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SUMMARIES OF GROUP DISCUSSION

Subject III

Subsidies in Agriculture and Their Implications for Trade and Environment

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The deliberations on the issue of subsidies in agriculture began with the key note address by Dr. Madhur Gautam. His address brought out the fact that subsidies are justified in theory when there are market failures. Further, some activities within agriculture could merit a subsidy especially when there are significant externalities that enhance social benefits over and above individual benefits and the cost of providing subsidies. In reality, however, many of the subsidies provided by governments in India and elsewhere, especially for inputs, can hardly be justified. Typically, there is hardly any assessment of the underlying problem / market failure, and whether subsidies are the best option to address the concerns. Moreover, the opportunity cost of providing subsidies is hardly acknowledged by policy makers and votaries of subsidies. Besides, most of the subsidy programmes are mired in governance problems resulting in poor targeting, large-scale leakages, and political capture.

Some of the papers presented in the Conference also brought out the distinction between "merit" and "de-merit" subsidies. For instance, the papers by Sangeeta Shroff and Jayanti Kajale on subsidies in sugar industry and the one by O.P. Singh, Rakesh Singh, and Manish Singh on electricity subsidy and its impact on water use efficiency clearly brought out the negative fallouts of providing subsidies for specific inputs. In contrast, the study by Indira Devi, Sebin Sara Solomon and Jayasree M.G on subsidies for bio-fertilisers and bio-control agents suggest that there could be a case for subsidising technologies with significant positive spillovers for environment.

The discussions that followed the paper presentations focused on specific papers presented and were also more general in nature on the larger issue of desirability of subsidies and the problems that they give rise to.

On the paper on sugar industry by Sangeeta Shroff and Jayanti Kajale, it was pointed out that the sugar mills' revenue is not restricted to sale of sugar alone as there is strong market demand for several joint products such as molasses, spirits, electricity co-generation, etc. The analysis of the industry's profitability should take these into account as well. Here, it was also pointed out that in some states (Uttar Pradesh for instance), there are restrictions applying to some of these joint products (molasses) as well, which needs to be integrated into the analysis. With regard to sugar cane production, some commentators suggested that competitiveness could be improved through mechanisation of harvesting and adoption of technologies that can help improve water use efficiency. Another suggestion was that the relative profitability of

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sugar cane vis-à-vis other competing crops such as soya needs to be studied, especially in the light of the changes in cropping pattern seen in Latur district of Maharashtra.

The paper by O.P. Singh, Rakesh Singh, and Manish Singh on electricity subsidy and its impact on water use efficiency was also commented upon extensively. Questions were raised on the productivity estimates for potato cultivation in farms with electric pump and those with diesel pumps, and whether the authors had taken irrigation cost into account while estimating net-income. The authors confirmed that this was done. Other commentators also pointed out that subsidy for electricity use in farms could be over-estimated for a variety of reasons such as non-installation of electric meters and the tendency to account for transmission and distribution loss as electricity used in agriculture. The discussions also brought out the fact that farmers often do not receive electricity despite the government programme for providing subsidised electricity, and the quality of power received was not good subject to severe fluctuations in voltage, etc. These impose a much larger cost on farmers, who often feel they lack control over the operation of electric pump sets. As a result, many farmers opt for "costlier" diesel pump sets as its operation is under farmers' control. Confirming this, the authors also pointed out that in some of the districts of Uttar Pradesh, they did not find farms with electric pump sets in their sample.

In contrast to the above two papers, which are on input subsidies, the paper by Indira Devi, Sebin Sara Solomon and Jayasree on bio-fertilisers and bio-control agents can possibly considered as a case of "merit" subsidy. Bio-fertilisers / bio-control agents (BF/BCA) are technologies that are expected to have significant positive externalities for the environment, and render farming environmentally more sustainable. Thus, there could be a case for subsidising the adoption of such green technologies. The discussions on this paper broadly concurred with this view, though there were several issues raised on the particular technologies studied in this paper. Questions were raised on the direct benefits of using BF/BCA, as also their fragility. Since pest attacks are stochastic, the adoption of BF/BCA may not be economically viable without subsidies. Should such fragile technologies with doubtful economic benefits be subsidised at all? There were also some suggestions to the authors for improving the paper by re-examining the methodology for self-selection bias in their sample.

The discussions surrounding the individual paper presentations and the key note speech laid the base for a much larger debate on the issue of subsidies in agriculture. This larger debate touched upon the desirability of agricultural subsidies, some critical market failures, and governance issues.

On the desirability of agricultural subsidies, one set of participants expressed the uselessness of all subsidies, especially input subsidies as they only encourage inefficient use of resources at the cost of environment thereby raising doubts about the long-run sustainability of agriculture in several parts of the country, in particular the grain producing regions of North-West India. Some participants even raised doubts about whether there are any activities in agriculture that "merit" provision of subsidies. Closely linked to the above, the debate also touched upon the issue of inter-relatedness amongst several sectors / activities within and outside agriculture that often negate the usefulness of subsidies, if any. For instance, it was pointed out that there are strong inter-linkages between use of bio-fertiliser, mechanisation, and the provision of subsidies. Similarly, the inter-state water disputes that raise uncertainty in the availability of surface water for irrigation propel farmers to go for intense use of groundwater. Subsidies for pumps, electricity, etc., aid this process without

much heed to the environmental sustainability of groundwater exploitation. These experiences in different parts of the country only go to show that subsidies have more negative than positive effects.

It was also mentioned that the experience with output subsidies too was not very encouraging. Though the system of procurement worked well in the case of wheat and rice in the early stages of the Green Revolution, the system has developed serious inefficiencies over time as seen in the large subsidy bill and also the frequent episodes of huge stock build-up far in excess of any reasonable buffer requirement. The national horticulture mission too had its flaws in its design – subsidies were provided to crops that did not have a market. Should such crops be encouraged / sustained only with subsidies?

Some participants, however, were favourably inclined to the provision of subsidies because of the risks in agriculture. Nevertheless, they too agreed that input subsidies for fertiliser, water, electricity, etc. (which account for the big chunk of agricultural subsidies in the country), do not really address risks that arise from lack of access to output markets, natural disasters such as floods / droughts / freak weather events / pest attacks, and so on.

This led to a discussion of the important problems / market failures afflicting Indian agriculture. Most participants concurred that the real failure is the absence of a well-functioning insurance market to cover the diverse risks that Indian farmers face. This situation prevails despite several public and private initiatives at designing suitable insurance products that work under diverse agro-climatic conditions prevailing in different parts of the country. Coupled with this is insufficient investment in agricultural R&D, extension and infrastructure such as roads, storage, irrigation, etc.

Participants also raised concern over governance aspects of subsidy provision. In particular, concern was raised that most of the current subsidies, especially credit, does not reach share croppers and other extremely small / marginal farmers. In this regard, the need for a relook at land holding pattern and subsidy provision based on operation rather than ownership alone was stressed. Though overall there was general concurrence on the need to rationalise subsidies and target them better, no specific option / mechanism was discussed. Nor did the discussion cover political-economic aspects of subsidy provision such as the nexus between politicians-bureaucracy-beneficiary (elite) groups resulting in subsidy capture; the almost ideological / blind-fold beliefs within and outside government that resists all attempts at even an informed discussion on the need / efficacy of subsidies let alone undertaking any meaningful reforms.