

An Empirical Analysis on Food Subsidy in India

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Abstract

The Public Distribution system is India's largest poverty alleviation programme and it is mainly depends with the subsidy given by the government of India. The subsidy is provided to Food Corporation of India, which is the main instrument of the Government of India for procurement and distribution of wheat and rice under Targeted Public Distribution System and other welfare schemes and for maintaining the buffer stock of food grains as a measure of food security. This paper makes critical review on the flow of food subsidy given by the Government of India to the Food Corporation of India and how it strengthens the poverty alleviation programme by using Government subsidy.

Keywords: Food subsidy, poverty alleviation, food grains, Public Distribution System and food security

Introduction

India is one of the thickly populated countries in the World. Nearly 70 percent of its population is directly or indirectly engaged in agricultural related operations for their livelihood. Ironically, a substantial portion of land holding is vested with a small percentage of people where as there is a large number of people doing supporting activities. Further, in India, agricultural activities cannot make much impact on the economic conditions of the people. This is due to number of risks involved in agriculture. Ever increasing cost of inputs, severe drought or excessive rainfall, frequent changes in monsoon resulting in untimely rainfall, ecological imbalance, large scale urbanization and uneconomic conditions of cultivable land force Indian farmers to face continuous crop failures. The conditions of agricultural worker are so ever deteriorating. Therefore starvation is a common feature among those who are living in rural areas. Under this state of affair, a good government has to supply food grains to the poor either at free of cost or at a subsidized price. In this regard, the Public Distribution System (PDS) acts as a poverty alleviation programme and contributes towards the social welfare of the people and is the key element of the Government's food security system in India. It is an instrument for ensuring availability of certain essential commodities at affordable prices for those who are living below poverty line. The Government, through the Food Corporation of India procures and stocks food grains which are released every month for distribution through the PDS network across the country.

Review of the Literature

- Shah.C.H, (1986) observed that nearly 57 percent of the PDS food grains was for urban areas and only 27 percent for rural areas. In the urban areas as in the rural areas, the poor were not the only beneficiaries, and both the poor and the non-poor availed of subsidized retail supplies.

- Jeyalalitha. J (1996) in her assembly speech, “PDS- Government Subsidy Crosses Rs.800 Crores” stated that the public distribution system had been effectively implemented in the state of TamilNadu since most of the beneficiaries were the poor. She also stated that the Government had ordered all the district collectors for proper distribution of essential commodities such as rice, sugar and kerosene to the rural masses in the state. According to her, even though, the central Government had been increasing the price of rice, the Government of TamilNadu did not implement the price hike keeping in mind the welfare of the poor.
- Barbara Harris (1977) examined the ways in which the state levies on paddy and rice and the associated factor of movement restrictions controlled and distorted the price behavior of “free market” and influenced even the choice of milling technology in TamilNadu. She found that the system is subsidized neither by the Government, nor the farmers or the traders; but it is the consumers in the income group not entitled to rice under the Public Distribution System who really subsidize the system.
- Arvind Gupta (1977) examined the policy development aspects of the Public Distribution System in the country. He found that the economically vulnerable sections suffered severe erosion in the real income during 1967-75 which caused a reduction in the physical consumption of food grains, in spite of the Public Distribution System supplies. He brought out the differences in the expected role of the Public Distribution System at the conceptual level and the actual role at the operational level. It advocated the “direction approach” for protecting the economically vulnerable sections under which the Government will supply the entire needs of the economically vulnerable sections at affordable prices. After examining the practical aspects, he finally suggested a Public Distribution System coverage of 30 percent of the rural population and 10 percent of the urban population. He, however, did not seriously study the question of Government subsidy involved in such a system.

Statement of the Problem

While provision of food subsidy is an important element of the food security system in India, an equally important role is played by food procurement and buffer stock operations. The agricultural production is subject to climatic swings and market forces and there is likely to be wide fluctuations in food grain prices. To bring about price stability, it is necessary to build and maintain an adequate level of buffer stock. Therefore, a study related to food subsidy on Public Distribution System is socially relevant and it is inevitable for the largest interest of the society.

Scope of the study

The present study covers the food subsidy on Public Distribution System for ensuring the food security for the poor. It does not cover other steps taken by the Government of India to ensure the food security for the poor.

Objectives of the Study

- To reveal the importance of Public Distribution System and food subsidy.
- To analyse the flow of food subsidy for Public Distribution System in India.
- To offer valid suggestions to ensure the food security for the poor.

Methodology

The present study is empirical in nature and it was studied by using secondary data. The secondary data were collected from published and unpublished reports of Food Corporation of India, Books, Journals, Magazines and Websites.

Food Subsidy

Food subsidy enables in meeting the difference between economic cost of food grains and their sales realization at Central Issue Prices fixed for Targeted Public Distribution System and other welfare schemes. In addition, the Central Government also procures food grains for meeting the requirements of buffer stock. Hence, apart of the food subsidy also goes towards meeting the carrying cost of buffer stock.

The subsidy is provided to Food Corporation of India, which is the main instrument of the Government of India for procurement and distribution of wheat and rice under Targeted Public Distribution System and other welfare schemes and for maintaining the buffer stock of food grains as a measure of food security. In addition, ten states, namely Madhya Pradesh, Chhattisgarh, West Bengal, Uttarakhand, Tamil Nadu, Andaman and Nicobar, Orissa, Gujarat, Karnataka and Kerala have undertaken their responsibility of not only procuring food grains from within the state but also distributing the same to the targeted population under Targeted Public Distribution System and other welfare schemes. Under this scheme of Decentralized procurement, a state's specific economic cost is determined by the Government of India and the difference between the economic cost fixed and the Central Issue Price is passed on to the state as food subsidy. The quantum of food subsidy depends on the level of procurement of food grains and off take under Targeted Public Distribution System and other welfare schemes.

To provide minimum nutritional support to the poor through subsidized food grains and ensure price stability in different states are the twin objectives of the food security system. But fulfilling the obligation towards ensuring distributive justice, the Government incurs food subsidies.

The following Table 1 reveals the food subsidy paid by the Government of India from 2006-07 to 2015-16.

Table 1 Food subsidy paid by the Government of India to the Food Corporation of India from 2006-07 to 2017-18

Year	Subsidy (Rupees in Crores)	Increase/Decrease	Percentage Increase/Decrease
2006-07	20786	-	-
2007-08	31328	10542	50.72
2008-09	43751	12423	39.65
2009-10	58443	14692	33.58
2010-11	63844	5401	9.24
2011-12	72822	8978	14.06
2012-13	85000	12184	16.73
2013-14	92000	7000	8.24
2014-15	117671	25671	27.90
2015-16	139419	21748	18.48
2016-17	135173	-4246	-3.04
2017-18	145339	10166	7.52

Source: www.fci.gov.in

It is evident from Table 1 that the food subsidy provided by Government of India to the Food Corporation of India has registered a steady increasing trend, except few years under the study. The food subsidy which stood at Rs.20786 crores in 2006-07 had steadily increased to Rs.145339 crores, in the year 2017-18. It shows that the growth of population and corresponding needs of the food grains of the targeted peoples. Moreover, it is also an evidence of efforts taken by the Government to ensure the food security to poor peoples.

Trend Co-efficient, growth rate and magnitude of variability of growth of Food Subsidy paid by the government to Food Corporation of India, were computed by using semi-log equation and these results are presented in Table 2.

Table 2 Trend, Growth and Magnitude of Variability of Food Subsidy

Particulars	Semi-log		R ² (%)	CGR (percent/annum)	CV (percent)
	Constant	Regression Co-efficient			
Food Subsidy	8.526 (0.097)	0.141** (0.010)	0.934	38.357	62.93

Source: Computed Data

Figures in parenthese are standard errors; **Significant at one percent level.

*Significant at five percent level. CGR - Compound Growth Rate. CV - Co-efficient of Variation.

The results of the analysis in Table 2 reveal that the trend in Food Subsidy paid by the Government to Food Corporation of India was positive and statistically

significant at one percent level. It indicates that there is a significant increase in the Food Subsidy paid by the government to Food Corporation of

Indiaasit's. R2 value is 0.934. It is also inferred that Food Subsidy paid by the government had increased at the rate of 38.357 percent per annum. The analysis also reveals that there is 62.93 percent variation in the Food Subsidy paid by the government to Food Corporation of India during the study period.

Suggestion and Conclusion

This paper has examined the flows of subsidy given by Government to Food Corporation of India. The amount of food subsidy depends on a number of factors such as procurement volume, Public Distribution System off take, storage level and efficiency, gap between issue price and procurement, handling efficiency of the various organization and interest charges. In the context of general discussion on reduced food subsidy a number of suggestions have been made. These suggestions directly or indirectly involve one or more of the following measures

- Restrict the volume handled through Public Distribution System by means of effective targeting and reduced leakages.
- Match the procurement, both in terms of commodity composition and volume, with

distribution targets so that storage levels can be controlled.

- Increase the efficiency of handling operations, especially the operations of the Food Corporation of India

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