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About-face on subsidy

The government is now receptive to an increase in fertiliser subsidies to benefit the farmers, says **Uttam Gupta**

EVEN as the government continues to impress upon foreign investors that the economic reforms in India are irreversible and that their pace of implementation is fully compatible with the envisaged growth targets, the progress so far does not inspire much confidence.

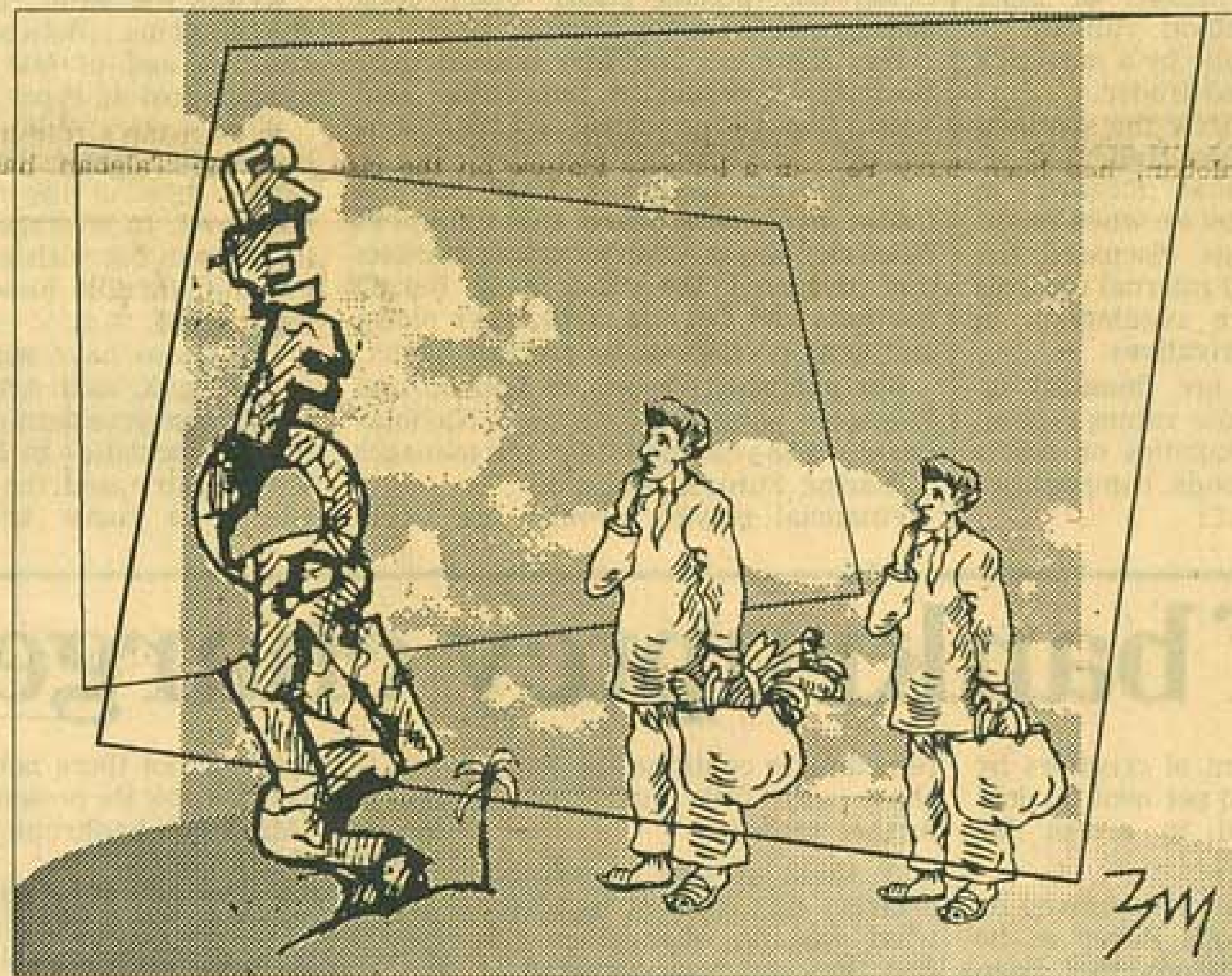
Fiscal deficit during 1992-93 and 1993-94 went out of control and for the current year too, despite custom and excise collections showing some signs of recovery, the rising expenditure (mostly on non-plan side) will keep the 6 per cent target beyond reach. The inflation rate continues to be in double-digits even as the management of money supply has become a nightmare with actual growth accelerating over the years and exceeding RBI targets.

The picture on employment, income distribution and living standards continues to be as grim as even as the reformers insist that the common man should have the patience to see growth picking up and the resultant so-called "trickle down benefits".

A more uncomfortable indication is that some recent announcements amount to a policy reversal. Subsidy reduction is one such major area where the government started with a big bang in 1991-92 and is now soft-pedalling the issue. It is now receptive to the idea of increase in the quantum of fertiliser subsidies with a view to reduce their selling prices to the farmers. Already, it is likely to be about Rs 6,000 crore during 1994-95, up from Rs 4,400 crore in 1993-94 (revised budget estimates); the next year may see a further increase. However, one thing is very clear. The government which was totally committed to elimination of fertiliser subsidy in 1991-92 — and said so, without mincing words, in the economic memoranda presented to the IMF — is now talking of increasing the subsidy.

It has also indicated its intention to reduce the selling prices of major cereals (wheat and rice) from the PDS by Rs 1.5 per kg each over the existing levels of Rs 4.02 per kg and Rs 5.37 per kg, respectively. Besides, there are plans to cover more items under the PDS. Although, none will disagree with the need for revamping the PDS to give it a proper focus, the extra money for the same should have come from savings within the system, for example withdrawing the facility from high-income ration card holders. This has not been done. Add to this, the populist schemes like supplying wheat flour to bread manufacturers at subsidised prices, which has only given additional profits to the latter even as bread prices were never reduced. Instead, bread prices were increased by exploring innovative techniques like introducing a superior brand with a price mark-up and withdrawing ordinary varieties from the market.

All these point towards the government preparing for a much higher food and fertiliser subsidy bill. Although, it may now seek to justify the almost 180 degree turn in terms of the new world trade agreement, what the latter envisages was known even three years ago when the government took the pledge of of attaining fiscal balance.



Under the world trade agreeement, if the aggregate measurement support which includes both product and non-product specific subsidies is less than 10 per cent of the value of agricultural production, the concerned country is under no obligation to undertake subsidy reduction. In our case, this number is minus 22.5 per cent. That means, if we were to strictly conform to the agreement, there exists ample justification for raising (far from reducing) the subsidies to astronomical levels in the range of Rs 20,000 crore to Rs 30,000 crore.

Despite this, the government went ahead with indiscriminately reducing/eliminating fertiliser subsidy during the first two years of reform and, in the process, causing serious adverse effect on production and consumption. The results were adverse because the measures were ill-conceived, badly planned and too sudden. The proposed increases in subsidy levels now, while making fiscal management difficult, are also unlikely to guarantee redressal of the damage done as the new subsidy forms clearly lack direction.

Structural aspects of the reforms would leave one even more disappointed. Restructuring of the PSUs has been virtually a non-starter. The level of disinvestment undertaken so far is too small to lead to any drastic change in the ownership, control and decision-making process. Recently, a committee constituted by the petroleum ministry on reforms in the hydrocarbons sector recommended that the government reduce its ownership in the PSUs to only 40 per cent (keeping 11 per cent of this with UTI and public sector mutual funds as a cushion); alternatively, it demanded full autonomy to managements in decision-making irrespective of the level of investment being proposed for new projects/expansion etc. But the million-dollar question is how far will the government be willing to go, and when?

Concurrently, reforms in the capital market were projected as the harbinger of success of the various initiatives made during the last three years or so. Herein also, the recent crash in the Sensex to a record 52-week low has made a mockery of the entire exercise. More than the lack of confidence in corporate fundamentals, it was the continued rigidities in the existing arrangements/mechanisms for effecting share transfers, settlement of various sale transactions and, above all, lack of transparency in the functioning of the stock exchanges, that caused the debacle.

True, foreign investment has been substantially liberalised. This was done mainly with a view to get the foreign companies to support infrastructural development and growth in hi-tech areas. Even as in areas like power, and telecom etc, projects are yet to take off.

Recently-published debt tables by the World Bank have clubbed India with countries like Mexico in terms of the ranking according to external debt. Mr Geethakrishnan has also written to our finance secretary hinting at the possibility of the Mexico type crisis. Despite these warning signals, we hate to be likened with that country. The government's view is that Mexico got into the crisis because it sought to reform with a big bang while India is following a gradualist approach. But, have me made any advance at all; the question of speed is a secondary question. The answer is a clear 'No'.

Except for a few macro-economic steps, our basic structure is intact; There are still widespread controls (licensing was only one of them), all basic inputs have administered prices, status quo in banking, insurance and PSEs and, above all, the legislative processes are unchanged. Yet, that we have discomforting rate of inflation, increasing fiscal deficit and, now, even higher trade deficit should make the government come out of its slumber and take the much-needed bold initiatives.

The situation can improve only if there is a strongly positive attitude at the political and bureaucratic level; an attitude that puts the national economy and well-being of the common man above everything else.