Agricultural Policy: Prices and Public Distribution System: A Review

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"Agricultural policy is in crisis" says a document of the World Bank (Agriculture: Challenges and Opportunities, April 29, 1991). The observation reminds one of the title of a report: India's Food Crisis and Steps to Meet It, prepared in 1959 by a team of experts sponsored by the Ford Foundation.

Policies do need to be scrutinised and revised from time to time in the light of past performance and changes in the domestic and international situations. Such a revision as may be needed should not however be carried out under the pressure generated by a feeling of crisis.

The World Bank Document (hereafter referred to as WB Document) offers a comprehensive review of the performance of Indian agriculture. The range of the data marshalled and tabulated will be immensely valuable to research scholars. While giving credit where it is due, the WB Document draws attention to the flaws in the current agricultural policy and suggests a strategy framework for an 'Adjustment Programme'. Some of the critical areas identified are input subsidies, prices and procurement, domestic and foreign trade, investment, and technology. This paper is however confined to only three issues: Prices, Procurement, and Public Distribution.

The World Bank's major criticism of India's agricultural policy pertains to "excessive and pervasive Government involvement in the sector". There is no difficulty in agreeing with the proposition that "Government must sharpen the objectives of its intervention and policy goals .... and concentrate on those areas where the public sector has a clear and unequivocal role (incentives, infrastructural development, research and food security). We also agree, "Marketing is an activity which by its very nature is ill-suited to public sector entities."

To what extent has the agricultural policy pursued hitherto succeeded in achieving its policy goals? The World Bank's position on this basic question is somewhat equivocal. In several of its paragraphs, the WB Document recognises the positive results of the policy. For example, it states: "At the start of the Green Revolution, policymakers opted for a strategy which concentrated on technology development, expanded input availability and price incentives in a few basic foodcrops .... and infrastructure development .... in a few high-potential regions. This strategy paid off: production of wheat and rice accelerated, India became self-sufficient in foodgrains, and food consumption for most (but not all) of the population increased. The strategy was appropriate for its time and the conditions: it targeted the most obvious and pressing needs of feeding the nation, and it opted for concentrating scarce resources where the returns would be highest."

Such concentration which was the need of the time, had its adverse consequences also. Some regions and crops lagged behind. The question is whether the lag can be attributed

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directly to the strategy of concentration which determined resource allocation or, at least partially, to the inherent agro-climatic disabilities of the lagging regions.

Much of the analysis and many of the recommendations made in the WB Document, e.g., in regard to input subsidies are valid and deserve serious consideration. But in two areas, prices and public distribution, we have some reservation which we discuss below.

I

PRICES

At the outset we should like to submit that the Government does not fix market prices of agricultural commodities; it only announces Support/Procurement Prices which, at the most, influence market prices.

The question which deserves serious consideration is: how to judge whether the incentive framework for agricultural commodities is proper or not? The World Bank’s answer and that of many good economists following its trail, is simple and unequivocal. At the simplest level, comparison of the domestic with international price trends indicates the extent to which commodities are protected or disprotected. The magnitude of protection (disprotection) can be determined by calculating Nominal Protection Coefficient (NPC) - which is the ratio of domestic prices to import/export parity prices. For greater refinement, one may use Effective Protection Coefficient (EPC) which is the ratio of value added at domestic prices to value added at international prices, and still further ESS, which is EPC adjusted for subsidies/taxes on non-tradables.

Based on calculations made by Gulati and Sharma (1991), it is found that the EPC for wheat, rice, and cotton is less than 1, and hence they are 'disprotected', penalised and taxed. In contrast, sugarcane and oilseeds, whose EPC is more than 1 (sugarcane 1.63 and oilseeds slightly above 1.50) have been 'protected', pampered and unduly subsidised. These are averages for 1980-81 to 1986-87.

Is EPC the only relevant criterion for judging whether the price and resulting cropping pattern are right? Are not factors like agro-climatic potential of different regions, technological horizon of different crops, domestic demand and supply in the context of balance of payment constraint equally germane? Let us cite an example: Demand projections based on a background paper by Radhakrishna and Ravi (1990) indicate that demand for edible oils will grow at the rate of 3.5 per cent from the base year (1986-87) to the year 2000 compared to 2.37 and 2.65 per cent respectively for rice and wheat.

From this the World Bank draws the right conclusion that "rice and wheat cannot be the sole engine of growth in the future" and "demand will rise most rapidly for non-foodgrains, especially for dairy products, protein foods, fruits and vegetables, sugar and oils. These products tend to have higher value added than staple foodgrains, and thus contribute to raising rural incomes.... They also tend to be labour intensive not only in production, but also in handling and processing...."

The two tests used to judge the appropriate incentive frame - the EPC and domestic needs and advantages - seem to indicate contradictory policies. The first suggests more incentives to the 'disprotected' crops - rice, wheat and cotton - and less to 'protected' crops - sugarcane and oilseeds. The second test suggests encouragement to edible oils and sugar, and status quo for rice and wheat.

We do not know enough about technological dynamism of different crops and scientific
research in the pipeline. But we do know that in the second decade of the Green Revolution (1978-79 to 1988-89) trend growth rate of all cereals was 2.8 per cent and that of oilseeds and sugarcane 4.1 per cent and 3.1 per cent respectively. This pattern of growth, achieved under the current incentive frame, is also in keeping with the direction of projected demand and contribution to rural income. It also deflates the relevance of EPC as a guide to domestic price policy.

Nonetheless, since India is interested in promoting exports of agricultural commodities, she cannot altogether ignore international prices. This does not detract from the fact that international prices are the resultant of highly manipulated domestic prices and trade policies of exporting countries. If Indian agricultural policies are flawed by excessive and ill-conceived Government intervention, the same is true, to a much greater degree, of domestic agricultural policies of the exporting countries. No country in the world accepts or applies to its agricultural policy, the standard of ‘market purity’. Here are a few examples of market intervention by Governments committed to free market.

"American farmers top up every dollar of their earnings from farming with nearly 50 cents in handouts from American taxpayers and consumers."

"Subsidies double the income of their cousins in the EC."

"In Japan, twice as much of farmers' money comes from the state as from land."

"And farmers in Switzerland hardly merit the name: 80 per cent of their income is given to them." (The Economist, December 12-18, 1992).

France is stubbornly resisting reduction in subsidy to its oilseeds production in spite of the U.S. threat to impose 200 per cent duty on French wine imports.

As is well known, Japan and South Korea have banned imports of rice, which is violative of GATT rules. To find a way out "GATT has offered Japan a formula by which Tokyo could lift the ban and replace it with a 1000 per cent duty on foreign rice."

When such is the state of interventions in international price and trade in agricultural commodities, what is the sanctity of Border prices passionately held up as a guide for India's policy makers?

As to the EPC, "in Japan rice prices are seven times higher than international prices; America helps growers of sugarcane get high prices (currently roughly one and a half times those in the world market) by using import quotas to prevent cheaper sugar flooding in. There are ingenious ways of reducing subsidy. The European Community (EC) has agreed to cut cereal farmers subsidies by 30 per cent - as a gesture to the Uruguay Round negotiations - measured from 1986 when they were at peak. But there is a catch: "Cereal farmers will henceforth get less money through price support as consumer prices fall by 30 per cent. They will instead be given direct grants, provided they agree not to sow some of their land to cereals" (The Economist, December 12-18, 1992). When hunger is stalking over a large part of the world, it is not considered bad economics to keep productive land out of cultivation. Well, perhaps not, but it certainly is ethically indefensible.

The resentment over the developing countries' policy of keeping farm prices deliberately low springs partially from the 'high price' syndrome deeply rooted in the mindset of the developed countries where farmers constitute a tiny minority. The developing countries in which farm workers constitute two-thirds of the labour force and 40 per cent of its population lives in poverty have a more difficult task of balancing the producers' and consumers' interests.
II

PUBLIC DISTRIBUTION SYSTEM (PDS): PROCUREMENT

It is recognised that "Poverty considerations will compel India to sustain publicly sponsored foodgrain procurement, storage and distribution efforts. These programs are even more important in a period of economic downturn and adjustment, to ensure an adequate social safety net." What is needed is "redirecting the benefits of PDS to the truly poor" and "improving efficiency, in terms both of cost and nutritional impact" (see World Bank, 1991). These are eminently reasonable propositions.

That there are many deficiencies in the working of the PDS is readily accepted. The high cost of its operations and more importantly, its inability to reach the rural poor, the objective which provides its very rationale, are very serious deficiencies. But some of the criticisms levelled against PDS need a closer look. More importantly, the solutions and the alternative systems suggested are not as sound as they are made out to be.

The PDS has two distinct components: procurement and distribution. A priori, it would appear that procurement of essential commodities from producers/processors/traders, involving a degree of compulsion, would be a more difficult and unpopular operation, whereas distribution, at subsidised rates, would be comparatively simple. Procurement has to deal with fluctuating situations - harvest conditions, market prices, etc., whereas distribution requirements are easily identifiable and relatively stable. Experience however indicates that the procurement operations which involve decisions on the level of support and procurement prices (a distinction removed in later years), statewise procurement quotas (now abolished), storage and transport have become less bothersome over the years. The procurement system has shown commendable flexibility, criticised as being ‘constantly in flux’, in adjusting to the changing situations; and much of the adjustment has been in the direction of deregulation. Gradually, as the supply situation improved, the severity of all the components of the procurement regime was relaxed. For example, the war time practice of graded levy on farmers was quickly given up. Currently, as we shall argue, the use of levy as a method of procurement is limited. Now, there are no quotas of procurement in surplus states for delivery to the Central pool. The strict centrally imposed zonal restrictions on inter-state movement of commodities no longer exist.

The procurement system has been characterised as coercive. We shall argue that ‘procurement’, as it is practised, is neither pervasive nor coercive, at least not as much as it is made out. Taking the last ten years as a reference period, the bulk of the ‘procurement’ was at support prices, implying that far from being coercive it was protective of the producers. As a matter of fact, it is wrong to term such transactions ‘procurement’, which suggests some degree of compulsion.

Wheat: Let us examine the procurement system cropwise. There is not much objection to the manner in which wheat is procured. Wheat is purchased in the open market along with private traders. There is no compulsion, no levy, the FCI and the State agencies have only a right of pre-emption in purchase at the stipulated procurement price. In several years, prices offered have had the effect of arresting the decline in prices below the support level. Zonal restrictions on transport were withdrawn in 1977, though in years of scarcity informal restrictions on movement of wheat outside the state are imposed by surplus states to facilitate procurement.
This leaves rice, cotton and sugarcane. We shall drop sugarcane from our discussion for lack of space.

Cotton: Cotton is purchased by the Cotton Corporation of India (CCI) and procured under the Monopoly Procurement Scheme in Maharashtra. The latter is certainly unwarranted and needs to be discontinued. Even so, it needs to be mentioned that cotton cultivators have vociferously demanded its retention. Would they do so if the arrangement were coercive? They favour the scheme because they get an assured price. In case the Co-operative Marketing Federation makes a profit through its sales in the open market or exports, the farmers share it in the form of ‘bonus’, but if it makes a loss, which they often do, it is borne by the State Government, i.e., by the taxpayer. The Maharashtra Government has shown a tendency to keep its procurement prices higher than those fixed by the Central Government. Thus, far from being coercive, the Monopoly Procurement is a device for subsidising the cotton farmer at the cost of the taxpayer. Be that as it may, it is a needless intervention.

The Cotton Corporation of India, which is the main agency for market intervention, is not bound, as the FCI is, to purchase cotton at the support/procurement price fixed by the Central Government. There is no obligation, leave aside coercion on anyone, the producer, the processor, or the trader, to sell to the CCI. Yet, the CCI does make substantial purchases at the prevailing market prices, when it feels, rightly or wrongly, that in the absence of its intervention cotton prices will decline to unremunerative levels. Incidentally, the perceived unremunerative levels are higher than the support/procurement prices fixed by the Central Government. Thus the CCI’s market intervention is in fact farmer friendly and not coercive.

Rice: Currently, there is levy on rice mills and traders under which they are required to surrender a certain percentage of their out-turn to the Central or State agencies at procurement prices, which are below the market prices. Hence there is an element of taxation. Besides the levy, procurement of rice involves movement restrictions imposed by rice procuring states. Since September 30, 1977, in principle, there has been no restrictions on the movement of levy-free rice and paddy. Nevertheless, several State Governments have imposed certain restrictions. For instance, in Karnataka, the movement of paddy/rice outside the state, as well as within the border area (5 km belt), is regulated by the State Government by issue of permits. In Tamil Nadu, every licensed miller or licensed dealer who intends to transport rice or paddy outside the state, is obliged to deliver to the Government or any other authorised agency, an equal quantity as levy at the procurement price. In Thanjavur district of that state, there is monopoly procurement by the state Government. The State Governments of Andhra Pradesh, Haryana, Uttar Pradesh, and Chandigarh Administration have imposed restrictions on inter-state movement of paddy in order to maximise procurement of rice. Such restrictions are certainly coercive. The Central and State Governments should jointly reassess the need and utility of such restrictions in the light of prevailing market conditions.

Dual Pricing

It is argued that procurement at below the market prices amounts to an indirect taxation on farmers. Since procurement prices are also support prices, market prices can never be below support prices. They will not also remain ‘at par’ with support prices. The trader will offer a higher than the support price knowing that in case the price declines his loss will be limited to the difference between the price paid by him and the support price, but his gain
through a price rise will be unlimited because there is no ceiling on market price. Hence support prices will always remain 'below' the market prices.

Wherever there is levy, farmers receive the weighted average of levy price and market price. The extent of 'loss', if any, suffered by the farmers in levy sale would depend on (a) the proportion of the levy to turnout/sale of millers/traders and (b) on the difference between the levy price and the (pre-levy) market price. I had argued that under the levy regime, the open market price would be higher than the price that would have prevailed in its absence (Dantwala, 1967). A study conducted by the Indian Statistical Institute confirms that "whenever there is procurement .... the open market price goes up steeply to enable the farmer to receive the weighted average price for his total sales which is not less than what he would have received in the absence of procurement (ISI, 1985). Radhakrishna and Indrakant (1987), in a study of rice in Andhra Pradesh, found that "the open market price of rice in the dual market system have been estimated to be about 20 per cent higher than those in the absence of dual market system" (quoted in Gulati, 1990). Subsequently, "Using appropriate parameters for the Indian economy, Hayami, Subbarao and Otuska have shown that this, indeed, is the case" (de Janvry and Subbarao, 1986, p. 20).

High Cost of PDS

PDS has been criticised on two other counts: (1) high cost of its operations and (2) misdirection in public distribution. The second criticism pertains to the distribution component of PDS, which we shall discuss later.

Several suggestions have been made for reducing the high cost of PDS and the element of large subsidies involved in it. Alternative mechanisms have also been recommended through which cost and subsidy could presumably be reduced without diluting the objectives which the PDS is meant to serve. Before we examine the alternatives let us note some facts about the high costs and some other aspects of PDS like storage.

It is true that the procurement, storage, and distribution operations of the FCI have become huge and unwieldy. It has been calculated that, in 1987-88, the total cost incurred by the FCI in its procurement, storage, and distribution activities came to Rs. 2,200 crores. On a cost per quintal basis (excluding Rs. 200 crores for storage), consumer subsidy for wheat and rice comes to Rs. 82. Tyagi has estimated that in the 14 years, 1975-76 to 1988-89, the average distribution cost has gone up by about 274 per cent, whereas the procurement incidentals have gone up by 70 per cent (Tyagi, 1990, p. 124).

For its price support operations, the FCI has to maintain a core establishment and a minimum strength of staff. As it is, there are complaints that the FCI has often failed to provide price support, particularly in backward areas where it is most needed. In 1987-88, the number of purchase centres operated for procurement of paddy (rice) by the FCI along with State Government agencies was 4,417. For wheat procurement, purchase centres were more than 7,800. Since then, the number of purchase centres has increased. How many of these could be dismantled without jeopardising its function as a price supporter?

Stocks

For two decades since Independence, India has suffered from shortages of varying
degrees, from marginal to acute, in foodgrains production, and had to depend on imports to feed its people. Almost all Committees/Commissions between 1943 and 1967 have recommended building up buffer stock of foodgrains for imparting stability to the food economy of the country. In 1975, a Technical Group was appointed to go into the question of the volume of foodgrains to be handled by the public agencies and the reserve stock that would be required to tide over inter-seasonal variations in production. The Group recommended that a buffer stock of 12 million tonnes (mt) should be maintained in physical terms in the country. In 1981, the Central Government appointed another Technical Group to re-examine the same question. Based on its recommendation, the Government of India decided that (1) the buffer stock to be maintained by public agencies should be 10 mt (net) and (2) in addition, an operational stock varying from 6.5 mt on 1st April to 10.1 mt on 1st January, should be maintained. Thus the total of buffer plus operational stock would vary from 16.5 mt in April to 20.1 mt in January (Tyagi, 1990, p. 46). Table I gives the position of stocks on 1st April and 1st January from 1984 to 1992, compared with desired levels. It will be seen that in only three out of seven years, the stocks exceeded the desired levels.

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<td>31st March</td>
<td>16.5</td>
<td>14.9</td>
<td>21.2</td>
<td>20.9</td>
<td>19.5</td>
<td>9.4</td>
<td>7.3</td>
<td>11.7</td>
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<td>31st December</td>
<td>20.1</td>
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<td>25.2</td>
<td>23.6</td>
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<td>9.5</td>
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<td>19.1</td>
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*Sources: Tyagi (1990, Table 2.8, p. 47); Government of India (1992 a, Table No. 11.5, pp. 84-85); Centre for Monitoring Indian Economy, Monthly Review of Indian Economy, Bombay (monthly issues).

It would be helpful if the stock position, net of withdrawal or addition, is examined in the context of variations in foodgrains production, along with procurement and public distribution. (Table II).

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<tr>
<td>Production</td>
<td>152.37</td>
<td>145.54</td>
<td>150.4</td>
<td>143.4</td>
<td>140.4</td>
<td>169.9</td>
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<td>Procurement</td>
<td>18.72</td>
<td>20.12</td>
<td>19.7</td>
<td>15.7</td>
<td>14.1</td>
<td>18.9</td>
<td>24.0</td>
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<tr>
<td>Public distribution</td>
<td>13.33</td>
<td>15.80</td>
<td>17.3</td>
<td>19.7</td>
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<td>15.9</td>
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*Sources: Government of India (1992 a, Table No. 11); Centre for Monitoring Indian Economy, Monthly Review of Indian Economy, Bombay (monthly issues).

Thus, by and large, the FCI did discharge its function of evening out the effects of fluctuations in the production of foodgrains by higher procurement during years of good harvests and higher distribution during years of sub-normal production. Foodgrains production was very low in two successive years, namely, 1986-87 and 1987-88. The high level of stocks during the preceding period, 1985 and 1986, helped the country to tide over a very critical situation in 1987 and 1988. The monetary cost of holding (large) buffer stocks should be weighed against the gain of preventing widespread starvation.

Three major suggestions have been made for reducing the Government's (FCI's)
involvement in the management of the food economy: better targeting, reduction in buffer stock holding by greater reliance on imports, and involvement of private trade in procurement. We shall examine them in that order.

Targeting

As our subsequent discussion reveals, there is considerable leakage in public distribution in favour of the non-poor. Hence it is essential to ensure that public distribution and subsidies involved in it are better targeted. We are however not sure that quantities required for targeted distribution would be substantially lower. Subbarao (1989) has estimated that to ensure the coverage of the very poor, numbering about 58 million households in 1988, annual foodgrain requirement would be 11.6 million tonnes, considerably less than 16 million tonnes distributed in 1988. We view targeting not so much as a means of reducing the requirement under PDS or the burden of subsidy but as an obligation to ensure that the PDS serves the purpose for which it was introduced, namely, to provide food security to the poor, till poverty is eliminated through appropriate macro and micro economic policies. We would therefore like to shift the area of debate on the PDS from a policy issue to one of its proper implementation. In other words, we are not overly bothered by the burden of subsidy but by its misdirection. The PDS should be viewed as an instrument of income transfer in favour of the poor.

No doubt, there are operational problems for effective targeting, such as identification, timely supply and transportation. But in some states like Kerala, Andhra Pradesh, Tamil Nadu, and Gujarat, various types of targeting schemes have been introduced by a process of selective inclusion of school children, old and destitutes, tribals, retrenched workers, etc., and exclusion of income tax payers, etc. Excellent targeting can be achieved by a massive employment programme assisted by 'food for work'. Some scholars would prefer a massive employment programme to provide money income to the unemployed and let them buy their requirements in the market. The problem, however, is that there is no non-exploitative market for the poor where they can buy.

The Central Government also has initiated steps to revamp the PDS. "Preference is now being given to population living in the most difficult areas such as drought-prone areas, desert areas, tribal areas, certain designated hilly areas, and the urban slum areas. About 1,700 blocks have been covered in these areas under the revamped PDS" (Government of India, 1992b). However, we notice a slight change in the emphasis from revamping the PDS for the benefit of the poor to a review "of the management system including procurement, distribution, and pricing of items supplied and the coverage of beneficiaries." Further, it is proposed "to review the agricultural policy including buffer stocking so that it is in tune with the developments in the international trade" (emphasis added) (Government of India, 1993). Implications of such a review are as yet not clear.

Imports

It has been suggested that instead of holding large stocks, the Government should export a part, block the foreign exchange earned therefrom and use the same to import foodgrains in years of shortages. This presumes that whenever necessary there will be a market for
foodgrains export, in terms of prices and quantities, and availability in foreign markets to meet its emergency needs through imports at stable prices. One is not so sure of such a balanced international trading regime in foodgrains. Besides, the psychological impact of stocks in the country’s own warehouses is much greater than that of foreign exchange ‘reserve’ searching to locate foodgrains in world markets.

"In fact, in 1985 when India could have exported a couple of million tonnes of wheat, the world market price was substantially lower than the economic cost of exports. Thus the Government would have been required to heavily subsidise these exports" (Tyagi, 1990). In an opposite situation of domestic scarcity, reliance on foreign trade would also be risky. It seems therefore that "The world market cannot be relied upon to provide food at stable prices .... As a course of normal strategy of development and for food security, developing countries must take account of the extra expenses involved in relying primarily on the world market for food in dealing with emergencies short of famine" (Parikh, 1992). Parikh refers to the International Monetary Fund (IMF) cereal facility which provides access to foreign exchange to meet unexpected import costs. The facility makes it possible to rely more on trade and relatively less on domestic buffer stock. But, he observes: "It is often not easy to be an intermittent exporter of small quantities of food. If a country is larger and its domestic production fluctuates in a way that makes it a major exporter in some years and a major importer in others, its exports will depress world prices and imports will increase them. It will, therefore, on balance, need to export a larger quantity to pay for the import of a given quantity. This extra cost will have to be balanced against the cost of domestic storage" (Parikh, 1992). Further, "gains from increased allocative efficiency consequent on free trade in general and trade liberalisation in agriculture in particular are marginal" and "trade policy, like price policy, and other policies which rely on market mechanism, are not very effective in bringing food to the poor. They will provide food to those who have money to buy it but not to those who lack purchasing power" (Parikh, 1992).

Private Trade

It has been suggested that commodities needed for public distribution should be obtained through open market purchases. It is not fully realised that once the market knows beforehand that there is a compulsive buyer of a large quantity, say a minimum of 16 million tonnes of foodgrains, it will hold back the stocks till the prices skyrocket and then make a killing by enforcing ‘distress’ buying on the compulsive buyer. The essence of free market, and particularly of the futures market (suggested by Tyagi and the World Bank) is that the buyers and sellers keep each other constantly guessing about the quantity and the price at which they will buy or sell. It appears that those who are recommending large open market purchases for PDS and buffer stock requirements have not given enough thought to market psychology. A similar misconception about market behaviour can be seen in a recommendation made by some economists and apparently approved by the Government of India for open market sales from PDS stocks to stabilise market prices.

The Cotton Corporation of India (CCI) is able to operate through open market, precisely because it is under no obligation to purchase any fixed quantities at fixed prices, whereas the FCI has both these obligations.

A suggestion has been made that the FCI should appoint licensed traders/agents to make
purchases on its behalf. Once again the same question may be asked: at what prices? Probably within a price range indicated by the FCI. Which licensed trader will make a commitment to deliver the stipulated quantity within the price range knowing that his competitors will soon find out his commitment to the FCI. Briefly, free market can work only under the condition of free purchasers and free sellers. It can be of no use to an unfree purchaser or, unfree seller. The other side of 'distress' sale is 'distress' purchase. In principle, PDS is meant to take care of both distress selling through support prices and distress purchasing through PDS. Is it conceivable that private trade would discharge these functions with a sense of social responsibility?

III
PUBLIC DISTRIBUTION

Besides the high cost and the consequent subsidy burden, the distribution operations of FCI have been criticised for their failure to fulfil its main objective of providing food security to the poor, both in terms of availability and reasonable prices. Better targeting of all social security and poverty alleviation programmes unquestionably has to be one of the most important areas of economic policy reform.

The current public distribution operations are faulted on two grounds: one its 'urban bias' and second, the substantial leakages to the non-poor which would be tantamount to perversion of the PDS. On urban bias, academic opinion is divided. Public intervention in foodgrains distribution commenced during the Second World War under conditions of scarcity. By 1947, about 54 million people in urban areas were covered by statutory rationing and another 19 million by other forms of public distribution. The metropolitan cities in which statutory rationing was introduced were cordoned off and bringing in foodgrains by private trade was prohibited. Experience of the Bengal Famine (1943) had shown that, during periods of scarcity, the big cities with their high purchasing power siphon off disproportionate quantities of foodgrains, depriving the hinterland of its share in the total availability. Shortages and high prices in the rural areas cause severe deprivation often leading to starvation deaths. The Government sought to prevent such a situation by limiting urban consumption through statutory rationing under which there is no free market and other source for purchase. This is how the 'urban bias' crept into the public distribution system. By 1953, cordonning and statutory rationing were abolished, but the scarcity persisted and the focus shifted to meeting the needs of 'deficit' states. Thus, in the early years after the establishment of the FCI (earlier Food and Warehousing Corporation), Kerala and Maharashtra were the largest recipients of foodgrains from the 'Central pool', built up through compulsory procurement from 'surplus' states for whom quotas were fixed. The success of Kerala’s rationing system was largely due to supplies acquired through surplus states like Punjab. This is perhaps the best example of national integration, erroneously perceived by Raj Krishna as partitioning the country through zonal restrictions.

So much for the brief history.

_Rural-Urban Bias_

The data base for testing the sectoral (rural-urban) and class (rich-poor) bias in PDS is provided by the 42nd Round (July 1986 to June 1987) of the National Sample Survey on
‘Utilisation of Public Distribution System’ (NSSO, 1990). For assessing rural-urban bias, Dev and Suryanarayana (1991) list seven criteria: (i) visit any village and verify, (ii) accessibility as measured by (a) number of ration shops per thousand of population covered by PDS in rural and urban areas and (b) number of ration shops per given area, (iii) relative proportions of total PDS supplies accruing to rural and urban sectors, (iv) relative dependence on PDS defined as the PDS share in total quantities of an item purchased, (v) per capita PDS quantity purchased, (vi) per capita PDS implicit subsidy determined by the gap between the open market price and ration price, and (vii) PDS quantity per market dependent (PDSPMD) which takes into account the population that depends on the market for a particular commodity. Statistical data are provided to facilitate assessment of the bias with different criteria. Each criterion has its limitation. Dev and Suryanarayana prefer the last criterion, namely, PDSPMD. After a careful analysis of all the available data they conclude: "The nature of the bias varies depending upon the commodity in question and the criterion used." Using the preferred criterion, 'PDS quantity per market dependent' (PDSPMD), "they find that "PDS is rural biased at the all-India level for rice, coarse cereals, sugar and cloth. These items constitute 60 per cent of total PDS purchases. Hence it appears that PDS is not urban biased but pro-rural." The findings at the state level vary. In states like West Bengal the PDS is still urban biased.

Rich-Poor Bias

The main purpose of public distribution is to provide food security to the poor by supplying foodgrains at reasonable prices through fair price shops, thus reducing their market dependence. Has it succeeded in achieving this objective? Analysing the relevant data, Dev and Suryanarayana (1991) find that "At the all-India level, the dependence of the poor on the PDS in rural areas for rice, wheat, edible oils, coal, standard cloth is less than 16 per cent. These figures for coarse cereals which are generally consumed by the poor is very low (less than 5 per cent). This would mean that the dependence of the rural poor on the open market is much higher than on the PDS for most of the commodities distributed under the PDS. Similarly, the urban poor also depend, to a substantial extent, on the open market for their consumption requirements." As for the more pertinent question of rich-poor bias, the appropriate criterion for judgement would be the proportion of PDS purchases to total purchases in different income groups. Here the data show that "more or less all the population [income] groups depend uniformly to the same extent on the PDS with respect to all commodities in rural areas, even though there are slight variations" (Dev and Suryanarayana, 1991).

The authors seem to derive some satisfaction from the even-handedness of PDS in relation to different income groups, but, in fact, their observation demonstrates improper targeting of PDS and leakage towards the non-poor.

Shikha Jha (1991) carries the discussion further. Given that the poor are the target group for public distribution, the effectiveness of targeting can be viewed from two angles: first, the proportion of the poor in the total PDS beneficiaries and second, the proportion of the poor covered under the PDS to the total number of the poor. Ideal targeting would imply that (a) all the beneficiaries of the PDS are poor and (b) all the poor are covered by the PDS. Jha conducts two exercises to ascertain the facts. From the first exercise (TR1), she finds
the TR1 ratio, which would be 100 if only the poor were the buyers from PDS, ranges from 40 to 50 for different rationed commodities, except for jowar in which it is around 60. To illustrate, while about 40 per cent of the population buys subsidised rice, only half of them are poor. This indicates that a substantial part of the PDS benefit goes to the non-poor purchasers.

The first exercise tells us only about the proportion of the poor within the PDS beneficiaries. It does not tell us about the size of the poor (bottom 40 per cent) left out of the ration scheme as compared to the total poor population. Jha’s second exercise (TR2) attempts to find this out. Once again, the ideal situation would be TR2 = 100, i.e., the system covers all the poor. While TR1 indicates leakage in the system, TR2 indicates coverage of the poor by the PDS. The TR2 exercise shows that the percentage of left-outs among the lowest fractile (0 to 10 per cent) in the rural areas varies from 70 for wheat to 22 for sugar. For rice, the percentage is 57 and for jowar a hefty 90. (The PDS for jowar is negligible.) The percentage of left-outs in urban area is not significantly different.

The exercises based on numbers of users and non-users - both TR1 and TR2 - ignore not only the quantities purchased but also the needs of rural and urban population as also that of different fractile groups within it. It is quite possible that availability from non-PDS sources may be cheaper, besides being convenient. However, if the main concern is with the distribution of subsidies, Jha’s finding that a large portion of subsidies accrues to non-eligible non-poor would be correct.

The amount of subsidy involved in the PDS system is the sum of the per quintal subsidy in different rationed commodities multiplied by the quantities distributed. The first attempt should be to explore the scope for reducing the amount of subsidy without hurting the interest of the poor. Having done so, the second attempt should be to target the distribution in a manner that the benefit of subsidy accrues, if not exclusively, predominantly to the poor. For this purpose it would be necessary to know commoditywise total consumption expenditure and also the share of rationed consumption data for different fractiles, which can be used to calculate commoditywise rationed and total consumption quantities and also the associated subsidies. This will enable us to find out the extent of leakage in areawise (rural-urban) distribution of different commodities. On the basis of this information, the Government can alter the composition of the rationed commodities and their rural and urban distribution such that the maximum benefit from subsidies accrues to the target group. A pre-condition for the success of such a reform would be that the commodity composition of PDS distribution should match the commodity composition of procurement. Under the present system of procurement, the FCI and other procurement agencies are not in a position to ensure such matching. They have no authority to procure the quantities needed for the 'reformed' distribution system. Under the price support system, say for wheat, the FCI is under an obligation to purchase all the quantities offered to it, even though they may not be needed. Besides, the capacity of the procurement agencies depends on the quantum of marketable surplus and its geographical spread. Many scholars have lamented the negligible quantities (2 per cent) of inferior foodgrains, jowar and bajra, distributed under the PDS, as these are the preferred commodities in the consumption of the poor. The problem is that these inferior goods are generally grown by small farmers for self-consumption. Hence their marketable surplus is not only small but also dispersed. This makes their procurement not only physically difficult but also expensive.
Another criticism of PDS is that "per capita distribution of foodgrains in different States has not been consistent with the percentage of population below the poverty line in these States" (Tyagi, 1990). For example, in Bihar and Madhya Pradesh where the population below the poverty level is around 50 per cent (1983-84), the per capita distribution (quinquennium ending 1988) was less than 10 kg against the all-India average of 21 kg (Tyagi, 1990). As against this, in Kerala where only 26 per cent of the population is below the poverty level, the per capita per annum distribution of foodgrains has been over 60 kg. The other way of looking at this is that, to some extent, the provision of 60 kg per capita foodgrains to Kerala from the Central pool has helped to reduce the incidence of poverty.

In the mid-sixties, the then Agricultural Prices Commission and FCI used to prepare a rough 'Food Budget' for each state, based on its production and requirement of foodgrains. Procurement/allocation quotas were determined by the magnitude of the food surplus/food deficit though the states would under-estimate production and over-estimate the requirements. With the improvement in the food situation, the system of procurement and allocation quotas was given up. Still the 'food gap' remains the best tentative guide for the purpose of allocation from the Central pool to the states.

Tyagi does examine the state-wise per capita production of foodgrains, their share in total public distribution and the poverty ratios, and concludes that "the per capita distribution of foodgrains in different States has not been consistent with the percentage of population below the poverty line." This is indeed so. But let us examine the same data slightly differently.

The two states, Punjab and Haryana, have the highest per capita production, their poverty ratios are also the lowest. Their share in public distribution is also the lowest, barely one per cent. On the other hand, the four states with lowest per capita production are Kerala, Gujarat, Maharashtra and Bihar, in that order. They receive 10.1, 5.0, 9.6 and 4.7 per cent share of public distribution. Poverty ratios are high in Bihar and Maharashtra, but low in Kerala and Gujarat. These data indicate that only Bihar appears to be discriminated against in public distribution. West Bengal and Tamil Nadu in the medium range of per capita production receive comparatively higher share (12.0 and 9.9 per cent respectively) in distribution. In both these states poverty ratios are also high. West Bengal is better served by public distribution probably because of its high percentage of urban population. On the basis of per capita distribution also, we find that Punjab and Haryana received about 10 kg as against 62 kg by Kerala (Tyagi, 1990, pp. 90-91).

In a vast country like India in which the food economy is not centrally controlled, intervention through PDS cannot bring about perfect state-wise balance in availability of food. The relevant question is: would a totally free private trade achieve a better balance?

Government intervention as well as non-intervention in economic management, be it in agriculture or any other sector, are not matters of principle. Their relevance and desirability depend on the purpose they are meant to serve. Non-intervention, say in matters like education, health, food security, research, technological upgradation, and infrastructural development would be a dereliction. Likewise, intervention has to be selective. Its need must be clearly established and its effectiveness should be constantly under review. The real problem is not simply to establish the legitimacy of intervention, but that of ensuring its effective and judicious implementation.

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