

# The Public Distribution System & Food Subsidy

The Public Distribution System (PDS was changed to Targeted PDS in 1997) strives to ensure food security through timely and affordable distribution of food grains to the BPL population as this section cannot afford to pay market prices for their food. This involves procurement of food grain at Minimum Support Price (MSP) by the Government, building up and maintenance of food stocks, their storage, and timely distribution, making food grains accessible at reasonable prices to the vulnerable sections of the population.

Food subsidy comprises of:

- (i) Subsidy provided to Food Corporation of India (FCI) for procurement and distribution of food grains under NFSA (National Food Security Act), other welfare schemes and maintaining their strategic reserve
- (ii) Subsidy provided to States for undertaking 'decentralized procurement'. The acquisition and distribution costs of food grains for the central pool together constitute the economic cost. The difference between the economic cost and the Central Issue Price (CIP is the price at which beneficiaries get the food grains) gives the quantum of food subsidy.

There have been certain anomalies in India's food management under the PDS which need immediate attention—

- (i) The percentage distribution of the economic cost of wheat and rice has been rising fast. The pooled cost of food grains (MSP plus the Bonus which are offered by the individual states) accounts for two-thirds of the economic cost of wheat and rice. This has made the

economic cost of food grains to the Food Corporation of India (FCI) increase over the years.

- (ii) Increasing costs of labour, fertilizers, pesticides and other inputs have made production of crops costlier over the time. This forced the government to keep on increasing the MSPs of the crops, too.
- (iii) The increase in the food subsidy bill is determined by the rate at which the MSPs for wheat and rice increase and the economic cost of handling grains (their procurement, stocking and distribution to the targeted households). This has been the major factor for ballooning food subsidy bill.
- (iv) The procurement incidentals of wheat and rice consist of costs related to mandi charges and taxes, cost of gunny bags, arhatiya commission, mandi labour, forwarding charges, internal movement, storage charges, interest, administrative charges and others. Out of these costs, mandi charges and taxes constitute more than 40 per cent of the total costs.

Rise in Subsidy: In the last few years, there has been a tremendous rise in the food subsidy bill —the annual growth reaching 30 per cent by 2019-20 (estimated to be ₹1,55,000 crore) from the 5 per cent of 2013-14 (₹45,000 crore). There have been many reasons for the rising food subsidy in the present time:

- The NFSA has wider coverage than the erstwhile TPDS.
- The Antyodaya beneficiaries also get food grains at the NFSA prices.
- Under NFSA the categorisation of APL and BPL was abolished.

- Coverage under the Act was also delinked from the poverty estimates as it was substantially high to ensure that all the vulnerable and needy sections of the society get its benefit.
- The build-up of the food grain stocks much higher than their buffer norms
- Increase in economic cost and real MSP
- Decline in sale to the APL households

While the economic cost has increased, the selling prices (CIP) for NFSA beneficiaries have not been revised from ₹2 and ₹3 per kg for wheat and rice, respectively. These rates were fixed under the Act initially for a period of three years from the date of commencement of the Act (July, 2013) and thereafter were to be fixed by the Government from time to time, while not exceeding the MSP. As no revision has been done since then it has resulted in widening of the gap between the economic cost and the CIP and increasing food subsidy bills.

While the interests of the vulnerable sections of the population need to be safeguarded, the food subsidy also needs to be rationalised as it distorts market for food grains, pulls inflation down and challenges the sustainability of food security in the country.