CHAPTER - I
INTRODUCTION

1.1 Statement of the Problem

In India, the New Economic Policy (NEP) is a set of policies and administrative procedures introduced in July 1991 to bring about changes in the economic direction of the country. It has got two major components, stabilization and structural reforms. Stabilization part has again three components: (i) Management of Balance of payments, (ii) Control of Inflation and (iii) Fiscal correction.


The congress led government completed full five years with policies of new economic policies. The United Front Government and Bharathiya Janatha Party (BJP) led alliance also carried forward the new economic policy process more or less on the same line as the previous congress government.
There was high growth rate in GDP since 1991-92. The momentum of growth has been maintained providing increasing evidence that the growth potential has improved as a result of the reforms initiated in 1991. The Eighth Plan (1992-97) ended with an average growth of 6.5 percent per annum. The year 1991-92 was a bad year and if it was excluded, then the growth rate of the economy during the Eighth plan works out to be 6.8 percent per annum. But if 1991-92 is also taken into consideration, then for the 6 years period of economic reform (1991-92 to 1997-98), the growth rate average was 5.5 percent.

However, there is little doubt that after 1992-93, the economy has picked up and the growth rate reached an average level of 7 percent during the next 3 years (1994-95 to 1996-97). This can be considered as a legitimate achievement of the economic reforms. The major issue is to sustain this high growth rate and re-orient the content of growth so that it makes a dividend on poverty and unemployment.
Another major achievement of the economic reform is the control of inflation. A broad view of the 7-years period reveals that the annual average growth rate of WPI was of the order of 9.1 percent during 1990-91 and 1997-98. Since 1996-97 the WPI showed a relatively small increase.

Management of balance of payment "will lead to import compression, directly affecting fertilizer imports and export promotion, encouraging export led growth in agriculture ignoring food security." (R.C.Chowdhry and R. Rajakutty, 1998) Fiscal correction will lead to expenditure control, leading to reduction of subsidies for fertilizers and food and cut back in outlays in the social sector. Liberalization of import exposed 842 products of small industries to competition from imported goods. Liberalization of licensing producers also encouraged the setting up of industrial activities in areas exclusively reserved for protected sectors. Financial sector reforms, with emphasis of prudential norms, will affect credit for rural development schemes. Disinvestment of public sector shares will delute the social concerns of the public undertaking.
The other issue relates to the international dimension of opening up the economy to global market forces. The conclusion of the Uruguay Round of trade talks with the Marrakech Agreement has altered the framework of multinational trade. This was likely to have a series of effects on domestic prices of agricultural commodities, their production levels, crop patterns and the viability of the more vulnerable small and marginal farmers. With the entry of Multinational Companies (MNCs) into export-orientated agriculture, the threat of dispossession of small and marginal farmers is a serious factor.

Subsidies are given to different sections of population and sectors by taking into account the need for incentive and the welfare of the people as well. Incentives are given to boost the production, while on the other hand subsidies are given to the people to improve the quality of life. Subsidies are given for different sectors like Agriculture, industry and service including education and health. Subsidies are given in almost all countries all over the world, India is no exception to it.

Majority of the people in the rural areas, small and marginal farmers, agricultural labourers, rural artisans and others, are poor by any known standards. Even today
39 percent of the people live below the poverty line. In order to provide them with a reasonable quantum of food for consumption, the food items such as rice, wheat, vegetable oils, kerosene and sugar are supplied to the people at subsidized price through public distribution system. An amount of Rs.5000 crore was allocated for food subsidy in the 1993-94 central budget.

It is felt that the allocation of funds for public distribution system is grossly inadequate in view of the vast majority of poor people all over the country. Under these circumstances the proposal for withdrawal of subsidy on food, suggested by International Financing Institution comes as a bolt from the blue. It is feared that the government will be forced to implement this suggestion. If the suggestion is put into practice it will directly hit the poorer sections of the people, who will die of hunger, under-nourishment and malnutrition.

The fact that the new economic policy, particularly the subsidy withdrawal, globalization, privatization and foreign investment into third world economies and India in particular will adversely affect the agricultural production and will damage the food security system and education, health and
other services will be inaccessible to poor people. The finance for development in the rural areas will decline and surpluses and wealth generated the country by will be transferred to the foreign countries through the multinational companies.

The public distribution system is an important delivery channel in the Management of the food security system in India with a network of 4.35 lakh fair price shops, distributing commodities annually worth more than Rs. 15000 crores to more than 16 crores households (16,45,76,000). PDS is one of the largest of its kind in the world. The basic objectives of PDS is to ensure that essential articles are made available to the people at reasonable prices. The nation is committed to reduce hunger and malnutrition by increasing in food production as part of the objective. But increased production alone is not enough. Food distribution and consumption are also very critical aspects as the government policies have a major impact on all these dimensions.

The PDS has been an integral part of India's overall food policy. It has been instrumental in mitigating the plight of the masses that are burdened by low income inflationary conditions,
scarcities and the launting fear of adulteration. Intervention by the Government in food distribution started during Second World War and large urban complexes like Bombay and Calcutta were placed under statutory rationing. This has been the broad objective of the Government of India since Independence though the nature and relative extent of governmental intervention have been largely conditioned by fluctuations in agricultural production and price rise. It has been foremost in the minds of the food policy-makers that the interest of the vulnerable sections of the society must be taken care of in the supply of food grains and essential commodities. The fact is, PDS has been covering all sections of urban and rural people irrespective of income.

The food policy and public distribution in the last live decades, show that barring two spells of decontrol a brief one in 1947-48 and a long one from 1954 to 1956-57 some sort of food control was prevalent. As observed in a domestic set up, with a government responsible to the people, a situation of overall shortage of food and fluctuation in agricultural production during Second Plan period. The distribution could not be left to the private trade and free market mechanism on ideological founds.
The Government's main concern, now is to identify the consumer groups on which the PDS should be targeted. In states like Tamil Nadu and Kerala, PDS user accounts for about 10 percent of the state's population. It will be difficult for the central Government to impose its policy on the states. The policy of selective and targeted PDS creates therefore, a difficult situation in its implementation. It is therefore, pertinent to study the operational aspects of the New Economic Policy and to come up with pragmatic strategies for its success. The presence study attempts to analyse the impact of new economic policy on the Public Distribution System in Dindigul District.

1.2 Objectives of the study:

Overall objective of the study is to evaluate PDS in Dindigul District during the New Economic Policy era. The specific objectives of the study were:

1. To analyse the physical and financial targets and achievements of public distribution system at various levels;

2. To study the relation between PDS prices and open market prices, before and after the implementation of new economic policy.
3. To assess the changes in the level of employment and income, expenditure, saving pattern and indebtedness of the PDS beneficiaries after implementation of new economic policy;

4. To study the Impact of PDS on the inequality of income among the PDS beneficiaries and non-PDS beneficiaries, and

5. To study the problems in the implementation of PDS in Dindigul district and to suggest suitable remedies.

1.3 Hypotheses

Based on the above objectives, the following hypotheses are framed.

1. There is a positive relationship between changes in PDS issue prices and the corresponding open market prices of essential commodities.

2. There is no reduction in the inequality of income among the PDS beneficiaries and non-PDS beneficiaries in the post-reforms period.

3. The changes in issue prices, subsidy level and quantities supplied during the economic reforms period have adversely affected the consumption and the living standards of the sample households.
1.4 Concepts

A clear definition of the concepts used in this study of Public Distribution System would help any reader to understand the different issues dealt with the present study. Hence, before proceeding with the actual discussion and analysis an attempt was made to define the various concepts used in the present study.

Beneficiary as per the Government norms are those who have ration cards of PDS. In the current study beneficiary are "Those who have ration card and the person receiving or purchasing commodities from ration shops with their own cards or by using the other person's cards".

Non-Beneficiary

Non-Beneficiary, in this study includes not only non-card holders but also the persons who do not get any commodity from the ration shop, though they are having ration cards.

Essential Commodities

The supply of the basic necessary items like rice, wheat, sugar, rava, maida, kerosene and palmolin oil by the government are essential commodities.
Issue Price

Issue price refers to the price fixed by the central government for the essential commodities supplied through PDS. It includes the procurement cost, transport and storage cost and rate of interest, etc.

Procaromest

Procurement is done through direct purchase centres opened at the village level. In addition to minimum support price fixed by the Government of India, state Government also order to pay incidental charges/incentives to benefit the farmers.

Stock

The Government of India purchase and store the essential food items for supplying to consumer through the Food Corporation of India (FCI).

Allotment

Every month, the Government of India allot necessary food items to the state Government from central pool for eventual distribution through Public Distribution System.
Off-take

On the one hand the off-take refers to the quantitative of commodities for the PDS by the State Government from the total allocation of Central Government and on the other hand, it means the utilisation of essential PDS commodities from the total allocation of PDS commodities to each district.

Scales of issue

The supply under PDS to the cardholders by the government by determining the quantities of essential commodities is called as scale of issue.

1.S Methodology - Design of the Study

The Primary data as well as Secondary data were used for the present study. In order to analyse the functioning and performance of PDS in India with reference to Tamil Nadu state, data for 10 years from 1989-90 to 1998-99 were collected from the Department of Civil Supplies, Chennai and New Delhi. The Budget allocation, subsidy rate, expenditure for PDS, price variation, quantities supplied etc., were analysed with the help of secondary data.
For collection of secondary data, various sources were tapped. The predominant among them were Directorate of Food and Civil Supplies, State Government of Tamil Nadu, Ministry of Food, Government of India, Economic and Statistical Adviser to the Government of India, Krishi Bhavan, New Delhi, Ministry of Finance, New Delhi and District Food and Civil Supplies Controller, Dindigul. Officials of Food and Civil Supply Department were also contacted from time to time for clarification and verification of data and for ascertaining their views on the subject.

Data on production, procurement and distribution of wheat and rice were also gathered from various issues i.e., Bulletin of Food statistics. The data on various subsidies were collected from the Indian Economic Statistics. Other important sources from which the required secondary data were gathered from among them are Population Census of Tamil Nadu, manual of Nutrition, Co-operative Sugar and Agriculture in India.
For the micro level analysis Dindigul district was purposively selected for the study because the researcher is familiar with the District. One taluk for the district was selected on the basis of the larger number of PDS beneficiaries. After selecting a taluk for the study, one town (Dindigul) and one block (Athoor) from the taluk were selected on the basis of the same criterion. Two municipal wards from the sample town - Balakrishnapuram, YMR Patti and two revenue villages from the sample block - Perumalkovilpatti and Chinnalapatti were also selected for the study.

A sample of 50 PDS beneficiaries and 50 non-beneficiaries of PDS were randomly selected from each sample town and each sample Block with the help of ration cards. Those families with annual income below Rs. 16,400 were considered as poor and those having income above Rs. 16,400 were considered as non-poor, since, the Government of Tamil Nadu introduced the changes in the price and quantity supplied under PDS at the mean average annual income of Rs. 16,400. A total of 100 PDS beneficiaries and 100 non-PDS beneficiaries were interviewed with the pre-tested questionnaire. The Primary data on various aspects were collected during the year 1999-2000.
A discussion was made with the ration dealers in order to identify the problems faced by the implementers in the effective implementation of PDS in Tamil Nadu. The additional interviews were carried out with purposefully selected persons. Private rice and wheat merchants, government officials known for their commitment, local politicians, representative from traders organisations, etc.

The respondent's response to each of the question in the schedule was first tabulated in master table. The qualitative data were quantified as discussed and tabulated to draw meaningful inferences. Thereafter, appropriate tables were prepared keeping in view the specific objectives of the study for analysing the data with the application of statistical tools.

Simple average and tabular analysis were used to analyse data. The collected data were analysed with suitable statistical techniques. Before and after technique and comparative analysis were used to study the impact of the new economic policy of PDS in Tamil Nadu. The reference year was 1993-94 because, in that year the Government of Tamil Nadu introduced changes in the PDS in response to the new economic policy.
1.6 Scope of the study

PDS plays an important role in alleviating the problems of the rural poor. More than 80 percent of the people are availing the service of PDS. After the implementation of the new economic policy in India, PDS are redesigned as revamped PDS and at present targets only at the poorest of the poor. This approach has the double advantage of helping the really needy while reducing the cost of subsidy to the Government. However, the scheme has to meet with several operational hurdles as those who had enjoyed the benefit for a quite long a time would not easily give up. The study at hand highlighted such problems and suggested some measures which if adopted will help for the smooth function of the administrative of Public Distribution System (PDS).

1.7 Limitations of the Study

The study has designed to analyse the performance of public distribution system under new economic policy: The study period is only 10 years from 1989-90 to 1998-99. The primary data used in this study have been collected only from the 100 PDS beneficiaries and 100 Non-PDS beneficiaries with the comparison year 1993-94 and 1999-2000. It is difficult to analyse the impact of new economic policy on the poor PDS beneficiaries and non-PDS beneficiaries with this small sample and some other factors also influence the changes in the socio-economic level of the poor.
1.8 Chapterisation

The thesis is organised into six chapters. The first chapter presents the statement of the problem, the objectives, hypotheses, concept, methodology, the scope of the study and limitations of the study. The second chapter deals with the past studies and literature on public distribution system and new economic policy. The third chapter highlights the profile of the study area. The fourth chapter focuses on the Public Distribution system in India and Tamil Nadu. The fifth chapter analyses the Data Analysis and the Discussions. The sixth chapter brings forth the findings, suggestions, summary and conclusions of the study.
References
