

# ECONOMIC SURVEY SUGGESTS RATIONALISATION OF GOVERNMENT INTERVENTION TO BOOST ECONOMIC FREEDOM & WEALTH CREATION

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

Ministry of Finance

## Economic Survey Suggests Rationalisation of Government Intervention to Boost Economic Freedom & Wealth Creation

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The Economic Survey at the very onset says that while there is a case for Government intervention when markets do not function properly, excessive intervention especially when the market can do the job of enhancing citizens welfare perfectly well, stifles economic freedom and creates 'deadweight loss'.

### Essential Commodities Act, 1955

The Survey describes inter alia, the Essential Commodities Act (ECA) as anachronistic and irrelevant in today's India as the Act was passed in 1955 in an India worried about famines and shortages. The Survey, providing clear evidence, suggests that the Act must be jettisoned in order to grant more economic freedom to the market and to facilitate the process of wealth creation in the economy.

### Making Drugs Affordable

The Survey expresses concerns over the regulation of drug prices through the National Pharmaceutical Pricing Authority (NPPA) and Drug Price Control Order (DPCO) as it often leads to an increase in the prices of the regulated drug vis-a-vis that of a similar unregulated drug which is counter-productive and leads to a sub-optimal outcome. The Survey suggests that as Government is a huge buyer of drugs through its various arms such as CGHS, Defense, Railways etc., it can intervene more effectively to provide affordable drugs by combining all its purchases and thereby exercise bargaining power.

### Rationalisation of Food Subsidies

The Survey observes that Government policies in the foodgrain markets have led to the emergence of Government as the largest procurer and hoarder of rice and wheat which has led to burgeoning food subsidy burden and inefficiencies in the markets affecting the long run growth of agricultural sector and adversely affecting competition in these markets. This has led to overflowing of buffer stocks with FCI, burgeoning food subsidy burden.. The Survey suggests foodgrains policy needs to be dynamic and allow switching from physical handling and distribution of foodgrains to cash transfers/food coupons/smart cards.

### Debt Waivers Disrupt Credit Culture

According to the survey, an analysis of the debt waivers given by States/Centre shows that full waiver beneficiaries consume less, save less, invest less and are less productive after the waiver when compared to the partial beneficiaries. Debt waivers disrupt the credit culture and end up reducing the formal credit flow to the very same farmers, thereby defeating the very purpose of the debt waiver provided to farmers.

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