

# Subsidy — its new incarnation

The scenario is one of funds not finding productive use for the intended purpose, says Uttam Gupta

**A**BOLITION of subsidies is a major plank of the economic reforms programme started by the government in July 1991. However, in a bid to maintain its human face, there is a new fascination for targetted subsidies and those that are more transparent. The motto of such subsidies has obviously been to keep less burden on the exchequer and yet, help only those who genuinely need it. What do the facts tell us?

With effect from August 14, 1991, fertiliser selling prices were raised by 30 per cent. This would have resulted in an estimated saving of about Rs 1,350 crore during the rest of 1991-92. But, the government decided to exempt the small and marginal farmers from the hike. The proportionate savings i.e. Rs 405 crore (1,350x0.3) was allocated separately to "directly" administer subsidy to this group of farmers. In short, Rs 405 crore earlier under the head 'fertiliser subsidy' re-surfaced in the form of direct support to be financed out the budgetary allocation of the agriculture ministry. One would tend to conclude that this method of giving subsidy is more transparent and goes to the really needy. But wait, what is the net outcome.

Recently, in a written reply to Parliament, the government admitted that only three per cent of the small and marginal farmers have benefitted from the scheme. Clearly, the money went elsewhere. It was, therefore, not quite surprising that the scheme was given a quiet burial through the 1992-93 budget.

Immediately after decontrol of P&K fertilisers with effect from August 25, 1992, the government introduced an ad hoc subsidy scheme to enable lowering of the selling prices of the decontrolled fertilisers. A separate allocation of Rs 340 crore was provided to subsidise sales of DAP and MOP at the rate of Rs 1,000 per tonne each and other complex phosphatic fertilisers at prescribed rates during October to December 1992. The scheme was subsequently extended to cover sales up to March 31, 1993. Some states supplemented funds made available by the Centre with their own resources. Herein also, the results have been extremely disappointing.

The majority of the states formulated the necessary schemes for implementation only after a major part of

the season was already over. Even where it was implemented in time, there were serious anomalies hampering consumption rather than helping it. In fact, during October 1992 and March 1993, sales of DAP, SSP and MOP were down by 30 per cent, 50 per cent and 60 per cent, respectively, compared to the corresponding period in 1991-92. Clearly, the intended benefits of even this subsidy have not reached the farmers.

During the rabi 1992-93 season itself, the Prime Minister announced an allocation of Rs 500 crore under a separate scheme. The expressed in-



tention was to utilise the money for providing infrastructural support in terms of digging tube wells, purchase of tractors and land development etc.

It is difficult to reconcile to investment-related activities taking shape within a short time frame. That apart, the experience of programmes like IRDP that lay stress on asset creation makes one suspect the effectiveness of such an approach. Part of the funds allocated under this head were reported to have been diverted ostensibly to provide subsidy on fertilisers. In either case, the scenario is one of funds not finding productive use for the intended purpose.

Whether we may like it or not, our administrative infrastructure is far from adequate to implement targetted

subsidy programmes covering millions of farmers. A little introspection will reveal that in most areas, we do not even know who is a small or marginal farmer. In this situation, direct allocation of funds are bound to be ineffective and misused. And yet, we do not seem to have picked up the right signals.

That, subsidy at the consumer level is a costly proposition is amply demonstrated by the experience of food subsidy. In this context, let us look at some revealing facts. According to food ministry estimates, the total cost of procurement for FCI i.e.

procurement price plus storage plus distribution were Rs 4.41 per kg for wheat and Rs 5.19 per kg for rice for 1992-93. Deduct from these the procurement prices, i.e. Rs 2.75 per kg for wheat and Rs 4 per kg for rice relevant to that year, and we get what may be termed as the service charge of the FCI. This comes to Rs 1.66 per kg and Rs 1.19 per kg for wheat and rice, respectively.

In respect of the former, it works out to a staggering 38 per cent of the total cost of procurement. Taking 9.5 million tonnes of wheat and 10 million tonnes of rice as offtake through the PDS, the government spent a colossal Rs 2,767 crore on handling, storage and distribution by its agencies during 1992-93. This was about 94 per cent of

the total subsidy the government gave on wheat and rice.

Whether food or fertilisers, the government's proclaimed intention is to progressively move away from the system of subsidy. That is the categorical signal we got when P&K fertilisers were decontrolled. That, the issue prices of foodgrains from PDS should move in harmony with increase in procurement prices to the farmers also points to the same direction. In other words, the farmers and consumers should adjust to market-determined prices.

The real issue is not subsidy *per se* which is a universal phenomenon. It is the manner in which subsidies are administered. Unfortunately, it is precisely on this count that we seem to have erred. Without evaluating fertiliser subsidy on this yardstick, we sought to abolish it and fell into the trap of having to bring it back through the backdoor. Some basic facts need to be considered here. Between 1976-77 (the year when fertiliser subsidy was first introduced) and 1991-92, fertiliser production increased from 2.3 million tonnes to 9.9 million tonnes (N+P), consumption from 3.4 million tonnes to 12.6 million tonnes, productivity of wheat and rice increased by 64 per cent and 62 per cent, respectively, and foodgrains production increased from 111 million tonnes to 177 million tonnes.

The subsidy was abandoned in August 1992; not because anyone could find fault with it, but, primarily because the government wanted to abolish subsidy *per se*. That being the case, it has no moral right to reintroduce it and more so when the present form of subsidy administration is highly inefficient, costly and prone to leakages.

The crisis on the subsidy front is primarily on account of a 'vacillating' perception on the issue. If we feel that subsidy is a necessary concomitant of our food security goal then, let us categorically shed our contempt for it and try to administer in the most cost-effective manner. If on the contrary, the feeling is that subsidies are not sacrosanct and that they must go, then, let us not interfere with the working of the free market. Then, we should not allow the developed countries to penetrate our markets which they are seeking to do by various means, including heavy export subsidisation.