Evaluation of Farm Subsidies

What is the issue?

- There is an increasing discussion on replacing farm subsidy with direct cash transfer.
- But subsidies and cash transfers may not be enough to end farmers' woes; capital investments in agriculture are the need of the hour.

What is the current subsidy share?

- The government spent about Rs. 2.56-lakh crore on various subsidies for the farm sector in 2018-19.
- This is an increase of 43% over the previous year; the rise is primarily due to the higher MSP on crops.
- For 2019-20, farm subsidies are set to increase further to Rs.2.77-lakh crore.
- An Indian farmer enjoys numerous subsidies ranging from free power, water, to heavily discounted fertilizer.
- They also extend to interest subvention on loans, discounted premium on crop insurance and minimum support prices for crops.

What are the implications?

- **Capital Investment** - Farm subsidies are a drain on public finance.
- Subsidies are reducing the share of money that goes for capital investment.
- This, in turn, is a key reason for the sufferings of farmers.
- It's so because, offsetting high cost on inputs and helping farmers produce and earn more, initially creates an illusion of a healthy farm sector.
- But eventually, problems arising from lack of infrastructure and market inefficiency show its own negative impact.
- [Today, only about 15% of the APMCs have cold storage facilities.
- Also, less than 50% of mandis in the country have weighing machines.]
- **Unregulated use** - The other concern due to input subsidies for agriculture is the unmindful use of resources such as water and power.

- Input subsidies including those on urea have resulted in overuse of nitrogenous fertilisers and spoilt soil health.
- Likewise, subsidies on power have resulted in depletion of the groundwater.
- **Cropping pattern** - Subsidies have also skewed the cropping pattern, which has, in the process, taken a toll on the environment as well.
- Monoculture has resulted in an increase in pest and disease attacks on crops and higher usage of chemical fertilisers.
- Evidently, subsidy-driven agriculture is not sustainable.

What could be done?

- **Rationalizing subsidies** - Subsidising the cost of inputs is not going to end the problems of the marginal farmers of India.
- Completely stopping subsidies may not be possible now given its reach and popularity; but it can be rationalised.
- Subsidies could be linked to the size of the farm-holding, rather than offering them to every other farmer.
- **Direct transfers** - The government can see if these subsidies can be paid via DBT (Direct Benefit Transfer) so as to plug leakages.
- **Capital Investment** - Gradually, the government should withdraw subsidies and possibly convert them to capital investments in the sector.
- The impact of capital investment on both agricultural yield and poverty will be far higher than that of subsidies.
- The promised investments in agriculture (Rs. 25-lakh crore over 5 years) can be made in -

i. building a national-level warehousing grid with smaller warehouses near the farm-gate
ii. setting up of agri-processing centres
iii. providing assaying and grading machinery at mandis

- **Exports** - There is the need for long-term policies on export trade, for the government departments to engage with exporters on a regular basis.
- This can help keep farmers aligned with the global demand/supply and price situations.
- **Technical committee** - There are talks about a technical committee with ICAR-NIAP as knowledge partner to work on building an agri-market intelligence system.
- This process needs to be fast-tracked.
- The system will put out price and demand forecasts for various major foodgrains and price-sensitive horticulture crops.
- **Land** - The government should look at ways of aggregating the small land-holdings and help farmers draw benefit from farm mechanization.

Source: Business Line

Quick Facts

Indian Council of Agricultural Research (ICAR)

- The ICAR is an autonomous organisation under the Department of Agricultural Research and Education (DARE), Ministry of Agriculture and Farmers Welfare.
- It was formerly known as Imperial Council of Agricultural Research.
- It was established in 1929 as a registered society under the Societies Registration Act, 1860, in pursuance of the report of the Royal Commission on Agriculture.
- The ICAR has its headquarters at New Delhi.
- It is the apex body for co-ordinating, guiding and managing research and education in agriculture including horticulture, fisheries and animal sciences.
- The ICAR has played a pioneering role in ushering Green Revolution and subsequent developments in agriculture in India.

ICAR-National Institute of Agricultural Economics and Policy Research (NIAP)

- The ICAR-National Institute (formerly Centre) of Agricultural Economics and Policy Research (NIAP) was established by the ICAR in 1991.
- The scope of work include -
    i. strengthening agricultural economics and policy research in the national agricultural research system
    ii. application of principles of economics in planning and evaluation of agricultural R&D and policy research to promote science-led agricultural and rural development
- The Institute also acts as a think tank of ICAR and helps it to actively participate in policy making.