

Revival of the PDS and the cash alternative

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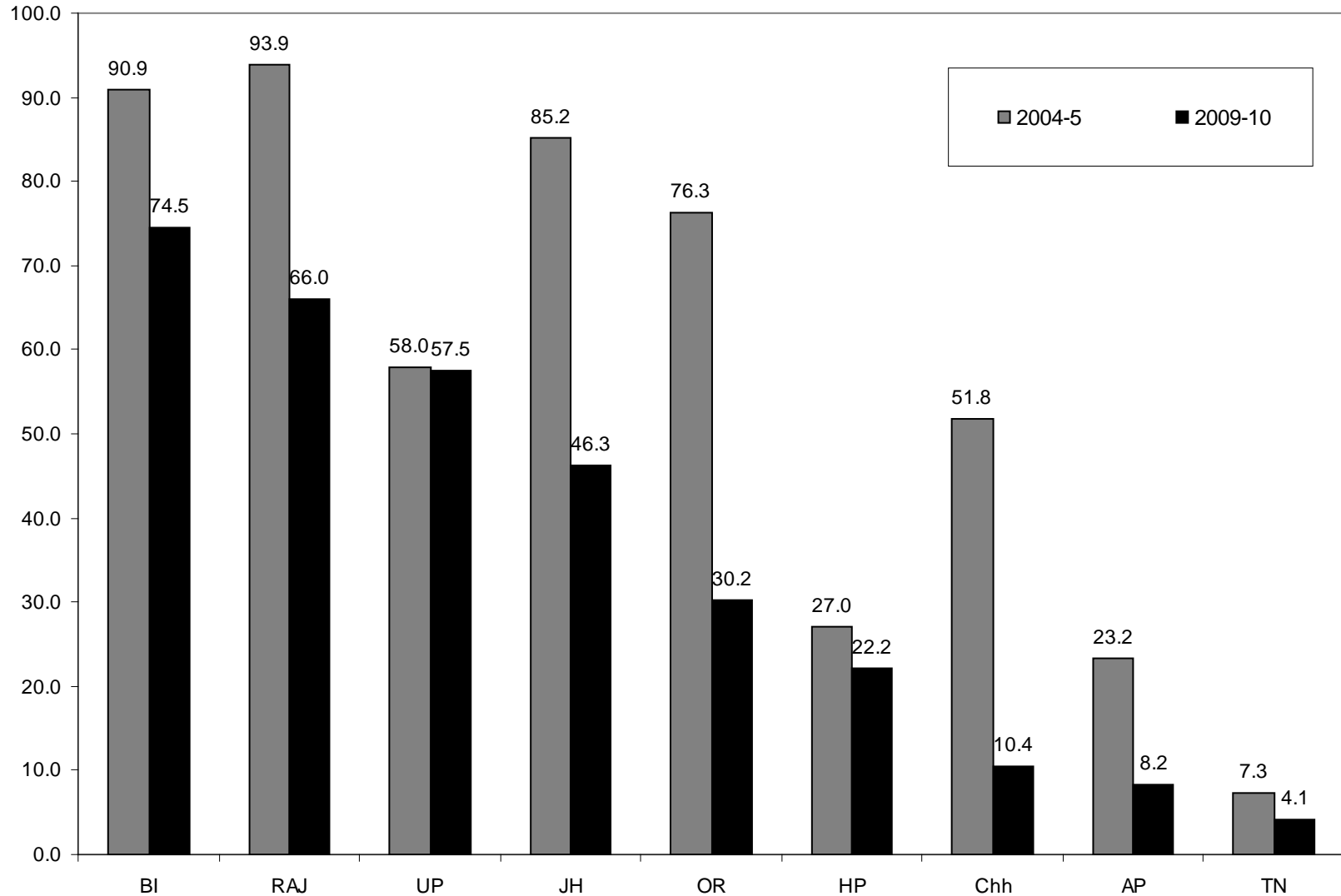
Evaluating the PDS

- Several possible metrics:
 - Coverage, Leakage, Implicit Subsidy, exclusion errors, nutritional impacts
- What do we find?
 - High inter-state variations
 - All round evidence of “revival”
 - Secondary (2004-5 vs 2009-10) and primary data

PDS Coverage has improved

	2004-5	2009-10
all households	73%	55%
Chhattisgarh	75	32
Orissa	78	46
Jharkhand	94	73

Diversion of PDS grain in survey states (2004-5 vs. 2009-10)



Source: Calculated from Monthly foodgrains bulletin and National Sample Survey data from 2004-5 and 2009-10.

Implicit Subsidy, 2009-10

Per capita subsidy = (Market price - PDS price of grain) * per capita PDS purchase

	All hhs (PDS hhs only)
All India	26.2 (60.4)
TN	107.3 (112.8)
Bihar	5.5 (37.5)

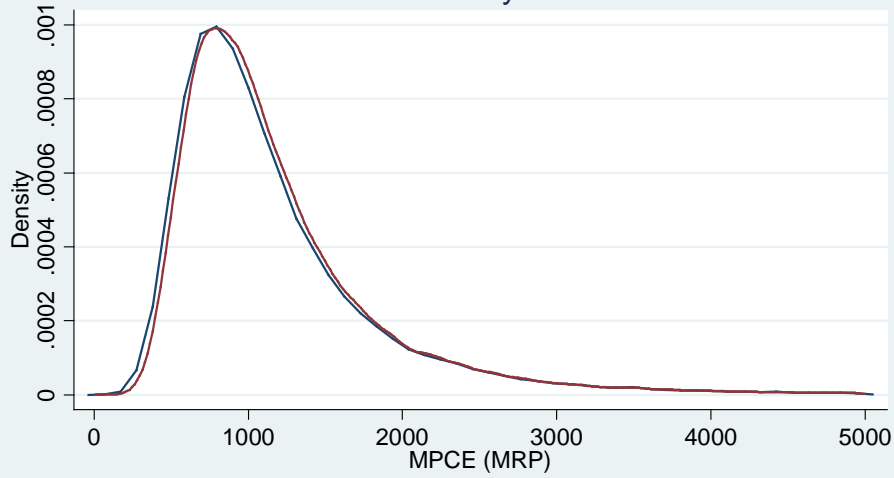
Reduction in poverty gap

Proportionate reduction in PG,
2009-10

All India	17.6
TN	61.3
AP	40.6
Chhattisgarh	39.0
Bihar	4.3

ALL INDIA, RURAL

Kernel density estimate

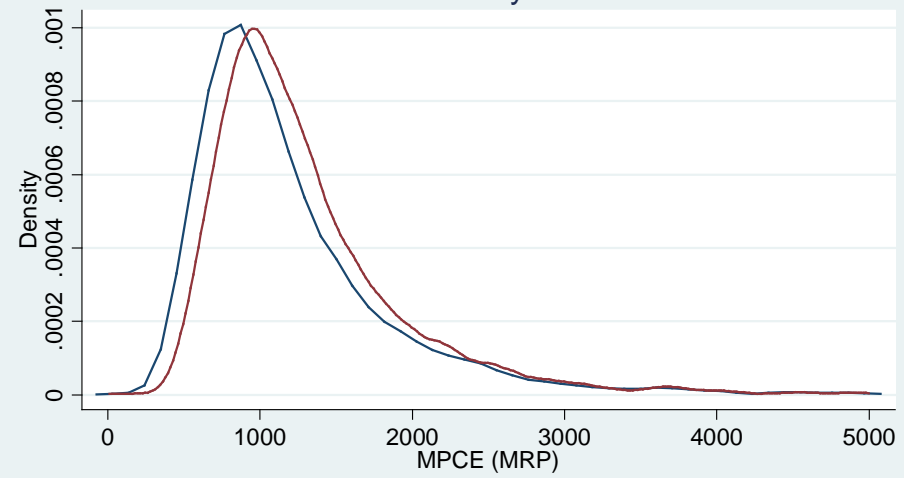


Kernel density estimate
kdensity MPCE_adj

kernel = epanechnikov, bandwidth = 48.8918

TAMIL NADU, RURAL

Kernel density estimate



Kernel density estimate
kdensity MPCE_adj

kernel = epanechnikov, bandwidth = 85.5381

Cash vs. Food Question

The question:

“Suppose that instead of giving you food rations through the PDS every month, the government deposited some money every month in your bank account - enough to buy the same amount of food on the market – and closed the PDS outlet. How would you feel about it? Would it be better, worse or the same as getting food from the PDS outlet?”

- The results –
 - Clearly correlated with performance of the PDS. The better the PDS performance, the less likely you are to prefer cash.

	Proportion (%) of respondents who:		
	Prefer food	Prefer cash	No clear preference ^a
Bihar	20.8	54.2	25.2
Uttar Pradesh	41.5	34.1	24.4
Rajasthan	59.6	14.7	25.7
Jharkhand	66.0	22.2	11.9
Tamil Nadu	70.6	10.5	18.9
Himachal Pradesh	81.4	9.3	9.3
Orissa	88.3	5.8	5.7
Chhattisgarh	90.3	2.1	7.7
Andhra Pradesh	91.3	5.6	3.2
All states	67.2	17.9	14.7

On Cash and Food

In-kind transfers

- Paternalism, interdependent preferences
- Intrahousehold distribution issues
- Pecuniary benefits

Cash transfers

- No paternalism
- Better nutrition
- Less corruption
- Easier to administer

Context Matters!

- Food security remains a primary concern
- Markets can react in different ways
- Financial infrastructure: Access and depth, vulnerabilities
- Indexation: Frequency and “level”
- Demographic/cultural factors: Elderly, single women

Transition Costs

- Citing experience with other cash transfers (corruption, irregularity) suggest that its not just a hypothetical question or a question of “learning” a new way of doing things
- The learning will take an uncertain amount of time and impose costs too.

Concluding remarks

- PDS Revival is for real, but long way to go
 - Revival Package
 - Focus on decentralization and coarse cereals
- Hard sell on cash seems premature
 - What about urban areas though?