CHAPTER - I
INTRODUCTION

Food is basic to human existence. Therefore ensuring food security to the teeming million tops the agenda of the developing countries as these are suffering from the problems like high degree of inequality in income distribution, widespread poverty, problem of malnutrition along with inflation. Hence, in reality the per capita food consumption to the level of required nutrition deserves greater attention in these countries.¹

The food market in developing countries is usually managed by dual market mechanism: (i) open market, (ii) controlled market. The objectives of the two markets are different, while the open market aims at maximization of profit, the control market caters to the welfare of the people. Open market offers the attraction such as a large number of sellers, varieties, choices, credit dealing, bargaining etc. with the sole aim of earning maximum profit. The controlled market, on the other side, offer benefits such as stability of price, certainties in supplies etc. with the basic motive of maximizing social benefit. If domestic production is below the target level, a seller in the open market can easily increase the price in order to maintain or even enhance the profit margin. If domestic production is sufficient, a seller can hold the surplus and can easily create artificial scarcity in order to safeguard the existing profit margin. In the controlled market attempt is made to keep supply and the demand at the same level so that consumption could be maintained at a stable price.

In India a sizeable population (26.10%) is found in poorer section of the society. About 54 and 42 percent of the monthly per capita consumption expenditure of rural and urban households constitute the share of the food items.² A large percentage of population covering both producer and consumer is vulnerable to the fluctuation in the prices of essential items. A small increase in the price of foodgrain or fall in their

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income will take the poor to the level of starvation. Even if production is high, inadequate supplies to every region and in every market keeps the market price high at level more than the paying capacity of the poorer section. Again in shortage situation free operation of market forces tend to carry the supplies to those markets, which contain buyers with income high enough to pay the market price. As a result, some region gets more supplies than the others and poor people find the supplies beyond their capacity, causing greater inequalities in their consumption.

A major share of surplus foodgrain (74%) purchased by public agency at support price in India comes from the states like Punjab, Haryana, Uttar Pradesh and Andhra Pradesh. In order to reduce the inequalities in the availability of foodgrains, these surplus foodgrains are transported to deficit states with high transport cost which leads to unaffordable market price. Therefore, supplies in such areas through subsidized prices assume special significance. Again price elasticity in respect of essential commodities is relatively high for poor people vis-à-vis for those in the high income group both in rural and urban area. Therefore, burden of any decline in the availability and consequent increase in price affects disproportionately the poor, particularly during the years of high prices.

So during these periods, it is essential to make the foodgrains available to the vulnerable section of the society. Similarly, in the periods of high production a policy of procurement also helps the producer to get remunerative prices for their output. In view of this the Public Distribution System (PDS) is favoured on a continuous basis irrespective of level of production and time.

"Public Distribution System is a system undertaken by the Govt. or any other public agency with regard to distribution of necessities for general public as it provides an important link between the producers and consumers by making available goods and services at the right place, at the right time and at a right price."

4. Govt. of India, Draft Sixth Five Year Plan (Revised) 1978-83, Planning Commission.
“A Public Distribution System is a whole or a part of the distribution system in principle owned and controlled by public authorities on behalf of the general public and run by them for the goods of general public or a specific group thereof”.  

“Public Distribution System means the system for distribution of essential commodities to the ration card holders through the fair price shop, such as rice, wheat, sugar, edible oils, kerosene and such other commodities as notified by the Central Government under clause (a) of Section- 2 of the Act”. 

Thus, public distribution means a system undertaken by Government or public agency with regard to the distribution of basic necessities to the people as a whole or a particular group at a subsidized price.

The Public Distribution System, which is central scheme of India’s food administration, has not emerged at a stroke. It evolved over a long period, lasting approximately 25 years starting from the introduction of rationing system of British Government in India in the year 1939 to the establishment of Food Corporation of India in the year 1965. Since then PDS has proved an integral part of economic planning in India and is now one of the largest such system in the world. Over the years the system has been developed as a stable and continuous feature of the strategy to contain rise in prices and to achieve equitable distribution of essential commodities. Since its inception PDS has undergone many changes as per the need of time and continues as a permanent feature of Indian food administration till the present targeted era of Public Distribution System.

9. Govt. of India, Annual Report 1988-89, Department of Civil Supplies.
ORGANISATIONAL SET UP OF PUBLIC DISTRIBUTION SYSTEM

CENTRAL GOVERNMENT

MINISTRY OF FOOD
i) Procurement, transportation and storage of wheat and rice through FCI.
ii) Allotment of essential items to States.
iii) Import of wheat, rice and sugar.
iv) Storage and supply of sugar to the State authorised agencies through sugar mills.

MINISTRY OF CIVIL SUPPLIES, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION
i) Overall co-ordination with the Ministry of Food, Central agencies and States for distribution of essential items.
ii) Import and allotment of edible oils to States / UTs.
iii) Supply of edible oil to States.
iv) Monitoring the availability and prices of essential items.

STATE GOVERNMENT
i) Receives monthly allotments from the Central Government.
ii) Authorised State agencies to lift and distribute the allotted stock.
iii) Plan and execute distribution arrangements.
iv) Enforces rules and regulations under E.C. Act.
v) Monitor the availability and prices at state level.

State Civil Supplies Corporation and/or Co-operative agencies or Private / Co-operative wholesalers lift stocks from godowns of FCI, sugar mills and STC as per allotment.

DISTRICT ADMINISTRATION
i) District level supervision of Public Distribution System.
ii) District level monitoring and enforcement.
iii) Ensuring public participation.
iv) Authorization to FPSs/agencies to distribute Public Distribution System items to the consumer.

REVIEW AND MONITORING OF PUBLIC DISTRIBUTION SYSTEM AT VARIOUS LEVELS
i) Cabinet Committee on prices at National level.
ii) Special Action Committee on prices of secretaries represented of major Economic Ministry / Department at National Level.
iii) Advisory Committee on Public Distribution System at National level and State level.
iv) Vigilance Committee by NGO, local people at District/Block/Villages/FPS level.

BENEFICIARY
The huge network and responsibility of PDS in India is shared by central and state government. While the responsibility of central government is to procure, store and transport the PDS item up to the central godowns, the licensing of Fair Price Shops (FPSs), transportation beyond central godowns, administration, vigilance and monitoring the system is the responsibility of state government.

Generally, the Government of India decides, in dialogue with the relevant states, how much of foodgrain should be procured in each state. It also decides on procurement prices. This is done on the basis of advice from the Commission for Agricultural Costs and Prices, which calculates the cost of production and estimates a reasonable, remunerative price for the farmers. In principle these prices are the same for each state. There are different prices for different qualities. In the implementation of the procurement policy, individual states make small adjustments - always upward to these recommended prices. In contrast to the centrally administered prices, the mode of procurement is decided by the State Governments. Procurement may take place through open market purchases, by market purchases in which the Government exercises the right of pre-emption, by a levy on producers, traders or millers, by agents under a system of monopoly procurement etc. In many states procurement is supported by a law specially made for this purchase. The State Food and/or Civil Supply Department and Special Police Task Force are responsible for enforcing procurement policy.

Large warehouses of FCI in different part of the country store the foodgrain after procurement. Apart from the allocation to the states, the Government of India also fixes the issue price that is the selling price of FCI. As far as the distribution within the state is concerned the state Government is again the policy-making institution. It decides how to distribute the allocated food and at what price. Every state is having its own distribution policy. The distribution process is monitored by the State Department of Food and Civil Supply. In many state trading corporation
have been established which act as Public Distribution System wholesaler. It is their responsibility to bring foodgrains from FCI warehouses to storage places nearer to retail points. The retail sale of Public Distribution System commodities is undertaken either by state corporation or by co-operative societies or by private fair price shop owners. The schematic outlines of PDS is presented below:

SCHEMATIC OUTLINE OF PUBLIC DISTRIBUTION SYSTEM

FARMERS AND TRADERS

\[ \downarrow \]

(Procurement Price)

FOOD CORPORATION OF INDIA

\[ \downarrow \]

(FCI Issue Price)

STATE CIVIL SUPPLY CORPORATION

\[ \downarrow \]

PUBLIC DISTRIBUTION SYSTEM SUB-WHOLESALE

\[ \downarrow \]

PUBLIC DISTRIBUTION SYSTEM RETAILERS

[Cooperative Societies, Municipality / Grama Panchayat, Department of Civil Supply, Private retail dealers]

\[ \downarrow \]

(PDS Issue Price)

BENEFICIARY HOUSEHOLDS

In the beginning of 21st century, almost seventy years after its inception, the PDS is still an issue of public debate and policy. Different scholars have presented and interpreted it in different ways. Radhakrishna and Indrakant (1987)\(^{10}\) in their study found out that in some areas poor people have to pay higher market prices in the presence of PDS. But the

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study made by Quizon and Binswanger(1984)\textsuperscript{11} showed that the supply of wheat and rice through PDS had increased the real per capita income of the urban poor more than the urban lower middle, upper middle and the rich classes. Parik and Suryanaran (1990)\textsuperscript{12} in their study found out that in the rural area the PDS was not so well developed and consumption from own production by farmers forms an important part of their total consumption. Similarly Shah (1986)\textsuperscript{13} observed that nearly 57 percent of PDS foodgrains was for urban area and 27 percent for rural area. Ahluwalia (1993) in his study found that a sizable amount of PDS item goes to the open market in the form of leakages.\textsuperscript{14} Mahendra Dev and Suryanarayan (1991) named the Public Distribution System as urban-biased and pro-rich.\textsuperscript{15} Study made by Stephen Howes and Sikha Jha (1992)\textsuperscript{16} said that PDS is urban biased and pro-rich with high leakages of items to open market. Similarly Jhol (1989)\textsuperscript{17} viewed that PDS served mainly the middle and lower-middle classes in urban areas whose salaries also stand indexed with the cost of living in one form or other but not the poor.

After the introduction of Targeted Public Distribution System (TPDS) in 1997, different new problems have surfaced such as scarcity of purchasing power with the vulnerable section of the society to purchase

\begin{thebibliography}{9}
\bibitem{12} Parik and Suryanarayan (1990), "Food and Agricultural Subsidies - Incidence and Welfare under Alternative Schemes", Discussion Paper No. 22, IGIDR, Bombay.
\bibitem{14} Ahluwalia, Deepak (1993), "Public Distribution of Food in India - Coverage, Targetting and Leakages", Food Policy, February, World Bank.
\bibitem{17} Jhol, S.S. (1989), "Handling of Foodgrain in India: Some Policy Suggestions", A Key Note Address Delivery at the National Symposium of Handling, Marketing, Transporting and Shortage of Foodgrains in India, Punjab Agricultural University, Ludhiana.
\end{thebibliography}
the commodities from Public Distribution System and fall in market price of the Public Distribution System product due to over supply of goods through employment guarantee scheme etc. and corruption at all stages increasing the black marketing. Further it has often argued that Public Distribution System is insufficient and a considerable chunk of bread is eaten by the functionaries involve in the system, whereas the ultimate consumer could get a little portion of the total subsidy. The provision made through PDS is very low in comparison to the need of beneficiary households, the actual supply is less than the provision and the system is suffering from the problem of irregularities. Sometimes the question is also raised against the quality and quantity of items supplied through PDS. Again the feasibility of operating the Fair Price Shops is a debatable concept.

Therefore, it becomes imperative to study the functioning of the PDS involving the main functionaries in the system. An indepth investigation is needed to find out the working of the PDS at the dealer and beneficiary levels and suggest policy measures to improve the system. On this backdrop, the present study is conducted in Cuttack district of Orissa with the following objectives and hypotheses.

Objectives

(1) To study the working of the fair price shops at the dealer level in terms of coverage of the beneficiaries, volume of business, cost and return in operating fair price shops in rural and urban areas.

(2) To analyse the quantities of different commodities obtained from fair price shops and their adequacy among the beneficiary households in rural and urban areas.

(3) To work out the cost of obtaining different commodities from fair price shops and compare the above with the prevailing market price in rural and urban areas.
(4) To examine the factors affecting the quantity of off-take of different commodities from fair price shops by the beneficiary households.

Hypotheses

(1) Rural dealers do have larger number of beneficiaries, higher volume of business and better return in operating fair price shops as compared to the urban dealers.

(2) Rural beneficiaries in general and APL households in particular receive larger quantities of different commodities from fair price shops as compared to their counterparts.

(3) Quantities of different commodities received from fair price shops by the beneficiary households fall short of their requirement and this is irrespective of within area and between rural and urban areas.

(4) Cost of commodities obtained from fair price shops is higher as compared to the cost of getting it from open market irrespective of categories of beneficiaries in rural as well as urban areas.

(5) Factors like monthly household income, proportion of expenditure on essentials to total monthly consumption expenditure and ratio of dependents in the family to total family members influence the quantity of off-take of different commodities from fair price shops at the beneficiary level.

Scope of the study

The present study is basically intended to analyse the functioning of Public Distribution System at dealer and beneficiary levels in Cuttack district of Orissa for the year 2002-2003. The study by way of providing a comparative picture on different issues of dealers and beneficiaries of
rural and urban areas as well as among the beneficiary households will be helpful to the planners and policy makers to formulate suitable policies and programmes to better off the working of Public Distribution System at grass-root level.

Structure of the Study

The study consists of six chapters. The first chapter is the introductory along with objectives and hypotheses of the study. The second chapter highlights on changing dimensions of Public Distribution System at the all India and Orissa levels. Chapter three reviews the earlier works done in the area splitting into two sections - the first section dealing with macro level studies and second section on micro level studies. Chapter four presents a brief description of socio-economic features of study area along with methodology, sampling techniques and analytical tools used in the study. Chapter five deals with result and discussion based on field level data and is divided into two broad sections. The first section discusses the working of Public Distribution System at the dealer level and second section at beneficiary level. The second section is split into four subsections - first sub-section deals with different aspects of socio-economic characteristics of beneficiary households, second sub-section analyses different aspects of interactive behaviour of beneficiary households with Public Distribution System along with the adequacy of different items received from FPS, third sub-section compares the cost of obtaining different items from Fair Price Shops with its open market price and fourth sub-section brings out the effect of different factors on the quantity of off-take of different items by the beneficiaries from Fair Price Shops. Chapter six summaries the whole work and provides certain policy measures.