PDS vs Cash Transfer

A modest improvement:

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- With the Kerala government's decision to implement the National Food Security Act (NFSA) from April, the whole country will be covered by the legislation. However, **if we expect the NFSA to improve India's malnutrition statistics, we may well be disappointed.**
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- According to a study, even before the NFSA is fully implemented, use of the PDS expanded sharply. However, the decline in child malnutrition has been far more modest.
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- **Examples:**\n
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    - Proportion of households receiving PDS subsidies in Rajasthan increased by about 15 percentage points, underweight declined by 3 percentage points; In Madhya Pradesh experienced similar increase in the PDS but a sharper decline underweight.
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    - The strangest case is that of Andhra Pradesh where 59% of the population received PDS subsidy in 2004-05 rising to 76 % in 2011-12 but **underweight rate seems to be stuck around 32% with hardly any improvement.**
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Why do we see this disconnect?

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- A recently released report based on India Human Development Survey of 2004-05 and 2011-12 suggests that the **relationship between the PDS and nutrition may be more complex.**
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- This is the first nationwide survey to interview the same households at two points in time. By matching households with similar income, family size, land ownership and place of residence, but one group with Below Poverty Line (BPL) or Antyodaya Anna Yojana (AAY) card and the other without these cards, this study is able to compare apples to apples and examine the role of the PDS in a quasi-experimental design.
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- The results suggest that access to PDS subsidies changes the way people allocate their household resources.
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- When rice, wheat and other cereals are available cheaply, households try to get more of their required calories from cereals and less from milk, fruits and vegetables.
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- **Results:** Households with BPL/AAY cards consume a monthly per capita average of 11.87 kg of cereals, but only 2.77 litres of milk. In contrast, households without BPL/AAY cards but at the same income level, consume somewhat less cereals (11.22 kg) but more milk (3.21 litres).
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- One would normally expect that the savings from cereal purchase due to price subsidies would be used to buy milk, fruit and nuts, but in an era where **school and medical costs are rising and households face many other demands on their purse,** these savings seem to be spent on non-food items.
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- So, households with a BPL/AAY card were no better than households without it when it comes to child nutrition. This is because **access to cheap calories reduces consumption of different foods** and dietary diversity is very important for balanced nutrition.
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Should we do away with PDS?

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- Not necessarily. The NCAER report found that for very poor households or households that experience income declines of 20% or more between the two surveys, **access to the PDS is very important/only way** for preserving food intake and dietary diversity.
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- When faced with a sharp income decline, households with BPL/AAY cards reduce their cereal intake, and maintain their milk intake. In contrast,

households who can’t avail of food subsidies reduced both their cereal intake and milk intake.
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Is cash transfers the only way of dealing with this challenge?

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- The challenge lies in **providing assistance to needy households** to ensure adequate diets without creating conditions in which they opt for inferior diets that are heavy on cereals.
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- Indians have greater genetic predisposition for these so-called “lifestyle” diseases, but it is also well recognised that these diseases are exacerbated by excessive consumption of carbohydrates, amply available in cereals.
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- Cash transfers may be one way of dealing with this challenge. **They would allow households to invest in better diets without circumscribing what they consume.**
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- However, their success would depend on the ability to effectively administer transfers and reduce leakages.
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Concluding remarks:

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- Moreover, how this may affect grain markets remains unknown. International research on cash versus in-kind food subsidies presents mixed results, with **the effectiveness of cash transfers depending on the institutional framework.**
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- Current debates on Universal Basic Income tend to see it as an additional component of social safety nets.
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- But if the mechanisms for effective administration of the UBI are in place, it is possible to make a case for replacing PDS by cash transfers on nutritional grounds and this is well within the framework laid down by the NFSA.
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