MA Economics Semester II
Paper-V(A), Agricultural Economics, Unit-IV
Topic - Agricultural Subsidies in India

↳ India is the country where large scale population resides in rural areas and is engaged in agricultural and allied activities. 57 to 59% of population earns its livelihood from agriculture or allied activities.

↳ Government of India launched Green revolution and to fulfil its objectives there was the introduction of High yielding Varieties seeds programme in the 1960s, which demanded proper irrigation and fertilisers also. Government of India tried to ensure availability of these necessicities at the affordable rates and are easily accessible also. GoI developed via media for this by means of Subsidy; Subsidy on fertilizers is provided by the Central government whereas water subsidy is facilitated by the State governments.

↳ In India government gives various types of subsidies to agriculturists these are as follows - Fertilizer, Irrigation, Agricultural tools and Equipments, subsidy on Credit, seeds, Power and export subsidy.

↳ Power Subsidy — Power subsidy means government charges lower rates from the farmers for Electricity utilization. Power is primarily used by the farmers for irrigation purposes. It is the difference between the cost of generating and distributing electricity to farmers and price received from farmers.

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↳ The State Electricity boards either generate the power themselves or purchase it from other producers such as NTPC and NHPC. Power subsidy "acts as an incentive to farmers to invest in pumping sets, Bore wells, tube wells etc.

Fertilizer Subsidy → Fertilizer is the main agricultural input which influences the per hectare productivity directly. Disbursement of cheap chemical or non-chemical fertilizers among the farmers. It amounts to the difference between price paid to manufacturer of fertilizer (Domestic or foreign) and price, received from farmers, rest of the burden is bear by the government.

Basically this Subsidy ensures —

a) cheap inputs to farmers,
b) appropriate returns to manufacturers,
c) Stability in fertilizer prices
d) Availability of fertilizers to farmers in adequate quantity at the requirement.

↳ In some cases this subsidy is being provided through ~~granting~~ lifting the tariff on the import of fertilisers, which otherwise would have been imposed.

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Irrigation Subsidy :- Under this subsidy government provides irrigation facilities at the cheaper rates as compared to the markets rates.

⇒ It is the difference between ~~to~~ operating and maintenance cost of irrigation infrastructure in the state and irrigation charges recovered from farmers. This may work through provisions of public good such as Canals, Dams, Bore wells etc. which is being constructed by the government and charges less charges or no charges at all (in special cases) for their use by the farmers. It may also be very cheap in comparision to private irrigation provisions.

Subsidy on HYV Seeds — Government has developed Seed Banks in India and is able to provide HYV seeds to the agriculturists at low prices and also at the Future Payment options. Government has invested at the large Scale on the research and development of New varieties of seeds which will be provided to the Indian farmers at the cheaper rates.

Export Subsidy — GoI also provides Export Subsidy to the agriculturists so that they are able to cope up with the international competition. Primarily government encourages the agro-export so that farmers are able to earn profit for himself as well as foreign exchange for the country. Government promotes Agro Export till it does not adversely affect Domestic Economy. Subsidies provided to promote Export can be termed as Export Subsidies.

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Credit Subsidy —

Indian Economy is the capital scarce economy, and availability of credit to the farmers is a major challenge. Government of India has made various provisions to provide credit subsidy to the agriculturists like it charges low rate of interest and it also announces loan waiver for agriculturists during climatic adversities. To facilitate easy credit to the farmers GoI has made following provisions :—

a) GoI insists on extending branches of various banks in rural areas.

b) Low rate of interest for Rural Debt to the farmers.

c) Terms and conditions for Rural People have been relaxed.

Agriculture Infrastructure Subsidy —

Good roads, storage facilities, power, market information and transportation facilities are essential for enhancing the agricultural production and proper marketing of the agricultural produce. These facilities are in the domain of public goods, the costs of which are huge and whose benefits accrue to all the cultivators in an area. Therefore the government takes the responsibility of providing these and given the condition of Indian farmers a lower price can be charged from the poorer farmers.

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Topic — Subsidy Versus Public Investment in India

↳ Indian Economy is one of the most populous nation where, approximately 57 to 58 % of population is residing in rural area and get's its livelihood from Agriculture and Allied activities. In India more than a fifth of the population is blow the official poverty limit and Subsidy is being given for a variety of reasons, and in a variety of sectors.

↳ In a broader terms, this could be to make items of daily need more affordable, such as food or fuel; create an employable pool of educated Indians who would contribute to GDP growth ~~Subsidies~~ (subsidised education); provide upliftment to certain sectors, or boost industrialisation in underdeveloped areas through Tax exemptions.

↳ Almost every policy design, subsidies and budgetary allocations intended to benefit the poor in India but outcome is contradictory benefits primarily goes to the well-off Sections of the Society.

↳ Does this mean that all subsidies are being given at the wrong places, and ~~there~~ that there is no good being served? far from it, Subsidies on public transport have made travelling affordable for millions of people, a part from Reducing pollution and Congestion on roads, as well as Cutting down on petrol Consumption.

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- Desirable subsidies would include the rural employment generation scheme MNREGA, Mid Day meal programmes, Healthcare, female empowerment, funds for right to Education among poor and agricultural loans.

  In brief, any subsidy that benefits women, poor and marginalised is good; their growth propels growth of national GDP.

- Subsidies on medical equipment or medicines ensure healthcare for the poor, especially in a country like India that is bedeviled by a rickety rural healthcare infrastructure.

  Moreover, policy incentives for pharma will make India a hub of affordable treatment.

- Similarly, subsidies for loans given for Secondary agriculture initiatives reduce the burden on primary agriculture activities, and also help to reduce disguised unemployment in the agriculture sector.

- MSME Sector is the backbone of Indian economy and it accounts for 37% of the GDP. Subsidy here will not only strengthen this sector but also ensure jobs for millions as well.

- Subsidies for renewable energy usage at public places and in residential areas, is much desired. Solar subsidy, duty exemptions on imports of expensive equipment, and incentives for green fuels like bio-fuels will propel investment in R&D and drive towards a more eco-friendly energy regime.

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⇒ Need to replace agricultural Subsidies with Investment

↳ Presently argument is going on that there is the need to replace agricultural Subsidies with Investment in India.

↳ argument is that all agricultural Subsidies, which range from fertilizer subsidies to those on interest, water, power. This talk is about that how to cater farm distress.

↳ At its core the farm distress is a case of agricultural activity not yielding enough returns for a section of the farming population. farm population is facing a declining farm size due to Partitioning across generations.

↳ As this population grows the process of fragmentation of the family farm will continue, with succeeding generations staring at a shrinking pie. There may be two possible solutions to this problem. One is the obvious one of enabling some members of each household to shift out of farming. The other is to reconfigure Public expenditure on agriculture to raise the yield of land. in fact second solution would serve both objectives.

↳ A reconfiguration of public policy is needed to replace agricultural subsidies by capital formation or investment. For three and a half decades now subsidies have Progressively replaced public investment for agriculture. Having once been less than half that of investment it is now five times as large.

⇒ The impact of public investment on both the yield of land and rural poverty, encompassing a cohort wider than farmers, is far greater than that of fertilizer, electricity, irrigation and interest rate subsidy.

⇒ Public capital formation in agriculture fell from 3.9% of agri-GDP in 1980-81 to 2.2% in 2014-15, before recovering a bit to 2.6% in 2015-16 while, at the same time, input subsidies rose from 2.8% to 8%. So, If Indian government switch expenditure from subsidies towards investment, that would help raise farmers income.

⇒ ~~what~~ It can be quoted that, every rupee spent on agricultural R&D adds RS 11.2 to agriculture GDP while the same amount spent on roads adds a much smaller RS 1.1, and just 88 paise gets added if the money is spent on fertiliser subsidy. That means if government spends on R&D & on Roads instead of on various inputs subsidies, doubling farmers income will not prove difficult since such spending is in the 'Green Box'.