Economics Class 33

PUBLIC DISTRIBUTION SYSTEM (09:00 AM)

- **Topics to be covered**
- Evolution of PDS
- FCI, FPS
- CIP, MSP, etc
- Challenges of PDS
- Measures taken by the government
- Shanta Kumar Committee- FCI reforms
- **Concept of PDS:**
- PDS can be distinguished from private distribution in terms of control exercised by the public authority, and the motive predominantly is welfare rather than private gain.
- Broadly, the system includes all the agencies that are involved from the procurement stage to the final delivery of food to the consumers.
- The agency involved in the process of procurement, transportation, storage, and distribution is FCI. CSD
- At the state level, it is the state Civil Supply Department and the fair price shops which are agencies involved in the provision of PDS.
- Fair-price shops are the last link in this process which are mostly owned by private individuals. FPS
- Procurement of cereals is undertaken by FCI on behalf of the central government.
- Some state government agencies also procure grains for the central pool as well as their account. own
- Allocation to different states is made by the government
- Fair-price shops are not allowed to sell other than government-supplied essential commodities.
- A specific quantity is allocated to each fair-price shop (FPS) depending upon the number of ration cards attached to the FPS.
- The prices of these commodities are fixed by the government and a fair-price shop dealer has to procure a license to run it.

EVOLUTION OF PDS (09:45 AM)

- The growth of PDS in India can be grouped into three time periods.
- **1945-65:** In the first period up to the mid-60s, PDS was seen as a mere rationing system to distribute scarce commodities and later it was seen as a fair price system in comparison with private trade.
- Rice and wheat occupied a very high share of food grain distribution.
- The need for extending PDS to rural areas was realized but not implemented.
- The operation of PDS was irregular and dependent on imports of PL-480 with little internal procurement, in effect imports constituted a major proportion of the supply of PDS during this period.
- The procurement prices offered were not remunerative.
- By the mid-60s it was decided to look much beyond the management of scarce supplies in critical situations.
- Stoppage of PL-480 imports forced the government to procure grains internally, in effect India took a quantum leap in the direction of providing a more sustainable institutional framework for food security. Lambi Chalang
- The setting up of FCI and the Bureau of Agricultural Cost and Prices in 1965 marked the beginning of the second phase.
- **1965-75:** The food security system during this period evolved as an integral part of developmental strategies, to bring about a striking technological change in selected food crops, especially rice, and wheat.

- **1975 to present -** In the third period, there was an increase in food production.
- The buffer stock accumulation also increased in FCI and hence the initial emphasis on buffer stock maintenance shifted to an increase in the PDS supply
- During the fifth and the sixth five-year plan, the government focused on plans like "Garibi Hatao" along with reducing overstocking of foodgrains
- The imports gradually declined and India became a net exporter by 1975.
- Till the late 1970s, PDS was largely confined to the urban population and did not guarantee adequate food security to the rural poor
- During the early 1980s, some state governments extended the coverage of PDS to rural areas and introduced a **targeted grouping approach** (Tamil Nadu, Andhra Pradesh, Gujarat, and Kerala)
- Thus PDS which started to meet crisis was transformed into an instrument for efficient management of essential consumer goods necessary for maintaining stable price consideration
- PDS has been designed and implemented by both central and state governments.
- The central government mainly deals with buffer stock operations and controls the internal and external trade of food grains.
- State government focuses on the identification and distribution.

TERMS (10:41 AM)

- **Food Corporation of India (FCI)-**
- It was set up under the FCI Act of 1964, to fulfil the following objectives.
- 1. Distribution of food grains throughout the country for PDS.
- 2. Maintaining a satisfactory level of operational and buffer stock to ensure national food security.
- 3. Effective price support operations for safeguarding the interest of farmers.
- 4. To meet the emergency arising out of unexpected crop failure, natural disaster, etc.
- **Central issue price-**
- Prices at which FCI sells food grains to the State government for implementing TPDS. → Targeted Public Distribution System
- Food grains are supplied to BPL families at half the economic cost and full economic cost for APL households.
- Economic cost comprises procurement prices of food grains along with the cost of distribution including transportation.
- **Fair Price shops-**
- Essential commodities like rice, wheat, sugar, iodized salt, and Kerosene are distributed to targeted cardholders as per eligibility and rates fixed by the government.

MSP (11:04 AM)

- MSP is recommended by the Commission for Agricultural Cost and Prices (CACP).
- CACP takes into account several factors like cost of production, change in input cost, input-output price parity, demand, supply, and other micro and macro level data to determine MSP for the season.
- **Benefits of MSP-**
- It ensures stable income for the farmers.
- The stability of prices ensures the stability of supply for the next season as well.
- It also protects farmers from money lenders.
- It acts as insurance against price volatility.
- It allows farmers to be able to use higher returns to invest in mechanization.
- **Issues of MSP-**
- **Calculation issue -** Currently MSP is calculated using actual cost i.e. A2 = actual cost + FL (imputed cost of family labour).
- MS Swaminathan and the farmers want MSP to be calculated based on comprehensive cost (C2).
- C2 includes imputed rent on land and interest on capital which makes the cost of production much higher than the current level used by CACP.
- Only 6% of the farmers are benefitting from MSP (NSSO report).
- MSP leads to **overproduction** (Cereal centric production).
- MSP also reduces **crop diversification.**
- MSP **distorts the market** because government procurement agencies procure 70% of rice and wheat, forcing out private players.

Exploitation by commission agents and middle man defeats the purpose of MSP.

NFSA(National Food Security Act)

CHALLENGES WITH PDS (11:37 AM)

- [redacted] targeted 75% of the rural population and 50% of the urban population.
- **Issues of targeting-** Exclusions and inclusion errors - In the beneficiary statistics there are significant inaccuracies in the exclusion of BPL families and inclusion of APL families.
- Ghost card beneficiaries drain out government resources.
- Lack of optimal storage- Shortfall in storage capacity with FCI against the central pool stock. CAG performance audit has identified a significant storage capacity gap in the government.
- FCI resorts to open-ended procurement of rice and wheat without storage capacity.
- Rising subsidy and financial burden- The increase in MSP, storage and distribution costs is leading to an increase in food subsidies to the govt.
- Inconsistent quality
- Lack of appropriate grievance redressal mechanism.
- Lack of transparency in the selection procedure of PDS dealers.
- Challenges of corruption and leakages.
- Food inflation (open market)
- Lack of end-to-end computerization
- Issue of crop diversification- Currently, there is too much focus on rice and wheat.

TOPIC OF THE NEXT CLASS- PDS (TO CONTINUE)