Journal Homepage: -www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

Article DOI:10.21474/IJAR01/13492
DOI URL: http://dx.doi.org/10.21474/IJAR01/13492

REVIW ARTICLE

THE IMPACT OF THE PDS ON POVERTY REDUCTION IN INDIA

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Manuscript Info

Manuscript History
Received: 30 July 2021
Final Accepted: 31 August 2021
Published: September 2021

Introduction & Motivation:-

Today, the issues of malnutrition and poverty are hindering India's development. According to the World Health Organisation, poverty amplifies the risk of malnutrition, as well as the risks which arise from malnutrition such as a reduction in productivity, increased healthcare costs, and slower economic growth. This can lead to a vicious cycle of poverty and ill-health. It is important to study schemes that are likely to be instrumental in reducing poverty through in-kind transfers because the results of such an analysis can influence future policy formulation in this area. This paper attempts to review existing literature on the impact of the Public Distribution System (PDS) on poverty reduction in India.

Existing Literature

The PDS is the most far-reaching safety net operation that exists in India, both in terms of coverage and public expenditure on subsidy (Tritah, 2003). The scheme was universal up until 1997, after which under the Targeted Public Distribution System (TPDS), the poorest households were made the main focus. Households below the poverty line (BPL) are entitled to ration cards, which allow them to buy more quantities of food items at highly subsidized prices (Tritah,2003). The scheme acts as an essential means to carry out the Indian government's economic policy of serving the poor and vulnerable (Thomas, 2017).

A vast body of literature covers the impact of the PDS on poverty reduction in India. Dreze&Khera (2013) used National Sample Survey (NSS) data for 2009-10 and official poverty lines to measure the impact of the PDS on rural poverty in India. They took the state of Chhattisgarh (where the PDS functions relatively well) as the benchmark area for their analysis and comparedthis data to other states in India as well. It was postulated that the most direct way to analyze the impact of the PDS on poverty in rural areas is through an implicit income transfer. In order to arrive at their results, they added the transfer to the measure of monthly per-capita expenditure (MPCE). When it comes to using poverty estimates, they used the national poverty line as well as state -specific poverty lines. Upon using the national poverty line, they found that rural poverty reduced by 18 percent using the poverty-gap index. However, the impact of the PDS varies greatly by state. In line with what one might expect, states which had a poor-functioning PDS like Jharkhand and Uttar Pradesh witnessed a very small decline in rural poverty while states like Tamil Nadu and Kerala, which have a more efficient PDS saw a decline in rural poverty by 61% and 39% respectively, in terms of the poverty gap index. This highlights the fact that proper implementation of the scheme is essentialfor there to be an overall decrease in poverty across all states of India.

Thomas &Chittedi (2019) used a similar approach by utilizing MPCE data from NSS 2011-2012 and found that the impact of the PDS, primarily based on rice and wheat subsidy, increased from top to bottom with MPCE deciles.

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This tells us that it has a greater impact on the poorest class of income households (top deciles). The methodology included the addition of subsidy income to the actual monthly consumption expenditure of each expenditure class, the summation of which gave its impact on poverty. The researchers also found a higher impact in urban areas, which can be attributed to better implementation in these locations. Lastly, the study highlighted that the distribution of subsidies should be done in a way that it is targeted more towards the poorest top four deciles in every state of the country, to realize the intended impact of the PDS on poverty in India.

Contrary to Thomas &Chittedi's research, Umali and Klaus Deininger (2001) used data from the 1993-1994 National Sample Quinquennial Survey of Consumer Expenditures and found that in several states the third and upper quintiles (middle and upper classes) purchased more PDS grain than the poor, which suggested that the PDS is not reaching the most needy. The data they collected suggests that the benefits of the scheme did not reach the intended beneficiaries, and in several states, the amount of income transferred by the PDS per month to rural households in states like Bihar, Orissa, and Karnataka was higher for the middle and higher classes, compared to the poor. These results are inconsistent with the study conducted by Dreze&Khera(which had found that the impact of the PDS on rural poverty in Odisha was in fact above the all-India average). One factor which could be playing a role in the inconsistencies identified could be the time frame of the studies. The first two studies listed above were conducted using 2009-10 and 2011-12 NSS data respectively, which was a long time after the TPDS was introduced with the aim of especially targeting the poor in its efforts. On the other hand, the third study used data from the years of 1993-94, during which the PDS was a universal scheme. Over time, the impact of the PDS on rural poverty is likely to change, especially after the introduction of ration cards for people living below the poverty line. For example, Dreze&Khera (2013) argue that the "PDS has significantly improved in recent years" (58) in Odisha. This claim is supported with evidence from a study which found that 97 percent of the households with a ration card in one of the poorest districts of Odisha were receiving their complete monthly quota of rice from the PDS (Chatterjee, 2014).

An element that Dreze&Khera (2013) were unable to incorporate in their paper was the presence of a counterfactual. This limitation was taken care of by Tritah(2003), who used an experimental-control group comparison to find out what the food expenditure would have been if the PDS had not been in place. Here, the counterfactual group consisted of the set of participating individuals themselves, who wereobserved before the implementation of the program. Propensity score matching methods (PSM) were used to estimate expenditure gains and reduction of poverty due to the TPDS, which is more effective than randomization or baseline methods because the program has a nationwide coverage (4). NSS data of 1999-2000 along with the poverty line provided by the Planning Commission were used, and it was found that the people belonging to the poorest households used the PDS more, which is consistent with Thomas &Chittedi (2019). Wealth dummy proxies of permanent income were utilized for the analysis, and it was found that less educated households and large families were more likely to use the PDS (it impacts poverty conditional on access and implementation), and the remoteness and infrastructural backwardness of an area from PDS centers discouraged its use. To assess the twin issues of food security and consequent reduction in poverty, other papers can utilize his construction of a "food equivalent" of a poverty line, which would translate the food security aspect to the reduction in poverty. Another paper shows that the PDS has also reduced the depth of poverty, with the program being effective in reducing it among targeted groups like Antyodaya and BPL card holders (Kumar et al, 2016). Through using the fiscal transfer method (where the expenditure gains accrued out of subsidized food transfers, which leads to poverty reduction, is calculated directly), they found that poverty among the Antyodayas reduced by 6.7% in 2004-2005, and by 10.1% in 2011-12. For BPL holders as well, the reduction increased from 4.1% in 2004-5 to its double of 8% in 2011-12. They also postulated that the extent of poverty has been reducing over time, which is visible through the declining poverty gap index, consistent with Dreze&Khera (2013). For robustness checks, Kumar et al used PSM like Tritah(2003), in which they compared those belonging to the BPL category to BPL non-beneficiaries (counterfactual). They got conflicting results as the coefficient for children in their analysis came out to be negative, which suggests that households with a greater number of children are less likely to accrue benefits from the PDS. They attributed this to larger number of children leading to acute backwardness, which could make the family less aware of welfare schemes (29). Tritah(2003) had found that larger families were more likely to use the PDS, however, they did not mention the role of children in their analysis, and hence, there could be a possibility that the household consists more of elderly people, who are in need to be healthy through this nutritional attainment. The probit regression also uncovered that the share of food in the total expenditure of the beneficiaries of the PDS was 1.79% lower than the counterfactuals, which brings to light that the PDS betters the economic status of householdsby enabling them to spend money on other non-food necessities. The

method used by Kumar et al. seems to be more effective as it directly differentiates between BPL beneficiaries and non -beneficiaries.

Apart from studies which find a positive impact of the PDS on poverty reduction in India, many scholars in this field of research have cited reasons of leakages, corruption, and inclusion/ exclusion errors as the reasons behind the PDS not benefitting the poor as much as it aims to. For instance, Swaminathan &Misra (2001) spoke about imperfect information and measurement, which lead to two types of errors: 1. errors of wrong exclusion (which encompasses the exclusion of genuinely poor households who deserve the help the PDS can provide), 2. errors of wrong inclusion (inclusion of non-eligible households into the PDS). They used primary data from a village in Maharashtra and found that wrong exclusions rose with the introduction of the TPDS, which is contrary to the main objective of the program (reaching the poor households which need the benefits).

After going through the papers for this exercise, it was observed that not many of them measured the general equilibrium effects of PDS transfers on factors like production and prices. This avenue could be further explored to assess the impact of this scheme on wide-ranging factors (like government revenue), which also impact poverty reduction in India. Studies like those conducted by Dreze&Khera (2013) which primarily used data relating to MPCE to compute the implicit income transfer fail to take important factors like transaction costs into account while measuring the impact of the PDS on poverty. This can be combated with other methods like PSM, which are able to utilize information on education, family size, and distance from ration shops to measure the impact on poverty. These variables are also imperative for analysis as they affect access to the program and consequently, poverty in different ways. Another area that could be incorporated in the studies could be of the impact of other socio-cultural factors which play a role in households gaining access to the scheme. For example, SC/ST/OBCs are often discriminated against, which could hamper their ability to accrue benefits. This could also result in exclusion errors which was mentioned above.

Overall, the literature that has been reviewed in this exercise points towards the need for an increase in access and awareness about the scheme, along with efficient implementation, which would make the PDS more effective in solving the twin problems of poverty and malnutrition in India.

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