



Impact of Subsidies on Agriculture Sector in India

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Introduction

Agriculture plays a vital role in India's economy. About 55 per cent of the rural households depend on agriculture as their principal means of livelihood. The share of agriculture and allied sectors is about 18 per cent to the country's GDP (Anonymous, 2019-20). On the eve of independence, the Indian agrarian economy was critical in situation as the country was left with only 69 per cent of land under rice, 65 per cent under wheat and 75 per cent under all cereals to the 82 per cent of total population of undivided India (Chahal, 1999). In view of this, after independence, the Government of India adopted a positive approach and played vital role in development of agricultural sector. Tremendous efforts were made to boost the Indian economy through a well-defined policy of integrated production programmes with defined targets and a proper distribution programme was adopted along with other measures. The new technologies were used which included the use of high yielding varieties, assured irrigation, chemical fertilizers, insecticides, pesticides and machinery to increase the food production in country. But, in modern technology, the inputs were very costly and Indian farmers being poor are not in a position to buy these expensive inputs. Therefore, on the recommendations of Food Grain Price Committee (Jha Committee, 1964), the Government of India started the scheme of subsidies on the purchase of various agriculture inputs to facilitate the farmers (Singh, 1994). Agricultural input subsidies have long been used to promote smallholder farmers' use of inputs, increase wages, reduce food prices and promote economic growth. Since many years, the Indian government has been providing input subsidies to agriculture sector in direct and indirect form for encouraging agriculture production.

Subsidies

The word subsidy has been derived from the Latin word '*subsidium*' which implies coming to assistance from behind. A subsidy is defined as a form of financial assistance paid to an economic sector (institution, business or individual) in order to achieve certain policy objectives, which means that any monetary exchange which is not directly connected to paying for a service can be defined as a subsidy (Salunkhe and Deshmush, 2014). The subsidies appear on the expenditure side and taxes appear on the revenue side of government budgets. While the taxes reduce disposable income, subsidies inject money into circulation. Any government provides subsidy keeping in view the objectives (1) to create a wedge between consumer prices and producer costs, (2) induce higher consumption/ production, (3) to achieve social policy objectives including redistribution of income, population control, etc. and (4) to promote general welfare (e.g. housing, sustenance). According to Fan *et al.*, (2007), subsidies in agricultural sector can play an important role in early phases of



agricultural development by addressing market failures and promoting new technologies. In India, for overall development of agricultural sector, central as well as state governments are providing subsidies on fertilizers, irrigation (canal water), electricity and other subsidies to marginal farmers and farmers' cooperative societies in the form of seeds, development of oil seeds, pulses, cotton, rice, maize and crop insurance schemes and price support schemes etc. The Department of Agriculture & Cooperation, Government of India, has been implementing various schemes and programmes under which these subsidies are provided for the benefit of farmers through State Governments. Rashtriya Krishi Vikas Yojana (RKVY 2007), National Mission on Agricultural Extension & Technology (NMAET 2010), National Food Security Mission (NFSM 2007), Mission for Integrated Development of Horticulture (MIDH 2014), National Horticulture Mission (NHM 2005), National Mission on Oilseeds and Oil Palm (NMOOP 2010), Cotton Technology Mission (CTM 2000) are some of the schemes being implemented to help the small and marginal farmers reduce their cost of cultivation, increase profit and encourage diversification among them. The subsidies under various schemes are given in the form of inputs such as seed, fertilizers, plant protection materials, farm machinery, micro-irrigation units and credit.

Review of Literature

The agriculture subsidies are the integral part of the farmers of India and are very important for the growth of farmers and overall agricultural development in the country. Farm subsidies have the direct effect of transferring income from the general tax payers to farm owners. Many researchers have presented their views on the impact of subsidies on Indian agriculture sector at national and internal national level. Sinha and Prasad (1982) in their study on impact of subsidies on agricultural productivity, income & employment revealed that the cropping intensity on beneficiary farms increased from 154 to 160 per cent after using the subsidy and there was increase in productivity of the farms. Sharma (1990) revealed in his study that subsidies have become unsustainable. In order to release resources for higher investments in the agricultural sector, large scale price and institutional reforms are needed to relieve the pressure of subsidies on the exchequer. Gulati and Sharma (1995) in the analysis of input subsidies in Indian agriculture revealed that subsidies have outlived their aim and have become unsustainable. The author further stated that, in order to release resources for higher investment in the agriculture sector, large scale price and institutional reforms are needed to relieve the pressure of subsidies on the exchequer. Howes (2002) studied the distribution pattern of electricity subsidy in farmers of Karnataka State and concluded that electricity subsidies were regressive because large size category farmers were much more likely to have pump sets than small size category farmers and because large size category farmers with pumps use more electricity than small size category farmers with pumps. The author suggested that electricity subsidy should be given to only small size category farmers. Jain (2006) made an attempt to analyze the existence of disparities in the flow of electricity subsidy between the progressive and backward areas of Punjab and showed that the proportion of farmers having electricity connections in the progressive area was 51 per cent higher than the backward areas. The author also observed that the provision of electricity subsidy has a negative impact on the sustainability of agriculture as it resulted in depletion of underground water. Fan et al. (2007) reviewed the trends in government



subsidies and investments in and for Indian agriculture and found that recent years, input subsidies (including fertilizer, electricity, credit, and irrigation) yielded very low marginal returns in both agricultural growth and poverty reduction, despite their large impact in earlier decades. The author suggested that to sustain long-term growth in agricultural production and therefore provide a long-term solution to poverty reduction, the government should cut subsidies of fertilizer, irrigation, power and credit and increase investments in agricultural research and development, rural, infrastructure and education. Promoting non-farm opportunities are also important. Sharma and Thaker (2009) examined the trends in fertilizer subsidy and revealed that there is existence of fair degree of equity in distribution of fertilizer subsidy among farm sizes. The small and marginal farmers have a larger share in fertilizer subsidy in comparison to their share in cultivated area. A reduction in fertilizer subsidy is, therefore, likely to have adverse impact on farm production and income of small and marginal farmers. Kaur and Sharma (2012) in a study concluded that the central government should adopt some criteria to give away subsidies to states either on the basis of gross cropped area or productivity. The author suggested that the subsidies which have direct relationship on productivity and income like seeds, fertilizers should be given to farmers and on the other hand, the subsidies on electricity can be withdrawn in Punjab to reduce State electricity board's burden and this amount can be used for production of more electricity, reducing the need of purchasing electricity at very high prices, which adds to the deficit of state finance. Sharma (2012) analyze the trends in volume of food subsidy during 1991-92 to 2012-13. The results showed that food subsidies had grown very sharply between 2006-07 and 2011-12, by more than 300 per cent and the subsidy components that are under the control of FCI i.e. administration charges, storage losses, etc. have shown some improvement during the last decade. However, there is further need to improve efficiency in operations of FCI. Salunkhe and Deshmush (2013) revealed that decrement in provision of funds in terms of agriculture subsidies in five years plan and annual budget is responsible for slow growth of agriculture in India and less contribution of GDP in country. Salunkhe and Deshmush (2014) concluded that subsidies play vital role in growth of agriculture sector in the country but due to corruption & ineffective management, it has not reached to the end users i.e. farmers. It was also found that due to illiteracy of farmer regarding agriculture subsidies, he/she can't take benefit in farming & faced financial crisis. Shivashankar and Uma (2014) reported that an ideal subsidy distribution based on the economic levels, size of the holdings, and fertility of the soil was not present. The large farmers were treated on par with the small and marginal farmers causing regression in the sectoral development. Anand (2016) studied the stakeholders' opinion on agricultural subsidies and their impact in Punjab and revealed that very less farmers were aware about the agriculture schemes providing subsidies whereas all the farmers were aware of the subsidies being provided in the areas of seeds, plant protection materials, machinery, micro-irrigation, power and price (MSP). The author concluded that lack of awareness of time of availability of subsidy, delay in release of subsidies and misallocation of the subsidies significantly affected the receipt of subsidy by a farmer. Shilpa and Benni (2017) stated that agricultural subsidies are boon for an agriculture economy whereas a bane to overall economy. They found that fertilizer subsidies are relatively more, followed by electricity, irrigation and insurance subsidies.



Conclusions

Subsidies make both positive & negative impact on agriculture sector but without the help of subsidies development of agriculture sector is very difficult. However, the exact measurement of impact of subsidies on agricultural sector is not an easy task as up to which extent subsidies are beneficial to agricultural is a big question. Some researchers suggested that subsidies should be withdrawn in a phased manner, such a step will reduce the fiscal deficit; improve the efficiency of resources use, funds for public investment in agriculture. On the other hand, there is a fear that agriculture production and income of farmers would decline if subsidies are curtailed. Due to corruption & ineffective management in India, subsidies are not reaching to the end users of the country i.e. farmers. All these are very important issues and need serious investigation in future. The central government should adopt some specific criteria to give away subsidies e.g. making subsidy as transparent as possible, framing of farmers' friendly policy in distribution of subsidies, using subsidies for well-defined economic objectives, instituting systems for periodic review of subsidies etc.

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