

A Critical Analysis of Government Subsidies in India – Special Reference to Non-Merit Subsidies

*¹Dr Sunita Sharma and ²Mahendra Lomror

¹Associate Professor, Government Girls Arts College, Kota

²Research Scholar, University of Kota, Rajasthan

Abstract

Subsidy is a simple fiscal tool, obtainable to the policy makers, to assist promotes production, employment and social welfare. All countries, irrespective of their financial systems, have been using this tool, according to the objectives and conditions that exist in their personal economies. The taxes and subsidies, which are in strength are apprehensive with counteractive measures that could be instituted in theory to bring marginal private costs, or benefits, more closely into arrangement with marginal social ones. Subsidy refers to the concession given by the government to make accessible the important items to the public at inexpensive prices, which is frequently much below the cost of producing such things. Specific entities or those can collect these subsidies in the form of tax rebate or cash payment. This helps to keep necessary items such as food, fuel, fertilizers within the reach of deprived people.

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*Author's Correspondence

 Dr Sunita Sharma

 Associate Professor, Government Girls Arts College, Kota

 dr.sunita118[at]gmail.com

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Introduction

At a generally level in India, due to lack of substitutes and alternative energy sources, petroleum products typically have low price elasticity. This coupled with the fact that India is heavily imports-dependant, has made the prices of petroleum merchandise a vital political subject. As the costs of the primary raw material i.e., crude oil is more or less uniform internationally, in developed and developing countries, the rate of taxation in a country plays an important role in influential the retail prices of petroleum merchandise. However, the Central Government has been rationalizing taxes and duties on responsive petroleum merchandise.

Even if the word subsidy is generally used in economics, it is hardly ever defined. For example, a government transfers of money to an article in the private sector. This seems, for instance, to be the case in the Oxford Online Dictionary wherever a subsidy is defined as: “a sum of money granted from public funds to help an industry or business remain the price of a product or service low”. But many would disagreement that tax concessions are too a form of subsidization. Definitely, for the related recipients it may not make much difference whether they are made better off by receiving money or through the reduction of their tax bill. Mutually forms of help also represent monetary transfers by the administration. Border defence, e.g., tariffs, on the other hand does not result in any such financial transfer from the management and in its place results in fiscal revenue. Yet it could be argued that the imposition of a tariff represents a form of subsidization for the import-competing sectors that are thereby protected from foreign competition. To define subsidies in terms of government transfers or fiscal expenditure is thus not necessarily complete. An alternative approach is to consider that a “subsidy” arises at any time a administration plan

profit private actors. The major complexity with this move towards is that recipients of, for instance, a cash relocate or a tax dispensation, are not necessarily the ultimate beneficiaries of the policy.

Types of Non-Merit Subsidy

Food Subsidy in India

In India there has been the hazard of population expulsion, poor human nutrition and the need to feed the growing numbers of hungry people. Hunger spreads from poverty that leads to latent deficiencies such as malnutrition and under-nourishment and makes population planning extremely difficult. Unless there is a quantitative increase and a qualitative improvement of food grains production and distribution, the problem cannot be solved. This is a situation common to all developing countries, where production is low with improper distribution systems.

Fuel subsidy

Three “sensitive” petroleum merchandise elevated-speed diesel, domestic watery petroleum gas (LPG) and municipal distribution system kerosene are sold under benchmark global prices, most important to below-recoveries for the downstream oil advertising companies. The below-recoveries have only been somewhat made up in the history by cash reimbursement from the government and burden-sharing by upstream national oil companies. India aggressively regulates the prices of the three merchandises by surroundings the realized price.

Fertilizer's subsidy

In the India issue of subsidies and fertilizer subsidies in particular, has assumed considerable significance. This has happened essentially because of two reasons. Firstly, the rising burden of revenue deficit had created fiscal imbalance in the central budget during the late 1980s. Neglect of simple economic principles in various sectors of the economy contributed their due and the growth process increasingly relied on unsustainable financial foundation. Secondly the serious crisis in the balance of payments and growing fiscal deficit, these two developments along with our own concern pertaining to plausible impact of fertilizer subsidies on efficiency in resource use and environmental degradation in general has compelled Government of India to take far-reaching policy decisions on curtailing budgetary subsidies. Among the decisions aimed at minimizing government expenditure, decrease in fertilizer subsidies was important. Basically, one of the reasons for advocating a fertilizer subsidy is to countervail distortions in output prices. In many developing countries, two types of policies have been pursued-namely, the protectionist and the Provisionals’.

Review of Literature

The policy of the Government of India (2002) towards the import of Natural Rubber has undergone change during 2001-2002. With effect from April 2001, Quantitative Restriction (QRs) on import of natural rubber has been removed. Total import of natural rubber during 2000-2001 was 8970 tons. However, with the removal of Quantitative Restrictions on import of natural rubber since April 2001, around 50000 tons of natural rubber were imported during 2001-2002. As regards to export of natural rubber, export is restricted due to lower international price of natural rubber compared to Indian price. The export of natural rubber declined from 13356 tons during 2000-2001 to 6995 tons during 2001 -2002.

(S.R. Yadav, 1982) Authors experiential that the provision of subsidy resulted in an increase in total income of beneficiary. It was approximate to be around 50% for beneficiaries in contrast to those non-beneficiaries. The study shows that on the beneficiary farm income from crop growing were about 70% more higher than non-beneficiary.

(Sambrani, 1982) Authors examined that the impact of subsidies on national income, agricultural and manufacturing production saving and assets. They used a general equal model in study. The study covered fertilizer, food, electricity and farming loan interest subsidies. The effect of study showed, they all had predisposed national income completely.

(V.A. Thorath, 1986) Study effort to examine the collision of subsidy on monetary burden & employment and income. The study was based on data composed by authors in Kokan region of Maharashtra. Authors found that

income of mango growers who provide the subsidy, augmented by more than three times to their counterparts who had not availed the subsidy.

Objective of the Study

- To examine the shortcomings of subsidization in achieving the sustainable socio-economic development of India.
- To examine the reasons of the Government being not successful in curbing the expenditure largely on food, fuel and Fertilizer.
- To examine the effective way to control and better utilization of subsidy provided by government on food fuel and fertilizer.

Hypothesis

H0: There is no significant relation between growth of GDP and subsidy provided by the government.

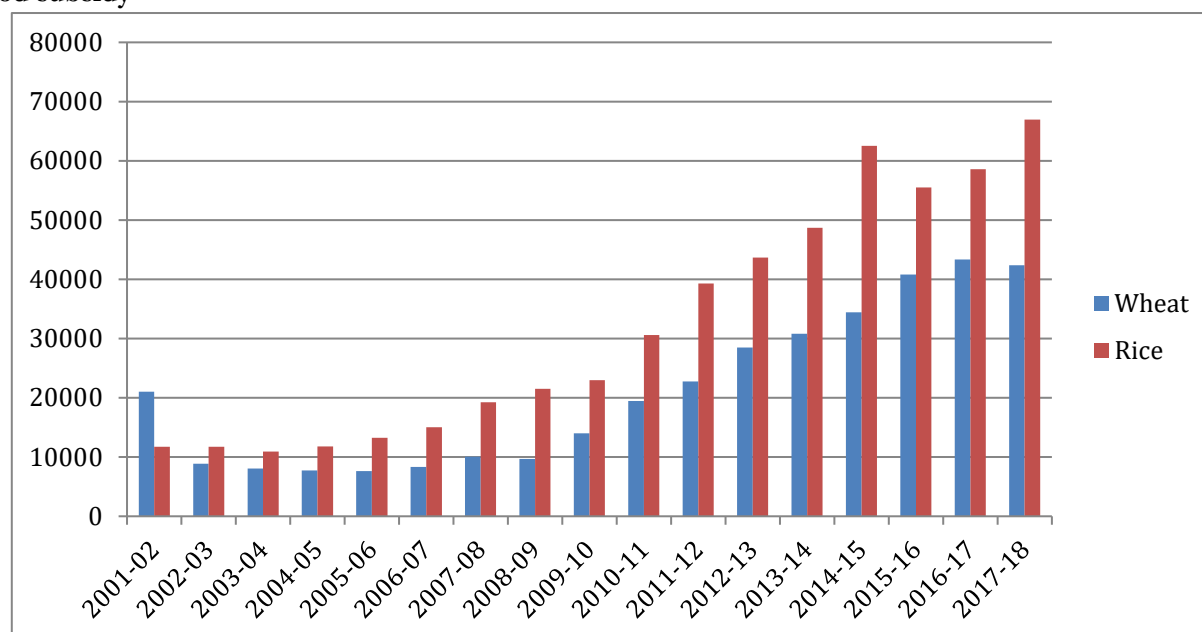
H1: There is a significant relation between growth of GDP and subsidy provided by the government.

Food Subsidy in India

According to the Indian Constitution a major objective of the development process is to provide for basic needs of the poorer sections of the population. Since independence, various development programmes have been launched by the Government of India in order to raise the standard of living of the people who are below the poverty line. The number of poor in India has been about 420 million in 1985 and at present their representation is about 38 percent in the developing countries. .

Food subsidy and GDP-

S. No.	GDP	Total	Wheat	Rice
1	2097726	52586	21049	11758.29
2	2261415	22673.72	8861.22	11758.29
3	2538170	23874.04	8062.86	10928.13
4	2877701	23280	7711.01	11778.11
5	3390503	19871	7631.3	13272.25
6	3953276	20786.21	8356.25	15037.25
7	4582086	27759.68	10046.07	19264.1
8	5303567	36717	9697.78	21497.68
9	6108903	46456.62	13996.36	22982
10	7248860	50700.08	19440.91	30607.52
11	8736329	59935.95	22784.41	39273.54
12	9213017	71980	28492.47	43646.72
13	9801370	75529.97	30805.3	48698.08
14	10527674	91995.35	34412.33	62527.69
15	11369493	112000	40796.28	55515.07
16	12308193	78334.61	43339.12	58568.89
17	13175160	61981.69	42365.55	66980

Food subsidy

Source Budget documents: Budget Division, Ministry of Finance (for Central Government data).

Research Methodology**Secondary data**

A widespread Literature review was conducted to accumulate secondary data for the classification of dissimilar variables, possible current issues, and simplicity of concepts. different sources, available as well as unpublished study work, books, magazines, administration reports, brochures, journals etc.

Importance of non-merit subsidy for economy

The overall conveyance of the advantages of a sponsorship might be concentrated as for various classes or gatherings of recipients, for example, customers and makers, as likewise between various classes of shoppers and makers.

In the event of food endowment, PDS experiences impressive spillage and separated from a low inclusion of poor; the size of advantage determined by the poor is exceptionally little. If there should arise an occurrence of power, the appropriation rates have been increasing for both horticulture and homegrown areas in light of the fact that the unit cost has been increasing quicker than the applicable levy rate. Likewise, there is impressive variety in the degree of per capita power appropriation shows that, in the more extravagant States, the per capita endowment is generously higher when contrasted with that in the less fortunate States.

If there should be an occurrence of public water system, water has a high minimal efficiency when utilized related to HYV of seeds, synthetic composts, power and other related information sources. It is the more extravagant ranchers who may infer moderately bigger advantages in light of their ability to utilize these associated inputs.

Distributed Subsidies to Agricultural Sector in India from 2003-04 to 2012-13(Rupees in Crores)

Details of subsidy	Total fertilizer subsidy	Petroleum subsidy	Grants to NAFED for MIS/PPS	Other subsidies	Total subsidy
2003-04	11015	5225	300	2817	19357
2004-05	11847	6351	156	944	19298
2005-06	15879	2956	120	1324	20279
2006-07	18460	2683	260	3302	24705
2007-08	26222	2699	560	4190	33671
2008-09	32490	2820	860	4288	40458

2009-10	76603	2852	375	6502	86332
2010-11	61264	14951	850	7059	84124
2011-12	62301	38371	250	9867	110789
2012-13	67199	68481	200	8410	144290

The above table shows that amount of subsidy given by government of India to agricultural sector from 2003-04 to 2012-13. It observed that an amount subsidy to agricultural sector is increases year to year. In year 2003-04 that amount of subsidy to agricultural sector is Rs.19357 crore and in year 2012-13 is Rs. 144290 crores, it has increase almost 7.5 times.

Analysis of Non merit Subsidies

The benefits are given by the administration to groups or persons usually in the form of a money payments or tax reduction or in kind. The subsidy is frequently given to take away some type of load and is often well thought-out to be in the curiosity of the communal.

“Subsidies are used to modify market outcomes, especially to take account of positive externalities, and, sometimes, to sub serve certain well-defined redistributive objectives.”

Subsidies can have a main collision in augmenting interests of the society provided these are intended and administer powerfully to serve a clearly settled set of objectives. However, subsidies can also be very costly if they are poorly designed and inefficiently administered.

Conclusion

Non merit Subsidies always make sense when considering fairness or equity issues or necessities. Non merit Subsidies in the areas of food, fertilizer, and fuel required to be spread to the population at large. It is also justified for well-defined redistributed system. The Government can't afford to make its citizens dependent on the subsidies. The intention of introducing subsidy is to make the particular sector or industry independent. And if it reached to the targeted groups, it will not be considered as bad.

LPG is one of the main fuels worn by households for food preparation and it is subsidised by the management for family expenditure where the exchequer provides LPG to consumers at a discounted price. This not only causes a massive weight on the fiscal budget, but as well leads to market distortions as it affects government debt, imports, and the exchange rate.

Suggestions

Following are some suggestions emerging out of the present study:

- Subsidy should be given to those areas where, it is actually required like if water table depletion is to be checked then farmer should be motivated to grow crops like potatoes, oilseeds and sunflowers etc., subsidies should be given to promote these practices, it will reduce quantity of fertilizers and water usage for cultivation. Checking of water table depletion will reduce expenditure on higher horse power motors viz-a-viz subsidy on electricity. Provision of market facilities will also be helpful in motivating farmers to grow these crops.
- Unbalanced fertilizer use does not lead to immediately visible harmful effects whereas it adversely affects soil quality over time. Excessive use of insecticides also affects the human health. Farmers should be educated about the effects of unbalance use of fertilizers and they should be encouraged to use these in proper ratio. Government should provide training to the farmers for increasing the productivity of crops. Different types of campaigns should be organised at village level to encourage them to use environment-friendly practices and balanced use of chemicals, fertilizers, increasing area under high yielding varieties of seeds etc.

- Government should formulate farmer friendly agriculture price policy, under which the price of farm produce should be fixed keeping in view the rising costs of farm inputs; this will help in making the farmers financially independent.

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