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Popular Article

Farm Subsidies – A Double-Edged Sword

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Introduction

A subsidy is a benefit given to an individual or an institution by the government. Hence farm subsidy is a governmental subsidy paid to farmers to supplement farmer's income and enhance their productivity. Subsides are typically tax-funded payments from a government to a business entity, such as an agricultural company. On the basis of the subsidy provided, farm subsidies can be categorized into direct and indirect subsidies. Direct farm subsidies are those subsidies thatare directly provided to farmers and are generally paid in the form of a direct cash subsidy. In direct subsidies, a beneficiary purchases the products at the same price as prevalent in the market and the beneficiary is separately compensated for the purchase. Examples of direct farm subsidies are PM Kisan Scheme, PAHAL in LPG, farm loan waivers etc. Indirect subsidies are those subsidies in which the cost of the product is set at a lower price than the market price. Indiaspends roughly 2% of GDP on indirect subsidies. Examples of indirect subsidies are - irrigation subsidy, power subsidy, fertilizer subsidy, credit subsidy, MSP (Minimum Support Price) etc. According to Marcela Escobari, agricultural subsidies are huge distortion for world markets, particularly for the poor. They happen because local interests want to protect their markets. According to Vincent Smith, Director of the Agricultural Studies Program at the American Enterprise Institute, over 85%

of subsidies benefited the top 15% of farmers. These subsidies disconnected small, poor farmers from the market, unjustly excluding their opportunity to flourish.

Arguments in favor of farm subsidies

According to Article 48 of the Indian Constitution, it is the responsibility of the state to organize agriculture on modern lines. As per FAO, 70% of Indian rural households are primarily dependent on agriculture for their livelihood. Subsidies are one of the tools for income distribution and to reduce inequalities. Indian farmers have poor income realization and farm subsidies act as a complementary income to farmers, which could be invested back in agriculture. Farm subsidies help the farmers to access quality inputs like improved seeds and fertilizers which in turn help the farmers to increase productivity. Higher production and productivity results to better income for the farmers. Thus, farm subsidies in a way motivate farmers to continue farming as an occupation. Direct subsidies help in increasing the purchasing capacity of farmers and to raise the standard of living of the people. Direct cash transfer is an

alternate method of farm subsidy which empowers the beneficiaries as it gives choice to beneficiaries to purchase as per needs. It also helps to prevent the misuse of public funds as money use to reach beneficiaries directly. Direct subsidies also curb the inefficient use of resources. The cash received by the farmers can also be used as capital in agriculture. Indirect farm subsidies (*viz.* Infrastructural subsidies) play a key role in promoting technological and infrastructural advancements in agriculture. Indirect farm subsidies help to change the behavioral pattern and promote farmers towards sustainable practices like crop diversification. Farmer training also come under Indirect subsidies which make farmer equipped with knowledge.

Arguments against farm subsidies

There are schools of thoughts who oppose farm subsidies. According to them, farm subsidies hinder financial inclusion in rural areas. In case of direct cash transfer scheme, there are chances that farmers would use the money for non-farm unproductive purposes. Subsidies pose threat of inflation as money in the hands of the public may lead to inflation. As farm subsidies are mainly used as political weapon to please a certain sector of voters, main issues like market reforms and innovation in agriculture remained unaddressed. Subsidies like MSP have led to cereal centric agriculture with distorted cropping patterns. Providing subsidies in power, irrigation, and fertilizer subsidies have led to over usage of natural resources resulting in desertification. Punjab's groundwater resources note that groundwater extraction has increased from 149% in 2013 to 165%

in 2018. Indirect subsidies are also marred with corruption and leakages, due to the presence of intermediatory. Due to prevalent vote bank politics, the government in power can provide subsidies for petty political mileage which neither help the farmers nor the society. As per Economic Survey-2018, rich farmers are benefitted over small farmers from the farm subsidies. Out of Rs. 1.70 Lakh Crore in budget 2018-19 as food subsidy only about Rs 3000-4000 Crore was the investment in agriculture shows the wasteful expenditure rather than supporting agriculture. Subsidies in developed countries also act as barrier entries to the goods of developing countries. Consumers are harmed by the distorted pricethat results from subsidies. Since the government is intervening with the market to "pay" the farmer to produce, which eliminates competitors, the producer sets a price that is not determined by a free market. Without foreign competitors to bring the price to market levels, consumers pay more for their product than they would in a free-market system devoid of subsidies. Small farmers typically do not receive the subsidies that large farmers receive, cutting off their abilityto enter the market and compete. These small farmers are often the poorest rural farmers. In these situations, what prevents the poor from flourishing is an inability to fairly produce and sell in the market.

Conclusion

Kelker committee recommended the phased elimination of subsidies and convert them to capital investments. Another important aspect is rationalizing subsidies by stopping those subsidies which are not giving the desired results. Financial inclusion is an important feature of developed economy. The government should stop providing subsidies which hinder financial inclusion. Rather than providing subsidies the government should invest heavy to build infrastructures like cold chain facilities and warehouses which will help the farmers to fetch higher income in long term. Contract farming and cooperative farming should be encouraged to make agriculture remunerative. A market intelligence system should be established to put price and demand forecasts which will help farmers in better price realization and also will help farmers in deciding the crop. The agriculture sector which provides more than 40% of employment, contributes only 16-17% of GDP which shows the problems and issues the farmers are facing. Hence farm subsidies with an intention to improve the agriculture sector should be the government's aim to achieve for doubling the farmer's income.

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