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Distributional Aspects of the Incidence of Food Subsidy in India

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In response to the severe drought of mid 1960s, the Indian government created institutions of Agricultural Price Commission (APC) and Food Corporation of India (FCI). These institutions played a major role in unleashing a green revolution in India by providing assured procurement to the farmers at remunerative prices. However, to protect the vulnerable sections of the society, the government also enhanced the distribution of subsidized food-grains through the Public Distribution System (PDS). Thus, both producers and a section of consumers gained through government interventions in the food market.

The present paper measures the spatial and inter-temporal patterns for the incidence of food subsidy. For this, the food subsidy is decomposed into producer and consumer components by using various data sources from the Commission on Agricultural Cost and Prices (CACCP), FCI, and PDS. The analysis shows that northern states of Punjab and Haryana account for nearly half of the producer subsidy, though their share has been declining in recent years with a corresponding rise in the shares of states located in central India. Southern states account for a larger share in the consumer subsidy. Further, the share of consumer subsidy has increased post-2009 election significantly, with a corresponding decline in the share of producer subsidy. Interestingly, the poorer states in eastern India do not benefit much from either consumer or producer subsidy.

Given that farmers account for nearly half of the electorate, policymakers have been tempted to use the food subsidy as a tool for political motives as well. The quantum of food subsidy shows a cyclical pattern, rising during election years. Of this, the producer component of food subsidy seems to be more prone to political cycles.