Chapter-I

Introduction

The socio-economic structure, which prevailed prior to the British rule in the country, resulted in the organization of self-sufficient villages. It has been maintaining some kind of static equilibrium. The Indian peasant, though not properly educated, has adequate experience of farming systems and he has been dependent on it for the means of living. The Royal commission of Agriculture in India observed that both the methods of cultivation and social organization exhibit that settled order which is characteristic of all countries in which the cultivating peasant has long lived in and closely adapted himself to the conditions of a particular environment.

The British government in India did not bother for the development of agriculture in this country. The East India Company had also done nothing it was primarily interested in trading and exploitation of resources of the country. The main objective of the British policy was administrative consolidation other than economic regeneration till the end of the nineteenth country, no attention was paid to agriculture (Mishra, 2006).

The Indian agrarian economy on the eve of independence was critical in situation. It could be characterized totally primitive, deteriorative and turbulent. During the British imperial regime, no pervasive and conductive measures were taken to boost the agriculture. At the time of independence, Indian economy was in the worst state of affairs, the deficiency of food grains was quite alarming and aggravating (Chahal, 1999).

The partition of country worsened the food situation in the country. This reduced the agricultural production and created difficulties both for food grains and
commercial crops. The country was left with 82 per cent of the total population of undivided India as well as only with 69 per cent of land under rice, 65 per cent under wheat and 75 per cent under all cereals. The cultivators were under heavy debt and most of the holdings were uneconomic (Chahal, 1999).

Agricultural development is a condition precedent for the overall development of the economy. A progressive agriculture serves as a powerful engine of economic growth. It helps in initiating and sustaining the development of other sectors of the economy by providing necessary capital, labour, raw material, wage goods and foreign exchange (Kumar, 2007).

In view of this, after independence tremendous efforts were made to boost the economy through agriculture as one of the tools for development. The Government of India adopted a positive approach and hence a well defined policy of integrated production programmes with defined targets and a proper distribution programme was adopted along with other measures for the overall economic development of the country. Specific programmes like new agriculture technology were introduced to convert agriculture into a successful and prosperous business, to bring more land under cultivation and to raise agriculture production (Singh, 1994).

In India, the adoption of new agricultural technique was costly than that of traditional method of cultivation. In traditional method, inputs were least expensive, on the other hand, inputs in modern technology like high yielding varieties of seeds, fertilizers, farm mechanization and irrigation were very costly and Indian farmers being poor were not in a position to buy these expensive inputs. On the recommendations of food grain price committee (Jha Committee), the Government of India started the scheme of subsidies on purchase of various agriculture inputs to facilitate the farmers (Singh, 1994).
Subsidies, by means of creating a wedge between consumer prices and producer costs, lead to changes in demand/supply decisions. Subsidies are often aimed at inducing higher consumption/production and offsetting market imperfections including internalization of externalities, achievement of social policy objectives including redistribution of income (Gulati, 2007).

Subsidies on farm inputs were initially meant to induce farmers to adopt new technology. It was this intention that since the mid-1970s, central and states governments have followed a policy of supplying fertilizers, power, irrigation and credit at prices which do not fully cover costs. No doubt, input subsidies have helped in large scale adoption of new technology and output growth. However, their levels have risen to proportions which cannot be sustained and their beneficial effects are said to be overweighed by the adverse effect in terms of macro-economic balances, slowing down of public investments in agriculture, inefficient use of resources, degradation of environment and reduction of employment (Rao, 1994).

Subsidies have occupied agricultural economists for a long time because they are pervasive in agriculture, even though they are often applied in ways that benefit mostly richer farmers, cause inefficiencies, lead to a heavy fiscal burden, distort trade, and have negative environmental effects. Agricultural subsidies can play an important role in early phases of agricultural development by addressing market failures and promoting new technologies (Fan, 2008).

All of these subsidies by reducing the prices of the inputs, served in the initial stages of green revolution, as incentives to the farmers for adopting the newly introduced seed-cum-fertilizer technology. These helped in raising the agricultural output, after some time, the amount paid on these subsidies began to rise (Gulati, 2003).
Viewed in terms of pure domestic economy, the input subsidies have often been accused of causing most harmful effect in terms of reduced public investment in agriculture on account of the erosion of investible resources, and wasteful use of scarce resources like water and power. Further, apart from causing unsustainable fiscal deficits, these subsidies by encouraging the intensive use of inputs in limited pockets have led to lowering the productivity of inputs, reducing employment elasticity of output through the substitution of capital for labour and environmental degradation such as water logging and salinity, on the one hand, and lowering of water tables, on the other (Gulati 1995).

In India, at present, centre as well as state governments are providing subsidies on fertilizers, irrigation (canal water), electricity and other subsidies to marginal farmers and farmers’ cooperative societies in the form of seeds, development of oil seeds, pulses, cotton, rice, maize and crop insurance schemes and price support schemes etc. Out of these subsidies, the Central Government of India provides indirect subsidies to farmers on the purchase of fertilizers from 1977, whereas state governments are providing subsidies on irrigation as well as on electricity (Government of Punjab, Agriculture Department, Chandigarh).

**Agricultural Subsidies by Central Government**

At present, the central government pays subsidies to the farmers on the purchase of fertilizers. Fertilizers are an important component of agricultural technology. Whereas initially organic fertilizers were mainly used in the fields, however, chemical fertilizers have played a very important role in enhancing the agricultural production. To ensure availability of fertilizers to farmers at affordable prices, the government of India provides huge subsidies to fertilizers manufacturing industry from 1977. Hence, the government of India provides indirect subsidies to
farmers for the purchase of fertilizers (State Environment of Punjab – 2005)

**Agricultural Subsidies by State Governments**

Many years ago, state governments were considered to be only police states. Their function was mainly to maintain law and order in the country and to protect it from foreign invasion. So far as the economic affairs of the country were concerned, a complete laissez faire policy was followed. However, the situation has changed now. The concept of welfare state has taken deep roots. The central government encouraged the strategy of enhancing food grains production in states, particularly wheat and rice, for meeting the emergent food demand in the country. Punjab state leads other states in terms of contribution of wheat and rice to central pool (Karnik, 1996).

For the development of agricultural sector, at present, Punjab Government is giving subsidy on electricity as well as on irrigation. Energy in the form of electricity plays a key role in performance of agricultural sector, in Punjab as it is used in pumping ground water for irrigation purposes. At present government of Punjab is giving electricity to Punjab farmers, free of cost, through Punjab state electricity board, now is unbundled into Punjab state power cooperation limited and in Punjab state transmission cooperation limited (Government of Punjab, Punjab State Electricity Board). The water being supplied to the farmers for irrigation purpose is free of cost. It is quite difficult to estimate the values of this water being supplied to agriculture sector, therefore, total amount of subsidy on this account could not worked out on actual basis (Government of India, Pricing water policy, 2010).
Agricultural Subsidies by Agriculture Department

At state level, agriculture departments are also giving subsidies on various inputs i.e. gypsum, seeds, gobar gas plants, farm mechanisations, pesticides under various schemes as facilities to the farmers. At present, Agriculture Department of Punjab, Chandigarh is providing these subsidies to Punjab farmers.

The use of gypsum has been wide spread in practice and farmers are trying to convert their waste lands into productive lands. The subsidy of Rs. 1000 per hectare or 50 per cent of total cost of gypsum is provided. Jantar seeds are provided with free of cost, 100 per cent subsidy on oil seeds and 50 per cent subsidy on the cost of hybrid seeds of pulses and wheat. On gobar gas plant Rs. 2610, per plant are given as subsidy (Government of Punjab, Agriculture Department, Chandigarh).

Farm mechanisation has been helpful to bring about a significant improvement in agricultural productivity. Thus there is a strong need for mechanisation is useful for farm operations like harvesting, threshing etc. A scheme “Promotion of Agricultural Mechanization among small size category farmers” has been launched during 1992-93. Under this scheme a subsidy of 30 per cent subject to limit of Rs. 30,000 is given for the purchase of tractors up to 30 powers take off horse power. The subsidy of Rs. 30,000 is provided on rotavetors and Rs. 15,000 on seed drill machine (Government of Punjab, Agriculture Department, Chandigarh).

The total agriculture subsidies have increased from Rs. 14,069 crores in 1993-94 to Rs.17,677 crores in 1995-96 and further increased to Rs.1,60,917 crores in 2008-09. The centre government’s deficit has increased from Rs.8,299 crores in 1980-81 to Rs.21,858 crores in 1985-86 and further increased to Rs.1,18,816 crores in 2000-01. In 2011-12, it will be Rs.412,817 crores (Budget Estimate, 2011), whereas state’s deficit has increased from Rs.3,713 crores in 1980-81 to Rs.7,521
crores in 1985-86 and further increased to Rs.90,098 crores in 1999-2000, it declined to Rs.87,922 crores in 2000-01, to Rs.1,20,631 crores in 2003-04 and further increased to Rs.1,99,510 crores in 2009-10 (Reserve Bank of India, 2011).

Fiscal deficit in India has to be reduced, for reducing the fiscal deficit, the Government of India has to reduce its expenditure and increase the revenue. So far as the reduction in expenditure for the agriculture sector is concerned, it can be brought out mainly by reduction in subsidies. The new economic policy 1991, was the first policy which recommended that in order to reduce fiscal deficit of Government, efforts were made to reduce the agriculture subsidies. Again in May 1997, the Finance Minister Mr. P. Chidambaram issued a ‘white paper’ entitled ‘Government Subsidies in India’. This paper stated subsidies as the cause of inefficient and wasteful use of resources. It listed the subsidies granted for fertilizers, irrigation and power as subsidies on non-merit economic services and stated that the main purchase of these subsidies is to help the farmers to reduce the production cost, but the fact is that big farmers are getting more benefits than that of small size category farmers from these subsidies, who already have the capacity to pay for purchase of inputs, then these subsidies should be abolished in a phased manner (Aggarwal, 2007).

After these recommendations neither Central Government nor State Governments reduce or withdraw these subsidies. In fact the disappointing piece of the whole story is that agriculture subsidies are not due to economic necessity but because of political expediency (Gulati, 2003).