CHAPTER - II
REVIEW OF LITERATURE

The present chapter reviews a few earlier studies related to the New Economic Policy and Public Distribution System in India. The chapter is divided into two sections. The first section reviews the past studies on the Public Distribution System in various states of India. The reviews of the studies of the New Economic Policy on the Public Distribution System are given in the last section of the chapter.

2.1 Public Distribution System

Ragbendrajha\textsuperscript{1} analysed the policy allocation of food grains under the public distribution system by using four sets of pooled equations for predicting stable levels of per capita consumption of rice and wheat in physical terms in rural and urban India. Food grain demand is estimated for all states. A formula that is based on the concept of subsidising real consumption through PDS is proposed.

When the study by Madura Swaminathan\textsuperscript{2} was conducted. The study was conducted at the household level in Goreagan Village at Maharashtra. The majority of the households could not afford to buy the common variety of rice in the market. Further, the study explained that they purchased broken rice at
a rate of rupees six to seven per kilo through irregular supplies of grains through the revamped public distribution system. The consumer paid more in due private market than in the fair price shop and they did procure a commodity of lower quality.

Mahendra Dev\textsuperscript{3} in his study noted that PDS is not the only answer to food security of the poorest of the poor because it can be of help only to those who have the purchasing power. Apart from higher economic growth, a mix of policies like effective implementation of anti-poverty programmes, stabilisation of prices, improving wealth facilities is needed for raising food security at the household level.

Another study of Mahendra Dev\textsuperscript{4} examined the poverty and food security problems in Maharashtra and west Bengal. The study also argues that the wider reach of the PDS makes it more effective than the Employment Guarantee Schemes (EGS). Further, proper targeting and improved delivery system in rural areas will make the PDS more efficient. Nevertheless, not PDS alone, but a mix of policies involving effective implementation
of anti-poverty programmes, controlling-inflation and improving facilities, will be needed to solve the food security problems in India.

George's study suggested the following points (l) restrict the volume handled through PDS by means of effective targeting and reduced leakages. (2) match the procurement, both in terms of commodity composition and volume, with distribution target so that storage levels can be controlled; (3) increase the efficiency of handling operations, especially the operations of the Food Corporation of India.

Grover's study highlights the very useful and pertinent information with regard to the identification of the beneficiaries and Cost-Benefit analysis of PDS. The analysis of the impact of the Public Distribution System of foodgrains, prices and projection of food grains and sugar requirements for public distribution system under different situations, generates the findings useful for policy purpose. The study states that keeping in view the twin objectives of economic development with social justice, the food subsidy may be continued in the near future. However, it may be restricted to the vulnerable population only.
Bapna\(^7\) reported that India was among one of the countries of the world which had too less of calories available on per capita basis (2189 calories) whereas world average and Asian average was found to be 2666 and 2437 calories, respectively. As per the study of Erenson, the estimates of the poor in India in 1982-83 were as high as 57 percent and reported that considering an average requirements of 2250 calories; the proportion of undernourished population in urban and rural areas was 66.12 percent and 51.73 percent respectively.

Singh\(^8\) made a study on supply management through Public Distribution System (PDS). The study shows that the controlled scarce commodity had easy access to black market and control shops keep sign board always displaying stock position as Nil. He suggested that the system could work well only when there was a vigilant and organized consumer interest and an honest, efficient and effective administrative machinery.

Rajagopalan and Joshi\(^9\) reported that as many as 80 percent or more households, bought sugar from the ration...
system in Maharashtra and in Uttar Pradesh. In Uttar Pradesh, only 30 percent of the household in the urban areas bought cereals from the PDS while rural areas depended on PDS largely for the commodities like sugar and kerosene. The important reasons for not purchasing from PDS were found to be either no access to PDS due to non-possession of ration cards or non-availability of commodity.

Kabra revealed that PDS segment of food market was very thin and spread. He further founded that per capita annual off-take from PDS to the total consumption level of the poorest strata comes out to be only 1/6th or 1/5th. The study suggested three propositions concerning future policy for PDS: i) The relative share of the PDS in total food supply should be increased to such an extent that it is able to influence the behaviour of the open market segment, ii) Direct availability of a larger share of the PDS to the poor: both in urban and rural areas would serve the objectives of PDS, iii) Opening more retail outlets without increasing the total off-take and supplies under PDS may be counter-productive.

These study pointed out that ration shops were better accessible, in urban than in rural areas in all the states and Union Territories. The main contributory factor to this
difference turned to be the distance from the ration shops, while crowding seems to be similar in both rural and urban areas. The study highlighted that since it was not possible to clearly separate out the tastes and preferences of the self-targeting did not click. Therefore, PDS needs reorientation for a more effective targeting.

Dutt[^1] studied the functioning of consumer co-operative stores which are apex bodies for the distribution of essential commodities in the rural and urban areas respectively. The study reported that, under the present performance of the public distribution agencies, the public distribution scheme seems to be unable to take its distributions to the door steps of the poor in the Haryana State. The study, did not mention about Depot Holders. It was pointed out that the agency had accumulated losses to the tune of Rs. 1.72 crores and it was unable to earn enough to pay even the salary bill of its employees. Bungling and mismanagement were reported to be responsible for the state of affairs of agency. It was further reported that out of 31 Co-operative Consumer Stores in Haryana, only four were found to be earning profits.
Indarkanth\textsuperscript{13} analysed the working of PDS in Andrapradesh. The study highlighted the structural changes in it and with the help of simulation exercises, some of the important issues concerning government intervention policies were examined. For the examination of policy- effects, the year 1985-86 was taken as the reference year. The study concluded that the rice welfare scheme transfer welfare from the rich to the poor. It was not having any marked impact on produce. For the Government, it implied a heavy expenditure on subsidy. In 1985-86 it was estimated that a supply of 2.15 million tonnes through PDS involved a subsidy of Rs.2097 million (Central and State). Thus, subsidy per tonne worked out was Rs.975.

Nair\textsuperscript{4} concluded that an ideal public distribution system should be responsive. Socially oriented, should have public participation and cost effective. He further stressed that the services should be made available closer to the door-steps through increasing the selling points. The author reported that there were about 3.41 lakh retail units of PDS in the country. Out of this, 2.70 lakhs were located in the rural areas. Nationwide, the country had only one fair price shop within a radius of 9 sq.m.
Syed Sajid Husain Zaidi observed that the Government has to give priority to improving the reach and effectiveness of the Public Distribution System (PDS) covered by the drought-prone areas programme, desert development projects, certain designated hill areas and all areas presently covered under the Integrated Tribal Development Projects Blocks. State governments were asked to implement those programmes.

Madi has argued the existing system of distribution in India, its broad objectives, its various concepts of operation and measures for the smooth running of the system.

Lai Sahab Singh in his article has observed various problems of the public distribution system in India with a view to giving a new direction.

Jos Mooij is concerned with a system which even after seventy years of inception continuous to remain an issue in public debate and policy in India. In recent years, this system has increasingly been criticized for being costly, and ineffective. On the other hand, the PDS is also presented as an absolutely necessary social-safety net to help the needy during difficult periods of time. Something, which acquires additional importance in the context of several economic adjustment policies, introduced since 1991. Further, he had adopted a
broad perception on the public distribution system and explores how it works in reality, who protests, who is excluded and why this is the case.

2.2 New Economic Policy and Public Distribution System

In Madura Swaminathan's study, he found that in many countries, a reduction in food subsidised has occurred as part of programmes of structural adjustment and has adversely affected consumption and nutrition. In India, too consumer food subsidies have fallen since 1991. The reduction in forced subsidies has come about, despite little change in the budgetary allocation to 'food subsidy' by means of sharp price increases for commodities sold in fair price shops by a fall in quantities supplied to the system of public distribution, and by a reduction entitlements in certain cases. In a period of low growth and high inflation, the public distribution system failed to ensure that the prices of major food staples were low and stable.

George estimated the impact of discontinuation of food subsidy on nutritional status in the states of Kerala and Gujarat. His calculations revealed that in Kerala, calorie intake went down by 46 per person amongst the higher income group and by 138 amongst the lowest income group. The highest loss of 224 calories per person, however, was to the household of
the low middle income group (Rs. 1201-2400 annual household income). For Gujarat, the loss was estimated to be 192 calories and 178 calories per person to the household of lowest income group and highest income group respectively.

Radhakrishnan and Subba Rao had reviewed that the PDS subsidies account for substantial budgetary expenditure of the central level public spending and are exceptionally high in states which have their own subsidy programmes. Moreover, the country is implementing economic reforms programmes. At no time is the question of the efficiency of PDS as a safety net more relevant than now, especially since the government has recently embarked on a drastic reform of the system.

Suryanarayana observed that in 1985-86 food subsidy accounted for Rs 1891 crores of which Rs.1373 crores was consumer subsidy and Rs.518 crores was for buffer stock operations. It was further observed that PDS met less than 20 percent of the purchases of the poor for the majority of the commodities (except sugar and kerosene). These percentage were similar for all income groups. The study concluded that the PDS marginally supplemented and did not really protect the vulnerable sections of the society. Its author suggested that the
PDS supplied should be targeted i.e; limited only to vulnerable sections of the society and their PDS entitlement may be enlarged.

Upadhyay's study reflected the fact that the poorer segments of the society are ill-equipped to face and absorb the shocks of liberalisation policies and what is required in the institution of a comprehensive structure of safety nets. Notwithstanding many economic, political and administrative factors as discussed above which prevent the full realisation of its potential, the PDS is highly relevant scheme which needs to be further strengthened. There is a general consensus among economists that to make it more effective in providing food security to the poor, the PDS should be linked with poverty alleviation and employment guarantee programmes and the price of foodgrains sold through the PDS should be drastically curtailed. A country filled with huge stocks of foodgrains can hardly have any justification for widespread malnutrition and semi-starvation.

Thamarajakshi explains that the state intervention in the foodgrain market has to be considered in the light of the overall objectives of structural adjustment and economic
liberalisation as also the impressive trends in cereal production. Public distribution of foodgrains should be singly directed only for securing food to the poor at low prices. For the purpose of targeting PDS the area and the group should be specific. Allocation for welfare schemes such as the mid-day meal scheme and for payment of wages in kind to labourers in rural employment schemes should continue.

Kailash et.al\(^2\) conducted a study on the effect of subsidy on household consumption in Western Tamil Nadu. Studies on food consumption provide ample evidence that at least 30 percent of the population is either undernourished or malnourished, indeed a staggering magnitude. In Tamil Nadu the Public Distribution System of food and non food and the free meal scheme are the two major programmes covering the entire population comprising children and old under its fold. The study concludes that the noon meal scheme plays a pivotal role to help and enhance the enrollment of rural and urban low-income group children in primary schools besides improving their health and status.
Soundarapandian\textsuperscript{26} concluded that after the implementation of economic reforms, the highest percentage of the poor purchase the foodgrains from the open market. But the highest percentage of the rich purchase the foodgrains from the PDS. The percentage share shows unequal distribution. Further, the recent announcement of covering the whole country under PDS is a welcome change, but it is too early to assess how it will help the rural poor, if there is no change in the operational mechanism.

Martin Ravallion focused the understandable concerns about the effects on India's poor of higher food prices stemming from recent or proposed policy reforms. Over 24 rounds of the National sample survey, spanning 1959-94, one finds a strong positive correlation between the relative price of food and India's poverty rate. This article questions how reform critics have interpreted this correlation. It is not an income-distribution effect. Rather, it appears to be due to covariate fluctuations between average consumption and food prices due to other variables, including food supply, bad agricultural years, and simultaneous lower rural living standards and increased food prices. The correlation is uninformative about the welfare effect of a sustained increase in the relative price of food.
Suryanarayana's suggestion for PDS reforms based on commodity orientation item is largely from the general impression that (i) the commodity basket of the PDS is weighted in favour of commodities, which figure prominently in the budgets of the middle and richer income groups and (ii) coarse cereals are consumed largely by the poor and hence an approach to ensure targeting would be, to change the commodity composition of the PDS in favour of course foodgrains. This article examines the empirical bases for the suggestion for reform by reorienting the PDS commodity composition.

Raj Kapila and Uma Kapila*) made a study on prices and Public Distribution System in Agricultural Policy. The study reveals that the Government intervention as well as non-intervention in economic management—be it in agricultural or any other sector, are not matters of principle. Their relevant and desirability depend on the purpose they are meant to serve. Non-intervention includes in areas like education, health, food security, research, technological up gradation, and infrastructural development etc. likewise, intervention has to be selective. Its need must be clearly established and its effectiveness should be reviewed constantly.
The real problem is not simply to establish the legitimacy of intervention, but by ensuring its effective and judicious implementation.

Baskar Majumber's study states that Public Intervention in Indian agriculture is connected with food security historically since the Bengal famine of 1943 and the food scarcity during the Second World War. He concentrates in this paper on the implications of liberalization of Indian agriculture in the domain of public procurement and distribution of foodgrains and food security. The existence of a highly skewed distribution of land holdings, the division of the producers between group with low and high marketable surplus, the division of the consumer's between rich and poor, the non-institutional character of rural credit market, the dominance of the traders in rural product market etc. indicates the rational of government intervention in Indian agriculture.

Krishnan Rao reviewed that the implementation of the second generation of economic reforms need to be approached with caution in the present state of the world economy. The current phase of globalization may hold potential for economics with high levels of competitiveness based on high productivity and
highly skilled labour force. Evidence from several countries at low social sector development-literate skills, nutrition and health-care not likely to yield expected results. In fact, reforms without "safety nets" through social sector expenditure and ensuring food security through the PDS.

The reviews of the past studies related to the New Economic Policy and Public Distribution System could pave the way for analysing the impact of new economic policy on the public distribution system in Tamil Nadu.
Summary

The rationing of essential commodities has been in existence in India since the inert war period. The Public distribution system (PDS) in its present form a (producer) price support- cum- consumer subsidy programme has evolved in the wake of critical national level food shortages of the 1960's. The programme has probably contributed to a containment of upward pressures on food prices and ensured access of the food to urban consumers the two principal objectives of the scheme at that point in its evolution. Although the national agricultural scene has vastly changed for the better, contributing to a fall in the incidence of poverty, the design of PDS has remained fundamentally unaltered, except that its outreach is now being extended to rural areas and areas of high incidence of poverty. The food subsidy cost has trebled over the two decades, and accounted for 0.7 percent of GDP in 1993-94. PDS is now "perceived "to be the main safety net to protect the poor from potential short run, price included adverse effects of the economic reforms currently under way, but the perception appears to be far from reality.
Notwithstanding the added emphasis given to PDS in the wake of economic reforms, few studies have estimated the welfare gains, in terms of income as well as nutritional impacts. The impact of PDS on the incidence and severity of poverty is also estimated. Based on the study's own experience and the study's own experience and the study considers various policy options for reforms.
References


