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Cash for Food—A Misplaced Idea

DIPA SINHA

Direct benefit transfers in the form of cash cannot replace the supply of food through the public distribution system. Though it is claimed otherwise, DBT does not address the problems of identifying the poor (“targeting”) and DBT in place of the PDS will expose the vulnerable to additional price fluctuation. Further, if the PDS is dismantled, there will also be no need or incentive for procurement from farmers and this system too will have to be done away with, adding a new source of vulnerability to cultivators of rice and wheat.

Some recent developments have once again made it clear that there is an accelerated push to replace transfers of foodgrains through the public distribution system (PDS) with cash transfers. The High Level Committee (HLC) on Reorienting the Role and Restructuring of the Food Corporation of India (FCI) (known as the “Shanta Kumar Committee”) went beyond its mandate and recommended that the PDS must be progressively replaced by cash transfers, and that the coverage under the National Food Security Act (NFSA) must be reduced from 67% to 40% (GoI 2015a). A shift to cash in place of foodgrains was argued for on the basis of data showing high leakages in the transfer of grains through the PDS. Using the same argument of leakages and inefficiencies, the *Economic Survey* for 2015–16 also recommends a shift to direct benefit transfers (DBT). It goes a step further and claims that direct transfers through the “JAM Trinity” platform (Jan Dhan–Aadhaar–Mobile) has the potential of “wiping every tear from every eye” (GoI 2015b). The finance minister, in his budget speech, mentioned neither the PDS nor the NFSA, but did mention JAM as one of the “game-changing reforms” introduced by the National Democratic Alliance (NDA) government.¹

It has also come to light that taking forward the recommendations of the Shanta Kumar Committee, the Government of India issued letters to state governments urging them to come up with plans to shift to a PDS based on cash transfers linked to Aadhaar (Sethi and Agarwal 2015). While there are issues with making Aadhaar mandatory for the PDS (as the Supreme Court has said that Aadhaar cannot be made a precondition for access to any social schemes) in this article we focus on the issue of cash transfers replacing PDS.²

Leakages and Reforms

The most forceful argument in favour of cash transfers is based on estimates of

leakages in PDS. The Shanta Kumar Committee estimates that over 47% of grain meant for the PDS leaks out of the system before it reaches the actual beneficiaries. The basis and assumptions behind these estimates of leakages have themselves been challenged.³ While different estimates for leakages are due to different assumptions made while using the National sample Survey Office (NSSO) data, what is clear from all the studies is that leakages in the PDS are showing a declining trend. Not only is there a secular decline in PDS leakages, it is also seen that those states which are making efforts in terms of expanding coverage, lowering prices and putting in place reforms in the PDS are precisely the ones which are also showing lower leakages.

Joining the southern states such as Kerala, Tamil Nadu and Andhra Pradesh, which have had low leakages in the PDS for a long time, are states like Chhattisgarh and Odisha, and more recently Bihar. Field studies in Bihar and Odisha also show much lower levels of leakages (Chatterjee 2014; Somanathan and Kjelsrud 2015). The attempt to wind up a system which is showing significant improvement is difficult to justify. One lesson from the experience of these states is that wider coverage and lower prices can contribute to lower leakages. This is precisely what the NFSA aims to do. It expands coverage, providing the opportunity to have an exclusion-based identification system for eligibility under the PDS (allowing for “near-universalisation” in rural areas of many poor states), and lowers prices. Further, leakages are mostly in the above the poverty line (APL) quota, where entitlements are unclear (Drèze and Khera 2015), lending a strong basis for the expectation that full implementation of the NFSA with its expanded coverage, low prices and uniform entitlements will reduce leakages in the PDS further and this needs to be given a chance.

Along with greater coverage and lower prices, there is a similar set of reforms that has been implemented in most states where the PDS has improved or where it functions effectively. These have been summarised by the Justice Wadhwa Committee of the Supreme

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Court based on their reports on the PDS in 28 states and union territories (UT) across the country. Similar reforms have also been recommended under the NFSA and data shows that progress is being made in these fronts too. For instance, door-step delivery has been started in 12 states (as on 31 March 2014), digitisation of fair price shops has been completed in 28 states, and digitisation of ration cards/beneficiary database has been completed in 13 states, and is in progress in 17 states (GoI 2014a). A number of states have also introduced toll-free helplines for grievance redress, SMS alerts and so on.

Targeting and Identification

As many studies in the past have shown, the big issue with the targeted PDS has been identification of those below the poverty line (BPL). Misidentification, which includes both exclusion and inclusion errors, has contributed to leakages as well. The incentive system that was put into place because of dual pricing for BPL and APL, and the resulting black market, could be avoided to a great extent with uniform pricing and universal coverage. Once a shift is made to a universal system, the issue of leakages is also taken care of to a large extent. It is hoped that once the NFSA (although not universal, has higher coverage) is fully implemented, much of this will be corrected.

The experience of states with defined criteria to identify those who would be eligible for “priority” ration cards once again brings out clearly the impossibility of having a foolproof identification system in India. The pilot study done before the Socio Economic Caste Census (SECC) also showed that while it might be possible to identify 10%–20% of the richest and the poorest households in rural areas with some degree of accuracy, it is very difficult to rank all those in the middle (Himanshu and Murgai 2011). If one goes back to 40% coverage, as recommended by the Shanta Kumar Committee or the poverty-line-based quotas as in the past, we once again fall into the trap of having a BPL-based system with all its problems. In fact, what needs to be done urgently is to speed up the process of availability of SECC data so

that proper criteria can be made for identification (the exclusion-based system being implemented by Bihar and Odisha being the desirable way of doing it).

This problem of identification will remain even if the PDS is replaced by cash transfers. It is clear that what the policy-makers are talking about is not universal cash transfers, but one that is targeted at the poor. In fact, the finance minister in his speech makes a misleading remark that, “The JAM Trinity will allow us to transfer benefits in a leakage-proof, well-targeted and cashless manner” (emphasis added). How is DBT expected to solve the problem of identification automatically? In fact, cash transfers would make it even more difficult because there is an element of self-selection as far as the PDS is concerned, which will be absent in the case of cash transfers.

Access to Banks

In spite of the large number of bank accounts opened under the Jan Dhan Yojana, it remains a fact that bank branches are very difficult to access in most parts of the country. The letter written by the Government of Odisha protesting the idea of replacing the PDS by cash transfers says that for more than 50% of the population, the nearest bank is 10 km–15 km away.⁴ On the whole, there are 1.16 lakh bank branches in the country, of which only 38.4% are in rural areas (RBI 2014). In the case of post offices, most of which are surely in rural areas, there are 1.5 lakh in the country. On an average, a post office serves an area of 21.21 sq km and a population of 7,175 people (data from website of India Post). While there are currently 5.2 lakh fair price shops in the country, with an average of 365 ration cards per shop (GoI 2014b). Although it is claimed that transfers can be made through mobile phones, the current state of mobile connectivity and people’s comfort with using mobiles for such transactions, it is difficult to imagine the country being ready to shift from cash to completely mobile-based transactions.

Along with the easier access to PDS shops, there is also the question of what the alternatives are for people to buy their staple food. Usually in villages, the local *kirana* (grocery) shop owner is

also the moneylender, and people have expressed their fears that in the event that they had to depend on him for their basic food security, they would be even more exploited as the shopkeepers would take advantage of this vulnerability. People have also responded saying that given their hand-to-mouth existence, PDS grains give them the assurance that there will be something at home even on days they do not find work. Given the vulnerability of livelihoods, indebtedness, increasing commercialisation of basic education and health services, the poor have a need for cash and there is no guarantee that the money can be used or kept aside for a time when there is no food available. The PDS plays a role in filling this gap.⁵

PDS and Its Multiple Roles

Studies have also shown that the PDS does contribute to increased consumption of not just cereals, but that it allows saved income to be used to buy better foods such as pulses. Himanshu and Sen (2013b) show how additional income of the same amount raises calorie consumption by only half as much as an equivalent amount of PDS foodgrain does. Given that the levels of food consumption in India are still so low, there is still a need for a direct food programme such as the PDS.

The PDS also offers relative protection from price fluctuations. While this has been certainly the case during the period of high food price inflation after 2008, this has been the case even for earlier years. As Himanshu and Sen (2013b) show, while market prices for rice and wheat increased by almost three times between 1993–94 and 2011–12, PDS issue prices actually declined in nominal terms. What they also show, and this is relevant to those who argue that the minimum support price (MSP)–PDS system is less efficient than the market, is that except for 2004–05 not only has the economic cost of rice and wheat been lower than corresponding market prices, but also that the benefit from per unit transfers from the PDS has been higher than the per unit subsidy cost to the government.

Cash transfers will not protect people against inflation, especially in the

context of fluctuating, and generally high food inflation. Although it is claimed that cash transfers will be inflation indexed, experience with previous cash transfer programmes in India only shows that this does not happen in practice. The social security pensions, for instance, have hardly increased for over 10 years in spite of spiralling inflation (under the “National Social Assistance Programme”).

Procurement Will Be Undermined

Increasingly, MSP operations and procurement have been geared only towards the PDS. Although MSP is announced for more than 20 crops, public procurement is largely focused on rice and wheat. Reducing or closing down the PDS would be a direct threat to procurement as well, as there would remain no incentive to procure. Such a fear has been expressed by the food minister himself, when he asked, “What will happen to the grain we procure and store in the godowns?” (*Business Line* 2015; and reports in a number of other newspapers.)

While there are a number of things that need to be done to support farmers and agriculture in the country, what is also needed is expansion in procurement operations both by the number of crops and regions covered. Procurement currently is largely concentrated in only a few states with farmers in food-surplus states such as Bihar and West Bengal, which hardly benefit from MSPs (the Shanta Kumar Committee report also points this out).⁶ However, the conclusion from this is not to stop procurement, but to strengthen infrastructure and close other gaps which will allow small farmers across the country to be able to sell to the FCI/state governments at remunerative prices. This is an important concern and is all the more significant today when food prices are falling.

India continues to be a country where there are still a large number of people dependent on agriculture for their livelihood. At the same time it is also true that most people are net buyers of food from the market. There is therefore a need for a system which ensures remunerative prices for farmers while keeping prices low for consumers. Cash

transfers cannot be an apt instrument to compensate farmers for unremunerative prices or for that matter any other subsidy, given the complex nature of the agrarian production structure in India.⁷

The PDS is rightly placed to play such a role for supporting agriculture and food security and in spite of its many shortcomings has been playing such a role in the past. During the global recession and food price inflation (2008–11), the PDS was credited for being one of the factors that helped keep India insulated from the crisis to a similar extent (Dev 2010). At the same time it was also seen that mismanagement of this system can lead to inflation and distortions in the food economy, which are not favourable to the poor (Chandrasekhar and Ghosh 2013; Himanshu 2010). The excess stocks that have been maintained now for the last six years are a result of such mismanagement and need to be distributed through an expanded PDS rather than being allowed to create artificial shortage and inflationary pressures in the market.

Summing Up

The experience of other countries is that cash transfers there were not introduced as substitutes to other public programmes (Ghosh 2011). While Brazil has its Bolsa Família programme, it also has a number of other schemes to ensure zero hunger including direct procurement from small farmers, provision of highly subsidised meals through community canteens, school mid-day meals and so on. In India on the other hand, cash transfers are being seen as a substitute that will replace the PDS (Chmielewska and Souza 2011). Moreover, countries such as Brazil and Mexico have a completely different context where they are much more urbanised and therefore better connected, and are much ahead of India in terms of education, health and nutrition indicators.

Some cash transfers are of course important and exist in India as well—pensions for the aged, single women and disabled, maternity benefits, and scholarships for disadvantaged children are all cash transfer systems which need to be strengthened. The resistance is not to the idea of cash transfers itself, but to cash transfers being seen as a panacea

for all poverty-related problems in India, and in the present case for the replacement of the PDS by cash transfers. Most public programmes in the country suffer from leakages and poor implementation. However, there are examples within India itself, where these same programmes have been made to deliver to the poor. The choice really is whether we invest in improving the delivery of services (something which needs to be done for even cash transfers to succeed), or we throw the baby out with the bathwater.

NOTES

- 1 “The JAM Trinity will allow us to transfer benefits in a leakage-proof, well-targeted and cashless manner” finance minister’s Budget Speech.
- 2 For more on Aadhaar and welfare schemes see Khera (2011); Drèze (2015).
- 3 Drèze and Khera estimate that the leakages using National Sample Survey Office (NSSO) data is in fact 42% and not 47%. Further, data from the India Human Development Survey (IHDS) shows that leakages could be even lower at 32% (Drèze and Khera 2015). Another study by Himanshu and Sen (2013a), also using NSSO data, shows that leakages are probably even lower at 35%.
- 4 Letter from Commissioner-cum-Secretary, Food Supplies and Consumer Welfare Department, Government of Odisha to Joint Secretary, Ministry of Consumer Affairs, Food and Public Distribution, Government of India dated 9 Feb 2015 (No 3088).
- 5 This para is based on field notes by the author from various field visits in the last five years in Andhra Pradesh, Tamil Nadu, Uttar Pradesh and Delhi.
- 6 There is some criticism of the findings of the NSSO quoted in the Shanta Kumar Committee report that procurement operations benefit only 6% of farmers. For example, see Karat (2015).
- 7 While there are certainly issues of identification of beneficiaries with most agricultural tenancy contracts being informal, there are also issues related to diversity due to soil quality, irrigation infrastructure, cropping pattern and so on. We are unable to get into detailed issues around procurement and agriculture subsidies here, but these are very relevant and need to be well understood before any recommendation for a shift to cash transfers is made.

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Nehru and the Question of National Identity

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Nehru makes a conscious effort to fuse India's cultural past and modern democracy. The loosely imagined idea of India's heterogeneous past is also the basis of Nehru's idea of a national identity. Nehru's self-representation as part outsider and part insider makes him the other within Indian society. Also, crucially for Nehru, historical experiences form the only ground through which a national identity can be understood and defined.

The Mexican poet-critic Octavio Paz described Nehru as one who "belonged to a double anti-tradition" (Paz 1967: 15–16). Educated at Harrow and Cambridge, Nehru developed close links with European culture and, as Paz points out, "drew inspiration from the rebellious and heterodox thought of the West" (Paz 1967: 15–16). On the other hand, Nehru's other lineage is traced by Paz back to his ancestors who "had frequented the Mogul court and had absorbed Persian and Arabic heritage," and to his family tradition from which "he had a vein of heterodoxy vis-à-vis Hindu traditionalism" (Paz 1967: 15–16). Nehru has written in his autobiography how he was "accused by some leaders of the Hindu Mahasabha" of his "ignorance of Hindu sentiments" because of his "defective education and general background of 'Persian' culture" (Nehru 1980: 169). To this accusation Nehru had to say: "What culture I possess, or whether I possess any at all, is a little difficult for me to say" (Nehru 1980: 169). Nehru here highlights a kind of identity that Zygmunt Bauman has called: "nomads" of "modernity" (1998: 24).

In his own admission, though India was in Nehru's "blood," he "approached her almost as an alien critic," and "[t]o some extent... came to her via the West"

(Nehru 1994: 50, italics mine). This unique predicament of a cultural identity, which is part insider and part outsider, undergoes a partial sense of apology. It is also inflicted upon them by so-called "culturally rooted" people, who force them, in the words of Bauman, "to prove the legality of their presence" (1998: 26). The demand for such legality is cultural in nature, and throws open a debate about the relationship between culture, history and ethics. Colonialism intervenes into this debate in a complicated manner.

Understanding Hinduism

Nehru has a diachronous view of India's cultural past(s) and refuses to place tradition into any particular traditionalist framework. He understands Hinduism, for example, only in the "widest sense of Indian culture" (Nehru 1994: 74). This is not trying to place religion into any nationalist framework. In fact, Nehru is doing the very opposite. Hinduism and India are not coterminous for Nehru. The relationship between the two is mediated by a history that includes the intervention of other faiths, namely, Buddhism, Jainism, Islam and Christianity. All these religions came to acquire a distinctive identity within India's geo-cultural boundary and in the process brought in changes within Hinduism itself. So Nehru looks at the question of tradition in history as one where change is definitive. This change comes from the historical examples of "synthesis" which Nehru traces right back to the meeting between the Aryans and the Dravidians, and later between the settlers and the Iranians, Greeks, Parthians,

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