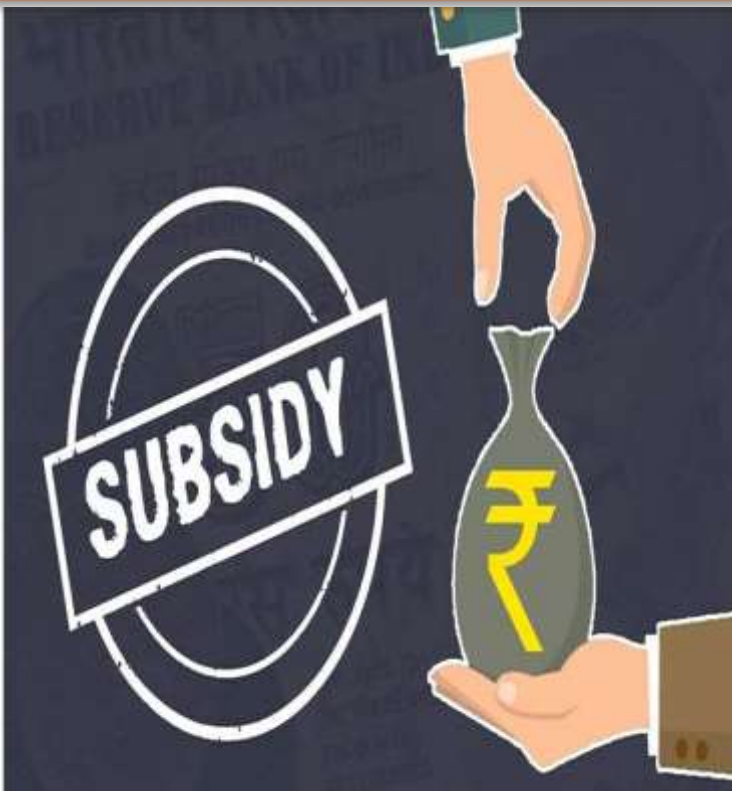


Topic:--The Debate Over Subsidies

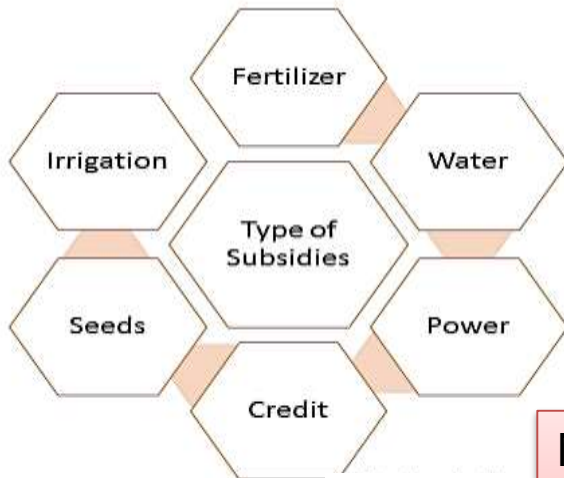
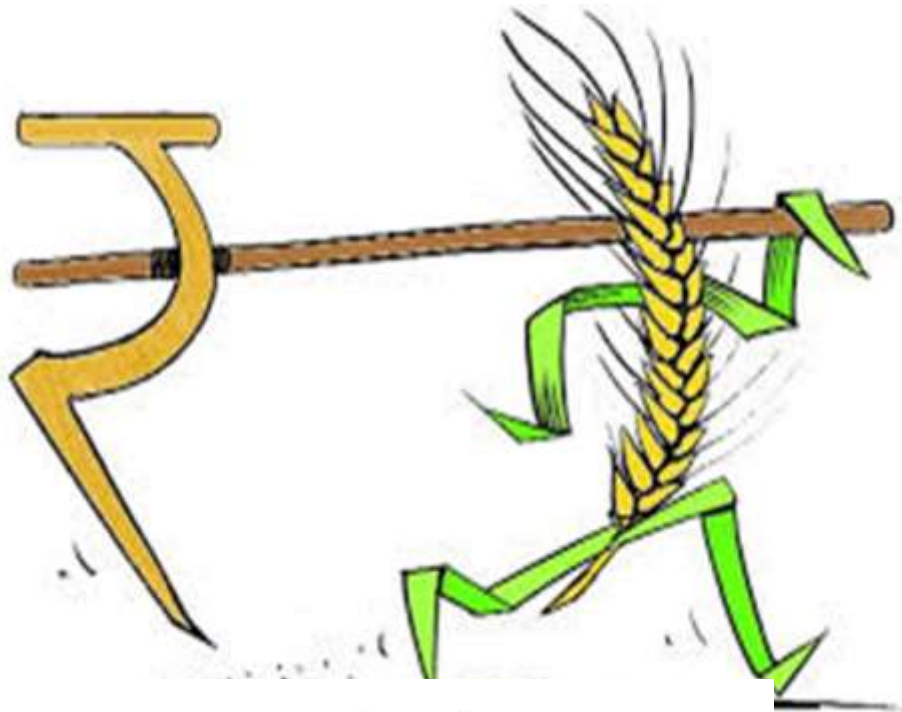
A subsidy or government incentive is a form of financial aid or support extended to an economic sector generally with the aim of promoting economic and social policy.



Subsidy for farmers



An **agricultural subsidy** is a governmental subsidy paid to farmers and agribusinesses to supplement their income, manage the supply of agricultural commodities, and influence the cost and the supply of such commodities.



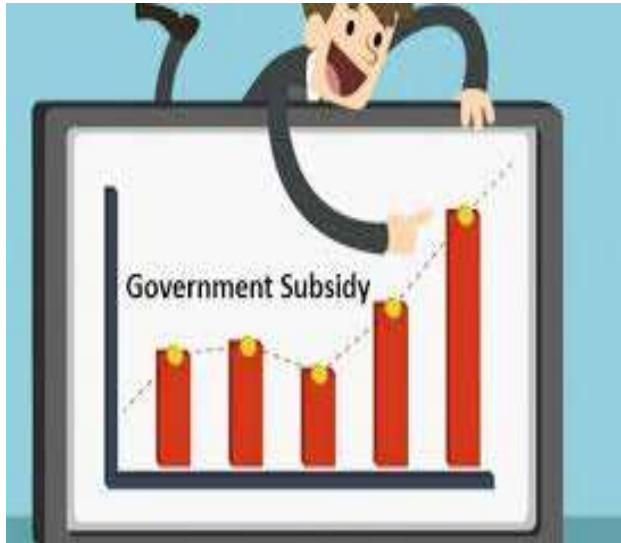
Rationale of Agricultural Subsidies Or,

Reasons why farmer need subsidy:

- ☐ To provide an incentive for adoption of the new HYV technology by farmers in general and small farmers in particular.
- ☐ Any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed to encourage farmers to test the new technology.
- ☐ Subsidies play in stimulating development of any country through increased agricultural production, employment and investment..

Note- However, there are arguments advanced on both sides that means The economic justification of subsidies in agriculture is, at present, a hotly debated question.

The Debate



Arguments Against:

- subsidies are meant to benefit the farmers but a substantial amount of fertiliser subsidy also benefits the fertiliser industry and
- among farmers, the subsidy largely benefits the farmers in the more prosperous regions.
- Therefore, it is argued that there is no case for continuing with fertiliser subsidies; it does not benefit the target group and it is a huge burden on the government's finances
- Where because of subsidy the prices of inputs do not reflect their scarcity/value, there is very little incentive for farmers to adopt methods which could make more efficient use of scarce resources.
(See the discussion in next slide)

Arguments For:

On the other hand, some believe that the government should continue with agricultural subsidies because—

- farming in India continues to be a risky business.
- Most farmers are very poor and they will not be able to afford the required inputs without subsidies.
- Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity.
- Reduced application of inputs in cultivation would lower agricultural production, particularly food production, and compels the country to import food products.
- Products of subsidized inputs sell at lower prices. If the subsidies were to be withdrawn, the prices of products would rise as their production cost would go up. But their higher prices would affect their sale.



Prices as Signals

You would have learnt in an earlier class about how prices of goods are determined in the market. It is important to understand that prices are signals about the availability of goods. If a good becomes scarce, its price will rise and those who use this good will have the incentive to make efficient decisions about its use based on the price. If the price of water goes up because of lower supply, people will have the incentive to use it with greater care; for example, they may stop watering the garden to conserve water. We complain whenever the price of petrol increases and blame it on the government. But the increase in petrol price reflects greater scarcity and the price rise is a signal that less petrol is available—this provides an incentive to use less petrol or look for alternate fuels.

Some economists point out that subsidies do not allow prices to indicate the supply of a good. When electricity and water are provided at a subsidised rate or free, they will be used wastefully without any concern for their scarcity. Farmers will cultivate water intensive crops if water is supplied free, although the water resources in that region may be scarce and such crops will further deplete the already scarce resources. If water is priced to reflect scarcity, farmers will cultivate crops suitable to the region. Fertiliser and pesticide subsidies result in overuse of resources which can be harmful to the environment. Subsidies provide an incentive for wasteful use of resources. Think about subsidies in terms of incentives and ask yourself whether it is wise from the economic viewpoint to provide free electricity to farmers.



Conclusion
Or,
What Experts' believe?

- ❑ These experts argue that if subsidies are largely benefiting the fertiliser industry and big farmers, **the correct policy is not to abolish subsidies but to take steps to ensure that only the poor farmers enjoy the benefits.**
- ❑ They believe that **once the technology is found profitable and is widely adopted, subsidies should be phased out since their purpose has been served.**