

**CONTAINMENT OF FOOD SUBSIDY IN THE  
CONTEXT OF REVENUE DEFICIT**

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### **Abstract**

An attempt is made in this paper to examine the scope for reducing expenditure on food subsidies by looking at the functioning of the Food Corporation of India (FCI) and targeting the food subsidies to the deserving classes. Events that led to the governmental intervention in the distribution of food grains at subsidized rates and the entry of FCI in the sale and purchase of food grains have been described. Factors responsible for the growth of food subsidies have also been discussed. Areas for action have been identified. Suggestions for reducing the growth of food subsidies have been attempted.

## CONTAINMENT OF FOOD SUBSIDY IN THE CONTEXT OF REVENUE DEFICIT

### Introduction

While presenting the Budget for 1991-92, on July 24th 1991, the Finance Minister, Dr. Manmohan Singh observed that the Indian economy is in deep economic crisis, with an ever growing revenue deficit/budgetary deficit/and fiscal deficit, and balance of payments deficit on the one hand and spiraling price level on the other. He tried to reduce the deficit through raising of resources and halting/reducing the growth of certain items of expenditure - defence and subsidies - hitherto considered impossible. The urge for arresting the growth of defence expenditure, interest payments and subsidies was recognised long ago - i.e., at the time of presenting the Long Term Fiscal Policy (LTFP) in 1985 itself. But the Finance Ministers since then were not bold enough to make efforts to reduce them. For the first time, Dr. Manmohan Singh made efforts to keep defence expenditure at the previous year's level (or reduce it in real terms) and reduce expenditure on subsidies by 15 per cent from Rs.12,121 crore (RE) in 1990-91 to Rs.10,395 crore (BE) in 1991-92. But the interesting part of it is that while expenditure on export subsidies was brought down considerably by adopting suitable changes in trade policies, similar efforts were not made in expenditure on food subsidies. Contrary to expectations, expenditure on food subsidies went up from Rs.2,450 crore in 1990-91 (RE) to Rs.2,600 crore in 1991-92 (RE). And, efforts made at the time of presenting the budget, in reducing fertiliser subsidy were diluted, by making amendments to them at the time of passing the budget in the Parliament.

What is interesting and intriguing is the hike in expenditure on food subsidy and the reason associated with it. The reason mentioned was the likely increase in procurement prices of wheat and rice to farmers to compensate for the inevitable increase in the prices of fertilisers, consequent upon the reduction in fertilizer subsidy to indigenous

manufacturers. This is understandable, since the attempt is to provide incentive to farmers. What is not understandable is the hike in procurement prices (and hence increase in food subsidy) without increasing the issue prices of commodities sold under Public Distribution System (PDS). Even the much talked of targeting of foodgrains was not attempted. In our opinion, there is scope to reduce the growth of food subsidies by looking at the whole issue afresh, particularly at the functioning of Food Corporation of India (FCI) and targeting the food subsidies to the deserving classes only. In what follows, is an attempt towards that end.

Section II, begins with the description of events that led to the governmental intervention in the distribution of foodgrains at subsidised rates and the entry of FCI in the sale and purchase of foodgrains to serve as a background for the study. Section III, discusses the factors responsible for the growth of food subsidy and identifies the areas for action. Section IV, suggests steps for reducing/arresting the growth of food subsidy in the years to come.

## II

### **Background of Food Subsidy**

Until 1943, foodgrains economy of India was virtually a free market economy, wherein foodgrains prices were determined by market forces. The World War II disrupted the imports and internal transport system and consequently free foodgrains market collapsed during the mid 1940s. The disruption in the movement led to lack of market for foodgrains in the surplus regions and lack of supply in the deficit regions. The poor were the worst affected in both the regions; in the deficit region - they were affected due to lack of availability and in the surplus region - they were affected due to lack of market, and consequently due to decline in production, employment and income also. In economic terms, market failed to be "Pareto Efficient" in allocating resources among different sectors of the economy due to externalities. Market failure compelled the Government to intervene and improve the functioning of the foodgrains market. Strictly speaking, Government intervention had two major roles: (i) Explicit role and (ii)

Implicit role. The Explicit role was to correct the externalities while the implicit role was to protect the poor in the process. Hence, correction of externalities at the outset formed the rationale for Government intervention (Burgess R and N Stern.,(1989), Social Security in Developing Countries: What, Why, Who and How? Working Paper No:DEP 23, ST-ICERD, University of London).

The Government intervened by setting up a Foodgrains Policy Committee in 1943 to review the foodgrains situation in the country. The Committee after a detailed review, suggested a system in which a Central Government agency would participate in the procurement and distribution of foodgrains parallel to private trade and creation of a Central reserve of foodgrains. In the initial years, the Government mainly confined to importing of foodgrains and distributing them through ration shops rather than procuring them from domestic supplies. The policies related to foodgrains underwent drastic changes and there was no stable policy. There were controls and regulations which were ad hoc in nature for temporary problems. The need for a long term foodgrains policy was realized in 1964 when the prices of foodgrains increased by 27 per cent. It was also recognised that to implement the controls successfully, adequate preparations before enforcement were necessary, and the State must build up sizeable stocks of grains (R. Radhakrishna and S. Indrakant.,(1988), Effects of Rice Market Intervention policies in India: The Case of Andhra Pradesh, in, Evaluating Rice Market Intervention Policies: Some Asian Experiences, ADB, Manila).

In this context, FCI came into existence in 1965 to deal with foodgrains trade and was expected to act as a countervailing force to the speculative activities of the private traders. The functions of procurement, storage and distribution were handed over to FCI which were hitherto handled by Department of Food in several States. In addition, FCI was asked to handle all imported grains and their distribution and implement the food policy objectives - namely, (i) self sufficiency, (ii) assuring the supply of adequate foodgrains in all parts of the country with special emphasis on safeguarding the interests of low income consumers along with price stability and (iii) assuring reasonable and incentive prices to the producers.

Gradually the task of food management got extended from the disaster and drought management to enlarged distribution function directed towards vulnerable sections of the population. In fact, FCI grew manifold and emerged as an effective instrument of the Government in implementing food policy objectives. But along with its expansion, its losses also went up - from Rs. 865 crore in 1980-81 to Rs.2,061 crore in 1988-89 and thus recorded 14.62 per cent growth (Table 1). Consequently food subsidy which was Rs. 650 crore in 1980-81, rose to Rs.2,200 crore in 1988-89 - a stupendous increase of 19.68 per cent. As a percentage of GDP, it had gone up from 0.48 in 1980-81 to 0.56 in 1988-89.

### III

#### **Factors Associated with the Growth of Food Subsidy**

It is not difficult to visualise the factors responsible for the rapid growth of food subsidy. At least two factors can be mentioned immediately - one is the very policy of government in reimbursing the losses of FCI and the other is the operational efficiency of FCI. Since the objectives for which FCI was set up are such, that losses are bound to occur, and will occur in the future also. Only political decisions could change the losses of FCI. To be more clear, let us look at what food subsidy is meant for and the components constituting it.

Food subsidy refers to the amount paid by the Government to FCI towards reimbursement of (i) the difference between the "economic cost" of foodgrains and their issue prices, (called as consumer subsidy), and (ii) the carrying cost of buffer stocks. "Economic cost" comprises of (a) procurement price (b) procurement incidentals for indigenously procured as well as imported foodgrains and (c) distribution incidentals of foodgrains comprising of their movement, storage, handling, interest charges, etc. Issue prices refer to the average price of sales realized under various schemes such as Integrated Tribal Development Programme (I.T.D.P.), Rural Landless-Labour Employment Guarantee Programme (R.L.E.G.P.), National Rural Employment Programme (N.R.E.P.), Jawahar Rojgar Yojana (J.R.Y.), P.D.S. and open sales (i.e., sale of damaged foodgrains). By and large, food subsidy is influenced

by (a) socio-economic policy of the government, and (b) by the operational efficiency of FCI. Therefore, if savings have to be effected in food subsidy or growth of subsidies has to be contained, steps are needed on both the fronts. Since, improvement in operational efficiency of FCI lies in the hands of government administration and amenable for pressures, it will be discussed first. The changes needed in socio-economic policy shall be taken up later.

### **Operational Efficiency of FCI**

It needs no mention that higher the operational efficiency of FCI, lower shall be the subsidies - given the procurement and issue prices. It is, therefore, necessary to examine inefficiencies, if any, in its operation and see whether there is any scope to reduce them. The operational efficiency/inefficiency of FCI depends mainly on any or all of the following. First, the way the procurement incidentals are incurred. Second, the way the distribution incidentals are incurred and the third, the way the carrying costs of buffer stocks are incurred. Any neglect in the management of either of them or all of them would escalate inefficiency of FCI and consequently its losses. In what follows operational efficiency of FCI is looked into in respect of two major commodities - wheat and rice - leaving the rest for the present. In fact, wheat and rice constitute more than 80 per cent of the total value of foodgrains brought under the fold of FCI.

Procurement Incidentals refer to the costs incurred by the FCI in procuring the foodgrains, i.e., the costs incurred to move the foodgrains from the places of purchase to the godowns and the maintenance of the operational stocks, which incidentally include mandi charges, costs of gunny, purchase/sales tax, interest charges, storage charges, mandi labour charges, forwarding charges, internal movements, establishment charges, others. Tables 2 and 3 show the procurement incidentals incurred on wheat and rice respectively. It can be seen (Table 2) that procurement incidentals of wheat grew at the rate of 7.61 per cent per annum during 1980-81 to 1988-89. In absolute terms, they increased from Rs.21.31 in 1980-81 to Rs.36.36 per quintal in 1988-89. It appears that much of the increase was on account of rapid increase in the costs of gunny, interest charges, storage charges and internal movements. In absolute terms, cost of gunny, purchase/sales tax and



mandi charges account nearly 70 to 80 per cent of total procurement incidentals of wheat.

Procurement incidentals of rice grew at the rate of 6.70 per cent per annum (Table 3) - registering a smaller increase than that of wheat. In absolute terms they increased from Rs.10.05 in 1980-81 to Rs.16.91 in 1988-89 per quintal. Here again cost of gunny and purchase/sales tax contributed the maximum (i.e., 70 to 80 per cent) of total procurement incidentals on rice. But unlike in the case of wheat, forwarding charges record a higher positive growth rate.

It is interesting to know that procurement incidentals of wheat are almost one hundred per cent more than that of rice. One important reason for such an increase is that of significant growth in mandi charges, (which account for 15 to 20 per cent of total procurement incidentals). But in the case of rice no mandi charges are involved and consequently no mandi labour charges too. Another important reason is that of the increase in purchase/sales tax, (which accounts for 20 per cent of the total procurement cost of wheat whereas it accounts for 10-15 per cent only in the case of rice). Other charges such as interest charges, storage charges, internal movements, etc., also contributed to the increase in procurement incidentals of wheat. But their contribution to increase is small.

Distribution Incidentals refer to the costs incurred by FCI for distributing the foodgrains from godowns to distribution centers and for the maintenance of operational stocks. They are pooled incidentals for wheat and rice and are not available separately for each commodity as the foodgrains meant for sale are generally distributed together or jointly. It can be seen from Table 4 that distribution incidentals increased at the rate of 10.38 per cent per annum during 1980-81 to 1988-89 - from Rs.29.05 to Rs.72.38 per quintal. Much of this increase was on account of storage charges, handling charges, administrative overheads and freight charges which increased at the rate of 14.92 per cent, 13.56 per cent, 13.34 per cent and 12.17 per cent respectively during 1980-81 to 1988-89.

Carrying Cost of Buffer Stocks is yet another important component of operational efficiency of FCI. Its incidentals went up from Rs.34.00 in 1980-81 to Rs.61.84 in 1988-89 per quintal - registering an annual increase of 4.12 per cent. And much of this was on account of sharp increase in storage charges, administrative charges and handling charges (Table 5). In absolute terms storage charges went up from Rs.8.30 per quintal in 1980-81 to Rs.40.83 per quintal in 1988-89, whereas administrative charges and handling charges went up from Rs.1.60 per quintal to Rs.7.16 per quintal and Rs.1.58 per quintal to Rs.5.09 per quintal respectively.

Briefly speaking, operational efficiency of FCI has been going down; for, the cost per quintal with respect to either procurement incidentals, or with respect to pooled distribution incidentals, or with respect to buffer stock incidentals, or all of them have been going up. It is contrary to the theoretical reasoning and common belief that cost of operation per unit comes down as the scale of operation increases. Since 1980-81, the scale of operation has been considerably increasing and the cost per unit of operation has also been going up. It is suspected that the prime reason is the underutilisation of storage capacity. In fact, the increase in handling charges, storage charges and administrative charges as well as decline in the storage losses and interest charges indirectly confirm the underutilisation of storage capacity - i.e., when lesser quantity of grains are stored in huge godowns, handling charges, storage charges and administrative costs per unit of stock would go up, since these are in the nature of fixed costs and storage losses and interest charges per unit of stock would decline because these are directly related to the quantity of grains stored.

As mentioned earlier, decline in operational efficiency of FCI is only one part of the story in ever increasing food subsidies. The other part of the story, the most important one, relates to the movement of procurement prices and issue prices which are not under the control of FCI, but are directly under the policy making of the government from time to time. Apart from these, the very policies as to whom PDS should serve (targeting of foodgrains subsidy) and in what quantity are in the hands of government.

## Trends in Procurement and Issue Prices

It can be seen from Table 6 that procurement prices of both wheat and rice have increased, but the price of rice increased slightly faster than that of wheat. Similarly issue prices of both wheat and rice increased, but here again, the price of the latter increased much faster than the former. What is important, from the point of savings in food subsidy is the level of difference, the government wants to maintain between wholesale prices and procurement prices on the one hand and issue prices and consumer prices on the other. The experience of 1980s was that while procurement prices of wheat and rice increased by 4.43 per cent and 4.98 per cent respectively, the wholesale price indices of wheat and rice increased by 6.31 per cent and 5.44 per cent respectively. It logically follows that procurement prices of foodgrains were kept much below the market prices, and this might not be possible now and in the years to come. Any attempt to fix procurement prices much below the wholesale prices might prove to be counter-productive and may endanger the very objective of providing incentive prices to the farmers under food policy.

In regard to issue prices, of wheat and rice, it needs no mention that they have been kept much below the consumer prices of industrial workers. It can be seen from Table 6 that issue prices of wheat and rice rose by 4.71 per cent and 7.15 per cent respectively. But, consumer price index of foodgrains rose by 8.53 per cent. In other words, the rate of increase in issue prices was lower than that of consumer price index.

Now, having toed a particular policy line for so long a time and having made certain commitments to supply foodgrains at reasonable prices to people, there may be very little scope to reduce subsidy on this count. The only possibility, open to government is to rationalise the PDS, and supply foodgrains only to those who are in need, and leave the rest to the open market. Perhaps, such a policy (viz., targeting of PDS) might help contain food subsidy, as well as meet the fundamental objectives of food policy.

## Targeting of PDS

But targeting of PDS to specified income classes is a complex matter. It is complex in the sense that given the diverse nature of population with high degree of inequality in the distribution of income and wealth, it is difficult to identify what and who actually constitute the target group. Any study in this direction is possible only when a detailed analysis on the pattern of distribution of supplies of PDS among different strata of consumers is known. In this connection, results of the 42nd Round of National Sample Survey Organisation on Social Consumption conducted for the year 1986-87 are useful.

## Distribution Pattern of PDS Users and Supplies

The distribution pattern of wheat, under PDS, among different classes of consumers (see Table 7) reveal that the bottom 40 per cent of the households (according to monthly per-capita expenditure) account for 46.24 per cent of PDS users with a purchase of only 24.31 per cent of total PDS supplies of wheat in rural India. The same class of households in urban India account for 47.99 per cent of PDS users with a purchase of 35.36 per cent of total PDS supplies of wheat. In the case of rice, the bottom 40 per cent of the rural households account for 50.69 per cent of PDS users with 40.25 per cent of PDS supplies. The corresponding urban households account for 48.82 per cent of PDS users with 45.07 per cent of purchases (of the total PDS supplies).

The middle 20 per cent of the rural households account for 21.09 per cent of users with only 13.76 per cent of purchases of wheat, whereas, their urban counterparts account for 21.80 per cent of PDS users with 22.98 per cent of purchases. But in the case of rice, the middle 20 per cent of the households account for 19.64 per cent of users and 21.45 per cent of purchases in rural sector. In the urban sector, they account for 23.99 per cent of users and 27.52 per cent of purchases.

The top 40 per cent of the households, (i.e., highest income class) account for 32.04 per cent of users with 61.93 per cent of PDS supplies of wheat in rural sector. In the urban sector, they account for 30.21 per

cent of users with 41.66 per cent of supplies of wheat. In the case of rice, the rural households account for 29.67 per cent of users with a purchase of 38.30 per cent of PDS purchases whereas, the urban households account for 27.19 per cent of users with 27.41 per cent of purchases (of total PDS supplies).

On the whole, the distribution pattern of PDS users and their purchases reveal that per-capita PDS supplies and thereby food subsidy accruing to the poor (rural as well as urban) is lower in comparison to the per capita PDS supply accruing to the rich. Even among the poor, per capita PDS supplies accruing to the rural poor is much lower than that accruing to the urban poor. This is due to the fact that the urban sector, in general, form a major vote bank for any political party, and hence, exercise more political pressure. Two major conclusions emerge from this analysis;

- 1) Disparity between the rich and poor has been widening, and
- 2) Disparity between poor in the rural sector and the poor in urban sector also has been widening.

#### IV.

##### **Steps for Reducing or Arresting the Growth of Food Subsidies**

Then what steps should be taken to achieve the real intent of government and reduce growth of subsidies? If the foregoing analysis is of any guidance, the following steps may be considered for implementation:

- (1) Operational efficiency of FCI should be improved considerably, particularly in regard to (a) procurement incidentals, (b) distribution incidentals, and (c) costs of buffer stock operations. Attention must be paid to costs on gunny bags, purchase/sales tax, interest and storage losses as these contributed largely to the increase in operational costs. Measures like, substitution of durable synthetic or nylon bags, instead of jute bags should be tried out. The purchase/sales tax

on the foodgrains purchased under PDS, can be urged for reduction; efforts should be made to explore the possibilities of abolishing it altogether, as it is more or less an inter-departmental/or inter-governmental transfer. Unutilised storage capacity should be fully utilised or some of the godowns, not being in use or being underutilised, should be given up for some other purpose to make it more economical.

(2) The personnel policy of FCI should undergo a drastic change as the increase in administrative expenses contributed to operational costs. In fact, the number of staff of the category level I increased from 744 in 1980-81 to 820 in 1988-89, whereas the staff of the category level IV declined from 32,067 in 1980-81 to 25,498 in 1988-89. While the reduction in staff of category IV is in the right direction, the increase in staff of category I is unwarranted. Moreover, the practice of dumping the surplus staff of different Ministries of Government on FCI or FCI being used as a transit place for State officials looking for green pastures should be given up. FCI should assert itself and function as an autonomous organisation and not as a wing of the Ministry of Food and Agriculture as that is the impression it is giving to people at present. FCI should change its recruitment policy at all the levels and build up its own cadre by imparting appropriate training to them periodically.

(3) Government policy, regarding the fixation of procurement prices and issue prices, should be realistic and should not unduly raise the subsidy. Such a policy would be in line with the objective of providing incentive to the farmers and reasonable subsidy to the consumer. It is easy to be populist and generous at the expense of somebody, but difficult to take hard decisions that impinge on the popularity of government. The issue prices should be revised frequently based on the movement of consumer price index (food index).

- (4) The practice of subsidised distribution of foodgrains to all citizens, irrespective of the level of income, should be changed. There is no strong reason as to why the people of middle income and upper income group should receive subsidized foodgrains. Proper targeting in the distribution of foodgrains would help reduce the growth of food subsidy and at the same time provide opportunity to distribute to more people in remote and tribal areas. While making an attempt to target PDS, care must be taken to ensure that due weightage is given to rural sector in general and the rural poor in particular, so as to reduce the existing inequality. Further, among different income groups, discrimination could be made between the most vulnerable and the needy by introducing different types of ration cards - say, green cards for bottom 40% of consumer expenditure class, yellow cards for middle 20% of the consumer expenditure class and completely leaving the rest 40% of the consumer expenditure class to open market. In fact, this is being done in some States in one form or the other. Other States may emulate them or devise their own models.
- (5) It is possible to argue that once the quantum of foodgrains distributed gets reduced, due to targeting, the PDS procurement would also be reduced, otherwise stocks with FCI would pile up leading to hike in operational losses and hence subsidies. If, on the other hand, FCI reduces the quantum of procurement, foodgrain prices will be affected seriously and farmers' incentive to produce foodgrains will be reduced. This negates the very objective of food policy. To overcome such a dichotomy, diversification of operations of FCI should be attempted. In our view, FCI should distribute subsidised foodgrains only to the target group and the remaining foodgrains can be sold at prices comparable with open market prices. Such a policy would result not only in the efficient utilisation of the existing PDS net work but also earn some profit out of open market sales. It might

reduce hoardings and also minimise exploitation of consumers and farmers by unscrupulous traders and middlemen. More importantly, it might help stabilise price level, which indeed, is the most urgent one at present.

- (6) The growth rates of sale receipts and value of sales of FCI reveal that the actual subsidy (consumer subsidy) passed on to consumers is very meager (see Table 1). To pass on even this much subsidy, an amount almost equal to three folds of the same is being incurred on account of maintaining the net work of public distribution system. Do we need to maintain such a costly distributive system?



**TABLE 1**  
**TRENDS IN THE LOSSES OF FOOD CORPORATION OF INDIA**  
**1980-81 to 1988-89**

(Rs. Crores)

| Year           | Sale<br>Rece-<br>ipts<br>1 | Value<br>of<br>Sales<br>2 | Other#<br>Expe-<br>nses<br>3 | Total<br>Losses<br>4 | Food<br>Subsidy<br>5 | Actual *<br>Consumer<br>Subsidy<br>6 | Food<br>Subsidy<br>AS A %<br>OF GDP<br>7 |
|----------------|----------------------------|---------------------------|------------------------------|----------------------|----------------------|--------------------------------------|--|
| 1980-81        | 2759                       | 2971                      | 653                          | 865                  | 650                  | 212                                  | 0.48                                     |
| 1981-82        | 2814                       | 2955                      | 784                          | 925                  | 700                  | 141                                  | 0.44                                     |
| 1982-83        | 3173                       | 3355                      | 893                          | 1075                 | 710                  | 182                                  | 0.40                                     |
| 1983-84        | 3530                       | 3854                      | 1036                         | 1360                 | 835                  | 324                                  | 0.40                                     |
| 1984-85        | 3169                       | 3476                      | 1235                         | 1542                 | 1100                 | 307                                  | 0.48                                     |
| 1985-86        | 5106                       | 5430                      | 1704                         | 2028                 | 1650                 | 324                                  | 0.63                                     |
| 1986-87        | 5202                       | 5656                      | 1818                         | 2272                 | 2000                 | 454                                  | 0.68                                     |
| 1987-88        | 5975                       | 6627                      | 1715                         | 2367                 | 2000                 | 652                                  | 0.60                                     |
| 1988-89        | 4752                       | 5307                      | 1506                         | 2061                 | 2200                 | 555                                  | 0.56                                     |
| Growth<br>Rate | 10.13                      | 10.76                     | 13.52                        | 14.62                | 19.68                | 18.67                                | 5.24                                     |

Note: # Other expenses include freight, handling, salaries and wages etc., rent, depreciation, interest and miscellaneous expenses.

\* Value of sales minus sale receipts

Source: 1) FCI Annual Reports

2) Economic and Functional Classification of Central Government Budget, Ministry of Finance

TABLE 2  
PROCUREMENT INCIDENTALS - WHEAT : 1980-81-1988-89

(Rs. per Quintal)

| ITEMS                   | 1980-81      | 1981-82      | 1982-83      | 1983-84      | 1984-85      | 1985-86      | 1986-87      | 1987-88      | 1988-89      | Gr. Rate(%) |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| 1 Mandi Charges         | 3.96         | 3.82         | 4.30         | 4.44         | 3.92         | 4.22         | 5.17         | 6.23         | 6.40         | 6.37        |
| 2 Cost of Gunny         | 6.04         | 5.88         | 6.18         | 6.71         | 6.25         | 11.30        | 11.32        | 9.54         | 9.95         | 9.02        |
| 3 Purchase/Sales Tax    | 4.54         | 4.70         | 5.38         | 4.51         | 5.09         | 6.53         | 6.28         | 5.72         | 7.75         | 5.84        |
| 4 Interest Charges      | 1.99         | 2.42         | 2.64         | 2.52         | 2.71         | 2.73         | 3.89         | 4.57         | 3.72         | 9.17        |
| 5 Storage Charges       | 0.59         | 0.59         | 0.50         | 0.50         | 0.52         | 0.57         | 1.37         | 1.51         | 1.30         | 14.50       |
| 6 Mandi Labour Charges  | 0.99         | 1.06         | 1.11         | 1.12         | 1.17         | 1.32         | 1.83         | 1.75         | 1.65         | 8.17        |
| 7 Forwarding Charges    | 0.78         | 0.89         | 0.63         | 0.54         | 0.50         | 0.48         | 0.62         | 0.46         | 0.88         | -2.71       |
| 8 Internal Movements    | 1.47         | 1.89         | 2.25         | 2.45         | 2.76         | 2.99         | 2.96         | 2.93         | 3.38         | 9.41        |
| 9 Establishment Charges | 0.95         | 1.07         | 1.29         | 1.36         | 1.33         | 1.41         | 1.37         | 1.42         | 1.33         | 4.00        |
| 10 Others               | -            | -            | -            | 0.02         | 0.06         | 0.06         | -            | -            | -            | -           |
| <b>Total</b>            | <b>21.31</b> | <b>22.32</b> | <b>24.28</b> | <b>24.17</b> | <b>26.31</b> | <b>31.61</b> | <b>34.81</b> | <b>34.13</b> | <b>36.36</b> | <b>7.61</b> |

Source: Annual Reports of FCI : 1980-81 to 1988-89

**TABLE 3**  
**PROCUREMENT INCIDENTALS - RICE : 1980-81-1988-89**

(Rs. per Quintal)

| ITEMS                   | 1980-81      | 1981-82     | 1982-83     | 1983-84      | 1984-85      | 1985-86      | 1986-87      | 1987-88      | 1988-89      | Gr Rate(%)  |
|-------------------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| 1 Mandi Charges         | -            | -           | -           | -            | -            | -            | -            | -            | -            | -           |
| 2 Cost of Gunny         | 6.21         | 6.05        | 6.26        | 7.18         | 12.37        | 9.80         | 8.25         | 8.54         | 10.68        | 7.02        |
| 3 Purchase/Sales Tax    | 1.46         | 1.27        | 1.05        | 1.10         | 1.64         | 2.00         | 1.79         | 1.30         | 2.16         | 5.66        |
| 4 Interest Charges      | 0.22         | -           | 0.18        | 0.52         | 0.14         | 0.34         | 0.36         | 0.27         | 0.45         | -0.17       |
| 5 Storage Charges       | -            | 0.02        | 0.08        | 0.45         | 0.29         | 0.08         | 0.07         | 0.05         | 0.07         | -15.19      |
| 6 Mandi Labour Charges  | -            | -           | -           | -            | -            | -            | -            | -            | -            | -           |
| 7 Forwarding Charges    | -            | 0.73        | 0.85        | 0.84         | 1.14         | 1.26         | 1.26         | 1.71         | 1.60         | 9.86        |
| 8 Internal Movements    | 0.80         | 0.43        | 0.46        | 0.66         | 0.74         | 0.66         | 0.38         | 0.38         | 0.62         | -2.89       |
| 9 Establishment Charges | 0.96         | 1.04        | 1.01        | 0.97         | 1.01         | 0.97         | 0.87         | 0.91         | 1.33         | 1.01        |
| 10 Others               | 0.40         | -           | 0.05        | 0.27         | -            | 0.05         | -            | -            | -            | -           |
| <b>Total</b>            | <b>10.05</b> | <b>9.54</b> | <b>9.94</b> | <b>11.99</b> | <b>17.32</b> | <b>15.18</b> | <b>12.98</b> | <b>13.16</b> | <b>16.91</b> | <b>6.70</b> |

Source: Annual Reports of FCI : 1980-81 to 1988-89

**TABLE 4**  
**POOLED DISTRIBUTION COST : 1980-81 - 1988-89**

(Rs. per Quintal)

| ITEMS                      | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | Gr Rate(%) |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------|
| <b>1 Handling Charges</b>  | 2.11    | 3.33    | 3.62    | 3.71    | 3.51    | 3.87    | 7.18    | 5.57    | 6.79    | 13.56      |
| <b>2 Storage Charges</b>   | 2.77    | 3.28    | 3.08    | 3.06    | 2.97    | 3.35    | 3.61    | 5.54    | 13.60   | 14.92      |
| <b>3 Interest Charges</b>  | 7.16    | 7.96    | 9.08    | 12.95   | 18.20   | 17.39   | 15.34   | 15.09   | 10.74   | 8.48       |
| <b>4 Freight Charges</b>   | 9.64    | 13.92   | 17.08   | 16.83   | 17.17   | 20.45   | 26.08   | 25.92   | 26.09   | 12.17      |
| <b>5 Admins. Overheads</b> | 2.13    | 2.49    | 2.89    | 2.80    | 3.16    | 2.84    | 3.13    | 3.90    | 9.54    | 13.34      |
| <b>6 Transit Shortages</b> | 3.91    | 5.17    | 6.58    | 6.20    | 6.11    | 4.42    | 4.91    | 4.84    | 4.16    | -1.45      |
| <b>7 Storage Shortages</b> | 1.33    | 1.72    | 1.58    | 1.32    | 0.77    | 0.87    | 0.98    | 1.19    | 1.46    | -3.47      |
| <b>Total</b>               | 29.05   | 37.87   | 43.91   | 46.87   | 51.89   | 53.19   | 61.23   | 62.05   | 72.38   | 10.38      |

Source: Annual Reports of FCI : 1980-81 to 1988-89

**TABLE 5**  
**CARRYING COST OF BUFFER-STOCK : 1980-81 TO 1988-89**

(Rs. per Quintal)

| ITEMS               | 1980-81      | 1981-82      | 1982-83      | 1983-84      | 1984-85       | 1985-86      | 1986-87      | 1987-88      | 1988-89      | Gr Rate(%)  |
|---------------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|-------------|
| 1 Storage Shortages | 4.28         | 5.34         | 4.94         | 3.73         | 2.19          | 2.72         | 3.06         | 3.77         | 4.24         | -3.85       |
| 2 Handling Charges  | 1.58         | 2.50         | 2.87         | 2.78         | 2.64          | 2.91         | 3.72         | 4.20         | 5.09         | 12.00       |
| 3 Storage Charges   | 8.30         | 9.83         | 9.61         | 9.19         | 8.94          | 10.21        | 11.28        | 17.04        | 40.83        | 15.12       |
| 4 Interest Charges  | 18.24        | 22.24        | 22.83        | 22.91        | 25.84         | 28.52        | 28.00        | 8.88         | 4.52         | -12.05      |
| 5 Admins. Charges   | 1.60         | 1.87         | 1.98         | 2.10         | 2.38          | 2.14         | 2.37         | 2.94         | 7.16         | 13.75       |
| <b>Total</b>        | <b>34.00</b> | <b>41.78</b> | <b>42.23</b> | <b>40.71</b> | <b>41.99*</b> | <b>46.50</b> | <b>48.43</b> | <b>36.83</b> | <b>61.84</b> | <b>4.12</b> |

Note : \* Includes transit loss and freight charges of Rs.2.88

Source : Annual Reports of FCI : 1980-81 - 1988-89

**TABLE 6**  
**PATTERN OF CHANGES IN PROCUREMENT, ISSUE,**  
**WHOLESALE AND CONSUMER PRICES : 1980-81 TO 1988-89**

| Year               | Procurement Price<br>(Rs. per quintal) |      | Issue Price<br>(Rs. per quintal) |      | Whole Sale Price Index<br>1970-71=100 |      | Consumer Price Index<br>Food Average<br>1960=100 |
|--------------------|--|------|----------------------------------|------|---------------------------------------|------|--|
|                    | Wheat                                  | Rice | Wheat                            | Rice | Wheat                                 | Rice |  |
| 1980-81            | 117                                    | 105  | 145                              | 150  | 206                                   | 176  | 419  |
| 1981-82            | 130                                    | 115  | 160                              | 165  | 226                                   | 192  | 476  |
| 1982-83            | 142                                    | 122  | 172                              | 175  | 257                                   | 214  | 508  |
| 1983-84            | 151                                    | 132  | 172                              | 188  | 292                                   | 218  | 581  |
| 1984-85            | 152                                    | 137  | 172                              | 208  | 273                                   | 210  | 607  |
| 1985-86            | 157                                    | 142  | 190                              | 217  | 284                                   | 226  | 638  |
| 1986-87            | 162                                    | 146  | 195                              | 231  | 302                                   | 239  | 700  |
| 1987-88            | 166                                    | 150  | 204                              | 239  | 326                                   | 259  | 759  |
| 1988-89            | 173                                    | 160  | 204                              | 244  | 364                                   | 292  | 839  |
| <b>Growth Rate</b> | 4.43                                   | 4.98 | 4.71                             | 7.15 | 6.31                                  | 5.44 | 8.53   |

Source : 1) Economic Survey  
2) Bulletin on Food Statistics

**TABLE 7**  
**PERCENTAGE DISTRIBUTION OF PDS USERS AND SUPPLIES**

| % OF HOUSEHOLDS ACCORDING TO PER-CAPITA MONTHLY EXPENDITURE | WHEAT         |               |               |               | RICE          |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | RURAL         |               | URBAN         |               | RURAL         |               | URBAN         |               |
|   | Users         | Supplies      | Users         | Supplies      | Users         | Supplies      | Users         | Supplies      |
| 00-10   | 12.71         | 4.44          | 10.78         | 6.14          | 14.97         | 6.67          | 12.97         | 7.91          |
| 10-20   | 10.50         | 7.99          | 11.64         | 13.26         | 11.49         | 8.34          | 10.51         | 11.29         |
| 20-40   | 23.66         | 11.88         | 25.57         | 15.96         | 24.23         | 25.24         | 25.34         | 25.87         |
| 40-60   | 21.09         | 13.76         | 21.80         | 22.98         | 19.64         | 21.45         | 23.99         | 27.52         |
| 60-80   | 17.14         | 16.87         | 17.12         | 20.79         | 18.36         | 23.74         | 16.35         | 17.38         |
| 80-90   | 9.03          | 19.42         | 7.81          | -             | 6.82          | 9.09          | 6.75          | -             |
| 90-100  | 5.87          | 25.64         | 5.28          | 20.87         | 4.49          | 5.47          | 4.09          | 10.03         |
| <b>Total</b>  | <b>100.00</b> | <b>100.00</b> | <b>100.00</b> | <b>100.00</b> | <b>100.00</b> | <b>100.00</b> | <b>100.00</b> | <b>100.00</b> |

Source : National Sample Survey, 42nd Round

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