a part of the losses on account of subsidies to agriculture.\(^{20}\) As per the Economic Survey 2004-2005, the power availability for carrying out various agricultural operation has been increasing to reach a level of 1.4 kw per hectare (KW / ha) in 2003-04 from only 0.3 kw/ha in 1971-72. This increase was the result of increasing use of tractor, power tiller and combine harvesters, irrigation pumps and other power operated machines. The share of mechanical and electrical power has increased from 40% in 1971-72 to 84% in 2003-04.\(^{21}\) In 1996-1997 the total electricity subsidy was as high as 32.08% of the total agricultural subsidies given. This has reduced in recent years to some extent and in 2000-2001 it stood at 18.54%. Graph 3.2 give the percentage wise breakup of the agricultural subsidies in 1993-1994 to 2001-2002.

The rate of return of SEBs (State Electricity Boards) improved to 26% in 2005-2006 (RE) from -32% in 2004-2005. The resources forgone through such poor return continue to be very large. In 2005-2006, while the direct transfers from state governments to SEBs was Rs.11,562 crore, an uncovered subsidy of Rs.15,987 crore remained, indicating the large potential that reforms have in improving not only the electricity sector itself but also the fiscal position of the states. Meanwhile electricity generation by power utilities during 2005-2006 was targeted at 621.5 billion Kwh, up 5.8% from the previous year. The growth of power generation in April - December 2005 at 4.7% however was lower than not only the 6.5% achieved in the same period of the previous year but also the annual target.22

The UPA government also reiterates its commitment to an increased role for private generation of power & more importantly power distribution. A review of the Electricity Act, 2003 has been carried out and it has been proposed to bring the amendment to relevant sections to delete the provision for ‘elimination’ of cross

subsidies. Provision for ‘reduction’ of cross subsidies will continue. Under the provisions of Electricity Act, 2003, Central Government has notified the tariff policy, evolved in consultation with the state governments, CERC & various stakeholders. The policy lays down a time frame for rationalization of electricity tariffs & mandates reduction of the cross subsidies to within a band of +/- 20% by the end of the year 2010-2011. The policy clearly says that provision of free electricity is not desirable, as it encourages wasteful consumption of electricity & in most of the cases, depletion of the water table.23

- Seed

Along with fertilizers, power, water, there is another input which is important for agriculture which is seeds. The liberalization of the seed sector has taken place with the opening up of the Indian seed industry to the MNCs and the introduction of intellectual property laws for seeds and plants. This liberalization of the seed sector was first institutionalized by the World Bank through its seed loan NSP III of $150 million which forced India to privatize its seed sector and allow multinationals to enter the seed industry.24 The Indian seed industry is undergoing a period of rapid change because of economic liberalization and the new seed policy 1988. Vandana Shiva and Tom Crompton comment that the new seed policy lifted restrictions on private sector import of foreign germplasm enabling larger seed producers particularly those with foreign collaborations to access seeds for international sources. The public sector focuses on the development and production of open pollinated varieties (which are less commercially exploitable) than hybrid seeds. The private sector concentrates on the latter and on the more remunerative crops such as vegetables. This is a polarization which is set to continue particularly as pressure on farmers to switch to use of high yielding hybrids intensifies.25

23 Ibid., pp.181-182.
As the value of seed sales is growing, the proportion of those accounted for by the public sector is diminishing with more farmers turning to high yielding hybrid seeds produced by private seed companies. Simultaneously there will be a continued coming together of the industry around a few key companies most of which will either be subsidiaries of transnational companies or otherwise have entered joint agreements with such companies.\(^{26}\) The privatization of the seed sector is leading to a shift in cropping pattern from poly-culture to monoculture as well as a shift from open pollinated varieties to hybrid seeds. Hybrids seeds are offering a promise of higher yields but as they are more prone to pest and disease attack, they have a higher risk of crop failure. Vandana Shiva and Afsar H. Jaffri comment that the globalization of agriculture is threatening both the environment and the survival of farmers and biodiversity is being destroyed. The use of agro-chemicals are increasing and ecological vulnerability is increasing.\(^{27}\) Monopolisation may also affect the economy owing to exorbitant prices of the IPR protected items. Besides some MNCs have gone to the extent of forcing their customers not just to buy seeds but also chemicals for crop treatment. The farmers having lost traditional diversity and having no right to replant the protected seeds have no option but to purchase the costly seed from the company.\(^{28}\)

Recently the multinational agribusiness firms have developed what is significantly known as 'terminator technology'. This technology as Biplab Dasgupta has pointed out makes the seeds sterile i.e. incapable of being used for the second time for germination thus not allowing the peasants to use the same seed again and again and to force them to go back to the MNCs for new seeds every year.\(^{29}\) Seed is a critical and basic input for attaining higher crop yield and sustained growth in agricultural production. Besides the production of assured quality seeds, its distribution is equally important. Indian seeds programme largely adheres to the limited generation system for seed multiplication. The system recognizes three kinds of generation namely

\(^{26}\) Ibid., p. 348.
breeder, foundation and certified seeds. Production of breeder and foundation seeds and certified seeds distribution have gone up at an annual average rate of 3.4%, 7.5%, 9.5% respectively between 2001-02 and 2005-06. While the production of breeder seeds is expected to decline in 2005-2006, production of foundation seeds & distribution of certified/quality seeds is likely to increase. The annual rate of growth of certified/quality seeds distribution is targeted to accelerate from 4.1% in 2004-2005 to 22.5% in 2005-2006. Now an enabling environment exists for promoting quality seed production in India. Establishment of Protection of Plant Varieties and Farmers' Right Authority for protection of rights of farmers & rights of plant breeders is expected to promote investment in development of new varieties. Seed export and import regime have been simplified to facilitate availability of quality seed to Indian farmers & help India emerge as a global hub for seed production.

The Mid Term Appraisal points out that the availability of good quality seeds continue to be a problem for the farmers. As a result they prefer to rely on farm saved seeds, seed replacement rate continues to remain in the range of 2-10% in certain states for certain crops which is much below the desired level of 20% for most crops. (Seed replacement rate has a strong positive correlation with the productivity and production of crops). Finally many of the input supplying agencies are on the verge of bankruptcy because they are unable to sustain themselves financially. These are forced to turn to the state governments for budgetary support and in the case of fertilizers too, subsidies are borne by the Union government. This situation according to Gulati and Narayanan cannot be however sustained for long on account of (1) state and union finances itself are in the doldrums (2) Burgeoning subsidies compete for scarce resources and impinge upon the government’s ability to invest and declining public investment infact even endangers food security, crippling the economy to exploit opportunities opened by trade. If the complementarity of private investment in agriculture with public investment indeed holds, decline in the latter is bound to provide a negative stimulus to the farmer. This is definitely undesirable since it harms future growth prospects in agriculture.

32 The Mid-Term Appraisal of the Tenth Five Year Plan (2002-2007), op.cit., p.203.
33 Gulati and Narayanan, op.cit., pp 202-204.
Also as the pricing of inputs is such that it does not reflect the scarcity value of the resources, there is no incentive to use the inputs in an optimal manner. There is thus no effort on the part of users to adopt best practices. This is true for power and water. For fertilizers irrational pricing has resulted in lopsided composition of fertilizers consumption which deviates drastically from the prescribed norm. Also since the states are facing a financial crunch themselves, the result is a severe lacuna in the maintenance and upgradation of existing systems resulting in poor physical state of infrastructure. This is apparent in the case of power and also in irrigation. Currently the farmers are highly dissatisfied as the power supplies are very unreliable, inadequate and of poor quality. SEBs cannot raise the price of power without protests unless they improve the quality of power supplied.

Finally the question asked is whether subsidies have attained equity which is presumably an important objective for subsidizing inputs to agriculture. Gulati and Narayanan comment that more than half of the fertilizer subsidy goes to the fertilizer companies to cover their high costs of production compared to the import parity. Even for estimating power supplies to agriculture and canal irrigation eg it is well known that in the case of power, the consumption figures for the agricultural sector are, worked out on 'residual basis' and that the government estimates overstate the real consumption by a wide margin, anywhere from 20% to 80% across states. Region wise too the developed states and the larger farmers take away a larger share of subsidies and thus there is inequality. Apart from inequity angle, these may also induce change in cropping pattern in favour of water intensive crops like sugarcane and paddy. Vaidyanathan points out that the implementation of reforms to rationalize input pricing is far more important than trade liberalization. It is necessary for healthy, agricultural development and feels that the reduction in input subsidies and trade liberalization these two issues should be addressed independently. It is politically unwise to link reduction of input subsidies with trade liberalization.

There are however contrasting views to this entire argument. Utsa Patnaik argues that economic reform policies have led to a phenomenal rise in input costs.

34 Ibid., pp. 204-205.
35 Ibid., pp. 205-206
36 Vaidyanathan, art. cit., p. 1738
Fertilizer subsidies have been removed – the supply of fertilizers has been handed over to private agents and the government has withdrawn from this. No regulation or overseeing of the quality of the inputs has been taking place. Also Utsa Patnaik feels that it is wrong to talk of only the negative effect (environment problems) of use of input subsidies. She argues that the nature of agricultural production was such that environment would always be affected and one had to realize that agricultural production was meant to ultimately help people. It is a question of priorities. According to her talking only of environment was like having a tunnel vision and fetishising the environment.

While on one hand the government has been giving the excuse of high government expenditure to dismantle the subsidies meant for the poor, on the other hand it increased corporate subsidies (in 2001 and 2002 budgets). The centre went ahead with subsidies for corporations through tax reductions, tax holidays and other incentives for building silos, building cold storage depots, taking transportation of foodgrains and taking over building and owning ports for exporting foodgrains. Vandana Shiva comments that ‘while the conditionalities from global trade and financial institutions are preventing the government from supporting the poor for access to adequate and nutritious food, they are promoting the diversion of subsidies from people to corporations’. Thus corporations are subsidized while people’s food subsidies are withdrawn. There has been a shift from internal – input sustainable farming systems to external purchased inputs like seeds, fertilizers, pesticides which drain the farmers’ incomes and lock peasants into debt. The epidemic of farmer suicides is a reflection of this crisis of the rising costs of inputs. She further argues that agricultural subsidies related to water and power are being removed under World Bank adjustment policies. Support to farmers is declining whereas the support and subsidies to industries providing inputs for agriculture are increasing. The politics of

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38 As per interview with Prof. Utsa Patnaik, Centre for Economic Studies and Planning, JNU, New Delhi, May 2005.
41 Ibid., p. 462.
subsidies is clearly weighed in favour of industry and Northern agribusiness and against farmers specially those of the Third World.42

In recent times there is a growing view in India which is advocating greater protection of agriculture through higher inputs and subsidies. It is contended that since the developed countries are providing a high level of support, India too must increase its level of support to its own farmers so that Indian agriculture may survive (and flourish) in the new open trade regime. E.g. the total support to the agricultural sector in the OECD countries (comprising support to producers, general services and consumer subsidies) was of the order of $ 361 billion in 1999. This constituted a mere 1.4% of their GDP that year but 81% of India’s GDP which stood at $ 4473 billion in 1999. Developed countries have larger amount of resources which enables them to provide a high level of support per farmer and per hectare of agricultural land. However providing such a high level of support in India is inconceivable. Instead attention must be given as Gulati and Narayanan point out to bring down the high level of support to agriculture in these other countries if the aim is to seek a 'level playing field' in the international arena.43

Arvind Kala however has a different view on subsidies. Subsidies drive down international food prices. And this makes food more affordable to the world poor. He points out that subsidies bring into play the law of unintended outcomes. When rich nations subsidise their farmers, helping the world’s poor is furthest from their mind but that does happen. Economist Arvind Panagariya points out that 49 of 63 low income countries in the world are net importers of food. So they gain from low-price food exported cheap by subsidised rich-nation farmers. Arvind Kala argues that three developments are responsible for phasing out of the farm subsidies of rich nations. a) Farm subsidies are becoming unsustainable in EU because ten new poorer states have joined it & they have four million farmers. And supporting culturally dissimilar farmers from Central & Eastern Europe is becoming unsustainable. b) Gathering consensus that they reflect economic insanity. The OECD estimates that subsidising farmers produces a tax burden of $1000 a year on each family of the European Union, US & Japan. They pay high food prices for domestic produce that could be cheaply

42 Shiva, Vandana. op.cit... p. 7.
imported. c) WTO rulings have gone against both European Union & US protectionism. 44

There is a need for prioritizing the subsidies rather than imposing ‘an across the board’ cut. Vyas and Reddy argue that it is important to aim at orderly withdrawal of subsidies. 45 However Richa Singh argues that a reduction in fertilizer subsidy is likely to have adverse income and welfare impact on marginal and small farmers who constitute a large majority of farmers in the country and also because of the fact that there is a fair degree of interclass equity in distribution of fertilizer subsidy and they are appropriating more than proportionate share in the subsidies in relation to their share in gross cropped area. Increase in fertilizer prices would cause them to cut down on the use of fertilizer which will affect their output and net income adversely. The output response of grains to fertilizer is also quite high. Also the marginal and small farmers will gain little from a rise in output prices as they have little surplus to sell in the market. The rise in foodgrain prices will also affect poor consumers including a majority of marginal and small farmers who are net buyers of foodgrains. A rise in fertilizers prices is also likely to slow down the process of technological change in case of regions and crops where fertilizer use is still low. A dual price system for fertilizers for different categories of farmers though justified on equity ground will not be practicable to manage. However, it may be possible to have a regionally differentiated level of fertilizer subsidy to push fertilizer use in states which are lagging. This needs to be supported by appropriate efforts for encouraging optimum and balanced use of fertilizers. 46

The year 1991 marked the beginning of some effort on the part of policy makers to rationalize the subsidy regime in India. Efforts to increase prices of fertilizers, irrigation charges and hike in power tariffs have been invariably met with dissent. This is because these measures and attempts are so very often one sided, ignoring what in fact, ought to be in the forefront, namely quality of service. The fact is that tariff reform in the absence of institutional reform is inconceivable and the way

46 Singh, Richa, art. cit., pp. 299-300.
forward is to ensure that price and tariff reform are dovetailed with appropriate institutional reform that encourage autonomy, transparency and accountability of input supplying agencies. For fertilizers pricing policies assume more importance whereas for power and irrigation water, institutional framework and policy overshadow the pricing policy framework. 47 Institutional reform will not only trim down the cost of supply, it would also ensure reliable supply of the relevant input and have a positive effect not only on willingness to pay but also ability to pay. 48

There is a need for a flexible and non-doctrinaire approach. Even while considering progressive elimination of input subsidies, repercussion on agricultural production, regional imbalances and incentive structure of the ‘late users’ should be taken into account. 49 One needs to recognize that withdrawing subsidies on the inputs is far more complex and compensating the farmers for a raise in input prices through increases in output prices is neither feasible for all crops nor free from adverse consequences on food security and the general price level. Therefore as S.S. Acharya says the measures that are undertaken should be consistent with the broad policy objectives of food security and price stability. 50

3.1.2 Food Subsidies and MSP

Food subsidies need to be continued as a safety net specially in the present context when in India still a sizeable number of people are suffering from malnutrition and periodically from hunger and also when gainful employment opportunities are inadequate. Vyas and Reddy argue that eliminating this (only) safety device for the poor may prove a recipe for disaster in the event of any economic upheaval. 51 Utsa Patnaik argues that food subsidy is not a dole which is being given and the original rationale for giving Central food subsidy was to meet the cost of storage and transportation otherwise states like Kerala would have to pay much higher prices which is not fair. 52 Food Subsidies showed an annual increase of above 27%

47 Gulati and Narayan, op.cit., pp. 206-207
49 Vyas and Reddy, art.cit., p. 191.
51 Vyas and Reddy, art.cit.,p.191.
52 Refer No.38, op.cit
during each of the three years namely 2000-2001, 2001-2002 & 2002-2003. Food subsidies grew from Rs.12,060 crore in 2000-2001 to Rs.24,176 crore in 2002-2003. The annual growth percent increased from 27.84% (2000-2001) to 38.16% (2002-2003). The annual increase came down to 4.1% during 2003-2004 & was expected to further decelerate to 2.54% in 2004-2005 (Revised Estimates) and 1.55% in 2005-2006 (Budget Estimates). Prabhat Patnaik points out that the government seems to be contemplating not an expansion in the coverage in the PDS but perhaps a contraction.

Graph No. 3.3 below gives the Annual Growth percentages of Food Subsidies along with Food Subsidies as a percent of GDP

Graph No.3.3


Food subsidies in India comprises subsidies to farmers through support prices and purchase operation of the FCI, consumer subsidies through the PDS and subsidies to FCI to cover all its costs. Food subsidies are mainly on account of paddy and wheat. The rapid increase in food subsidy in recent years is attributable to what is called the 'economic costs' of foodgrains which include the MSPs paid to farmers in

the procurement process. In recent years, the MSPs have been consistently higher than the MSP recommended by the Commission on Agricultural Costs and Prices (CACP).  

The declared MSP has had several other negative fallouts. The first is the impact on foodgrain prices. Since the issue prices and the purchase price are linked, higher purchase prices result in higher issue prices. Further with a large part of the marketed surplus in FCI warehouses, the lower supply exerts an upward pressure on prices in the output market. Everyone except those farmers with marketable surpluses of foodgrains are affected adversely. Second the high MSP combined with open-ended purchase by FCI has compounded the problem for vibrant wholesale trade and storage with lower incidental and storage costs in foodgrains. Third the exclusive attention to wheat and rice has distorted the cropping pattern of farmers in favour of these two foodgrains alone. The higher water and fertilizer intensity of these two crops in turn has had adverse environmental impact. Fourth the concentration of FCI purchase in just two foodgrains and a few states has facilitated tax exportation by some of these states. Although necessities like foodgrains are normally kept outside the tax net, Punjab and Haryana have imposed taxes such as mandi fees on the purchase of foodgrains. With FCI paying such taxes, the tax gets exported to consumers in other states. Inefficiencies in the FCI is also responsible for the subsidy bill.

Utsa Patnaik however argues that the majority of our economists are obsessed with question of support price and not the issue price (which is the relevant one) and which can be lowered in principle without affecting the support price. Further these economists by focussing on price alone are implicitly assuming that the population is on the same demand curve as before whereas infact the demand curve itself has shifted down so drastically for the mass of the rural population that tinkering with the support price is now likely to deepen the crisis. Patnaik argues that the economists seem not to realize that unemployment and income deflation has swamped the sector, that every price is also an income and cutting MSP today when there is already an

56 Ibid., p.12.
agrarian crisis would further widen and deepen income deflation and lead to more indebtedness and more suicides.\textsuperscript{57}

The high level committee on long term grain policy headed by Abhijit Sen recommended the continuation of the exiting MSP based on open-ended procurement of foodgrains by the FCI, even as it called for rationalizing the MSPs to reflect the actual ‘C-2’ production costs incurred by farmers. He pointed out that ‘C-2’ costs cover all cash expenses borne by the farmer on seeds, fertilizers, pesticides, electricity, interests on crop loans, cost of hired labour and machinery etc. Besides it also includes the imputed value of his family labour, rental on land and owned capital stock as so to reflect their opportunity cost. Sen pointed out that the CACP should go strictly by the C-2 costs in more efficient regions to arrive at their MSP recommendations and it was sought that these recommended MSPs be made statutory and CACP should be empowered as a statutory body.

Abhijit Sen has argued that grain purchases should to the maximum possible extent be left to the private trade. Farmers must sell to FCI only as a last resort, for which they would be entitled to a price that helped them to recover their basic costs. The report however argued, against any curtailment of FCI’s role. While farmers would receive a lower MSP for their grain, they were to be simultaneously compensated by a formula wherein the difference between the current MSPs and the lower C-2 based MSPs, multiplied by the average three years procurement figure will be ploughed back as direct income support.\textsuperscript{58} Sen points out that the generous MSP policy for wheat and rice not only resulted in more procurement than necessary by the FCI but also in a much sharper increase in their market prices, then for most other agricultural commodities. Thus scarce public resources continue being wasted for the protectionist policies favoring a tiny percentage of well off farmers. Meanwhile Jayati Ghosh points out that MSP has a lot of functions. It gives security to farmers and protects them from international fluctuations. She points out that there are costs of running a national system but one should adopt a system which is sustainable along


\textsuperscript{58} "Abhijit Sen Panel moots MSP rationalization" (2002), http://www.hlonnet.com/bline/2002/08/01/stories/20020801011571300.htm
with input price system. One should encourage low cost cultivation (Andhra Pradesh has started Integrated Pest Management) and different cropping pattern.\textsuperscript{59}

A marginal increase of Rs.10 per quintal in the MSPs of wheat and rice was announced for the crop year 2004-2005. The Economic Survey 2004-2005 points out that the large gap between MSP and cost of production (of wheat and rice) had led to a number of inter related developments such as excessive burden on the FCI for procurement of foodgrains, prices of foodgrains in the primary grain markets remaining below MSP in many parts of the country and market prices falling below APL prices and a flight of APL families away from the PDS fold and a substantial fall in APL offtake of foodgrains. Therefore one finds that the increase in the MSP of foodgrains was rather moderate during 2002-03, 2003-4, and 2004-05. The MSP for wheat has increased by 77.78\% from Rs.360 per quintal in 1994-1995 to Rs.640 per quintal in 2004-2005. In case of common paddy the increase during the same period has been to the tune of 64.71\% i.e. from Rs.340 per quintal in 1994-1995 to Rs.560 per quintal in 2004-2005.\textsuperscript{60} Graph 3.4 shows the MSPs of Wheat and Common Paddy during 1994-1995 to 2004-2005.

**Graph 3.4**

Note: In 2002-2003 one time special drought relief of Rs.10 and Rs.20 per quintal of wheat and paddy was given over and above the MSP.


\textsuperscript{59} As per the interview with Prof. Jayati Ghosh, Centre for Economic Studies and Planning, JNU, New Delhi, May 2005.

\textsuperscript{60} Economic Survey, 2004-05, op.cit., p.102.
The Economic Survey 2005-2006 points out that the MSP regime needs to be rationalized based on the following considerations:

- As MSPs help only the large farmers with high marketable surpluses and marginalize the rest of them, the non-price factors such as those related to provision of infrastructure needs to be considered.

- As FCI gets full reimbursement for its procurement, handling & storage costs, the scope for its efficiency improvement through reduction in operating costs needs to be examined.

State level sales taxes and marketing committee fees (mandi fees) on procurement operations in Punjab & Haryana inflate the economic cost of the foodgrains, & the average consumer in all states & the states who are net buyers of foodgrains bear the incidence of such state sales taxes and duties. There is need to explore the possibility of combining moral persuasion with some incentive/disincentive to discourage states from imposing such levies. As the MSP level & the state levies account for more than 50% of procurement incidentals, rationalization in the MSPs must keep in view the implications of high support prices on the economic cost of foodgrains.61

Meanwhile bowing to pressure from wheat growing states, the Centre in April 2006 announced an incentive bonus of Rs.50 per quintal on the MSP of wheat procured by FCI for the Central Pool. The decision to give the bonus for the season puts an additional burden of Rs.731 crores on the FCI. Mr.Pawar said Private Trade (like Cargill, ITC and others) were buying wheat from farmers at Rs.20, Rs.16 and even Re.1 per quintal more than the Rs.650 per quintal offered by the FCI. Consequently the government had decided to lure farmers with the bonus.62 Meanwhile the MSP of rabi wheat was set at Rs.750 a quintal for the 2007-2008 marketing season. This is Rs.50 more than last year’s procurement price & the MSP

recommended by the Commission on Agricultural Costs & prices (CACP) for this year.63

3.2 Central Issue Prices and Offtake

Wheat and rice are issued by the Central government at uniform Central Issue Prices (CIPs) to states and Union Territories for distribution under TPDS. The difference between the economic cost and issue price of foodgrains is reimbursed to the FCI by the Central government in the form of subsidy. The periodic revision of issue prices of foodgrains in alignment with the increase in MSP and therefore economic cost thus assumes importance. There has been no revision of issue prices of foodgrains since July 2002 at Rs.415 per quintal for wheat and Rs.565 for rice for BPL families. In case of APL, in wheat it has reduced from Rs.830 per quintal in 2000-2001 to Rs.610 per quintal in 2002-2003 implying a reduction of 36.01%. In case of Rice for APL the price has come down from Rs.1130 per quintal in 2000-2001 to Rs.830 in 2002-2003 (a decline of 36.14%).64

The offtake of foodgrains from the Central pool at 265.7 lakh tonnes during April-November 2005 was marginally higher by 1.50 lakh tonnes over the corresponding period of 2004-2005. The offtake under Antyodaya at 45.16 lakh tonnes during April-November 2005 was higher by almost one-third over the corresponding period of 2004. Open market sales witnessed marginal increase of 2.05 lakh tonnes & the offtake under Above the Poverty Line (APL) category increased by 10 Lakh tonnes. During April-November 2005, the offtake of foodgrains under the Below the Poverty Line (BPL) category was, however, lower by 16 lakh tonnes (13.65).

The rather sharp decline in the offtake of foodgrains on account of export (from 103.08 Lakh tonnes in 2003-2004 to 9.66 lakh tonnes in 2004-2005) was due to a deliberate policy of food management. Commitments for fresh export of foodgrains from the Central Pool were stopped with effect from August 2003. Further offtake on account of export became almost nil from 9.67 lakh tonnes in April-November 2004-

63 "Wheat support price Rs.750 a quintal", The Hindu, Delhi, October 31.
2005 (April-November). But on the other hand, offtake under welfare schemes has increased from 64.76 lakh tonnes in 2004-2005 (April-November) to 67.71 lakh tonnes in 2005-2006 (April-November).65

Table No.3.1 below gives the details of the Offtake from the Central Pool under the various categories.

Table No.3.1


<table>
<thead>
<tr>
<th>Scheme</th>
<th>Food Grains (Rice &amp; Wheat)</th>
<th>April-November</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPDS of which</td>
<td>170.76</td>
<td>120.42</td>
</tr>
<tr>
<td>BPL</td>
<td>69.95</td>
<td>96.53</td>
</tr>
<tr>
<td>APL</td>
<td>100.82</td>
<td>23.65</td>
</tr>
<tr>
<td>Antyodaya</td>
<td>-</td>
<td>0.24</td>
</tr>
<tr>
<td>Welfare Scheme</td>
<td>14.26</td>
<td>31.93</td>
</tr>
<tr>
<td>Open market</td>
<td>45.51</td>
<td>14.88</td>
</tr>
<tr>
<td>Export</td>
<td>-</td>
<td>14.86</td>
</tr>
<tr>
<td>Total</td>
<td>230.53</td>
<td>182.08</td>
</tr>
</tbody>
</table>


The increase in the MSPs of rice and wheat, high state level levies which account for almost 50% of the procurement incidental for foodgrains and the rising trend in distribution costs have contributed to the increase in the economic costs of foodgrains over the years. The economic cost of foodgrains to FCI is of strategic importance as it influences not only the food subsidy bill but also the country's competitiveness in international markets for foodgrains. Economic cost of rice has shown an increasing trend since 1999-2000. The increase in the economic cost of rice

65 Economic Survey, 2005-06. op.cit..p.94.
during 2004-2005 was 6% over 2003-2004 (1304.6 Rs./quintal in 2004-2005 (RE) as compared to 1231.3 Rs./quintal in 2003-2004). This increase in the economic cost was despite actual decline of 18.8% in the procurement incidentals (mainly MSP, State levies). The economic cost of wheat during 2004-2005 however rose by 8.5% over 2003-2004 (1007.7 Rs./quintal in 2004-2005 (RE) as compared to 928.7 Rs./quintal in 2003-2004). Distribution cost accounted for this increase.56

The decentralized procurement scheme of the Government of India is in operation since 1997. Under this scheme the designated states procure, store and also issue foodgrains as per allotments indicated by the Central government under TPDS. The difference between the economic cost of the state governments and the Central Issue Price is passed on the state governments as subsidy. The decentralized system of procurement apart from helping to cover more farmers under the MSP of the Central government has the merit of economizing the transport and administrative costs involved in procurement and distribution operations. Further it helps in minimizing the dependence of state governments on the FCI for PDS requirements and reducing the complaints about quality, as consuming states themselves are the custodians of the procured foodgrains. However, the scheme has evoked limited response from the state governments. Out of the state agencies share of nearly 58% of total rice & 80% of total wheat procured by the FCI, only 33% rice and 13% wheat are contributed by the state with decentralized procurement. At present state governments of West Bengal, Madhya Pradesh, Uttar Pradesh, Chattisgarh, Uttranchal and Tamil Nadu are implementing this scheme in a limited way.67

The State of Karnataka & Kerala have joined this scheme in 2004-2005 thereby increasing the number of states undertaking decentralized procurement (DCP) to 11. There was record procurement of 93.6 lakh tonnes of paddy/rice by ‘decentralized procurement’ states in kharif, 2004-2005, which were 16 lakh tonnes more than the previous record of 77.6 lakh tonnes in Kharif 2003-2004. However, the concern about the scheme relate to financing of operations (due to strict RBI valuation norms for stocks of foodgrains), reimbursement of expenses & release of subsidy by

56 Ibid., pp.96-97.
the Central government (due to fixation of economic cost of foodgrains) procured by the state governments & delays in the release of subsidy.\(^{68}\)

To encourage states to accept Decentralized Procurement, some of the FCI godowns can be placed at the disposal of states. The states are apprehensive presently that a system of Decentralized Procurement and distribution would lead to a loss for them on account of levies as also central subsidies on foodgrains. It is important to assure the state governments that the financial commitment of central government on food security would not be diluted.\(^{69}\)

Utsa Patnaik argues that as far as decentralized procurement goes, the Central Government is opting out of its duty. Central procurement is required as some states will always be food deficit like that of Kerala, Assam.\(^{70}\) C.P. Chandrasekhar also feels that decentralizing procurement will be undermining and dismantling the procurement system. States are low in resources and lack the infrastructure also.\(^{71}\) The FCI has been criticized for its inefficiency but Jayati Ghosh argues that the FCI is not a top down system. It has state offices and has coordinated with state governments. Moreover FCI’s margin is lower than private traders. The government she points out has been running down the FCI but according to her undermining the FCI is not a good option.\(^{72}\) In the short run, decentralization of procurement may not be a practical option. However, it should be pursued as long run objective to usher in greater efficiency in the purchase and distribution operations and to distribute the benefits of the price support operation more evenly across the country. Also active participation by private traders can also relieve the burden on FCI but necessary institutional changes including a revision of the concerned laws are pre-requisites.\(^{73}\)

The long Term Grain Policy Committee headed by Abhijit Sen has also given some recommendations regarding MSPs and procurement and the role of FCI. The


\(^{70}\) Refer fn no.38..

\(^{71}\) As per interview with Prof. C.P. Chandrasekhar. Centre for Economic Studies and Planning, JNU, New Delhi, May, 2005.

\(^{72}\) Refer fn no.59.

Committee states that the MSP system with open ended purchase should continue. This system it adds is WTO compatible. The MSP should truly be a national level floor price rather than remaining confined to established surplus regions. All agencies central, state, cooperative or private which are part of public grain management should be legally bound by the MSP policy. While the Centre has to continue to take the primary responsibility for procurement, but as production is dispersed, procurement should also become more dispersed and this process can definitely save on costs of transportation and meet consumer needs more adequately. Grain procured under decentralized scheme must be treated as part of the Central Pool, with the FCI, in its capacity as buyer of last resorts. Guaranteeing the lifting of any stock in excess of the states' own PDS offtake at the MSP linked acquisition cost, provided that this meets FAQ (Fair-average-quality) norms/requirements. The acquisition costs should be equivalent to the norms of the FCI. The subsidy provided by the Centre on states lifting from own procurement should be at the same rate as provided on states lifting from the FCI. The subsidy here refers to the differences between the state – specific economic cost of the FCI and the Central Issue Price. State agencies may continue to be used by the Centre to undertake operations in different states if they are found to be performing more efficiently than the FCI. All procurement and disposal of coarse cereals under the MSP operations should be decentralized to state governments with full financial support from the Centre. 74

With regard to the FCI, the Committee is of the opinion that the FCI has performed its role in its core functions reasonably well and should continue to do so. However, at the moment, its predominant role is in procuring from a few surplus states rather than ensuring price support to cultivators throughout the country and developing markets for grain in relatively underdeveloped regions. Also the committee recommends that it is desirable that the FCI’s role is confined to procurement of the major cereals for the PDS and that price support operations in coarse cereals are handled by state agencies. The nature of FCI operations are such that certain purchase centres are opened not so much for procurement as for preventing distress sales. The cost of operating such distress centres should be taken

into account while benchmarking FCI's costs and preferably should be reported separately in FCI budget and accounts.\textsuperscript{75}

C.P. Chandrasekhar feels that FCI is needed and one can't leave the system to private traders.\textsuperscript{76} G.S. Bhalla also agrees with the above view by saying that despite being a mammoth organization and corruption prevalent, FCI has huge economics of scale and it is needed at the moment.\textsuperscript{77}

### 3.3 Public Distribution System

The Public Distribution System (PDS), providing foodgrains at affordable prices and functioning through Fair Price Shops (FPS) has been the key element of the food security system in India. Some have criticized its effectiveness and efficiency whereas others have highlighted the role of the PDS as a lifeline in times of crisis. With the coming of the New Economic Policy (NEP) and the consequent structural adjustment, the role of the PDS has become even more crucial.\textsuperscript{78} For most of the period and until 1992, the PDS was a general entitlement scheme. Then came the revamped public distribution scheme in 1992 under which foodgrains were made available with higher elements of subsidy to people in tribal, drought prone and desert area spread over 1775 blocks.\textsuperscript{79} In most parts of the country i.e. up to 1997 the PDS was universal and all households rural and urban with a registered residential address were entitled to rations. But the exact entitlement (quality, range of commodities and prices) varied across states. Madhura Swaminathan points out that historically the objectives of the PDS have been

- maintaining price stability
- raising the welfare of the poor (by providing access to basic foods at reasonable prices to the vulnerable population)

\textsuperscript{75}\textit{Ibid.}
\textsuperscript{76} Refer fn no.70.
\textsuperscript{77} As per interview with Prof. G.S. Bhalla, Centre for Study of Regional Development, JNU, New Delhi. May 2005.
• rationing during situations of scarcity and
• keeping a check on private trade.

It is clear that some of these objectives are less important today than in the past. While rationing in periods of scarcity is not very relevant today, the first two objectives remain very important.80

The implementation of PDS is the joint responsibility of the central and the state government. The Centre is responsible for procurement, storage and transportation of the commodities up to the central godowns and making them available to the states. The responsibility for distribution to the consumer through the Fair Price Shops and administration of the PDS rests with the state governments.81 S.L. Bapna comments that the fixation of the total quota to be supplied to each state is determined by the Central government keeping in view the production of food grain in the state and the offtake in the previous months. Prices for the consumer are determined by taking into consideration marketing costs, open market prices, fiscal burden and the paying capacity of the consumers. If the prices are less than the cost of marketing and procurement, the FCI is reimbursed by the government from the general exchequer. A part of the reimbursement is the cost of administration while part is a subsidy to the consumer.82

Commodities to be covered are generally fixed by the state government. But the Central Government has listed wheat, rice, sugar, gas, kerosene, oil and cloth as essential items, while state governments can add other commodities depending upon the local situation. However, the arrangement for procurement of other commodities has to be made by the concerned state government.83 Madhura Swaminathan has demarcated four phases in the growth of PDS. In the first phase (1939-60), PDS had a restricted coverage. Major organizational changes were introduced in the second phase (1960-78) and this period saw the gradual expansion of PDS network. In the third phase (1979-91) the growth of domestic production allowed for a sustained

81 Meenakshisundaram, art. cit., p.442.
83 Ibid., p.116.
expansion of public distribution. The last and current phase is that of the period of structural adjustment, a phase of weakening of the system of public distribution.

3.3.1 Universal PDS Vs Targeted PDS

India's PDS system is designed to help both the producers and consumers of foodgrains by linking procurement to support prices and ensuring their distribution along with other essential commodities at affordable prices throughout the country. This huge network can play a meaningful role if the system is able to convert the self-sufficiency at the macro-level to availability of foodgrains at micro-level for the poor household. However the PDS has faced several implementation problems. It has been criticized for its failure to serve the people Below Poverty Line (BPL), its urban bias, negligible coverage in the states with the highest concentration of rural poor and lack of transport and accountable arrangements for delivery. Realising this, the Government of India streamlined the PDS into a Targeted Public Distribution System (TPDS) so as to raise the cost effectiveness in reaching the poor.

Madhura Swaminathan, points out that the supply of foodgrain to the PDS has declined sharply since 1991. The major feature of the period 1991 to 1998 in a large number of states was a fall in the per capita offtake of foodgrain. Madhura Swaminathan further points out that entitlement of foodgrains have been reduced in the Revamped PDS areas and therefore with lower entitlements and higher prices, it is not surprising that the quantities of commodities sold by fair-price shops have fallen since 1991.

In 1997, the Government of India introduced the targeted PDS (TPDS) in an attempt to curtail the food subsidy. The policy initiated targeting of households on the basis of an income criterion i.e. used the income poverty line to demarcate 'poor' and 'non poor' households. The targeted PDS differs from earlier variants of the PDS in certain key respects – the following are some distinctive features of the TDPS-

85 Meenakshisundaram, op. cit., p. 442.
86 Swaminathan, Madhura. op. cit., p. 88.
87 Ibid., pp.90-93.
Targeting. Targeting was introduced, specifically the division of the entire population into BPL (Below Poverty Line) and APL (Above Poverty Line) categories based on the poverty line defined by the Planning Commission. The two groups are treated differently in terms of quantities and prices.

Dual (Multiple prices): The PDS now has dual central issue prices: prices for BPL consumers and prices for APL consumers. In March 2000, a major policy change occurred when it was announced in the budget that CIPs i.e. prices at which the FCI sells grain for the PDS to state governments will be set at half the ‘economic cost’ incurred by the FCI for BPL households and at the full ‘economic cost’ for APL households.

Central State Control: With the TPDS the size of the BPL population and the entitlements for the BPL population are decided by the Central Government. And the allocations for APL populations or additional allocations for BPL and APL populations are decided somewhat arbitrarily based on past utilization and demands from states, and according to the TPDS guidelines are meant to be transitory.\(^{88}\)

To start with, 10 kg per poor household was kept as the monthly ratio under the TPDS. However the government of India later increased the allocation to 20 kg per family with effect from 1\(^{st}\) April 2000 (general consensus was also on increasing the allocation). Under TPDS the states are required to issue foodgrains at a margin of not more than 50 paisa per kg over and above the Central Issue Price for BPL families. For APL families the states can fix the margin keeping in view the actual expenses incurred. From December 2000 the allocation of foodgrains for BPL families is being made on the basis of population projections of the Registrar General (of India) as on 1\(^{st}\) March 2000, instead of the previous base of projected population of 1995. The identification of the poor is done by the states as per state wise poverty estimates of the Planning Commission. The states also design and implement appropriate targeting mechanisms to reach the poor. The main aim is to include not only the really poor and vulnerable sections of the society such as landless agricultural labourers, marginal farmers, rural artisans/crafts men, urban slum dwellers, urban workers in the informal sectors etc. The state governments after identifying the poor, issue special cards and deliver foodgrains to the intended beneficiaries through the Fair Prices. The

\(^{88}\) Swaminathan. *cit.*, pp. 60-61.
Central government monitors the performance of the states and the TPDS can even be discontinued if the states do not target and deliver adequately.

Meenakshisundaram comments that the TPDS offers two separate distribution channels, one aimed at BPL and the other at APL households. Under the second channel the central government transfers wheat and rice at central issue price, which is usually fixed closer to the market rates and the access through the APL channel is universal. Although there are arguments in favour of continuation of APL channel in chronically food deficit areas (hilly region and states like Kerala), the channel will be gradually phased out leaving only the BPL households to be catered by the TPDS. The quantum of foodgrains in excess of the requirement of BPL families is provided to the states as ‘transitory allocation’ for which a quantum of 10.3 million metric tonnes of foodgrains is earmarked annually. The transitory allocation is intended for the continuation of the present benefit of subsidized foodgrains to the APL population as any sudden withdrawal of PDS from them may not be possible.

In November 1997 the Government of India issued a modal citizens’ charter (containing essential information via entitlements of BPL families, fair average quality of foodgrains, information regarding Fair Price Shops, inspection and checking, right to information, vigilance and public participation) for adoption by the State governments. Also in the guidelines issued in June 1999, for the involvement of the PRIs in the implementation of the TPDS, it is mentioned that the Gram Panchayat/Gram Sabha should be encouraged to form vigilance committees at the Fair Price Shop level. The main functions of the Vigilance committees are to ensure smooth functioning of the PDS and redressal of problems related with it.89

In order to reduce the excess stocks lying with the FCI, the government initiated the following measures under TPDS from July 2001 –

- The BPL allocation of foodgrains has been increased from 20 kg to 25 kg per family per month, the central issues price for BPL families at Rs. 4.15 per kg for wheat and Rs. 5.65 per kg for rice is 48% of the economic cost.

89 Meenakshisundaram, _art cit._, pp.443-444.
• The government has decided to allocate foodgrains to APL families at the discounted rate of 70% of the economic cost. The central issue price of APL wheat is Rs.610 per quintal and that of rice is Rs.830 per quintal.\textsuperscript{90}

Although the PDS has played a great role in making available wheat and rice to consumers and has also supplied grains for food-for-work type programmes, all is not well with the PDS. The problems, according to Meenakshisundaram are:

• Annual food subsidy involved in maintaining the system is huge. It is also said that PDS is not cost effective, its operations are costly and the ratio between procurement and transportation is high, pointing to wasteful movements sometimes.
• Storage losses are also reported to be high.
• Marginal impact as far as income transfers to poor households are concerned.
• Only 33% of the rural households in India have reported use of the PDS on a regular basis.
• Main weakness has been its inability to reach the poor effectively.
• States making the greatest use of the PDS are not necessarily the poorest. Targeting within the state is likewise weak.
• PDS has also been criticized for its pro-rich nature and its urban bias.\textsuperscript{91}

The impact of the PDS as a check on open market foodgrain prices and as a safety net for the weaker sections of the society is also minimal in most of the states particularly where the per capita distribution is low and socio-economic inequalities are more pronounced. With wide variations in the employment situation, consumption levels, percentage of the population below the poverty line between the states, it would be difficult to ensure equitable allocation of foodgrains to different states, under the PDS.\textsuperscript{92}

\textsuperscript{91} Meenakshisundaram, art cit., pp. 444-447.
\textsuperscript{92} Ibid., p. 447.
There are other problems too like

- lack of infrastructure and shortage of funds with government agencies (except for a few in the west and the south).
- Some states do not have regular paid staff to manage the PDS and often have to depend upon the services of the wholesalers in the region.
- The Centre may have to ensure adequate infrastructure capacities in districts and at block levels to plug leakage of scarce resources, which reportedly help only contractors and corrupt government staff and keep the poor and the needy away.
- The basis for selecting beneficiaries lacks transparency and is too complicated for local officials to administer.
- There is a lack of political commitment to the TPDS as well as administrative cynicism, while the PDS shopkeeper does not have adequate incentive.
- Multiplicity of agencies, poor coordination and low administrative accountability have combined to cripple the delivery machinery. Greater local supervision and a clear enunciation of entitlements could perhaps help in reducing the extent of leakage. A few other problems associated with the scheme are the inability of the poor to buy 20 kg foodgrains at a time as they are not permitted to buy the same in installments, the low quality of foodgrains, lack of transparency and inadequate accountability of officials to the community they are expected to serve.  

According to Madhura Swaminathan TPDS has many problems but the three relevant ones are

- Targeting has led to large scale exclusion of genuinely needy persons from the TPDS.
- Targeting has adversely affected the viability of the PDS network.
- TPDS has failed in the regional task that was performed by the earlier PDS namely of transferring cereals from surplus to deficit regions of the country.

There are two types of errors that occur in any targeted welfare programme due to imperfect measurement. A programme targeted to a specific group is likely to have a low error of wrong inclusion but may lead to a high error of exclusion, whereas universal programmes are likely to have low errors of exclusion but high

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93 Ibid., pp. 448-449.
errors of inclusion. There is a basic asymmetry in the costs attached to the two types of errors. Errors of wrong inclusion result in fiscal or financial costs whereas errors of wrong exclusion lead to welfare cost i.e. costs to individuals and society due to the inadequacy of food, malnutrition, ill-health etc. While fiscal costs are known and easy to measure, it is more difficult to measure the welfare costs of under-nutrition although these costs are likely to be high. She further points out that the chances of misidentification and of excluding the vulnerable population from the TPDS are very high given the problems both the conceptual and operational in identifying households below the poverty line.\(^{94}\)

In a country where the majority of the population works in the informal sector & receives earnings on an irregular basis, income is very difficult to measure. Also for households that earn income from casual labour or from self employment, incomes fluctuate over time and even from day to day, a classification based on incomes reported on the day of a survey may be a very inaccurate basis for calculating incomes over the year. Moreover given that the official poverty line in India is very low, a household that earns ten or fifty or even hundred rupees more than the poverty line level of income is not necessarily less vulnerable than a household with income below the poverty line. Thus there is large scope for misidentifying households and for mistargeting when an income poverty line is used.\(^{95}\) Kamal Mitra Chenoy also comments that there is considerable seasonal variation. During the times of sowing and harvesting they (households are above poverty line) and at other times they are below the poverty line.\(^{96}\)

### 3.3.2 Antyodaya

Antyodaya Anna Yojna launched in December 2000 provides foodgrains at a highly subsidised rate of Rs.2 per Kg for wheat and Rs.3 per Kg for rice to the poor families under TPDS. The scale of issue which was initially 25Kg per family per month was increased to 35Kg per family per month from April 1st, 2002. The scheme

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\(^{94}\) Swaminathan, *art cit.*, pp. 61-65.

\(^{95}\) Swaminathan, Madhura, *op.cit.*, p. 96.

\(^{96}\) As per interview with Prof. Kamal Mitra Chenoy. Group of Comparative Politics and Political Theory, JNU, New Delhi, 19th July, 2005.
initially for 1 Crore families was expanded in June 2003 by adding another 50 Lakh BPL families. During 2003-04 under the AAY, against an allocation of 45.56 Lakh tonnes of foodgrains, 41.65 tonnes were lifted by the State / UT Governments. Budget 2004-05 expanded scheme further from August 1, 2004 by adding another 50 Lakh BPL families.\(^7\) Antodaya Anna Yojana now covers two crores Below Poverty Line. The number was to be increased to 2.5 Crore families in 2005-06.\(^8\)

The Antyodaya scheme is for the poorest ten percent of ration card holding households and with it a third price has been introduced which is lower than the BPL price. Madhura Swaminathan however says that several prices within the same distribution and for the same commodities create distortions and incentives for leakage and other malpractices among traders and officials. For consumers it can create information problems. When PDS prices are frequently changed, rolled back and differentiated according to scheme and card, there is confusion among consumers as to the appropriate prices to be paid. There can also be social problems because of perceived unfairness in different households paying different prices. Although prices of BPL households are lower in real terms than before the TPDS, APL consumers have been faced with a large price rise in real terms.

Moreover the monitoring and vigilance system proposed in the TPDS guidelines which was to involve local PRIs has clearly not become operational. The introduction of the TPDS led to an initial rise in distribution but with the new price regime introduced in March 2000, there was a virtual exclusion of the APL population and a big decline in offtake.\(^9\) As per the Mid Term Appraisal of the Tenth Five Year Plan, since MSPs were above market prices, full cost pricing caused the APL to exit PDS, rendering many Fair Price Shops unviable, while FCI bought almost the entire market arrivals in traditional surplus areas. PDS sales declined from over 19 million tonnes (96-97) to less than 12 million tonnes in 2000-01 even as procurement went up from 21 million tonnes to over 37 million tonnes. With exports restrained by low world prices, stocks increased from 18 million tonnes at end of 1997 to 58 million tonnes at end of 2001. The increased cost of stock holding doubled the food subsidy

to nearly 1% of GDP. And most importantly, per capita cereals availability fell 20% between 1997 and 2001 to its lowest level since 1980. This perverse operation of the system not only reduced consumption but at the same time prices and supplies became less stable and farm incentives were disturbed. As stocks built up, the wholesale price index for cereals increased 31% between 1996-97 and 1999-2000, distorting intercrop parities and inflating money wages at a time when prices of other agricultural commodities were weak. Subsequently in order to reduce stocks, BPL prices were cut further and quotas increased sharply in 2001-02. But such cheap supplies depressed farmprices of cereals wherever MSP was ineffective, and in particular paddy prices in eastern India fell below full cost of production. Large exports at BPL prices and the drought of 2002-03 finally brought stocks down to near normal levels at the end of 2003. 100

Utsa Patnaik argues that the unprecedented build up of public foodstocks in the country with the cumulated total standing in July 1, 2002 at 63.1 million tonnes, 40 million tonnes in excess of buffer norms is a stark reflection of comprehensive macroeconomic mismanagement by the government in following policies which have cut the purchasing power of the people and reduced their absorption of foodgrains to the level prevailing in colonial times. In fact the 2001 level of per capita availability at 151 kg per annum according to Patnaik was much lower than the late 1930s level and about the same as the average for the Second World War which included the years of the Bengal famine. By July 2003 she argues the public grainstocks were reported to have declined substantially but this decline was mainly because in a severe drought year the government exported a record 12.4 million tonnes of foodgrains with heavy subsidy thus revealing its preference for subsidizing foreign buyers rather than creating sufficient purchasing power for the poor in India through additional food for work programmes to enable them to absorb what had been actually exported. Unprecedented exports out of mountainous food stocks while hunger became deeper and more widespread and starvation deaths took place. 101

100 The Mid-Term Appraisal of the Tenth Five Year Plan (2002-2007), op.cit. p.195.
Patnaik points out three reasons for such an abnormal stocks – build up and the associated fall in food availability for the population (1) a number of macroeconomic reform policies which are all contractionary and income – deflating in nature have been implemented (2) trade liberalization had altered both the cropping patterns and imported global price declines into Indian markets and these two had come together after the mid 90s leading to severe employment decline, income decline and hence fall in aggregate demand for a large section of the population especially the rural population. (3) This had been combined with the institutional denial to the poor, of access to food owing to targeting in the PDS from 1997-98. Targeting was a system which simply was not capable of being implemented with any degree of equity and which had led to exclusion of millions of the actually poor from those defined as poor and entitled to a ration card.\textsuperscript{102}

Jayati Ghosh points out that by selling and exporting huge food stocks at unremunerative prices or by allowing them to rot in FCI godowns, the government had committed a crime against millions of people who are in dire need of food and jobs. These stocks would have had positive effects if they would have been used in a massive food-for-work public works programme to generate and maintain infrastructure, it would have provided food to poorer households and reduced the cost of holding foodgrains by the FCI.\textsuperscript{103}

Although the shift from PDS for all to targeted PDS was justified on grounds of reducing government expenditure, the PDS costs to government have risen from Rs. 5166 crores (mid 90s) to Rs. 9300 crores in 1999-2000. The primary reason for this rise is the increased cost of food to consumers as a result of policy changes, resulting in a drastic decline in purchases from the Fair Price Shops.\textsuperscript{104} The argument on voluntary dietary diversification ignores the fact that the distribution of food in our society is highly skewed owing to the highly skewed distribution of incomes; that this skewness is likely to have been increasing over time as reform policies have favoured the rapid growth of incomes for particular top segments of the population and immiserized other poorer segments who have a much higher income elasticity of

\textsuperscript{102} \textit{Ibid.}, pp. 16-17.
\textsuperscript{103} Ghosh, Jayati (2003), “The Missing grain”, \textit{Frontline}, Chennai, October 24, p. 120.
\textsuperscript{104} Shiva, Vandana, Bhar, Radha Holla, Jafri, Afzar H. and Jalees, Kunwar, \textit{op.cit.}, p.5.
demand for foodgrains. There is indeed a voluntary diversification of diets towards higher value foods for the highest income levels say taking the top decile of the population ranked by income. However, with those below average incomes, this diversification is accompanied by falling per head calorie levels and deepening hunger. Further diversification as Patnaik says is a necessary but is not a sufficient condition for inferring an improvement in welfare.\textsuperscript{105}

Although TPDS has increased the price differential between APL and BPL households, it has not improved access for the BPL at these prices. An important institutional issue is that the viability of fair price shops appears to have been affected (by the exclusion of the APL population from the PDS) and the net profits of fair price shop owners/dealers are likely to be lower under the TPDS than before (smaller number of ration cards to serve and upper bounds on margins that can be charged to the BPL consumers). Since some economies in costs are also likely, such as in the case of transport, the distribution of smaller quantities is likely to make shops unviable. Also conflicts have taken place between state governments and centre on whom to count as poor (in the TPDS regime the size of the BPL population has been identified by the Central government). Madhura Swaminathan says that if targeting is to undertaken at all, State governments are in a better position to decide on the form and degree of targeting. The policy of targeting and allocation of grain on the basis of the income poverty line has worked against the earlier objective of price stabilization through grain movements across the country. Further in the universal PDS, automatic stabilization was ensured as demand for grain from fair price shops increased at a time when the gap between the PDS price and the market price rose. Again in the new system with APL prized out of the PDS, and BPL quotas low and fixed, the ability to undertake stabilization has been weakened.\textsuperscript{106}

The 2001 budget and economic policy passed on the responsibility of PDS offtake to the states without giving the states the financial or infrastructure wherewithal to do it. Those in the APL category also have to bear 100\% of the procurement and distribution costs, which places the foodgrains far above their

\textsuperscript{105} Patnaik, \textit{art.cit.}, p.25.  
\textsuperscript{106} Swaminathan \textit{art.cit.}, pp.69-71.
reach. Abhijit Sen argues that a striking feature of the Indian economy today is the paradoxical situation whereby foodgrain stocks with the government are at a record high and the poverty persists and the offtakes from the PDS declines. Jean Dreze points out that in some areas, even the BPL households see little advantage in purchasing food from ration shops rather than from the market because the price differential is too small to compensate for the quality differential. These households in fact bear the burden of high foodgrains in the market as a result of the FCI hoarding operations. Ration shop dealers, distribution agents and other intermediaries are selling the PDS food on the black market. The question arises as to why these mounting stocks are not used to fund a massive expansion of the PDS, Food for Work schemes or other antipoverty programmes.

Jean Dreze says that the poorer sections of the farming community benefit very little, if at all, from price support measures. These small farmers typically sell little grain, if any on the market, instead they tend to combine subsistence farming with labour migration and other income-earning activities that allow them to buy non-food commodities. Hence higher food prices do not help them. What would help them is an improvement in productivity, based for instance on technological innovation and crop diversification. The second point is that whatever the pros and cons of lower food prices, it is in any case not possible to sustain artificially high prices, short of destroying or exporting the surplus food. Storing surplus food only postpones the problem. Worse, it aggravates it, by giving farmers misleading signals to the effect that they should continue growing more foodgrains instead of diversifying their crops. Sooner or later, this is bound to lead to a glut in the foodgrains market and a collapse of market prices, defeating the price-support policy. In so far as supporting food prices is a sensible objective, the only sustainable and equitable way of doing it is to generate income among the poorer sections of society. The case for using foodstocks without delay to fund massive employment programmes is overwhelming but there are basic constraints - political, financial and structural constraints. Along with these three basic constraints, one has to add further impediments like: bureaucratic
bottlenecks, lack of communication between ministries and so on. The differences between state government and central government also adds to the problem. State governments for instance complain that Central governments have allotted inadequate food, on the other hand Central government blames state governments for failing to make full use of their existing allotments. Constructive efforts to resolve these differences are few and far between.\textsuperscript{110}

The Mid Term Appraisal of the Tenth Five Year Plan has pointed out that the MSP policy has been more restrained since 2003 and procurement has stabilized at about 40 million tonnes. PDS sales have climbed back from 13 million tonnes (2001) to about 25 million tonnes and total offtake including for the Food for Work and Mid-day Meals programmes is now also about 40 million tonnes. However, this return to balance has been reached according to the Mid Term Appraisal of the 10\textsuperscript{th} Five Year Plan, with much larger proportion of cereals production being procured and distributed by public agencies than before 1997. Moreover, per unit subsidy is much higher because about 60\% of PDS supply is now at BPL prices that are well below MSP and another 20\% at even lower prices for the Antyodaya Anna Yojana. The food distribution system has therefore been converted from its price stabilization role to primarily one of the transfer to the poor.\textsuperscript{111}

The failure during 1997-2003 is a matter of grave concern. Not only were huge costs incurred without delivering food security but its perverse operation also distorted producer incentives and added to the already increasing uncertainties. An important question, since BPL prices are below costs of production of wheat and rice, whether differential PDS pricing is the best way of serving the equity objective? With a decision already taken to introduce employment guarantee and expand Mid-Day Meals and the Integrated Child Development Services (ICDS), an alterative may be to move rapidly to full all India coverage of these welfare initiatives and revert simultaneously to uniform PDS pricing (linked to but no less than MSP) and to the original clear cut and much less expensive objective of stabilizing prices at above costs of production. This would of course still leave the question of reaching the urban poor for whom no expansion of employment schemes is yet on the anvil and the

\textsuperscript{110} Ibid., pp. 435-438.
\textsuperscript{111} The Mid-Term Appraisal of the Tenth Five Year Plan (2002-2007), \textit{op.cit.} p.195.
old and infirm currently covered by AAY. But these relatively smaller parts of total PDS could either continue or be replaced by an expanded old age and disability pension. The important objective should be to redesign the system so that the food security and poverty alleviation objectives are strengthened and purchasing power of the poor increased so that agricultural demand growth is restored without distorting price incentives for agricultural growth.  

Madhura Swaminathan comments that there has been a demand for making the PDS universal which is important keeping in mind the fact that consumption levels have gone down and poverty increased. According to the Planning Commission the required per capita daily intake of calories is around 2400 in rural areas and 2100 in urban areas. Thus the official poverty line in India is pegged at Rs. 49 for rural areas and Rs.57 for urban areas at 1973-74 prices, a very low absolute level of expenditure. At 1993-94 prices, the poverty line is around Rs.206 per capita per month for rural areas and Rs.287 for urban areas. However, the number of people who are below even the official poverty line is immense. The population of the income poor in India was 320.5 million in 1993-94. Utsa Patnaik, Jayati Ghosh, C.P. Chandrasekhar, Abhijit Sen and Kamal Mitra Chenoy feel that poverty is much higher than the official figure. Kamal Mitra Chenoy points out that it was strange that official figures regularly showed a progressive decline in the number of people living below poverty line. A genuine survey would reveal that almost 74% people in rural areas actually fall in the BPL category.

The Government in Jan 2006 moved to slash the food subsidy bill by Rs.4524 crore by raising the issue price for foodgrains for APL beneficiaries while cutting back on the quantum of grain issued for both BPL and APL categories. The cabinet decision means that Central Issue Price for APL households has been hiked by Rs.0.85 per kg for rice and Rs.0.95 for wheat. The foodgrains available to them have been reduced from 35 kg monthly to 20 kg. The subsidy would remain at 30% of the cost. While CIP for BPL/ Antyodaya categories has been left untouched, the

112 Ibid.
113 Swaminathan, Madhura, op.cit., p. 15.
foodgrain quantum has been slashed from 35 kg to 30 kg. In case of BPL and Antyodaya households, the issue price would continue to be at the existing level. While to Antyodaya households wheat and rice would be provided at the price of Rs. 2 and Rs.3 per kg, the price of these commodities would be Rs. 4.15 (wheat) and Rs. 5.65 (rice) per kg as before for BPL households. The Defense Minister Pranab Mukherjee pointed out that even as the procurement prices increased every year substantially, there had been no revision in issue prices of wheat and rice since 2003 and thus the Cabinet Committee on Economic Affairs (CCEA) had decided to revise the issue prices. The ministry/government believes the subsidy bill might go up more if the Central Issue Price is not hiked. Government projections for 2006-07 indicate that even if levels of procurement of wheat and rice remain high, it would be increasingly difficult to meet the requirements of foodgrains under PDS and other welfare schemes. The food subsidy bill it is said has risen from Rs.9200 crore in (99-2000) to Rs. 26,000 crore. Procurement is not enough to meet PDS requirements unless allocations hiked when stocks were plentiful, are scaled down. Stocks are now short and less than 20% foodgrains are actually lifted in the APL category. In addition, studies indicate 'substantial diversion' of foodgrains meant for the PDS. Further the Cabinet Committee on Economic Affairs (CCEA) would be taking a view on the proposal to hike the price of wheat in the TPDS to about Rs.5.60 a kg for BPL population and about Rs.7.85 a kg for the APL population. The price of rice is also likely to be raised to slightly less than Rs.7.00 a kg for the BPL and about Rs.9.75 a kg for the APL. This is about 50% for BPL and 70% for APL of the economic cost of the procurement price, transportation and storage of wheat to the FCI. The Ministry of Food and Consumer Affairs also recommended in June 2006 on cutting down the foodgrains component in all employment generation schemes and wiping out the wheat deficit by removing the food component in the wages of certain Central Government employees. Meanwhile the CPI(M) pointed out that the recommendations on 'prudent food management' were a serious assault on the public distribution system, food security and self sufficiency, and a clear violation of the assurances made in the Common Minimum Programme.

Meanwhile Jayati Ghosh comments that the decision to cut the food subsidy may push many more people into semi-starvation or open starvation as well as have a devastating effect on increasing nutritional deficiencies. Moreover this impacts, she points out upon the entire system of procurement and distribution since it will limit the turnover of the FCI and affect its ability to undertake offtake and stocks of foodgrains with FCI have been steadily falling.120 Meanwhile the Food Minister identified three key issues – identification of beneficiaries, viability of fair price shops, effective monitoring and said that there was an urgent need to revamp the entire system of the PDS and that states needed to come up with time bound programmes for continuous monitoring of the system.121

3.4 Consumption Patterns

Madhura Swaminathan points out that average cereal consumption per capita is low and has declined from 17.5 kg a month in 1952 to 13.4 kg in 1993-94 in rural areas. Cereal consumption has declined across all income groups despite a small rise in incomes and a fall in real prices. From the nutritional point of view, the observed shift from cereals to other food items among persons with low calorie intakes is likely to exacerbate undernourishment. Swaminathan argues that at the all India level average calorie intake declined steadily in rural and urban areas between 1972-73 and 1993-94. In rural India, average calorie intake fell from 2266 Kcal in 1972-73 to 2221 in 1983 and to 2153 in 1993-94.122

Swaminathan argues that the proportion of persons suffering deprivations in food and nutrition is higher than the proportion defined as being income poor or below the official poverty line. While around 37% of rural households were below the poverty line in 1993-94, 80% of households showed a calorie deficit. Also if the objective of a system such as the PDS is to reduce food insecurity, then it should be available both to those currently undernourished as well as to those who face a risk of

121 “PDS leak plague Pawar” (2006), The Times of India, New Delhi, March 30.
undernourishment. Chronic hunger persists on a mass scale in India. The persistence of hunger and malnutrition and of vulnerability to hunger and malnutrition on such a scale is the principal justification for strengthening a system of food distribution such as PDS.\textsuperscript{123}

In India per capita foodgrain consumption declined from 476 gms per day in 1990 to only 418 gms per day in 2001 and even aggregate calorific consumption per capita declined from just over 2200 calories per day in 1987-1988 to around 2150 in 1999-2000. This decline was marked even among the bottom 40% of the population.\textsuperscript{124}

The food spending share of total spending can fall & is actually observed to fall, when people are getting worse off because their real income is constant or falling, since owing to greater monetization of the economy and higher cost of utilities, they are forced to spend more on the bare minimum of non-food essentials. Since the overwhelmingly large part of food expenditure itself is on staple grains, it is this which falls when food expenditure is cut. With a large decline in cereal intake, absolute calorie intake is seen to decline quite steeply.\textsuperscript{125} According to Utsa Patnaik the consumption standard is being altered. The consumption standard in 1973-74 was 2400 calories at which 56% was in poverty, by 93-94 the consumption standard was lower at 1970 calories (37% in poverty) and in 1999-2000 it was lower at 1890 calories (27.4% in poverty).\textsuperscript{126} She further states ‘the entire false analysis which reinvents increasing hunger as voluntary is today sought to be reinforced by bogus poverty estimates and invalid claims of decline in poverty’.\textsuperscript{127}

The consumption of non-cereal food items could not compensate the loss of food energy intake due to fall in cereal consumption. For the bottom 30% of the population, the per capita cereal expenditure at constant prices was almost stagnant during 1970-89 but declined during 1990-98. It seems that the improvement in

\textsuperscript{123} Ibid., p.32.
\textsuperscript{124} Ghosh, Jayati, “Food Insecurity in South Asia” (2006).
\texttt{http://www.macroscan.com/curfjan06/print/prnt020106South_Asia.htm}
\textsuperscript{126} Ibid., p.70.
\textsuperscript{127} Ibid., p.79.
income growth did not translate into a higher consumption of cereals. The declining cereal consumption would not be a major cause of concern if the food energy intake levels of the poor were nutritionally adequate. While the top 30 percent of the population is adequately fed, both in the rural and urban areas, the middle 40% gets barely close to the nutritional requirement. The budget share of cereals of the bottom 30% declined from 51% in 1970-1971 to 38% in 1990-1991 and further to 33% in 1998 in rural areas and from 36 to 26% and further to 22% in urban areas during the same period.128

There is a declining trend in the share of food in total expenditure. It was 56% in rural areas and 44% in urban areas during NSS – 56th round (2000-01) compared to 64% in rural areas and 56% in urban areas during NSS – 43rd round (1987-88). The NSS-56th round further stated that at the all India level the proportion of chronically hungry households (not getting enough to eat during even some months of the year) was less than 1% for rural areas and less than 0.5% for urban. As for seasonal hunger 19 per 1000 households in rural areas and 4 per 1000 households in urban areas reported getting enough food only in some months of the year.129 The percentage share of monthly per capita expenditure (MPCE) on cereals and non-cereals in total food items show that the percentage share of MPCE on cereals have gone down in rural areas from 40.99% in 1987-1988 to 34.55% in 2001-2002. For urban areas the share has gone down from 26.46% in 1987-1988 to 24.30% in 2001-2002. For Non Cereals the percentage share has gone up in both rural and urban areas.130 Further the 59th Round of NSS pointed out that average urban MPCE exceeded average rural MPCE by 84% (thus a reduction of 1%) between the two averages as compared to 56th Round where it was 85%). The all India average monthly per capita consumer expenditure was Rs.554 for rural India and Rs.1022 for urban India. In 2003, one half of the rural population had MPCE below Rs. 470. About 13% had MPCE below Rs.300. Among urban, 80% had MPCE above Rs.500 and about 16% had MPCE above Rs.1500.131

The average MPCE for rural India in 2004 was Rs.565 whereas that of urban India was Rs.1060. Although the average MPCE for both rural & urban areas have increased, but the percentage share of cereals in total consumption expenditure was 18% (Rural) compared to 26% in 1987-88 & in urban India it was 10% compared to 15% in 1987-88. The rural-urban difference in share of expenditure was considerable for cereals.\(^{132}\)

If one compared both the NSS rounds, one draws the following two important conclusions

1. The All India average monthly per capita consumer expenditure (MPCE) has gone up for both rural and urban India but
2. There is a declining trend in the share of food in total expenditure.

Also the consumer expenditure per person on cereals and substitutes reported by the urban and rural households were not very different. For all other item groups, urban per capita expenditure was higher than the corresponding rural figure.

The NSS 59th Round states that the non-food expenditure per person in urban India at Rs.593 was higher than rural food and non-food expenditure put together at Rs. 554. Rice and wheat together accounted for 11.05 kg of monthly percapita cereal consumption in the rural sector and 9.41 kg in the urban. Of the total value Rs.100 of per capita cereal consumption in rural India, Rs.61 consisted of rice and Rs.31 of wheat. In 2003 the average rural Indian spent 18 paisa on cereals out of every rupee he spent on household consumption (compared to 26 paisa in 1987-88). The average urban resident spent 10 paisa of his rupee on cereals (compared to 15 paisa in 87-88). Thus in both rural and urban India, share of food in total expenditure continued to fall throughout the period 1987-2003. However, in rural areas the share of a few food groups registered an increase in particular vegetables (from 5% to over 6%). Average MPCE at constant prices (a measure of real consumption) is seen to have increased from Rs.158 to Rs.193 during 1987-2003 in rural India and from Rs.246 to Rs.314 in urban India. But per capita quantity of consumption of cereals showed a declining

\(^{132}\)Household Consumer Expenditure in India – NSS 60th Round (Jan-June 2004) Report No.505 (60/1.0/1), Ministry of Statistics and Programme Implementation, Government of India, p.16.
trend over the period 1987-2003 in both sectors indicating that whatever rise there was in real consumption, took place in items of consumption other than cereals.\(^ {133}\)

The NSS 60th Round also reiterates the fact that in both rural & urban India, the share of food in total expenditure continued to fall throughout the period 1987-2004. The overall fall judging by Schedule Type 1 was from 64% to 54% in rural areas & from 56% to 42% in urban areas. For Rural India, average per capita monthly consumption of cereals was 12.42 kg while for urban India, it was 10.03 kg.\(^ {134}\)

After examining the PDS and the Consumption pattern, one can say that there is a need for making PDS universal so that it becomes one of the important instrument for maintaining food security. Madhura Swaminathan argues that ‘our objective is to find ways of restructuring PDS to make it an effective tool of food and nutrition security.’\(^ {135}\) There are differences that occur in the effectiveness and in the nature of functioning of the PDS. In Kerala there is a good network of well administered fair-price shops that is accessible to the poor and Kerala’s experience shows that with political commitment, food and nutrition security can be enhanced. As Madhura Swaminathan says ‘the divergence across states in the effectiveness and scale of PDS arise from differences in political commitment to food security and not from differences in state income or in the incidence of poverty’.\(^ {136}\)

In a country like India where majority of the people are poor, targeting is difficult to implement. There are bound to be leakages, wrong exclusion. A universal programme will not only erase the problem of identification and will be inclusive but will also be less corrupt and leakages will be less. Another argument according to Madhura Swaminathan comes from the perspective of rights. Goodin and Le Grant in their book, ‘Not only the poor: The Middle Classes and the Welfare State’ argue that it may be beneficial to include the non poor particularly the middle classes in social security and other welfare programmes as the ‘non-poor play a crucial role in creating, expanding, sustaining, reforming, the welfare state’. Thus the inclusion of

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134 Household Consumer Expenditure in India – NSS 60th Round (Jan-June 2004) op.cit., pp.21-22.
135 Swaminathan, Madhura, op. cit., p. 33.
136 Ibid., p.40.
the middle classes in a welfare programme can be on ‘purely pragmatic grounds for they are likely to vote and support the continuation of programmes they benefit from and defend them at the time of expenditure cuts. Social concerns like cohesion (targeting can be invasive and intrusive and result in greater social divisions) and concerns for participation (initial costs are usually higher for participation in a targeted programme than in a universal programme) can also be used to support universal transfers.\textsuperscript{137} Jayati Ghosh argues that in a stratified society targeting works against the poor. The poor are excluded. Moreover there are administrative costs in a targeted programme.\textsuperscript{138}

The Mid Term Appraisal of the Tenth Five Year Plan has pointed out that there are heavy leakages of as much as 55\% according to a recent Planning Commission study. The present system of differential PDS pricing with very low prices for BPL consumers is a highly inefficient way of serving the equity objective. The system also distorts incentives for grain producers in non-surplus areas where FCI procurement is poor or non-existent because it depresses grain prices below the MSP. With the Food for Work programme in place and the expansion of Mid-Day Meals and the universalisation of ICDS, there is a strong case for moving to uniform PDS pricing. The resources saved by moving towards a unified issue price should be directed to expand other poverty reducing programme including especially the Food for Work. The urban poor are not covered by the Food for Work programme and a case can be made that they need continued subsidy benefits through the PDS. This could be attempted through a system of smart cards. A smart card may be charged with the entitlement of the person who can buy ration commodities from any trader who is linked to the smart card system. The price difference can be automatically transferred to the traders’ account when the holder makes a purchase.\textsuperscript{139}

The High Level Committee on Long Term Grain Policy has recommended the return to a universal PDS where there will be no distinction between APL and BPL population. As against this the Tenth Plan Working Group on PDS and Food Security had recommended a PDS that will cater exclusively to the BPL population. The


\textsuperscript{138} Refer fn no.59.

\textsuperscript{139} The Mid-Term Appraisal of the Tenth Five Year Plan (2002-2007), \textit{op.cit.} pp.6-7.
universal PDS is expected to bring back into PDS the poor and near-poor sections who are presently excluded from the BPL fold. Moreover, it is expected to make the Fair Price Shops more viable by enhancing the scale of operations. As only a small fraction of the APL population choose to buy foodgrains from the Fair Price Shops, the universal PDS scheme will work on a principle of self targeting.\footnote{\textit{Ibid.}, p.251.}

The Long Term Grain Policy has recommended the following

- a system of universal PDS be reintroduced with Uniform Central Issue Prices (CIP), one each for rice and wheat respectively for all consumers in all parts of the country.
- The uniform CIPs should be the FCI’s all India average acquisition cost at MSP of the relevant grain.
- At these uniform prices, the Centre should allocate grain to states based on population and a monthly per capita quota to be specified from time to time.
- Moreover, an additional subsidy meant for poor consumers or persons in relatively backward regions should be given in cash to states. This cash component should be used only for food related schemes for the poor, but states should be free to formulate any food security scheme. Specifically, the following should be allowed:
  - Food coupons to the poor and near poor, entitling them to discounts in PDS outlets.
  - differential pricing for the poor and near poor, as in existing TPDS.
  - differential quotas for the poor and near poor at a uniform price and strengthening the food distribution system to reach the poor more effectively, either through measures to improve PDS working or an alternative delivery mechanism e.g. grain banks.\footnote{Report on Long-term Grain Policy, \textit{op.cit.}, p.3.}

Reforms have to be region-specific, based on local conditions of income, production patterns and markets.\footnote{Krishnaji, and Krishnan, T.N (2000), \textit{Public Support for Food Security: The PDS in India}, New Delhi, Sage, p. 27.}

However, universal PDS can also create a few problems. (1) A large part of the APL allocation that is not lifted by the consumers may end up being diverted (2) Under universal PDS, if the issue price is fixed at somewhere between the current...
BPL and APL issues prices, the benefits derived by the BPL population will more likely be reduced. An alternative recommended by the Task Group on comprehensive Medium Term Strategy for Food and Nutrition Security would be to exclude the APL population from PDS and restrict it to BPL and AAY, only while at the same time, the criterion for identifying BPL families could be made more liberal. The poverty estimates for 1993-94 with grave margin of 10 percentage point could be used to determine the BPL population of states for another five years i.e., until 2010. Clearly there is need to re-examine the rationale and structure of the PDS.  

The Report of the Inter Ministry Task Group on Comprehensive Medium Term Strategy for Food and Nutrition Security points out that

- Items other than rice and wheat need to be excluded from the purview of TPDS.

- Items such as sugar should be kept outside the purview of PDS. Sugar should be decontrolled and the system of levy on sugar should be discontinued.

- Fair Price Shops should be permitted to sell all commodities (other than rice and wheat) at full market prices through PDS outlets so as to insure their economic viability.  

The role of the PDS continues to be important. Utsa Patnaik argues that it is important to remember and to stress the fact that PDS is an expression of the economic unity of the constituent states of the Indian Union and its destruction is tantamount to breakup of this economic unity. She further comments that the World Bank prescription is to destroy our PDS in the long run, import food, control land for cash crops and control our output structure and use our market for selling

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143 The Mid-Term Appraisal of the Tenth Five Year Plan (2002-2007), *op cit.* pp.251-252.
their products just like it used to happen in the colonial days. Meanwhile other options have also been discussed.

In the Tenth Plan document, the Planning Commission had suggested that a system of distributing foodstamps should be tested on a pilot basis. Every eligible family will be entitled to collect its monthly quotas of foodstamps, from a designated distribution centre and such stamps could then be used to buy foodgrains from any food shop. N.C. Saxena, former secretary of the Planning Commission argues that stamps will spawn more corruption, more bureaucracy and ultimately end up with the same results. Dreze takes a somewhat more benign view of food stamps because it introduces an element of competition, but agrees that it could be derailed just as easily as the current PDS e.g. through printing of fake stamps. C.P. Chandrasekhar comments that foodstamps are again a form of targeting. One has to decide the principle on which foodstamps would be given. The CPI(M) comments that it is important for the XI Plan to take a fresh look at the TPDS & steps to strengthen the PDS & moving towards a universal PDS should be seriously considered. Also more essential commodities should be brought under the PDS in order to ensure food security. A proper evaluation regarding the consequences of the dilutions of the Essential Commodities Act and permitting future trade in essential commodities also has to be made.

One finds that various pros and cons of the distribution network have been debated and there is an urgent need to build a structure which will address the needs of the poor. One now looks at the state level to examine the issue of input subsidies, procurement, PDS, allocation and offtake and finally consumption.

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1146 Refer fn no.38.
1147 Implementation of Budget Announcements, Budget 2005-2006, Ministry of Finance, Department of Economic Affairs, p. 17.
1149 Refer fn no.70.
http://cpim.org/upa/2006_jul_plan%20approach%20paper.htm
3.5 Punjab and West Bengal

3.5.1 Input Subsidies

If one looks at the issue of input subsidies in the states of Punjab and West Bengal one notices the following

Power - If one looks at state-level-analysis for 2001-2002, one finds that Punjab consumes 5451.85 million KWH of electricity for agricultural purposes out of a total consumption of 20008.88 million KWH. The percentage share of consumption for agricultural purposes is 27.25%. If one sees West Bengal, one finds that out of a total consumption of 16003.37 million KWH, consumption for agricultural purposes is 1183.10 million KWH. The percentage share of consumption for agricultural purposes is 7.39%. Thus Punjab has a much higher percentage of electricity consumption for agricultural purposes than West Bengal. If one considers the regional aspect, then Northern region’s percentage share of consumption of electricity for agricultural purposes is 22.31% whereas that of Eastern Region is 6.84%. If one considers the annual per capita consumption of electricity in India by states (2000-01), for agricultural purposes one finds that Punjab consumes 233.62 KWH whereas West Bengal 12.55 KWH. The state of Punjab consumes much more.

The issue of free supply of power (electricity) for agricultural purposes has always been an issue of debate and one might say politics in Punjab. In 1997 when Badal’s government implemented its commitment for free power to farmers, its experience

• was big landlords and rich zamindars having more than one tubewell each gained a lot not only as a result of not having to pay for the electricity consumed by their tubewells but also by selling water, which they were getting free to peasants who needed it for their crops and the latter could get only by buying water from them.
• poor peasants did not benefit in any way while middle peasants having their own tubewells did benefit. However they often expressed the view that they would be

happier if they would get power regularly by paying rather than get uncertain supply of free power.

- free electricity supply was grossly misused, through legal connections, it was used for non-agricultural vocations.\textsuperscript{153} G.S.Bhalla and Gurmail Singh point out that tariff charged from the agricultural sector (9.8 paisa per KWH) during period 1989-92 was almost one-tenth of its cost of supply which was estimated to be 96.9 paisa per KWH by the PSEB (Punjab State Electricity Board).\textsuperscript{154}

- Dang argues that the claim that agricultural production in Punjab increased tremendously as a result of free power supply has not been substantiated convincingly.\textsuperscript{155}

The debate on power (electricity) supplied for agricultural purposes has continued with CM Amarinder Singh in 2002 deciding to stop free power to farmers and the argument put forth that farmers should be made to pay a good part of the average cost of production. Whereas farmers on the other hand pointing out that they receive residual supply which by its very character is uncertain and of widely fluctuating voltage that damages not only the motors and the pumps but also often the standing crops. It is being also pointed out that even if subsidy regime has prevailed for long, the de-addiction therapy has to start at an appropriate occasion and has to be carried out in a manner that would not prove to be counter productive.\textsuperscript{156} The Punjab Vidhan Sabha passed the Punjab Electricity Act 2003 which empower the government to take specific action on the management of subsidies and the tariff order of the Punjab State Electricity Regulatory Commission was implemented withdrawing free power supply to agriculture sector and increased electricity tariff rates for commercial and domestic sectors.\textsuperscript{157} However on September 6, 2005, state Chief Minister Amarinder Singh announced free power for all farmers. This is in addition to the Rs.1100 crore it is already shelling out as power subsidy to the farm sector. Amarinder’s largesse, a gambit to woo the peasantry ahead of assembly elections due

\textsuperscript{155} Dang, Satyapal, \textit{art.cit.}, p.23.
\textsuperscript{157} “Congress Ruled States – Punjab”. (2004), \texttt{http://www.aiicc.org.in/congress RULED_punjab.htm}
in February 2007, has thrown a spanner in the World Bank aid of about Rs.4,000 crores that was in the pipeline for projects on rural water supply, roads and agriculture diversification. His reasoning that Punjab’s financial health has improved ‘dramatically’ to allow the Congress to implement its pre-poll promise hardly hides the overriding political expediency. Even Prime Minister Manmohan Singh has repeatedly warned of the dangers of offering free power. In his independence speech the Prime Minister had said “We need to get used to paying a reasonable price for electricity”. Moreover the free power sop runs contrary to the Electricity Act, 2003, which prescribes a gradual phasing out of cross subsidies. Majority of the chief ministers cutting across region and party lines are opposed to free power.\textsuperscript{158} Maharashtra has already set the example by involving the people in reducing power shortfall. Under the Akshaya Prakash scheme, villagers have to reduce power consumption to 20% of the normal load & switch off three phase agricultural pumps & flour mills during certain periods. All illegal connections have to be regularized by installing meters & the village has to have a Dakshata Samiti or a monitoring committee to oversee that there are no thefts. Agricultural pumps have to be fitted with capacitors to minimize power losses. The active involvement of the people has reduced Maharashtra’s power shortfall by 500 MW.\textsuperscript{159} Besides power, increasing losses are tending to threaten the long term viability of irrigation institutions in almost all the states of India. There seems to be an agreement that the water rates need to be revised in a phased manner with a view to recovering the cost of water supply to the agricultural sector.\textsuperscript{160} In Punjab water charges for rise of canal water for irrigation purpose have been re-imposed and the concept of user communities / user associations have been introduced and working charges are being imposed and the collection is being utilised for operation and maintenance of the irrigation system.\textsuperscript{161} Fertilizers – If one looks at the per hectare consumption of N.P.K fertilizers, consumption was quite high in Punjab at 192.5 kgs in 2004-2005 ( it has increased from 190.1 kgs in 2003-2004). West Bengal was a little lower at 129 kgs in 2004-2005 ( it has increased from 114.1 kgs in 2003-2004). For both Punjab and West Bengal (in 2004-2005), the per hectare consumption of fertilizers was higher than the

\textsuperscript{158} Vinayak, Ramesh and Saran, Rohit (2005), “Power Ploy”, India Today, New Delhi, September 19.
\textsuperscript{159} Menon. Meena (2006), “When the lights stayed on”. The Hindu, Delhi, February 9.
\textsuperscript{160} Shalla, G.S. and Singh, Gurmail, \textit{op. cit.}, pp. 108-110.
\textsuperscript{161} “Congress Ruled States – Punjab”, \textit{art.cit.}
all India average consumption of 96.6 kgs in 2004-2005 (it has increased from 88.2 kgs in 2003-2004). The talk of drastic cut in subsidies has led to fears that states would face problems especially Punjab which has high consumption of fertilizers and pesticides. G.K. Chadha points out that Punjab is heavily supported by the subsidies and the MSP and increasing the MSP would now have adverse effect on the economy.

3.5.2 Procurement

Two states Punjab & Haryana accounted for more than 80% of the procurement of wheat by the FCI in the years 2002-03 to 2004-05 and the states of Punjab, Haryana, UP and Andhra Pradesh accounted for nearly 80% of the rice procured by the FCI in the years 2001-02 and 2002-03. However FCI has strengthened the procurement of rice from states like in West Bengal resulting in higher rice procurement in 2003-04. As a result, the share of rice procurement from Punjab went down in 2003-04 including the states of Andhra Pradesh, Haryana and UP.

The share of rice procurement from four traditional states of Andhra Pradesh, Haryana, Punjab and Uttar Pradesh declined to 71.5% in 2004-2005 down by 2 percentage points over 2003-2004. Procurement of wheat on the other hand did not see such a sharp trend towards non-traditional states. Procurement of wheat in Punjab increased from 89.38 lakh tonnes in 2003-2004 to 90.10 lakh tonnes in 2005-2006 (% share increased from 56.6% to 60.9% during the period). In case of rice the amount increased from 79.4 lakh tonnes in 2002-2003 to 91.6 lakh tonnes in 2004-2005. However the percentage share dropped from 48.35% to 36.89 during the same period. In case of West Bengal, procurement of rice increased from 1.26 lakh tonnes in 2002-2003 to 9.44 lakh tonnes in 2004-2005 (% share increased from 0.77% to 3.82% during the same period).

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163 As per interview with Prof. G.K. Chadha, New Delhi, October 5, 2005.
The agencies procuring foodgrains in Punjab are the FCI and the four state agencies namely the Food and supply Department, Punjab State Civil Supplies Corporation (PUNSUP), the Punjab State Agricultural Cooperative Marketing Federation (MARKFED) & the Punjab State Warehousing Corporation (PSWC). These agencies procure wheat and paddy at the MSP and sell it to the FCI for distribution through the PDS or for buffer stocking. Besides rice and wheat, the government also intervenes in oilseeds crop. For Punjab the important oilseeds are rapeseed, mustard and toria. The market price of most of the non-food crops are higher than their MSPs. The relevant crop for Punjab under this category is cotton.

The dual market system for purchase by both the traders as well as the government agencies like MARKFED is operating quite successfully. However there are certain problems:-

- PUNSUP – the role of the corporation in procurement of wheat, its storage and delivery to FCI has made it suffer a loss of Rs. 35.02 crore due to down gradation of wheat and Rs. 2.38 crore due to damaged wheat in the period of 5 years from 1992-93 to 1996-97, an average of Rs. 7.50 crore per year (excluding interest loss)
- PUNSUP has lost Rs. 16.64 crore in paddy crop in 1999-2000 which is about 17% of the total loss of that year. Moreover misappropriation of the paddy also takes place and there is a vicious circle of passing on the old paddy into next years procurement and this way 5-7 percent of procured paddy always remains unmilled.
- Except incidental charges, nothing is paid to PUNSUP by FCI for procurement of paddy. However administrative charges (Rs. 15 per quintal) are given to the corporation in regard to procurement of wheat. The report of the CAG (2001) on the performance of PUNSUP reveals that 33% of the total losses were on account of wheat procurement operations. These losses are directly attributable to the PUNSUP for its failure to dispatch old stocks on priority, improper maintenance of stocks during shortage, disposal of damaged wheat at lower rates.

etc. Similarly losses in paddy procurement are due to lack of control over milling operations.167

- Similarly MARKFED and, Punjab State Warehousing Corporation have also been facing problems.

Separate incidents showcase the problems - e.g. In 1998 procurement agencies failed to show up in mandis all over Punjab. Individual lots of rain damaged paddy were rejected on the ground that they did not meet quality standards. Conditions at the mandis added to the farmers desperation. Although the mandis charge a 4% fee on each transaction, very little of that revenue has been invested to create adequate storage facilities. Some do not have concrete flooring, others do not have enough tarpaulin covers. Most of them do not have any kind of drainage. Desperate farmers were willing to sell at any price and the large private traders and rice mill owners were the real beneficiaries of this.168 ‘No records are kept about why individual files of paddy and wheat are rejected’ says H.S. Shergill. This is an invitation to corruption and corruption of this kind has been a routine procurement season enterprise.169

Moreover in 1997 unprecedented relaxation was ordered in the quality – standards of the paddy to be procured. But many Indian states like Kerala, West Bengal, Tamil Nadu etc refused to buy the relaxed specification rice from Punjab, thus huge stocks of rice were left and in terms of storage, a large amount of storage space was taken by this relaxed specification rice leaving both the FCI and the state procurement agencies under pressure.170

Abhijit Sen commented that one possibility may be to provide farmers with compensation for damaged crops rather than to relax the standards of quality. Then poor quality rice held by the FCI could be made available at nominal prices instead of forcing reluctant states to buy it.171 In 2000 too distress sales of paddy to private

169 Ibid.
170 Ibid.
171 Ibid.
traders took place and such sales were rarely registered with mandi authorities. These examples illustrate the fact that without effective state intervention in the acquisition and distribution of food, both farmers and consumers will have no defence against the powerful business players who dominate the agrarian market.

West Bengal procurement - Food and Supplies Department frames policies relating to procurement of foodgrains and distribution of some essential commodities amongst rationcard holders. Also it frames policies relating to the issue of rationcards to different types of beneficiaries, policies relating to the setting up of fair price shops. Also it frames policies relating to the scales of distribution of foodgrains and other essential commodities like kerosene oil, sugar etc, with special focus on the vulnerable society. To accomplish this task the Department maintains a broad base network of rationing system comprising of nearly 20400 fair price shops spread all over the state. Decentralised procurement of rice supplies to the PDS were earlier made from rice procured by the FCI from distant states like Punjab, Haryana etc. Very often these involved long storage before its transport to West Bengal & consequently the quality of rice used to be poor causing public resentment. In this background Government of India introduced Decentralized Procurement Scheme and the Government of West Bengal accepted it. Memo of understanding was signed by both Government of India and the state government and the state started procurement of rice from the Kharif marketing season, 1997-98. According to this scheme, the state government, procures rice from the rice mills of the state by way of levy collection. Price of levy rice, levy collection charges, forwarding charges, cost of gunny bags are fixed by Government of India in each Kharif Marking season (October to September). The state government distributes the procured rice through the PDS to BPL & APL families and for such distribution the Government of India fixes its storage charges, transport charges, interest charges, administrative charges and shortage. The procurement cost and distribution cost taken together determine the economic cost and the Government of India reimburse the differential between economic cost and central issues price.

The state government in the Food & Supplies Department had to make arrangements for inter-district movement of procured rice from procurement districts to deficit districts as only the following districts have concentration of rice mills – Burdwan, Hooghly, Bankura, Birbhum, Midnapore, Dakshin Dinajpur and Murshidabad. From 1997-98 the state government has been imposing levies on rice mills and husking mills but from 97-98 to 99-2000 response from husking mills was not encouraging and the infrastructural cost was not found viable. The government in 2000-01 imposed 50% levy on rice mills only. The state government delegated powers and functions in connection with the procurement scheme to the District – Controllers of Food and Supplies and for guidance and supervision on the spot constituted a District level Monitoring Committee consisting of District Magistrate, sabhadhipati, zilla Parishad and District.175

As far as MSP is concerned, the bulk of farmers are not even aware that there is such a thing as the MSP. At least that’s what the results of the 59th Round of the NSS seem to indicate. Almost 81% of farmers are effectively unaware of how to make use of the MSP. The NSS estimates that almost 71% of India’s farmers have not even heard of the very concept of MSP. The numbers are quite skewed at the state level. Only 37% of farmers in Punjab are unaware of MSP. However in West Bengal close to 70% are unaware of MSP. The figures are revealing about the uneven spread of the government’s procurement operations across the country.176

3.5.3 PDS

Punjab is a surplus state in the production of rice and wheat and these cereals are available in plenty at market price. Evidence shows that 99.9% of the rural population do not draw even a single grain from the PDS in Punjab. Except in some rural pockets and urban slums, there is no need for public distribution of foodgrains in Punjab. Otherwise also poverty in rural Punjab is at a much lower level. In terms of physical food accessibility, Punjab is one of the better off states. G.S. Bhalla and Gurmail Singh comment that ‘appropriately designed social security system’ would

175 Ibid.
176 “81% of farmers don’t know about MSP” (2005), The Times of India, New Delhi, August 22.
be a better alternative to tackle poverty as compared with the provision of foodgrains through the PDS.\footnote{177}

On the other hand West Bengal has argued for a Universal PDS and it has already initiated a decentralized procurement and distribution system. As far as West Bengal is concerned, the state Government made certain observations on the Draft Approach paper to the Tenth Five Year Plan at the meeting of the NDC which was held at New Delhi on the 1\textsuperscript{st} of September 2001. The Government of West Bengal suggested the PDS to supply around 60 kg of grain per capita per annum or roughly half of the daily cereal requirements as per the recommendations of the ICMR. The grain should be available at a reasonable and uniform price to all those who wish to purchase from the fair price shops. A universal system is not only likely to reduce leakages (such as due to high price differentials for different types of buyers) but strengthen the network by increasing the quantities distributed and ensuring a viable fair price shop in each village or urban location.\footnote{178} The Government of West Bengal strongly opposed the Government of India's withdrawing from its nationally responsible organizing role in maintaining the PDS with appropriate subsidy not only for BPL population but also an optimal, though reduced, subsidy for APL population for PDS.\footnote{179}

### 3.5.4 Allocation and Offtake

#### West Bengal

2004-2005 (P)

<table>
<thead>
<tr>
<th></th>
<th>Wheat Allocation</th>
<th>Offtake</th>
<th>%</th>
<th>Allocation</th>
<th>Offtake</th>
<th>Rice</th>
</tr>
</thead>
<tbody>
<tr>
<td>APL</td>
<td>3506.5</td>
<td>881.9</td>
<td>25.15</td>
<td>582.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BPL</td>
<td>810.1</td>
<td>684.7</td>
<td>84.5</td>
<td>808.7</td>
<td>504.4</td>
<td>62.37</td>
</tr>
<tr>
<td>Antyodaya</td>
<td>195.1</td>
<td>134.3</td>
<td>68.8</td>
<td>196.4</td>
<td>126.1</td>
<td>64.2</td>
</tr>
<tr>
<td>Total TPDS</td>
<td>4511.8</td>
<td>1701.0</td>
<td>37.7</td>
<td>1587.9</td>
<td>673.4</td>
<td>42.4</td>
</tr>
</tbody>
</table>

\footnote{177} Bhalla, G.S. and Singh, Gurmail \textit{op.cit.}, pp:130-131.
\footnote{178} "Bengal Govt’s views in NDC" (2001), Vol.XXV, No.37, September 16, \url{http://pd.cpim.org/2001/sept16/2001_sept_16_bengal_ndc}
\footnote{179} "Chief Ministers' Conference" (2001), Vol.XXV, No.21, May 27, \url{http://pd.cpim.org/2001/may27/may27_bengal/cms%20conference.htm}
2002-2003 (P)

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Allocation</th>
<th>Offtake</th>
<th>%</th>
<th>Allocation</th>
<th>Offtake</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>APL</td>
<td>3641.9</td>
<td>261.8</td>
<td>7.18</td>
<td>604.8</td>
<td>16.9</td>
<td>2.8</td>
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<tr>
<td>BPL</td>
<td>700.5</td>
<td>505.0</td>
<td>72.08</td>
<td>1002.16</td>
<td>448.2</td>
<td>44.7</td>
</tr>
<tr>
<td>Antyodaya</td>
<td>153.9</td>
<td>107.5</td>
<td>69.86</td>
<td>153.8</td>
<td>96.06</td>
<td>62.42</td>
</tr>
<tr>
<td>Total TPDS</td>
<td>4496.4</td>
<td>874.3</td>
<td>16.45</td>
<td>1760.8</td>
<td>561.2</td>
<td>31.87</td>
</tr>
</tbody>
</table>

From the above Data, one concludes that between the years 2002-03 to 2004-05.

- In case of wheat, there has been an increase in APL offtake (7.18% to 25.15%)
- Increase in BPL offtake (72.08% to 84.5%)
- Antyodaya has declined marginally (from 69.86% to 68.8%).
- Overall offtake in wheat has increased from 16.45% to 37.7%.

In case of rice - The overall increase in offtake from 31.87% to 42.4% is driven by a sharp increase in APL & BPL offtake (from 2.8% to 7.3% & 44.7% to 62.3% respectively). Antyodaya offtake has shown a marginal increase from 62.4% to 64.2%.

PUNJAB - 2004-2005 (P)

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Allocation</th>
<th>Offtake</th>
<th>%</th>
<th>Allocation</th>
<th>Offtake</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>APL</td>
<td>1473.2</td>
<td>25.3</td>
<td>1.7</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>BPL</td>
<td>166.14</td>
<td>110.5</td>
<td>66.4</td>
<td>BPL</td>
<td>0.475</td>
<td>-</td>
</tr>
<tr>
<td>Antyodaya</td>
<td>30.12</td>
<td>21.94</td>
<td>72.8</td>
<td>Antyodaya</td>
<td>0.821</td>
<td>-</td>
</tr>
<tr>
<td>Total TPDS</td>
<td>1669.7</td>
<td>157.8</td>
<td>9.45</td>
<td>Total TPDS</td>
<td>1.296</td>
<td>-</td>
</tr>
</tbody>
</table>

2002-2003 (P)

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Allocation</th>
<th>Offtake</th>
<th>%</th>
<th>Allocation</th>
<th>Offtake</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>APL</td>
<td>1550.3</td>
<td>10.52</td>
<td>0.67</td>
<td>APL</td>
<td>82.5</td>
<td>0.016</td>
</tr>
<tr>
<td>BPL</td>
<td>159.8</td>
<td>87.1</td>
<td>54.5</td>
<td>BPL</td>
<td>6.57</td>
<td>0.995</td>
</tr>
<tr>
<td>Antyodaya</td>
<td>30.12</td>
<td>15.2</td>
<td>50.5</td>
<td>Antyodaya</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total TPDS</td>
<td>1740.3</td>
<td>11.9</td>
<td>6.49</td>
<td>Total TPDS</td>
<td>89.17</td>
<td>1.011</td>
</tr>
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</table>
From the Above data, one concludes that between the years 2002-03 to 2004-05, in case of wheat – the percentage offtake has increased in both APL (from 0.67% to 1.7%) & BPL (from 54.5% to 66.4%). Also the percentage offtake in Antyodaya has increased from (50.5% to 72.8%). The overall offtake in wheat has increased from 6.49% to 9.45%.

In case of rice there has been an overall decline in total offtake with offtake being almost negligible.180

3.5.5 Consumption Patterns

In terms of aggregate production within West Bengal, the relationship between per capita production and consumption of various food items has been quite good. The per capita consumption of cereals (498.67gms per day) appears to be significantly higher than the all – India average (434.79gms per day) as well as of other foods such as vegetables, eggs and fish. In the case of cereals, tubers and fish, per capita consumption in West Bengal is also well above the recommended daily allowances of the ICMR. However, the per capita consumption of pulses, milk, fruit and sugar is below the national average. One interesting observation is that per capita production of vegetables in West Bengal is 438.77 gms (which is the highest in India) but the per capita consumption is only about 63 gms per day. It is necessary that this is looked into because if the excess vegetables are distributed and or preserved properly then this can be major intervention method to prevent micronutrient deficiencies in rural as well as urban areas.181 The recent deterioration of the public food distribution system and its declining ability to reach households across the state and provide the desired range of food stuff is a source of concern. The increase in retail food prices over the most of the 1990s and the effective disintegration of the PDS have both had implications for all net food purchasers including rural labour and the urban poor.182

If one compares the two states in consumption, one finds that

182 Ibid., p.209.
average monthly per capita consumer expenditure (MPCE) was higher in Punjab for both rural and urban areas than West Bengal. It was Rs.886 (rural) and Rs.1,250 (urban) in Punjab as compared to Rs.538 (rural) and Rs.991 (urban) for West Bengal respectively. In Punjab it was higher than the National average (Rs.554 – rural and Rs.1,022 - urban) and in West Bengal it was lower than the All India average. If one looks at the per capita expenditure on cereals, one finds that the share of cereals in total expenditure was 8% for Punjab and 24% for West Bengal (National average being 18%). The per capita expenditure on cereals was highest in the eastern part of the country and lowest in predominantly wheat consuming states. The highest rural figures were those of West Bengal (Rs.129) and the lowest being those of Punjab (Rs.72), the national average being Rs.99.183

If one examines the 56th Round of NSS and sees the percentage distribution of monthly expenditure per person over groups of items of consumption for rural areas, then one finds a higher percentage for West Bengal (61.60%) in food items over Punjab (48.66%). Punjab has a higher percentage in non-food items (51.34%) over West Bengal (38.40%). The 59th Round of the NSS again reiterates the point that percentage distribution of total expenditure per person per 30 days in food items is more for West Bengal (60.44%) than for Punjab (45.43%). For non food items Punjab is higher (54.57%) and West Bengal is at 39.56%. The 60th Round also reiterates the same result with both the Schedules showing similar trends with the percentage distribution of total consumption expenditure in Punjab in food items being 45.60% (Schedule Type 1) and 47.70% (Schedule Type 2) whereas West Bengal being higher at 59.75% (Schedule Type 1) and 64.08% (Schedule Type 2). For non-food items, in rural areas, Punjab continues to be higher than West Bengal. Similar trends are also applicable for the urban areas.186

If one looks at the percentage distribution of MPCE by 18 groups of consumption items over NSS Rounds, one finds that the percentage of food has gone down

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183 Household Consumer Expenditure and Employment-Unemployment Situation in India, NSS-59th Round, Jan-December 2003, op.cit.
185 Household Consumer Expenditure and Employment-Unemployment Situation in India, NSS-59th Round, Jan-December 2003, op.cit.

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from the 43rd to the 59th Round in both rural and urban areas whereas that of nonfood has gone up.187

- One finds that average monthly expenditure per person on cereals and vegetables in West Bengal is higher than Punjab. Punjab however, has higher figures for pulses, milk and milk products, fruits and gram.188

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