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*Excluding the Needy: The Public Provisioning of Food in India***

It is a great honour and privilege for me to deliver the Eleventh Daniel Thorner Memorial Lecture. Since my first introduction to economics as an undergraduate, the writings of Daniel Thorner have been a source of insight and inspiration as has been his life-long vision of progressive democratic social change.

At the very outset, I would like to state that I have chosen to focus on the distribution aspects of food security in the lecture, and as result, certain very important and relevant issues relating to the new world trade order and its implications for food security are overlooked. I will make my presentation in the form of 12 propositions on food security.

I want to begin by affirming that the provision of secure access to food still remains a relevant and critical issue for public policy in India. The Rome Declaration on World Food Security defines access to food as "physical and economic access, at all times, to sufficient, safe and nutritious food (for people) to meet their dietary needs and food preferences for an active and healthy life". In other words, food security requires access to adequate quantity and satisfactory quality of food.

As a country, we have failed miserably in ensuring access to food to all our people. Let me give a few illustrations of the scale of chronic hunger and nutritional deprivation in India.

According to the latest National Family Health Survey, conducted in 1998-99, at the all India level:

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45.5 per cent of children between the age of 6 and 36 months were stunted (chronically undernourished on the basis of a height-for-age criterion),

47 per cent were undernourished in terms of a weight-for-age criterion.

74.3 per cent of children in the same age group had anaemia, and

51.8 per cent of all women surveyed were anaemic.

The National Nutrition Monitoring Bureau reports similar findings. With the Body Mass Index (BMI) taken as an indicator of undernutrition, in a study of eight states in 1991-92, it was estimated that 46 per cent of men and women adults were chronically energy deficient. A similar survey in 1993-94 showed that 48.5 per cent of adults were below the BMI norm. By any civilised standard, these are extremely high and uncondonable levels of malnutrition, and they do not appear to be declining.

A brief mention is called for here of one of the paradoxes of recent data on food intake and nutrition in India. The data show a steady decline in consumption of cereals by households in almost all income classes and, at the same time, the persistence of chronic malnutrition on a mass scale. Many scholars have interpreted the fall in consumption of cereals as a welcome sign of diversification of diets, a shift away from cereals to meat, eggs, fruit, vegetables, and so on (See Planning Commission, 2001). However, it is at best naïve and at worst criminal to talk of a diversification of diets when total calorie intake is low and falling (See Patnaik, 2002). The evidence from the National Sample Survey on calorie intake over the two decades, 1972-73 to 1993-94 is unambiguous on this issue.

At the all India level, average calorie intake declined steadily in both rural and urban areas between from 1972-73 and 1993-94.

In rural areas, the average calorie intake fell from 2,266 Kcal in 1972-3 to 2,221 in 1983 and 2,183 in 1993-94.

In urban India, the calorie intake fell from 2,107 Kcal in 1972-73 to 2,089 in 1983 and 2,071 in 1993-94.

In both urban and rural areas, the average calorie intake is below the average norm used to define absolute poverty (2,400 Kcal in rural areas and 2,100 Kcal in urban areas).

Only two states of India have countered this trend: Kerala and West Bengal.

To sum up, both the direct evidence on food intake and the indirect evidence from anthropometric measures of nutrition establish that hundreds of millions of Indians, around one-half of our total population, do not by the standards of the World Food Summit have secure access to food.

In a situation where 500 million persons are undernourished and many more are at the risk of undernourishment, my first proposition is that issues of food security should be of central concern to public policy and public debate in India.

At the macro level, national level in this case, the evidence on supply of food shows that India has done remarkably well in increasing domestic food production over the last thirty years. Food grain production rose from 48 million tonnes in 1951 to 87 million tonnes in 1970 (an increase of 81 per cent) and further to 180 million tonnes in 2000 (an increase of 106 per cent between 1970 and 2000). Even with these achievements, there are worries in terms of future production on account of a slowing-down of the growth of food grain production (and agricultural production in general) in the 1990s. A calculation by Abhijit Sen (2002) shows that the annual rate of growth of the index of agricultural production declined from 3.8 per cent between the period 1981-2 to 1983-4 and 1988-89 to 1990-91 to 2.1 per cent between the period 1988-89 to 1990-91 and 1997-98 to 1999-2000. Also, the rate of growth of cereals production decelerated from 2.7 per cent annually between 1949-50 and 1990-91 to 1.39 per cent during 1990-91 to 1998-99 (Bhalla, 2001, p 51).

Further yield and production increases are constrained by problems of cultivation on unirrigated areas, as only 40 per cent of the area sown to food grains is irrigated. A major constraint is the absence of breakthroughs in technology, particularly for the unirrigated areas and crops. Also, the irrigated areas are now suffering from problems of soil degradation and water salinity.

One of the implications of complying with WTO is a change in cropping patterns with a shift away from production of cereals and food grain, crops that can be grown by the advanced countries, to the cultivation of crops suitable for export (Patnaik, 2000). The consequent diversion of land from food grains is likely to affect domestic food supplies.

There are, of course, other effects of liberalised trade under the WTO regime, including, the impact on biodiversity, on domestic prices and hence livelihoods and sustainability of small peasant cultivators.

I would like to state here that for a country of the size of India, it is essential that, for the most part, domestic food requirements be met through domestic production. Dependence on international trade for basic food requirements, as past experience has shown, has not only economic costs but can cost us our political sovereignty. Analysis of the wheat trade shows that in most years between 1987 and 1997, when we exported grain, it was at below world prices, and every time we have imported grain, it has been at above domestic prices, (Chand, 2001).

My second proposition is that there are major constraints (on account of inadequate infrastructure, technological barriers and perhaps, most importantly, the new international trade regime) to maintaining the growth of food grain output at past rates.

Turning to the national balance between supply and demand, India is capable of producing enough food to meet domestic demand, but the situation today should not lead to any complacency with respect to national food security. The turn of the century has witnessed several efforts at projecting future food demand and supply. Most projections are dependent on very specific assumptions, and not surprisingly, there is a very large range of outcomes. For 2020, estimates of total demand for food grain (including demand for feed) range from a low of 223.4 million tonnes by Tim Dyson and Amresh Hanchate to 296.2 million tonnes by G. S Bhalla, Peter Hazell and John Kerr. The lowest of the projections requires an additional supply of 36 million tonnes over that achieved in the triennium ending 2000 whereas the highest projection would require an additional production of 108 million tonnes (Thamarajakshi, 2001, p 43-44). While projections of supply indicate that 250 to 300 million tonnes can be achieved in 2020, they assume, at the very least that there is no major deceleration in the growth of output. To put it differently, without massive public investment in infrastructure, including irrigation, and some breakthrough in technology, we cannot be complacent about the supply situation in the future.

While I believe that, with a concerted effort, a supply-demand balance is attainable at the national level, regional imbalances that exist today in terms of food grain production and surpluses are likely to persist in the next 20 years. In other words, some states and regions of the country are likely to be food surplus while other states and regions are likely to be food deficit. Last year, for instance, the three states of Punjab, Haryana and Uttar Pradesh accounted for 68 per cent of all-India wheat production and 90 per cent of wheat procurement. Given the apathy of governments in respect of development of agriculturally backward regions, the traditional concentration on pockets of prosperity in relatively fertile and irrigated areas, and the decline of public investment in agriculture, the imbalances in regional food grain production are unlikely to disappear. This has implications, dealt with later, for procurement policy and for the role of the central government in a system of food security.

The first part of my third proposition is that the balance between domestic supply and demand in the future is attainable but only if major public initiatives are undertaken.

The second part of my third proposition, which follows from the persisting regional imbalance in food grain production and surplus, is the need for a national policy and national agency to maintain food security.

I turn now to the irrational and cruel situation of the state and central governments together holding around 62 million tonnes of foodgrain, rice and wheat, as stocks. Contrary to the opinion of many experts, the primary explanation for this large build-up of stocks is not excess production but deficient demand and under-consumption. The accumulation of huge stocks is the outcome of two flows: procurement flows and distribution flows. Let us examine the evidence for the 1990s on flows of procurement, flows of distribution and level of stocks (Table 1).

Procurement although fluctuating from year to year has been increasing over the 1990s with a record procurement of 30.8 million tonnes in 1999 (the previous high was 28 million tonnes in 1980). Procurement has exceeded 30 million tonnes in the last three years.

Outflows through the public distribution system, however, while varying from year to year, have tended to decline in the 1990s in two distinct phases. In 1991, almost 21 million tonnes of grain were distributed through the system of public provisioning whereas in 2000, 12.1 million tonnes of food grain were distributed through the PDS — the lowest level since 1979. The decline of purchases from the PDS was in two stages, first, in 1993-95, and then after a recovery, more precipitously, in the last two years. In 2001, only 8.7 million tonnes having were distributed in the first nine months of the year, and the total for the year is unlikely to exceed 10 million tonnes.

The data on stock position, as of July of each year, the period when the norm for desired stocks is the highest during the year, are very interesting. Although stock levels have been higher than the minimum norm in most years, in 1992, they were below the norms and in 1991 and 1997 there were no excess stocks. There was a small accumulation of stocks in excess of requirement in 1994 and 1995 but this was corrected by 1997. The huge build-up of stocks has taken place only in the last three years, particularly 2000 and 2001.

This accumulation is mirrored in the difference between the flows of procurement and distribution, which exceeded 20 million tonnes in 2000 and 2001.

The fourth proposition, put simply, is that the ballooning of stocks in the last two years stems is because of a reduced outflow to the PDS during a period of rising procurement. The excess holding of stocks is a very recent phenomenon and should not be viewed as a consequence of certain long run tendencies in the food economy.

Turning to underlying explanations for the trends outlined above, the current debate and discussion has been very one-sided with even distinguished economists such as Amartya Sen having given primacy to only one factor, procurement flows, and specifically to the "unrealistically high minimum support prices of food grains" (Sen, 2001, p 13). I shall argue against the viewpoint that the stocks have accumulated with the central government "because" procurement prices are administered and have risen in real terms. I shall argue against the view expressed by Professor Amartya Sen, in his Nehru lecture when he writes that ". the very price system that generates a massive supply keeps the hands and the mouths of the poorer consumers away from food" (Sen, 2001). I believe that this is a very narrow viewpoint, and one that does not comprehend the separate functions of different sets of administered prices in the food system.

Since my concern is more with the distribution of food in the lecture, I shall be concise on procurement issues although this is not to underplay their importance.

First, I believe, given the delicate balance between supply and demand for food in India, that a system of price support to cultivators needs to continue. In fact, in many parts of rural India, small peasants are forced to sell their produce at distress prices much below official support prices, and if anything, the system of price support needs to be extended to such cultivators and regions of India.

At the same time, there is no denying that procurement prices, that are now the same as minimum support prices, for rice and wheat are indeed relatively high today. They have risen faster in the 1990s than in the 1980s: while the minimum support prices for wheat and paddy were raised by 83 and 95 per cent respectively in the 1980s, the rise was of the order of 169 and 148 per cent respectively in the 1990s. More importantly, prices very often, in 6 out of 10 years in the 1990s and through the last two years, have been set at levels

This is a matter of great concern and, as pointed out by many observers, needs to be addressed immediately.

The relatively high procurement prices, in turn, have led to higher levels of procurement (although procurement is still less than 20 per cent of total production). However, and I wish to underline this point, to understand the accumulation of stocks, it is not the quantity procured per se that is to blame. After all, given the need to provide food to the vast numbers of undernourished and nutritionally vulnerable people in India, high levels of procurement are necessary. The problem here is that the government has expanded neither the distribution system nor the purchasing power to ensure that the needy actually receive the food that it has procured. The public procurement of food grain is used to meet buffer stock requirements and requirements of the public distribution system. If 30 million tonnes were to be distributed through the PDS or other welfare and employment programmes, then the procurement in the last few years would not have been "excessive". In fact, as I have argued elsewhere, procurement would have to be stepped up if the PDS were to provide minimum nutritional support to the malnourished population of the country. Even if 500 million undernourished persons were each to be provided 65 kg of grain per annum, half the norm for cereal consumption recommended by the Indian Council of Medical Research, a minimum of 32.5 million tonnes of food grain would be required for distribution through the PDS.

Finally, I turn to the crucial link between procurement and distribution through prices. This link itself we believe is part of deliberate policy, to raise and maintain procurement prices at relatively high levels, on the one hand, while altering the public distribution system or PDS in a fundamental way, through prices as well as administrative targeting, so as to exclude the majority from the existing system of food security and hence to lower disbursal, on the other hand. This policy not only flies in the face of all objectives of social welfare but it has weakened and discredited the entire institutional structure of the system of food security and brought it to a crisis point. It is now easy prey for the neo-liberal advocates of de-regulation and privatisation of the food economy and the system of food security in India.

Let me elaborate on the two sets of prices administered by the Union government, procurement prices for purchase of grain from cultivators and issue prices at which food grain is sold to state governments for their network of ration shops.

The State administers procurement prices in order to ensure that India remains self-sufficient in food production. To be very brief, the reasoning is along the following lines: India has learned, to its cost, that the loss of self-sufficiency in food production represents a loss of national sovereignty. In order to ensure that the nation does not slip back in to a position where it is at the mercy of the international market to ensure its own supply of food, producers must be paid prices for food grain that provide them an incentive to remain producers of food grain. This is (or should be) an important, and in the medium term even overriding, objective of state policy.

There are two further issues here. It is true that, as a result of state policy, the regional concentration of production is such that a few States can influence - even dictate - higher procurement prices. The solution for that problem is, as I have said earlier in this lecture, for the state to make large-scale investments to ensure that production (and consequently procurement) be dispersed geographically.

The second issue is a class question: should the state pay the same procurement price to rich producers and poor? I believe we need to explore alternative systems of procurement that ensure equity between states and across cultivators (see, for instance, Gulati and Krishnan, 1975). An old suggestion, including from the Chairman (Ashok Mitra) himself, that is well worth thinking further about is a dual-price policy with different prices being paid to the rich and the poor. This will need enormous political commitment and organisational efforts with respect to actual implementation. (It may only be possible to implement at first in certain areas of the country, such as, perhaps, West Bengal.)

To turn to issue prices, the state administers (or ought to administer) issue prices in order to ensure that the hundreds of millions of people in India who are undernourished or nutritionally vulnerable are offered food grain at affordable prices. The actual price level is to be decided democratically; it has to take into consideration, among other factors, general consumer price levels in the economy, and levels of undernourishment among the people, as well as other factors that determine affordability and need. The point, however, is that issue prices are - or should be - administered in order to ensure the nutrition-security of the people of India. At present, and more on this below, they are governed by a simple formula that links issue prices to procurement prices.

My fifth proposition, in four parts, is as follows. First, the function of administered procurement prices is to ensure national self-

sufficiency in food, and while current prices are set relatively high, the system of procurement and support prices needs to continue. Secondly, administered issue prices should be set so as to ensure that the mass of people are provided food at low prices. Thirdly, while linked mechanically through present policy, the procurement price and the issue price each has a separate, distinct, and vital socio-economic and socio-political objective. Fourthly, the view that stocks are accumulating because procurement prices are set at their present levels is a narrow one, and one with potentially disastrous consequences for food security, national and individual.

It is, of course, a fact that the food subsidy conventionally is calculated as being the difference between issue prices and procurement prices. Let us look at the numbers, in order to put into perspective the villain of the piece, India's scandalous food subsidy. It is well worth asking the question how large India's food subsidy bill actually is. Pedro Medrano of the World Food Programme recently pointed out, that India, whose population of malnourished persons exceeds the total population of the United States, spends 2.5 billion US dollars a year on food subsidies while the United States spends 40 billion dollars annually. Or take another indicator, the size of the food subsidy relative to GDP. This ratio has remained in most years of the nineties at around half a per cent of GDP (Table 2). Is this too large for a county with half a billion malnourished persons? These numbers provide a perspective on the rationale of lowering food subsidies in order to lower the fiscal deficit.

Let me turn to the distribution side. Policies of structural adjustment and liberalisation in the 1990s have had a critical impact on the policy of public provisioning of food, namely the public distribution system or PDS. Driven by the goal of cutting food subsidies, there have been major changes in policy with respect to the PDS, most importantly, the shift from a principle of universal coverage to a principle of targeting, accompanied by changes in entitlements and prices. In 1996, the Government of India introduced the Targeted PDS wherein a distinction was made between "below-poverty-line" (BPL) and "above-poverty-line" (APL) populations with the two groups treated differently in terms of quantities and prices. For the "non-poor" households, there was no longer a guaranteed entitlement.

My sixth proposition is that targeting of the PDS on the basis of a narrow definition of absolute income poverty has failed, and is likely to continue to fail, in providing even minimal food security to the food insecure and nutritionally deprived population of our country.

There are conceptual as well as practical reasons for the failure of targeting.

From the perspective of food security as a basic human right, the principle of universal coverage is both attractive and legitimate. However, even from a narrower perspective, namely that of effectively reaching the vulnerable or nutritionally insecure population, I argue that universal coverage is superior to income or other forms of indicator targeting in India. The reasoning is as follows. Given the imperfections in information, any programme of targeting involves errors of selection. The two types of errors, widely recognised in the literature, are errors of wrong exclusion or excluding the "poor" or deserving and errors of wrong inclusion or including the "rich" or non-deserving. Now universal programmes are likely to have large errors of wrong inclusion but targeted programmes are likely to have large errors of wrong exclusion. If we are more concerned with errors of wrong exclusion, as we should be, and the target group is large and not clearly demarcated from the rest of the population, then a universal programme is likely to be more effective in reaching the target group than a narrowly targeted programme.

Let me elaborate on each of these three points, namely, the importance of not excluding the needy, the size of the vulnerable population and identification of the nutritionally insecure population.

First, why are we more concerned with errors of wrong exclusion? These errors imply that nutritionally vulnerable persons are excluded from the system of public provisioning. The costs to society of excluding the needy are difficult to measure but clearly large for they include the impact on the health, well-being and productivity of one-half of the present population as well as future generations. To illustrate, low nutritional status affects the physical and mental development as well as the productive potential of a person. It also affects the next generation, as the likelihood of low birth weight babies being born is higher among undernourished mothers, and in this way the adverse effects of malnutrition are carried forward into the next generation. Errors of wrong inclusion, however, have only a financial effect via higher expenditure, and no adverse welfare effects. And the rich can always be taxed through other means.

Secondly, the discussion on the appropriateness and desirability of targeting, and the relative size of the two errors, depends clearly on the size of the target group, that is, the population considered to be nutritionally vulnerable and therefore eligible for some form of food subsidy. If the target group is a small fraction of the total population and clearly distinguishable from the rest of the population, then targeting may well succeed with few errors. Let us consider the appropriate target group for a programme of food provisioning in India.

In the existing Targeted PDS, the eligible population termed BPL or below-poverty-line is defined by those falling below the expenditure poverty line estimated by the Expert Group set up by the Planning Commission. According to the Expert Group, in 1993-94, 37 per cent of our rural population and 32 per cent of our urban population were qualified to be in the target group.

There are, we believe, major conceptual drawbacks in using an income poverty line as an indicator of eligibility of a family for access to food grain through the public distribution system (Swaminathan, 2000). First, incomes are difficult to measure in an economy where the majority of workers do not earn regular monthly salaries. The majority of India's work force is in the informal sector, where earnings from casual labour or from self-employment fluctuate over time. To estimate annual family incomes in such a situation is a difficult task. Secondly, the official income poverty line in India refers to a near-destitution level of income. A substantial proportion of households above the poverty line are likely to be vulnerable to income poverty and to food insecurity (and a household that earns ten or fifty or even a hundred rupees more than the poverty-line level of income is hardly less vulnerable than a household with income below the poverty line). Thirdly, the limited evidence on income mobility in developing countries indicates that there is significant mobility even in the lower income deciles. Without panel data and a continual reassessment of incomes, a one-time definition of the 'poor' or target group is likely to be unfair.

If we use a measure of nutritional outcome, such as the Body Mass Index (BMI), then, as stated at the beginning, about 48 per cent of adults in India are undernourished (NNMB, 1996).

Alternatively, if we take the food share as an indicator of food insecurity then an even larger majority of the population are categorised as needy. In 1993-94, according to the National Sample Survey on consumption expenditure, the food share (or food expenditure as a share of total expenditure) was over 70 per cent for the bottom 50 per cent of rural households (Table 3). For the next four deciles, food shares were between 60 and 70 per cent. It is only among the top five per cent of households that the food share was below 50 per cent. With the yardstick used to identify the poor in

China, a food share of 60 per cent, the large majority of our population - 90 per cent of the rural population and 60 per cent of the urban population or 80 per cent of the total population — would be poor. By another standard, the criterion used in the United States for eligibility to the Food Stamp Program, a food share of one-third, 95 per cent of the Indian population would be eligible for a system of public provisioning of food.

Thirdly, targeting can succeed when the target group can be demarcated from the rest of the population without much effort, as for example, if the target group comprises pregnant women or children below five. These are very clear categories and errors in identification are limited. On the contrary, the use of income or expenditure makes separation of groups a complex and error-prone task.

I shall give an illustration of the tremendous practical problems of identification of BPL households. In 1997, the Department of Rural Employment and Poverty Alleviation of the Government of India issued guidelines for a survey to identify BPL households for various poverty alleviation schemes (GOI, 1997b). It recommended a two-step procedure with the first stage (Part A of the questionnaire) based on simple criteria for excluding households. If *any* of the following criteria are met, a household is to be excluded — without further appraisal — from the BPL category:

1. The household operates more than two hectares (five acres) of land.
2. The household owns a *pucca* (or permanent) house.
3. The household has a resident member with an annual income from salary or self-employment of more than Rs 20,000 a year (Rs 1,700 a month).
4. The household owns any of the following consumer durable goods: television, refrigerator, ceiling fan, motorcycle/scooter, three wheeler.
5. The household owns any of the following farm implements: thresher/harvester, tractor, power-tiller.

The second stage, part B of the questionnaire, on household expenditures, is canvassed only with those households that do not meet any of the above criteria.

Let me illustrate how this procedure actually worked in a village in Maharashtra. First the criteria in Part A of the questionnaire were modified, and secondly, no survey of expenditure was conducted. Local officials used three criteria to exclude families from the BPL category:

(i) The household has a family member employed in a 'service' job or

(ii) The household owns a *pucca* house or

(iii) The household owns a television.

Each of the three criteria, I have argued, is an arbitrary and unjust criterion on the basis of which to exclude a family from the system of subsidised food-provision (Swaminathan and Misra, 2001). Consider, the first criterion of employment in a 'service' job. A service job, as understood by local officials, refers to any non-agricultural employment. It included regular salaried workers like teachers and government employees. It also included persons employed as watchmen or office attendants in private organisations. Without information on actual earnings and household size and composition, we cannot know if the wage of one member is adequate to ensure income and food security to the entire family. Similarly, even if a precise demarcation between a pucca and a non-pucca house were established, the ownership of a pucca house does not, by any reasonable reckoning, mean that a household does not need access to a system of food security. Such households encompass a wide range of families in terms of incomes, productive assets (such as access to land), nutrition, and so on. In other words, even if the criterion was applied in an accurate and fair manner, it does not tell us about eligibility for a food subsidy programme.

Many more examples can be given from different parts of India on the gap between definitions of poor in official reports and actual processes of identification on the ground. There is now plentiful evidence of mis-targeting be it the media reports of families at the brink of starvation in Orissa last year that were not termed BPL or of India's largest slum Dharavi with a population of half a million but with only 151 BPL ration cards (Moghe, 1997). Even a World Bank evaluation study of the Targeted PDS in Uttar Pradesh, based on the UP-Bihar Survey of Living Conditions conducted in 1997-98, found that only 44 per cent of households in the lowest per capita consumption quintile and 37 per cent in the next highest quintile had received BPL cards (Kriesel and Zaidi, 1999).

To sum up, let me repeat an observation from the study of a village in Maharashtra, "the procedure for excluding households from the BPL category of the Targeted PDS in Mohakal has been faulty, arbitrary, undertaken by persons without appropriate training, and cannot be relied upon as a measure of poverty among rural households. Each criterion is imperfect, riddled with measurement problems and, even if applied fairly, does not capture the group of households vulnerable to hunger and malnutrition" (Swaminathan and Misra, 2001).

The seventh proposition is in three parts. First, I argue that the target group in India for a programme of minimal food security should comprise around 80 per cent of the population, and should only exclude the top 20 per cent. The present policy has, by definition, excluded vast numbers of needy people from the ambit of the PDS. Secondly, given the scale of malnutrition and the short-term and long-term effects of malnutrition, a higher weight should be attached to errors that exclude the needy than to errors that include the rich. Thirdly, I believe that the use of income or expenditure poverty to demarcate households eligible for food security is riddled with conceptual as well as practical and administrative problems.

Let me turn to two other important changes as part of the scheme of targeting that have contributed to the decline in distribution through the PDS.

First, the entitlement of grain for a BPL household was slashed as the principle of entitlements was altered from a per capita norm to a family norm. Prior to targeting, ration scales were typically defined in terms of fixed quantities per person or per consumer unit. In the Targeted PDS, however, each poor family, irrespective of size and need, is entitled to a uniform quantity of food grain. And this entitlement was fixed at only 10 kg of grain each month. To put this in perspective, for a five-member family, the new ration scale, of about 2 kgs per person per month, provides less than 18 per cent of the recommended intake. Adding cynicism to its diktat, the central government policy stated with reference to states that offer 15 kg per person, "it will not be possible to maintain such an *inflated* scale of issue" (*ibid*: 3, emphasis added). Under pressure, the entitlement was revised upwards to 20 kg per family in 2000.

Secondly, the TPDS introduced a dual price system with an initial price in 1997 for BPL households that was lower than the price paid in the general PDS and a price for APL households that was higher than the price paid in the general PDS. The situation has changed dramatically in the last two years, from the Budget of March 2000, when a new formula for setting issue prices was announced. Henceforth, APL families would pay 100 per cent of the "economic cost" of grain, that is, the cost of procurement plus the costs of distribution while BPL families would pay 50 per cent of the economic cost. The new policy has not only taken away any element of subsidy for APL consumers, but has introduced an in-built mechanism for raising prices, and a direct link between procurement prices and issue prices. Every time procurement prices are raised, issue prices of grain for APL and BPL families will be raised. The impact on prices has been as expected (see Table 4).

(i) In March 2000, prices for BPL households were increased by 68 per cent in the case of rice and 80 per cent in the case of wheat. Prices for BPL consumers are 35 per cent higher today than in 1993. So, it is a sham that the "poor" are being protected through the provision of "cheap" food.

(ii) APL consumers are, of course, even worse off. Grain prices for APL households in 2001 were 270 per cent higher than the price in 1993.

The rise in issue prices for APL and BPL consumers is much higher than the rise in real wholesale prices. The new price dispensation, has, in effect, removed APL families from the PDS. Millions of undernourished persons and persons vulnerable to undernutrition who have been wrongly excluded from the BPL category no longer have even the limited benefits available to them as a possible part of the APL category.

Some figures on the quantity distributed in the last three years make the point clear. In the case of wheat, 76.7 per cent of allocations to APL households were "lifted" (or distributed) in 1998-99; the ratio fell to 38 per cent in 1999-2000 and to a mere 3.8 per cent in 2000-2001. A similar pattern can be observed in the case of APL purchases of rice: the ratio of distribution to allocation fell from 82.8 per cent in 1998-99 to 73.2 per cent in 1999-2000 and further to 21.6 per cent in 2000-2001. The latest monthly data show that in April and May 2001, in the case of wheat, offtake was 44 per cent of the BPL allotment and 4.5 per cent of the APL allotment. In the case of rice, the ratio of offtake to allotment was 64 per cent for BPL, and 24 per cent for APL households. The offtake of rice by APL consumers has not fallen to the same extent as wheat because of the higher demand from the southern states, which have maintained their own subsidy to the PDS. (It is noteworthy, however, that the offtake by BPL households in relation to allocation has also fallen, particularly in the case of wheat. There could be several reasons for this including, among others, the lack of access of BPL card-holders to ration shops and grain therein. With the exclusion of the APL from the PDS, it is likely that many fair prices shops became unviable and ceased to operate regularly to serve only a small number of BPL households.)

Even a small reversal of policy — a price reduction for APL households in July 2001 — has, as a BusinessLine article this week reports, had a positive impact on offtake of foodgrain.

My eighth proposition is that the three major components of the policy of targeting namely the exclusion of the majority from the BPL category, restrictions on quantities that can be purchased as well as higher prices for eligible BPL households, and steep price increases for APL households are responsible for the decline in outflows through the PDS.

Despite its differences from the rest of India with respect to historical experience and socio-political specificity, the case of Kerala does set an example that can be emulated in respect of how an effective and well-managed universal system of PDS can provide basic food and nutritional support to the vulnerable population.

Let me outline, in brief, what the PDS provided in Kerala prior to the introduction of targeting in 1997.

First, the coverage of the PDS was almost universal. In 1991, around 95 per cent of all households were covered by the PDS and possessed a ration card. The PDS effectively reached rural households *and* urban households *and* poor households.

Secondly, the monthly entitlement of food grain per adult was 13.8 kg in Kerala (or 460 grams per day) as compared to 10 kg in Maharashtra and 8 kg in Bihar. The Kerala scale satisfied the minimum requirement of 370 gms of cereals per person per day recommended by the Indian Council of Medical Research (ICMR, 1990).

Thirdly, the quantity of food grain purchased from the PDS, was high, higher than in most other states, and made a significant contribution to household nutrition. In 1991, the annual purchase of food grain from the PDS averaged 70.4 kg per person in Kerala. In the same year, the annual per capita supply of food grain from the PDS was 4.6 kg in Punjab, 7.4 kg in Uttar Pradesh, 9.2 kg in Madhya Pradesh, 23.4 kg in West Bengal and 35.9 kg in Andhra Pradesh.

Fourthly, while the scheme was universal, there is evidence to show that the system was progressive and that the poor depended relatively more on the PDS than the rich. A sample survey of consumers conducted as early as 1977 found that families with an annual income less than Rs 3,600 received 87 per cent of the food grain sold in the PDS and accounted for 59 per cent of the total population (George 1979). Further, for households in the lowest income category (of Rs 600 per annum), purchases from the PDS accounted for 18 per cent of total calories consumed (*ibid.*). Ten years later, a representative survey conducted in 1987 found a clear negative association between household income and utilisation of the PDS (Koshy *et. al.* 1989). In the lowest income category, that is, households with a monthly income of less than Rs 100, rice purchased from the PDS accounted for 40 per cent of total rice consumption. At the other end of the income scale, for households with a monthly income greater than Rs 3,000, rice from the PDS accounted for only 3 per cent of total consumption. Also, households with incomes of less than Rs 100 a month bought 71 per cent of the rice that they were eligible to buy. Households with more than Rs 3,000 a month only bought 6 per cent of their entitlement. Furthermore, of all users of the PDS, the majority belonged to the lower income brackets, and only 5 per cent comprised households with a monthly income greater than Rs 1,000.

Fifthly, the functioning of ration shops and the delivery system has been much better than in other parts of the country and this is reflected in responses obtained from consumers. A state-wide survey found that "low-income consumers did not have serious complaints regarding rice quality and did not complain that ration shops were overcrowded; 70 per cent of respondents did not have serious complaints about weights and measures used in the shops, and 96 per cent said that there was no problem of availability with respect to rice and wheat" (Ramachandran 1996: 250).

Lastly, the PDS, given its scale and scope, caused a real improvement in consumption and nutrition. A small but detailed study conducted in the mid-1970s showed that the rice subsidy had a significant and positive impact on all indicators of dietary quality and nutrition including calories per adult, proteins per adult, and child nutritional status (Kumar 1979). Further, an incremental rice subsidy had 6-10 times the impact of an increment to total household income on indicators of nutrition (*ibid.*).

We would fail to understand the success of Kerala's PDS if we ignored how it came about politically. The well-functioning universal PDS was an outcome of pressures from below and above. There was a strong demand from below in the form of a people's movement for food. The setting up of ration shops in Malabar and Travancore, two of the three constituents of the state of Kerala, "was directly the consequence of mass action and government response to such action during the period of the food crisis" (Ramachandran 1996: 245). In Malabar, as E. M. S Namboodiripad stated in an interview a few years ago, "*kisan sabhas* (peasant organisations), trade unions and other mass organisations, insisted on procurement from landlords and distribution through fair price shops. Because of our pressure, and because of the administrative need of the British Government itself, they set up ration shops" (Ramachandran 1998). In Malabar, the first region of the country where rural rationing was introdued, there was tremendous public demand for rationing (Sivaswamy 1946 cited in Ramachandran, 1998). After the War, the PDS survived due to pressure from people's organisations for its continuation.

With the formation of the state of Kerala in 1957, the first Communist Ministry took up the task of providing an effective system of delivery of food grain throughout the state. Again, in 1964, during an acute shortage of food in Kerala, political demands for rationing led to a further expansion of the system of fair-price shops. The food question became an important political issue and was, in fact, one of the central issues in the run-up to the elections of 1967 (Mooij, 1999). What is interesting is that there was response from the Congress central government, with the passing of an extraordinary ordinance, the Kerala Rationing Order, which assured required food supplies to Kerala.

Targeting has taken a heavy toll on the PDS in Kerala in several ways (see Krishnakumar 2000 and Suryanarayana 2001).

First, as 25 per cent of Kerala's population have been termed BPL by the Planning Commission, the guaranteed and subsidised allocation of grain for BPL households under the TPDS accounts for only 10 per cent of the previous PDS supply. Since Kerala is a food deficit state, this change has major implications for domestic availability and prices.

Secondly, the Kerala government has identified 42 per cent of households as BPL households and is providing the BPL subsidy to these households from the state budget.

Thirdly, the Kerala government has continued to provide additional grain to BPL households as well as maintained its entitlements for APL households. There is a state subsidy on sales to APL households.

Fourthly, offtake from the PDS has declined. As compared to an annual offtake of rice and wheat of around 2 million tonnes in 1991 and 1992, the offtake in 1999 was 1.6 million tonnes and in 2000 it fell further to 0.71 million tonnes. To put it differently monthly offtake has declined from 1.43 lakh tonnes before targeting to less than half a lakh ton after targeting.

Fifthly, there is evidence that ration shops are becoming unviable and are closing down (Nair 2000, Krishnakumar 2000). As compared to a pre-TPDS monthly sale of 7,500 kg or rice and 2,000 kg of wheat, fair price shops are now selling 1,400 kg of rice and 200 kg of wheat. Since sales from fair price shops have declined, many are estimated to be making losses. According to an official estimate by the Government of Kerala, the earnings per fair price shop fell from Rs 3,711 before March 2000 to Rs 1,493 at present. After deducting all expenses, the net income of a fair price shop dealer is now negative. This explains the fact that 250 to 350 retail stores have become non-functioning. Press reports indicate that 15 per cent of retail dealers have asked for cancellation or suspension of their licenses, and there are even reports of suicides by fair price shop owners unable to repay their debts.

My ninth proposition on Kerala is in three parts. First, prior to targeting, the PDS in Kerala provided minimum nutritional support to almost the entire population through a well-run network of fair-price shops. Secondly, the political demand for food, from above and below, was critical in establishing and strengthening the PDS in Kerala. Thirdly, the Targeted PDS has put a severe strain on the system and undermined the earlier achievements in respect of food security.

Given the experience of the past 40 years, and of targeting in the last five years, I argue, in a tenth proposition, that we need a universal PDS with uniform prices in India today. Narrow targeting has excluded the genuinely deserving, it has lowered the quality of the programme, and it has affected the viability of the distribution network. Dual prices in the same network have also created incentives for leakages and made administration more complex. For a universal PDS to be effective on the ground and not just a paper proposition, we require concentrated and sustained pressure from above and from below.

I turn now to the organisation that implements the Government of India's food policy, the Food Corporation of India or FCI. FCI was set up in 1964 by the Government of India, and under the Food Corporation Act, it is the duty of the FCI "to undertake the purchase, storage, movement, transport, distribution and sale of food grains and other food stuffs". The FCI, most observers, concur has performed quite well in the tasks assigned to it. Nevertheless, in recent years, the FCI has come under repeated attack for its inefficiency and suggestions for its reform range from "curtailing its role" (Planning Commission, 2001) to outright privatisation.

In a commissioned study of the functioning of FCI, last year, the Administrative Staff College of India (ASCI) made two new suggestions: first, unbundling of FCI in to separate organisations dealing with procurement, storage and distribution respectively, and secondly, federalising FCI by splitting it in to state or regional corporations. If the first option is pursued and FCI is unbundled by activity, major inter-organisation coordination will be required to achieve present functions. Similarly, the second option of splitting up the FCI into state-level entities raises a crucial question about maintaining central pool stocks, besides the issue of whether states have the infrastructure and resources to manage FCI's operations. Thirdly, the rationale that state-level FCI units will be able to operate at lower costs than a centralised unit is not established. Even if economies of scale have been exhausted, there could be large additional costs due to scale reduction.

There is a very serious logical problem with a related recommendation of many expert bodies including the Expenditure Reforms Commission of limiting the activity of the FCI to buffer stock operations while leaving PDS operations to state governments. While a conceptual distinction can be drawn between buffer stocks and operational stocks of grain, in practice, there is no difference between them. In such a situation, if more than one agency is asked to maintain stocks, not only are there going to be huge problems of coordination but probably excess stocking and a rise in costs.

The markets for food grain in India are not perfectly integrated. Not only are markets in different parts of India not fully integrated but transactions in many markets, particularly, rural markets continue to be mediated by relative economic position of the participants, interpersonal links, interlocking, and so on. Thus, we do require an organization such as the FCI that can maintain, through its interventions, price stabilization nationally. Not only that but we need the physical presence of FCI in locations all over the country for local interventions for price stabilisation to be successful. The FCI is castigated for being a "mammoth and unwieldy" organisation (Sen, 2001). I would argue that it is only because of its 1807 depots, 173 district offices, 19 regional offices and 5 zonal offices, with a movement of 22 million tonnes for 1500 km on average, that is has the capacity to move grain physically as and when required for effective price stabilisation.

The Food Corporation of India, as even critics admit, has served the goals set out for it quite remarkably over the last three and a half decades.

My eleventh proposition is that while there is no doubt scope for reducing the costs of operation of the FCI, in the present situation of *the country, particularly the uneven development of markets, any dismantling or privatisation of the FCI is likely to impact immediately and adversely on the goal of food security. It is contradictory to want FCI to perform a price stabilisation function but at the same time want it to cut-back in size and coverage.*

Certain aspects of the operations of the system of food security can be decentralized, with state governments and panchayat raj institutions taking greater control and responsibility. For example, the functioning of fair-price shops can be monitored by local panchayats. Another example is state governments taking directly responsibility for crop procurement rather than the FCI, as under the new decentralised procurement scheme. However, the suggestion for state and central governments to take joint responsibility of maintaining buffer stocks or for state governments to handle their own procurement, distribution and stock positions is not feasible. While state governments can procure grain from their cultivators, and store it within the state on behalf of the central government, clearly, a single national agency must be responsible for the level of buffer stocks. Thus, decentralisation should not mean the centre giving up its responsibility with respect to ensuring food security for all vulnerable persons in the country. India is a large country with regional differences in production, in crop specialisation, differences that are likely to persist in the future. Given these variations in food production, and given the need to ensure food security to all people, the centre must take ultimate responsibility for provisioning of food. Utsa Patnaik is thus very right in saying that "the PDS is an expression of the economic unity of the constituent states of the Indian Union' (Patnaik, 2001).

My twelfth proposition is that while operational decentralisation is desirable, in areas that are practicable and viable, the responsibility for food security must rest with the central government in India.

To conclude, in the era of neo-liberal economic reform, the maintenance and continuation of programmes of universal food subsidy are under threat. The logic of orthodox structural adjustment and liberalisation calls for reductions in government expenditures, including expenditures on subsidies. For a country such as India, with the world's largest number of undernourished persons, defending basic minimum welfare programmes such as food security programmes has become a difficult but important task.

TABLES

Table 1
Procurement, public distribution and stocks of food grain, India, 1991 to 2001 (in million tonnes)

Year	Procurement (PT)	Public distribution (PD)	Net addition to stocks (PT-PD)	Stocks as of July
1991	19.6	20.8	-1.2	22.3
1992	17.9	18.8	-0.9	15.1
1993	28.0	16.4	11.6	24.2
1994	26.0	14.0	12.0	30.8
1995	22.6	15.3	7.3	35.6
1996	19.8	18.3	1.5	27.0
1997	23.6	17.8	6.1	22.4
1998	26.3	18.4	7.9	28.5
1999	30.8	17.0	13.8	33.1
2000	35.5	12.1	23.4	42.3
2001*	31.8	8.7	23.1	61.7
Absolute Change 1991-01	+14.6	-10.2	-	+39.4

Notes: All quantities are in million tonnes. The norm for stock holding in July each year was 22.3 million tonnes till October 1998, and 24.3 million tonnes thereafter.

Source: Government of India, *Economic Survey*, different years. Figures marked * are for Jan. to September 2001, taken from the *Foodgrains Monthly Bulletin* for October 2001.

Table 2
Food Subsidy of the Central Government as a Proportion of Total Government Expenditures and GDP, 1990-91 to 2000-01

Year	Food subsidy as % of total expenditure	Food subsidy as % of GDP
1990-91	2.3	0.48
1992-92	2.6	0.48
1992-93	2.3	0.41
1993-94	3.9	0.7
1994-95	2.8	0.49
1995-96	2.8	0.46
1996-97	2.5	0.42
1997-98	3.2	0.54
1998-99	3.1	0.53
1999-2000	3.0	0.51

Table 3
Food shares (or food expenditure as a proportion of total expenditure) by expenditure decile, all India, rural and urban areas, 1993-94 (per cent)

Expenditure decile	Rural	Urban
0-10	73.1	70.6
10-20	73.1	69.6
20-30	72.3	67.6
30-40	71.6	65.8
40-50	70.3	63.9
50-60	69.3	62.1
60-70	67.4	59.4
70-80	65.5	55.8
80-90	61.9	52.3
90-95	57.0	**48.3**
95-100	**42.4**	**34.5**

Source: Computed from National Sample Survey Organisation (1997a), *Consumption of Some Important Commodities in India, NSS 50th round, 1993-94.*
Note: Deciles are based on households ranked by total consumer expenditure.
A food share lower than 50 per cent is marked in bold.

Table 4
Changes in administered prices and real prices of rice and wheat, 1993-94 to 2000-01

	1993-94	2000-01	
Minimum Support Price			
Paddy	100	164	
Wheat	100	175	
Central Issue Price*		BPL	APL
Rice, common	100	135	270
Wheat	100	136	272
Real price (wholesale price relative to all commodity wholesale price index)			
Rice	100	108	
Wheat	100	112	

Note: * The issue prices are for Jan-Dec. 1993 and Mar.-July 2000.

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