Burden of Sectoral Subsidies in India

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Indian Economy has undergone through many changes since independence. Many long term goals were set up at the time of establishment of the Planning Commission. Attainment of social equality and social justice was one of these long term goals. The subsidies have been proved as a very significant tool in the way of achieving this goal. In economics, a subsidy is a form of financial assistance paid to a business or economic sector. When a loan is subsidized, it means the borrower does not pay interest when repaying the loan. Instead, the interest is usually paid by another party. A subsidy can be levied to support businesses that might otherwise fail, or to encourage the economic activities that would otherwise not take place. Subsidies can be regarded as a form of protectionism or trade barrier by making domestic goods and services artificially competitive against imports. Subsidies may distort markets, and can impose large economic costs. Financial assistance in the form of a subsidy may come from one's government, but the icon subsidy may also refer to assistance granted by others, such as individuals. Subsidy is a grant of money made by the government to either a seller or a buyer of a certain product or service, thereby changing the price of cost in a way which affects the output. A subsidy, often viewed as the converse of a tax, is an instrument of fiscal policy. It literally implies coming to assistance from behind. However, their beneficial potential is at its best when they are transparent, well targeted, and suitably designed for practical implementation.

The Indian government subsidizes many industries and products, from gasoline to food including water and electricity, these subsidies cause economic distensions. India's vast subsidies have been severely criticized by the World Bank as they cause increment in economic inefficiency. Like indirect taxes, they can alter relative prices and budget constraints and thereby affect decisions concerning production, consumption and allocation of resources. Subsidies in areas such as education, health and environment at times merit justification on grounds that their benefits are spread well beyond the immediate recipients, and are shared by the population at large, present and future. For many other subsidies, however the case is not so clear-cut. Arising due to extensive governmental participation in a variety of economic activities, there are many subsidies that shelter inefficiencies or are of doubtful distributional credentials. Subsidies that are ineffective or burdensome need to be wiped out, for an undiscerning, uncontrolled and opaque growth of subsidies can be deleterious for a country's public finances.

In India as also elsewhere, subsidies now account for a significant part of government's expenditures. These implicit subsidies not only cause a considerable draft on the already strained fiscal resources, but may also fail on the anvil of equity and efficiency as has already been painted out above .In the context of their economic effects; subsidies have been subjected to an intense debate in India in recent years. Issues like the distortion effects of agricultural subsidies on the cropping pattern, their impact on inter-regional disparities in development, the sub-optimal use of scarce inputs like water and power induced by subsidies and whether subsidies lead to systemic inefficiencies have been examined at length. Inadequate targeting of subsidies has especially been picked up for discussion.

The recipient of the subsidy may need to be distinguished from the beneficiary of the subsidy and this analysis will depend on elasticity of Supply and demand as well as other factors. For example, a subsidy for consumption of milk by consumers may appear to benefit consumers (or some subset of consumers, such as low-income households); but if supply of milk is constrained and results in higher demand and higher prices, the milk producer may benefit and the consumer may derive no net gain, as the higher prices for milk offset the subsidy. The net effect and identification of winners and losers is rarely straightforward but subsidies generally result in a transfer of wealth from one group to another (or transfer between sub-groups).

Subsidy may also be used to refer to government actions which limit competition or raise the prices at which producers could sell their products, for example, by means of tariff protection. Although economics generally holds that subsidies may distort the market and produce inefficiencies. There are a number of recognized cases where subsidies may be the most efficient solution.

In many instances, economics may suggest that direct subsidies are preferable to other forms of support, such as hidden subsidies or trade barriers; although subsidies may be inefficient, they are often less inefficient than other policy tools used to benefit certain groups. Direct subsidies may also be more transparent, which may allow the political process more opportunity to eliminate wasteful hidden subsidies. This problem that hidden subsidies are more inefficient, but often favored precisely because they are non-transparent is central to the political-economy of subsidies.

Types of subsidies

Direct Subsidy: Direct subsidies are the most simple and arguably the least frequently used. They involve a direct cash transfer to the recipient, for example an unemployed person or an agricultural corporation.

Indirect Subsidy: Indirect subsidy is a term sufficiently broad that it may cover most other forms of subsidy. The term would cover any form of subsidy that does not involve a direct transfer.

Agriculture Subsidy: It is a governmental subsidy paid to farmers and agribusinesses to supplement their income and manages the supply of agricultural commodities and influence the cost and supply of such commodities. It is provided to secure food supply (self- sufficiency), guarantee high quality standards and positive impact of agriculture on society.

Fertilizer Subsidy: It is provided with the objective of making the fertilizers available to the farmers at affordable prices and to promote balanced application of three main fertilizer nutrients viz. nitrogen, phosphorus and potash. Urea, being the only controlled fertilizer, is sold at statutorily notified uniform sale price, and decontrolled phosphate and potash fertilizers are sold at indicative Maximum Retail Prices (MRP). These sale prices are far less than the cost of production of fertilizers. The difference between the assessed cost of production and the selling price is paid as subsidy or concession to manufacturers, importers of fertilizers.

Export Subsidy: Export subsidies are payments made by the government to encourage the export of specified products. As with taxes subsidies can be levied on a specific or ad valorem basis. The most common product groups where export subsidies are applied are agricultural and dairy products. Most countries have income support programs for their nation's farmers. These are often motivated by national security or self-sufficiency considerations. Farmers' incomes are maintained by restricting domestic supply, raising domestic demand.

Food Subsidy: Food subsidy is offered to maintain price stability; provide support to poor; and ensure adequate returns to small and marginal farmers. It comprises of:

- Subsidies to farmers through, minimum support prices (MSPs) and purchase operations of the Food Corporation of India;
- Consumer subsidies through the public distribution system,
- Subsidies to FCI -to cover all its Costs.

Electricity subsidy: In case of electricity, the subsidy rates have been rising for both agriculture and domestic sectors because the unit cost has been rising faster than the relevant tariff-rate. Also, there is considerable variation in the level of per capita electricity subsidy indicates that, in the richer States, the per capita subsidy is substantially higher as compared. to that in the poorer States.

Panagariya Arvind (2000) in his article entitled "***Evaluating ease for export subsidy***" revealed that with import-substitution policies discredited, many have argued for interventions on behalf of export interests. He concludes that under perfect competition, a country trying to retaliate against a trading partner's export subsidies by instituting its own export subsidies will only hurt itself. The argument that export subsidies may be useful for neutralizing import tariffs is spurious. In most practical situations, this is riot possible. Removal of tariffs is a far superior policy. In principle a case can be made for protecting infant export industries in the presence of externalities. But the empirical relevance of externalities remains as illusory for export industries as it was for import-substituting industries. Adverse selection and moral hazard can lead to the thinning of the market for credit insurance but that is not a case for government intervention. India's experience shows export subsidies to have little impact on exports. Brazil and Mexico's experience shows export subsidies to be a costly instrument of export diversification.

Negotiating Group on Rules DOHA round proposal (2003):***"Subsidies disciplines requiring clarification and improvement from the US"***highlights that there are a number of proposals in play in the Doha Round negotiations on subsidies. Probably the most important achievement of the Uruguay Round negotiations on subsidies is the definition of subsidies contained in Article 1 of the SCM Agreement. The exhaustive list of types of subsidies that can constitute financial contributions by a government is important because it provides a high degree of certainty and predictability about what types of government practices will be considered to be subsidies. The United States, in particular, highlights "situations involving direct government intervention in bankruptcy or near bankruptcy proceedings, and industry restructuring".It emphasizes that "the determination of government control is a standard worthy of further development" and mentions that it would like to clarify the definition of "public body" as that term is used in Article 1 of the SCM Agreement.

Tim Pal Parthapra (2005) in his article entitled "***Current WTO Negotiation on Domestic Subsidies in Agriculture: Implication for India***" highlights that in the Doha Development Round of trade talks, agriculture has emerged as one of the most important issues for negotiations. Developing countries are particularly concerned about the widespread use of domestic farm subsidies by developed countries. Estimates suggest that domestic farm support in developed countries amounts to about 300 billion US dollars. Such huge subsidies not only create distortion in the domestic markets of these countries, they also distort trade by artificially influencing commodity prices .One of the priorities of the current round of WTO negotiations is to bring substantial reduction in trade distorting domestic support.

Based on average crude oil price of $60/barrel, LPG subsidy for financial year 2016 is estimated at R18,000 crore and assuming crude at $70/barrel, it could be in the vicinity of R25,000 crore. The government regulates prices of cooking fuels LPG and kerosene to armour the poor. The difference between the cost and the retail selling price is borne by the government by way of cash subsidy and upstream producers like Oil and Natural Gas Corp (ONGC) and Oil India Ltd (OIL). The upstream producers were however exempted from subsidy payment in the fourth quarter of 2014-15 fiscal when the government decided to pick up the entire tag of Rs 5,223 crore under-recovery or revenue loss on selling fuel below cost. So it can be concluded that, subsidies have some adverse fiscal effects which indirectly affect the budget by drawing resources away from high tax producing sectors towards low tax producing sectors. So the government needs to be more rational in levying the subsidies.

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