

Imperfections of the targeted public distribution system economics essay



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Abstract

It is suspected that the Public Distribution System in India has a roaring black market in which shop owners hike up prices citing scarcity in order to make more profits. Commodities sold by the shops are supplied and subsidized by the Government so that the people below Poverty line can buy food grain and kerosene at cheaper prices.

My research question, " What effect do the imperfections of the Targeted Public Distribution System (TPDS) have on the lives of the people it is aimed at in the city of Dehradun?" seeks to see the effect on these people by looking into the working of the system proving the existence of the black marketing, rationing, queuing up and hoarding as well as trying to see where improvements can be made.

I took 5 shops in the city of Dehradun in a Radius of about 8 kilometres which catered to the local population. I interviewed the owners and customers with standardized questionnaires and drew conclusions from them as well as talking informally to the shop owners. This helped me know prices and break up, learning about corruption in Government channels.

I hypothesized that the imperfections will have a very negative effect on the consumers but what I learnt contradicted my Hypothesis -the system still has an overall positive effect on the consumers which is not negated by its imperfections. Along with learning about the corrupt practices of Government bureaucrats and that the Black Market indeed exists as is gossiped about by every Indian, I also developed a New Model to help make the working of the TPDS more efficient and attempt to streamline it. But the <https://assignbuster.com/imperfections-of-the-targeted-public-distribution-system-economics-essay/>

black market I proved may not be sufficiently substantiated as on questioning the shop owners may deny its existence in order to save themselves from legal action.

Introduction

India – the world’s twelfth largest economy[1], buzzing afresh with brand new malls and retail chains, sports cars and luxury properties, has come a long way in terms of economic growth. But the very basic fabric of India is the common man, the people that have made it all possible. The high rises, the cutting edge technology, the endless stream of people at the markets where everyone converges to buy, all of it is inhabited by the common man. So how has the common man done in this rat race called the Economy? Has his standard of living improved? That is why my research question, “ What effect do the imperfections of the Targeted Public Distribution System (TPDS) have on the lives of the people it is aimed at in the city of Dehradun?” seeks to look into the workings of this complex yet unique system and whether its subsidies aimed at the Below Poverty Line people have been of any good.

The Targeted Public Distribution System started by the Government of India is a one of its kind in the whole world. No other country but India has such a vast and dedicated distribution system aiming to provide essential commodities to its poor at subsidized rates. Started in 1954[2], it has been an integral part of the Government’s effort to provide food to the poor.

Huge as it may seem, all is not well with TPDS. A large subsidy keeps the system going each year, but this food subsidy as a percentage of the total govt. expenditure has steadily risen from about 2. 3% in the beginning of the

1990s to about 3% towards the end of the decade, as shown in Table[3] on the next page.

The Public Distribution system is one of the Government's main social measures intended at Economic Development. Economic Development[4] is an increase in the overall standard of living of people in a country with better access to education, health care, employment and infrastructure.

There were a lot of people who are living below poverty line in India, over 60,000,000[5] families. Poverty Line is a benchmark for poverty determined by the Government where if a person earns below 800[6] rupees a month then he is below it. Another definition says that the person must have at least one square meal per day to be on par with the Poverty line.

Thus, TPDS is a symbol of India's commitment to improving the lives of its poor by giving them either the square meal or the means to make that square meal (Kerosene).

Relevant Economic Theory and Hypothesis

The TPDS works on two main principles -Price Ceiling[7] and Subsidy[8]. A Price Ceiling occurs when the Government fixes an upper limit on the selling price of a commodity to protect the consumer. A Subsidy occurs when a payment is made by the government to producers of goods and services in order to bring down the prices of certain essential commodities. This is intended to benefit the poor as they can get that they can afford to buy necessary goods.

Price Ceiling[9](Figure 1)-

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The interaction of Demand and Supply for a good causes its price level to be fixed at P . Since TPDS goods can be classified as necessities, the Demand Curve they face is relatively price inelastic. Thus left to market forces, the suppliers will try to charge relatively higher prices. But the government sees this and puts a price control first which make the price of the good cheaper than the market price. Due to the price control, as shown in Figure 1, there is an excess of Demand Q_1Q_2 as shown by the shaded black portion. This is called a shortage. Due to this shortage, there are many consequences-

Black Market[10]-The parallel market that exists where due to lack of supply; the sellers of a product buy the product cheaply at a subsidized price and sell it to the customers at a higher price.

Queuing up[11]- When there is scarcity of any good, then one form of distribution is when all the customers line up and take the good on a first come first serve basis.

Rationing[12]- The supplier sets an upper limit as the maximum amount each customer can take of a product.

Hoarding[13]- An illegal practice in which the suppliers stock up the product in order to create artificial scarcity, in order to charge higher prices.

Subsidy[14](Figure 2)-

To make it cheaper, the Government puts a subsidy that shifts supply to the right as it gives incentive for the producers to supply more to earn more total revenue. This subsidy benefits the consumers as they get the lower price at

P1 and thus it makes the necessities more affordable. Also the increased supply indicates that more people get the benefit of the subsidy.

The question arises that if a Black Market exists, maybe because of the lack of supply in comparison to Demand, there could be Queuing up, Rationing and Hoarding. If all these features occur, then it can be believed that it will be harmful for the intended consumers going against the very tenets of the Public Distribution System because the consumers will not get the full benefit of the system.

The hypothesis could be that if Black Marketing, Queuing up, Rationing and Hoarding do occur in the TPDS, then these activities would affect the consumer in a very adverse manner. The five parts of this Hypothesis have been investigated using the Methodology.

Methodology, Processing and Evaluation of Raw Data

TPDS is a very big organization that has outlets all over India. It is impossible to survey all of the shops it has as they are prevalent in their thousands. The area in Dehradun focused on is Malsi, Rajpur and Sinola and within a radius of 8 kilometres, there were five shops.

The way the surveys were conducted was using Oral questionnaires in informal interviews with both shop owners and customers so all the primary information was collected through these interactions. A matrix called The Hypothesis Checklist[15] has been created in order to sufficiently prove all the parts of the Hypothesis.

Raw Data

How the TPDS works (in Dehradun)-

Grains are procured by the Central Government under the auspices of the Department of Food and Public Distribution.

They are then transported to the states, in this case, the State of Uttarakhand.

Then they go to transport nagar, a hub for all incoming goods into the town of Dehradun.

The shop owners pay for the transportation of grains to their shops.

They distribute the products to the card holders.

All card holders can come any time but only once a month to take what is allotted to them.

There are other schemes implemented by TPDS shops for the Government that are provided by some of the shops that were part of this essays survey.

1. Antodaya Anna Yojana[16](Food grain Scheme) –

This is a scheme of the Government targeted at card holders who are Below Poverty Line (BPL) . This aims to provide them cheap subsidized food grain - Rice @ 3 rupees and Wheat@2 Rupees per kilogram. This scheme is only for select BPL families which are the poorest of the poor.

2. Bal Poshar Yojana[17](Mid Day Meal Scheme)-

This scheme aims to provide free lunch to school children in Government owned and run Primary schools so that it encourages extremely poor people

to send their children to school. The food is supplied to the schools by the Shop Owners, who give the grains every day to cooks to make meals for children.

Answers to the Questions on the Shop Owner Questionnaire[18]

Note – These answers have been generalized as all the owners gave almost homogeneous replies.

Answer 1. The people who come to the shops are those classified below and above poverty line. Since poverty line is defined as the income level between 800 to 900 rupees a month, the people who come to buy rations get them at different prices according to whether they are above or below poverty line.

Answer 2. The customer needs to be a Card Holder in order to purchase goods from a PDS shop. APL customers are issued Yellow Cards and BPL customers are issued White cards. 1 card is entitled to withdraw at maximum 23.5 Kilograms of Rice or 11.5 Kilograms of Wheat or both of them, their sum weighing up to a maximum of 23 Kilograms. Usually, a whole family is entitled to one ration card. The entitlement to Kerosene per card is –

Answer 3. The quality of Rice, Sugar, Wheat and Kerosene is useable and palatable but basic. Compared to the quality of rice, sugar and wheat in the market, the quality of these three goods is relatively poor.

Answer 4. The prices of the products have gone up between the conception in 1954 and now but this is because of the depreciation of the value of the India currency. According to the shop owners, in terms of purchasing power the current 6 rupee profit margin per hundred kilograms has remained the

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same as it was since 1954, so there has been no benefit to the shop owners even though there has been an aggregate rise in prices.

Answer5.

Costs and Profits of the Shop Owners[19]–

Answer 6. The Government gives licenses to the owners of the PDS shops to allow them to sell Government goods. Sometimes, they even take bribes to hand out these licenses. Apart from this, the Central Government procures the grain from farmers all over India and the Kerosene from prominent Indian Oil companies like Indian Oil, Bharat Petroleum and Hindustan Petroleum. The State Government procures the goods from Central Depots and Granaries. But they do not transport the goods to the shops from their own storage areas. These storage areas are managed by the Regional Food Controller, from the Department of Food and Public Distribution. Instead, they leave it up to the shops itself. Thus this leads to the extra transportation costs incurred by the owners of Rs. 25 per Quintal. Also at the State Depot, the officials there insist on “ proper” weightage before distribution. The weightage cost is Rs. 0. 50 or 50 paisa per quintal. (1 Rupee = 100 Paisa). Thus in the city of Dehradun, the State Government of Uttrakhand is of no assistance to the shop owners, rather, it adds to their problems.

Answer 7. In Dehradun, the Hub of PDS goods is TRANSPORT NAGAR, which is about 15 kilometres away from the area where the shops are located. Therefore, in addition to the transportation costs, the shop owners have to deal with the wastage of time, the indifference of the officials and the shortages caused by the packaging problems. According to the shop owners,

the packing of the bags is done by machines and the bags are not handled properly. Therefore, sometimes, the weightage is flawed as one or two kilograms are missing from a one quintal bag of rice or wheat. Also, when it comes to kerosene, the Government lacks the proper equipment to measure the quantity in litres correctly. So a lot of goods tend to get destroyed or wasted. There is also a doubt about the honesty of the officials as some of the goods that come to depot may be taken by them for personal use or sold for higher prices outside. There is also talk of large amounts of grain lying in the granaries, never to be used. This is because of improper management that most of the time the good never even reaches the shop in the right quantity, thus, due to this bureaucracy; the end consumer does not get the good. Also, finding a shortage in the bag of grain, the shop owner is forced to sell it at a higher price as if there are 98 kilos in a 100 kilo bag; this shortage leads to the grain not reaching the shop in the required quantity.

Answer8. The demand for goods is more than the supply. This is not because there is a not enough being produced by the Agrarian Economy in India or that the Government is not being able to procure it from the producers. In fact some shop keepers mentioned that more is produced than can even be consumed. The problem occurs at the go-downs of the Government where the grain is packed in jute bags and left for a long period of time. Due to pests and tears in the bags, large quantities of grain are wasted. Fungal infestations and the work of bacteria also decompose the grain. Thus a lot of grain is wasted away at places like Transport Nagar. So the Demand for Goods outstrips the supply due to wastage.

Answer9. Customers are allowed to come only once a month in order to pick up their utility goods. They can come in any order they wish, any time in the month, though the shops follow certain timings and on Tuesdays they are shut. So it can be said that Queuing up does occur as it works “ First Come First Serve”. The person first in line gets what he wants and yet can take a limited amount as shown by what one Ration Card can withdraw. This limit can be called Rationing. Hoarding does occur as because of a lack of supply from the Government due to wastage, the shop owners keep a lot of excess stock with them and raise prices (Black Marketing). Thus, according to the Shop Owners, all these features occur.

Answers to the Questions on the Consumer Questionnaire[20]–

Since it is not possible to write down everything that customers of the shops interviewed said, the answers have been generalized to form a fair picture of their situation[21]–

Answer1 . The consumer usually buys a lot of rice as rice is the primary source of energy in a household of Dehradun. The second is of course wheat, and the quantity bought is usually balanced as Indians tend to eat both equally on alternative days. Sugar is relatively expensive; it can be compared to market prices. Kerosene is one essentiality to be bought if a person does not use LPG cylinders or if that person has only one cylinder. The only supply chain that distributes Kerosene in India is the TPDS. No other company or individual has the right to sell it. So, the TPDS has Monopoly over the supply of Kerosene. Thus, the people have no choice but to go to the TPDS to buy kerosene.

Answer2. The prices of the product offered to them are relatively fair, as they are cheaper than the market prices by at least 5 rupees per kilogram. Only the price of sugar is almost comparable to the prevailing market price.

Overall, the discount given to the customers benefits them.

Answer3. They customers save approximately rupees three hundred per month by buying products from the Ration shop.

Answer4. Ever since the ration shop was conceived, the prices have remained almost the same and not been affected by inflation, Also, the prices of the ration shop are relatively cheaper compared to the market price. So the consumers have no problem with the prices at the shop as long as they get some benefit.

Answer5.

Most of the customers thanks to the subsidy meet their basic food requirement.

Out of 42 people, 31 said they were happy with the amount they got.

Answer6.

All customers are allowed to visit the shop only once a month. Sometimes they need to queue-up to get rations.

Answer7. Most of the people who bought from the shops were those who migrated into urban and sub urban areas from the surrounding rural areas for better economic prospects.

Data Evaluation

As per the information above, four commodities are sold by the shops. To show what happens to them and narrow the focus of the essay down, the Example of a Subsidy on Wheat has been taken-

Cost to Government per Kilogram - Rs. 10. 50

Selling Price - Rs. 6. 60

Subsidy - Rs. 3. 90

Figure 3(Subsidy on Wheat)[22]–

Theoretically, the Subsidy of Rs. 3. 90 should go completely to the producer since the price is relatively inelastic. But over here what happens is that 3. 90 rupees actually goes to corrupt Government officials who eat up that money. So the benefit of the subsidy neither goes to the producer nor the seller. But the consumers benefit from lower prices.

Proving the existence of the Black Market[23]–

A static model has been taken. It assumes that the Price and Output will increase linearly. (Figure 4)

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Transportation costs of owners –

25 rupees per 100 kilos (Quintal)

Weight age costs – Rs. 00. 50 per 100 kilo

Profit margin that the Government keeps per Kilo –

Rs. 0. 50 Or 50 rupees per hundred kilos

Profit margin the shop owners get –

Rs. 0. 06 or 6 rupees per quintal

Money eaten up by Government –

44 rupees per quintal

Selling Price of the Government = Rs. 6. 60 per Kilo

Cost Price = Rs. 6. 54 per Kilo or 654 per Quintal

+ 0. 50 Weight age per Quintal

+ Transport = 25 rupees per Quintal

Actual Total Costs per Quintal for the Shop Owner –

$654 + 25 + . 50 = \text{Rs. } 679. 50.$

The Shops have to sell at 680(Rounded off) to break even they need to sell at 680. The Government does not pay for Transport.

The shop owners are entitled to 50 rupees of 660 but they only get 6. So 44 rupees of their profit is gone. So accordingly, they need to sell at $660 + 20$ to break even at 680 and then 50 rupees more to make profit. So they sell at $680 + 50 = 730$ to make profit.

The Black Market Selling Price of wheat is Rs. 730 per quintal instead of 660 per quintal as fixed by the Government.

Black Marketing occurs for all other products sold by the shops.

Queuing up –

The shop keepers say that they distribute the goods throughout the month but it is first come first serve, so people have to queue up at the shop every day. If the stock finishes, then those left in the queue will not receive the product.

Rationing-

The fact that there is rationing is due to the limits imposed on the amount that can be bought per family. This is also due to limited supply. For Eg, there is a limit of 21. 45 kilograms on Wheat.

Hoarding-

The shop owners themselves said that the Government has huge amount of surplus lying waste in granaries. So, to keep the supply constant and at the same time charge higher prices, they take to hoarding extra stock.

The Hypothesis Checklist[24]

Part Of Hypothesis

Evidence

Check

Black Market

As proved for the raised price of wheat.

Queuing Up

As shown by the way the system works, first come, first serve.

Rationing

As shown by the limits on goods per family (Limit of 21. 45 kg on Wheat purchase per family).

Hoarding

As told by the shopkeepers themselves.

Overall Adverse Effect On the Consumer

The overall effect on the consumer is adverse. This is wrong as all the consumers interview said that they were happy as long as the prices stay below market price.

Conclusion:

As per the Hypothesis, the existence of the Black Market, Hoarding, Queuing Up and Rationing was proved. But even with these imperfections, the part of the Hypothesis which says that the consumers would be adversely affected was proved wrong as they are perfectly happy as long as the prices they buy essential commodities at are below the Market Price.

For the city of Dehradun, it can be said that TPDS has benefitted the people as since they earn comparatively higher than rural areas around them they feel that they are getting goods cheaply which reduces their living costs.

Even with the Black Market, the price is low. As for waiting to get the good, it is a matter of luck whoever comes first should take it.

There is Market Failure due to subsidy. The Government officials are corrupt; many are getting rich thanks to wrong means.

As for the Shop Owners it can be said that they suffer the most. They are forced to pay higher costs and bribes to Government officials. This forces them to Black Market to earn profit, if not only to break even. And if they caught, they are worse off as they have to pay off even more.

The main problem that there is in the TPDS is not about Supply or Demand. It is about the Manipulation of Supply. Huge stocks are lying wasted in Government granaries. The Shop owners hoard stock to prepare themselves for shortages in supply.

The agriculturists and kerosene suppliers have little incentive to produce as they do not get the benefit of the subsidy as the Government eats it up.

If reforms have to be made to improve the efficiency of the system, they should be from the Supply and Administrative side.

Thus it can be said that TPDS even with all its imperfections has had an overall positive impact on the lives of the people it is targeted at in the city of Dehradun.

Possible Flaws in Methodology[25]

1. People mostly from Primarily Urban or Suburban areas were taken. Many people below Poverty line were not surveyed as they cannot be included as part of Dehradun as Dehradun is comparatively wealthier.
2. The shop owners interviewed will not testify on record against the Government and say openly about the corruption and Black Market in fear of Legal Action and Public Backlash. They only revealed this much information after a lot of cajoling.
3. The Black Market prices quoted here are estimated. Costs are real. This is as the prices are dynamic and subject to seasonal demand and supply.

Recommendations for TPDS[26]

1. Items other than rice and wheat should be excluded from the system. Well to do families are drawn to the TPDS if sugar is supplied through it.
2. Coarse grains, which are basic commodities purchased by the poor are in any case available to the poor at low prices and should not be supplied under PDS and brought under the cover of food subsidy. However, high quality produce should be brought under subsidy.
3. There is a large scale diversion of Kerosene oil which is supplied under the PDS and benefits meant for the poor never reach them. Subsidized Kerosene is used for Adulteration with Diesel. Subsidy on kerosene should be reduced and alternative means of marketing should be explored.

4. TPDS should only be aimed at people below poverty line. There is no point of food subsidy for people who have purchasing power.

Existing Model[27]

Created Model[28]

Explanation of Created Model

APL consumers should not be entitled to subsidized goods as they can afford to buy them on the market.

Food grain will be directly procured by the State Government. This will lead to the stimulation of local farmers to sell in the local market saving transportation costs. The Government now needs to procure less as they do not sell to APL consumers. Since the Government is anyway spending huge amounts of revenue on subsidy currently, under Central Government directives, it can focus on buying less quantity but better quality grain from productive farmers and subsidizing it through TPDS shops to BPL consumers at lower prices.

The Central Government should set up a new agency to procure Kerosene from oil companies and sell it subsidized through TPDS to BPL consumers. For APL consumers, there will be guidelines so that the price is not high. When farmers become aware that the Government is subsidizing the production of good food grain, they will shift from low to high quality production growing crops with high nutrient content. Competition will lead to an overall fall in price eliminating scope for black marketing benefitting all

consumers as well as serve the Government aim of selling healthy food to improve the human resource of its country.

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Apart from these references, the rest of the data presented is original primary research.