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Policy Options for Food Assistance in India: Lessons from the United States

By Thomas MaCurdy and Sriniketh Nagavarapu

India's rapid economic rise has been one of the most remarkable developments of the past decade. However, as the middle class grows quickly, a large number of Indian families live in extreme poverty. The Indian government supports these families with a variety of anti-poverty programs, but its efforts have met with mixed success. This has led to a host of questions about how best to design these programs in the future. While it may not be at first apparent, the experience of industrialized countries like the United States can provide some useful answers.

Nowhere is this more true than in the area of food assistance. India's Targeted Public Distribution System (TPDS) makes rice and wheat – as well as a few other goods – available to the poor at local Fair Price Shops for subsidized rates. And the Antodaya Anna Yojana (AAY) portion of the program implements even lower subsidized rates for the poorest of the poor. These programs account for about 5 percent of the central government budget, but they've both come under wide criticism. Fortunately, as Indians call for reform of the TPDS/AAY, the U.S. Food Stamp Program offers a fruitful case study for learning about viable options for the future. As it turns out, food assistance in the United States is similar enough to the food programs in India to make a comparison reasonable, but at the same time different enough to suggest useful directions for change.

TPDS/AAY and the U.S. Food Stamp Program-Shared Features and Two Key Differences

Both the Indian and U.S. food programs target the working and non-working poor, with increased benefits going to the poorest segments. Both programs give access only to basic food items, with the TPDS/AAY being more narrowly restricted than the U.S. program. Both food programs involve a large degree of decentralization, as the federal

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About The Author

Thomas MaCurdy is a professor of economics at Stanford University and a senior fellow at SIEPR and at the Hoover Institution. His research primarily explores the effects of policy designs on programs making up public assistance systems, including such programs as Medicare, welfare, foster care, food stamps, low-skilled training, earned income tax credit, work-force development, unemployment compensation, Social Security, Medicaid, and other government aid for health care. He also serves as an advisor to many state and local governmental agencies in California and is a member of California's Health Benefits Review Program Task Force. Professor MaCurdy received his PhD from the University of Chicago.

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government shoulders most of the burden for financing, but leaves implementation to state governments. Both programs have historical ties to government support of farmers, but in both cases the delivery of food support can be separated from farmer support. This separation has happened explicitly in the United States, where the significant farm subsidies have long been independent of the Food Stamp Program. Although it may not be politically feasible in the current climate, it's possible to consider farm support and food distribution separate issues in India as well.

Still, the programs are different in two key ways. First, the form of support is different. Whereas, the TPDS/AAY functions like an in-kind system (i.e., a program that directly provides actual goods), the U.S. program offers a more voucher-like system (i.e., a program that provides "money" that can be used to purchase food). Second, the programs differ in eligibility determination. Whereas the Indian programs tend to rely on measures of long-term poverty to qualify families for benefits with re-certifications occurring infrequently, the U.S. program grants eligibility to people based on short-term fluctuations in their resources, with re-evaluations of qualification done using various monitoring mechanisms. These two differences in policies suggest reforms that could potentially improve the Indian programs dramatically.

The Advantages of Vouchers

In the United States, the Food Stamp Program operates on a voucher basis. After local food stamp offices determine a family's level of monthly benefits, the family can then buy most types of food at an array of private grocery stores by using physical stamps or electronic benefit cards linked to their accounts. The form of support in India is markedly different. To collect its benefits, an eligible family has to go to a Fair Price Shop, which is a store – run by a private contractor or local community organization – that gets its supplies from the state government. An eligible Indian family has the right to acquire a specified quantity of rice and wheat (and perhaps other items too) from the Fair Price Shop at subsidized rates.

Moving to a voucher system in India would offer three basic advantages. First, by providing beneficiaries greater flexibility, vouchers generally lead to increases in welfare for the same or lower cost to the government. Imagine converting the value of a family's TPDS/AAY subsidy into a food voucher and giving the family the voucher instead. The family could then afford to buy its original allotment if it wanted, and it could also buy a different mix of rice and wheat that would make it better off.

Second, vouchers would let recipients spread purchases out over time at their convenience. India's current system forces recipients to get their benefits in lump sum bundles, which can be inconvenient for all families and particularly problematic for poor families that do not have much cash on hand at any one time. Under a voucher scheme, though, beneficiaries could pay stores with whatever quantity of vouchers they choose, and stores could redeem these vouchers at government offices for cash (possibly with a premium attached to get stores to cooperate).

Third, the use of vouchers means that eligible families could obtain their benefits from a wide range of vendors doing business in the private sector, which could improve service and prices through competition. Currently, Fair Price Shops have little incentive to serve beneficiaries adequately. The traveling distance to Fair Price Shops, the lack of adequate stocks at the shops, and long lines all conspire to keep TPDS/AAY participation low among the poor in India. Allowing the poor to use their benefits at a larger range of stores could address all these issues, as well as the waste of government funds through the inefficient delivery in place today.

Novel Approaches to Determination of Eligibility

The TPDS/AAY relies on long-term indicators of poverty to evaluate a family's program eligibility and level of benefits, with infrequent updating of the family's economic circumstances. This potentially leads to either of two undesirable outcomes: Poverty thresholds are set high to ensure that families experiencing short durations of poverty receive food assistance, or poverty thresholds are set low so that only families that are always poor receive benefits, with the temporarily poor deemed ineligible. In either case, scarce government resources may not be going to families most in need of them. India's aversion to using short-term measures of poverty in its eligibility criteria in large part reflects the high administrative costs that would be required to implement such a system, costs that are incurred by both government and recipients. In India it is far more challenging to measure and verify income and assets than it is in the United States.

Fortunately, recent reforms to the U.S. food program provide viable options for balancing administrative costs and the benefits achieved by supporting temporarily poor families. In the 1990s, a family's income and asset eligibility was re-determined every month (i.e., monthly reporting) in the Food Stamp Program. This short-term focus led, of course, to a large administrative burden for both government agencies and food stamp beneficiaries. To remedy this situation, the federal government passed the 2002 Farm Bill that gave states the flexibility to use innovative reporting methods. For instance, some states now examine resources in the month of initial application and then grant eligibility for a six-month period, requiring the eligible family to be re-certified only at the end of the six-month period (known as semi-annual fixed period reporting). Other states introduced a semi-annual reporting scheme that qualifies families for a six-month period and then requires them to report changes in income exceeding specified thresholds or changes in family size during this period (known as semi-annual change reporting); registering such a change leads to an adjustment of benefits. These alternative reporting plans offer many of the advantages of the targeting features of monthly reporting schemes with much lower administrative costs imposed on all parties.

Some policymakers in the United States have advocated even larger changes in eligibility determination. One prominent proposal involves replacing the Food Stamp Program with a Nutrition Tax Credit (NTC), in which families are automatically enrolled into the NTC for six months or a year when they are eligible for the existing Earned Income Tax Credit. Such an NTC would deem a family eligible and provide benefits if its average monthly income over a six-month or annual period is projected to fall below a certain threshold. Advocates argue that this sort of scheme would simplify administrative procedures and lead to even lower costs than the options currently adopted in the United States. From an eligibility-determination perspective, the NTC closely mimics the criteria implemented by the TPDS/AAY to assess benefit qualifications, for both programs rely on long-term measures of poverty to evaluate eligibility.

Research in the United States has revealed significant shortcomings in replacing the existing food stamp program with the NTC. In work for the U.S. Department of Agriculture, MaCurdy and Marrufo (2006) study the consequences of alternative specifications of reporting plans using detailed survey data. They discover that any declines in administrative costs achieved through the NTC are likely to be easily outpaced by larger benefit payouts resulting from increased eligibility and participation. Moreover, despite these added expenses, relying on long-term measures of resources to assess food assistance would miss many short-term poor. MaCurdy and Marrufo (2006) identify hybrid reporting schemes currently admissible under the 2002 Farm Bill that precisely target food stamp benefits to families experiencing either short-term or long-term poverty and that also minimize administrative cost incurred by government agencies.

Future Reforms of the TPDS/AAY

These findings for the United States have important implications for India's policymakers in their current deliberations over reforms of the TPDS/AAY program. India's current food assistance system is the result of a large number of changes to the original, long-standing Public Distribution System. If history is any guide, making further reforms in India will no doubt be difficult from the point of view of both technical design and political feasibility. But if Indian policymakers embark once again on the process of reform, they can take valuable lessons from the experience of the United States with its recent re-designs of its own Food Stamp Program.

Further Reading

MaCurdy, Thomas, and Grecia Marrufo. 2006. "Food Assistance for the Working Poor: Simulating the Impact of the Nutrition Tax Credit on the Food Stamp Program." Report for the Economic Research Service, U.S. Department of Agriculture. *http://www.ers.usda.gov/publications/ccr24/*

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