

# INVESTMENT OVER SUBSIDIES

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

We are witnessing something akin to lobbying for a universal basic income whereby every Indian citizen gets money paid into their bank account. A recent proposal published in the print media is presented also as a solution to the current agrarian impasse. It argues for the removal of all agricultural subsidies, which range from fertilizer subsidies to those on interest, water and power, and distributing the saving among most of the rural population. To its authors, this scheme presents itself as addressing 'rural' and not just 'farm' distress. To evaluate what is being proposed as a way out of the present agrarian crisis it would be useful to understand what defines it and to recognise the originally intended role for the agricultural subsidy.

At its core the agrarian crisis is a case of agricultural activity not yielding enough returns for a section of the farming population. This group 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 are two 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. Actually, the latter 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. Evidence points strongly to a case for moving some distance back. 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. This crucial finding is due to the Sino-Indian team of economists Shenggen Fan, Ashok Gulati and Sukhdeo Thorat. In their study, the investments found most valuable were "educational" and on rural roads.

The agricultural subsidies that are now found wasteful were designed with a purpose. The plan was to place agricultural production on a sound footing. It envisioned raising the yield of land, which works to generate rising output without inflation and with reasonable profit. The price of food has historically been high for Indians at the bottom of the income distribution. This has held back industrialisation and the desirable shifting of population away from farming to other activities. Even a total elimination of subsidies to enable this transformation via public investment may not be such a bad thing. However, eliminating them merely to implement a universal basic income would be unwise.

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Pakistan's identity crisis, going back to the debates since its creation, remains unresolved

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