

Comments on:
'Poverty and Food Security in India' by Himanshu

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Main Findings

- PDS transfers has relatively bigger effect on HCR and calorie intake than Growth.
- The performance of PDS has improved (i.e., the extent of leakage has decreased).
- Statewide variation indicates that greater leakage is correlated with lower impact on poverty.
- Overall, distributive policy through food subsidy is to be preferred to mere growth policies if poverty reduction is the objective.
- My comment: This basically says that the extent of trickle down of GDP growth is positive but low; PDS directly transfers income to the poor.
- Q: But is the lowering of HCR due to PDS (in-kind transfer) or just an income transfer to the poor? Note fungibility makes a food subsidy in kind work the same way as an income transfer.

Why the improvement in PDS functioning?

- Wider coverage and a rise in market prices both reduce the incentives to divert grain to open market.
- Also, other administrative reforms such as de-privatization of fair price shops, GPRS etc.
- My Q: If high market prices improve the performance of the PDS will it not at the same time hurt the poorest the most since a large percentage of them would still be buying on the open market ? Even those covered by PDS among the poor buy 30% of their consumption on open market and in addition many would be excluded due to many reasons such as being a migrant, no home address etc.

Is Cash Transfers not a more effective way of transferring subsidy?

- So far the argument of the paper has been: PDS is more helpful to the poor than mere GDP growth – there have been some improvements in PDS – therefore let us keep PDS. Not a totally persuasive argument as there may be better ways to implement income transfers.
- PDS Leakage is still high up to at least 40%. In the poorer states it is even higher: Bihar 64.6%, in U.P. 56.6% etc.
- Cash Transfer involves no incentive for diversion. Note that the inherent incentive to divert to open market is a far bigger problem than the alleged inefficiency of FCI.
- Will automatically include local coarse cereals in the food security system stopping the discrimination against them.