

## DEBATE : IS IT TIME TO WIND UP THE PUBLIC FOOD DISTRIBUTION SYSTEM?

Food coupons are a better alternative

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There are few policies that have survived as long as the public distribution system (PDS). A sort of rationing system was put in place during World War II. This piecemeal measure was formalised into a policy in Independent India. The PDS was limited to urban centres and middle-class Indians who lived through the 1960s and 1970s remember the ration shop as an important part of their lives.

It was only in the 1970s that the rhetoric changed and the PDS was enshrined as a friend of the poor. In retrospect, two developments played a role. First, with the growth of domestic food surpluses, farmers became a force in the political economy. The policies of procurement and buffer stocks dovetailed neatly into the PDS. Secondly, the well-known politics of *garibi hatao* needed potent images and the PDS was handy. In the last two decades, however, evidence has steadily mounted that in most places, the PDS is not a particularly valuable friend of the poor.

In the southern states, especially Kerala and to a lesser extent Andhra Pradesh, the poor seem to make reasonable use of food subsidies. This is not so in the rest of the country. The government response was to target the PDS at the poor. Despite this emphasis, however, the PDS still has a hard time reaching the intended beneficiaries. According to the most recent data from the National Sample Survey, less than half of the poorest households are officially recognised as poor and eligible to receive subsidised grain.

The other long-standing problem with the PDS is fraud. A substantial fraction of PDS supplies—estimates range from 20-50%—never reaches consumers. Somewhere on the way, the grain is hijacked and disposed of in the open market. The hijackers pocket the difference between the market price and the subsidy price. This way, the PDS supports and sustains a flourishing black-market economy. The targeting reforms never addressed this issue. These problems with the PDS are well known and universally acknowledged. Yet, despite numerous committees and reports, there has been little movement towards a fresh start.

Reforms would be substantial and enduring only if they address these two principal issues. Targeting errors would substantially fall if households who are near-poor were also recognised as worthy of subsidies. The consequent increase in subsidy costs should not be grudged because (a) the near-poor are not much better off; (b) the poverty line that is used to officially classify the poor is anyway better suited to measuring our progress in reducing poverty and cannot serve as an objective definition of the poor; and (c) the increase in subsidy would be more than compensated for if reforms addressed the efficiency of the food subsidy system.

The starting point for the second set of reforms is that it is unnecessary and wasteful for the government to procure, store and transport grain to deliver food subsidies to the poor. It is far more efficient for the government to distribute cash subsidies to be used for food purchased. Market players can handle the underlying logistics-whether retailers, wholesalers or public agencies. The job of the government ought to be to monitor and guard the value of food subsidies (against inflation).

Cash transfers-or food coupons-promote consumer choice between retail outlets, help cash-strapped consumers by eliminating the need to buy all rations in one transaction, end illegal grain diversions, increase volumes facilitating viability of retailers and widen the scope of food subsidies by enabling easy inclusion of coarse cereals, pulses and milk.

Scams in cash disbursement (or in the form of food coupons) will certainly be tempting to fraudsters-but which is easier to audit: sacks of grain or number-tagged coupons? Cash transfers are now the most prevalent form of social protection in Latin America-a region where Left movements are resurgent. Unfortunately, our Left parties have paid little attention to these experiences and have preferred to stick to ideological positions of state intervention.

The PDS survives today because of indifferent politicians, the black-market lobby, misguided NGOs and an unthinking Left. The PDS is so broken today that there is little point in debating whether it should be wound up. The real question, really, is who will perform the last rites?

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