Q5

In what way could replacement of price subsidy with direct benefit Transfer (DBT) change the scenario of subsidies in India? Discuss.

UPSC Civil Services Mains 2015 · GS III · 12 marks · Farm Subsidies and PDS

Issues related to direct and indirect farm subsidies and minimum support prices; Public Distribution System - objectives, functioning, limitations, revamping; issues of buffer stocks and food security; Technology missions; economics of animal-rearing.

Core demand of the question

- Contrast price subsidy with Direct Benefit Transfer
- Explain how DBT can change leakage, targeting, choice and the fiscal bill
- **Note limits:** exclusion, last mile, and fertiliser complexity

Revision summary

Price subsidy cheapens a commodity for whoever buys it and invites diversion.

DBT credits the eligible person so the good can sell nearer market price.

JAM (Jan Dhan, Aadhaar, mobile) is the delivery pipe; PAHAL is the working LPG example.

Gains are targeting, less leakage, household choice and a clearer Budget cost.

Risks are exclusion, weak banking, and a hard shift for fertiliser and food where markets fail.

Introduction

A **price subsidy** cheapens the bag of urea, the cylinder or the kerosene litre for everyone who buys it. **Direct Benefit Transfer (DBT)** pays the eligible person in a bank account and lets the good sell nearer to market price. India's **JAM** (Jan Dhan, Aadhaar, mobile) stack, highlighted in the **Economic Survey 2014-15**, is the pipe for that shift. The scene of subsidies changes only if the pipe actually reaches the poor.

Body

How price subsidy works today

- The State keeps **urea, some foodgrain, kerosene and LPG** cheap at the counter, which invites **diversion** to industry, smugglers or better-off households.
- Dual pricing needs a huge agency (fertiliser firms, oil companies, fair-price shops) and hides the true fiscal cost.
- The poor often still pay a tout, or receive a diluted bag, because the subsidy sits on the **commodity**, not on the person.

How DBT can change the scenario

- **PAHAL (Direct Benefit Transfer for LPG)** already showed that the subsidy can follow the Aadhaar-linked consumer, which cut duplicate connections.

- **Targeting improves:** the transfer can be limited to **priority households**, and the well-off can be excluded (as in giving up LPG subsidy).
- Leakage falls when the shop sells at market price and the farmer or housewife gets **cash or a bank credit**, so there is less incentive to divert the cheap bag.
- **Households gain** choice**:** they may buy a cleaner fuel or a different nutrient mix rather than only the subsidised item.
- The fiscal bill becomes **transparent** and can be capped; Economic Survey logic was that JAM reduces ghost beneficiaries.
- For food, DBT or cash in place of cheap grain is more contested, because price risk and weak rural markets can leave the family hungry if cash is delayed.

Limits

- **Exclusion error:** a failed Aadhaar match or a distant bank can cut off a genuine poor household.
- Fertiliser DBT is harder than LPG because **urea use is seasonal**, soil needs differ, and last-mile dealers are political.
- Without last-mile banking and mobile literacy, DBT becomes another queue.
- Price subsidy on merit goods (some food, some kerosene where LPG has not arrived) cannot be switched off overnight.

Flow diagram

Price subsidy on good -> Leakage diversion

JAM stack -> DBT to account

DBT to account -> Better targeting

DBT to account -> Choice and transparent fiscal cost

DBT to account -> Exclusion last mile risk

Conclusion

Replacing price subsidy with DBT can cut ghosts, diversion and an opaque fiscal leak, as PAHAL showed for LPG. It changes the subsidy from a cheap bag to a targeted transfer. It will not by itself feed or fertilise India unless banking, Aadhaar and markets work for the last household, and unless food security is not reduced to a failed ping.

Facts & figures

JAM

Jan Dhan, Aadhaar, mobile trinity set out in Economic Survey 2014-15 as the base for Direct Benefit Transfer.

PAHAL

Direct Benefit Transfer for LPG: subsidy credited to the consumer's account after Aadhaar or bank seeding.

Price subsidy
A controlled low sale price on urea, kerosene, some foodgrain or LPG, with the State paying the producer or oil company the gap.

Ghost beneficiaries
Duplicate or fake ration and LPG connections that a price subsidy on the good cannot easily detect.

Fertiliser subsidy
Large Union outlay, especially on urea; dual pricing has long been linked to diversion and imbalanced nutrient use.