

ECONOMICS (CLASS—12)

INDIAN ECONOMY

1950–1990

Topic----- The Debate Over Subsidies

The term subsidy use in different sectors of economy like agriculture, transport etc. But at present the economic justification of subsidies in agriculture is, at present, a hotly debated question. It is generally agreed that it was necessary to use subsidies to provide an incentive for adoption of the new HYV technology by farmers in general and small farmers in particular. Any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed to encourage farmers to test the new technology. Some economists believe that once the technology is found profitable and is widely adopted, subsidies should be phased out since their purpose has been served. Further, subsidies are meant to benefit the farmers but a

substantial amount of fertiliser subsidy also benefits the fertiliser industry; and among farmers, the subsidy largely benefits the farmers in the more prosperous regions. Therefore, it is argued that there is no case for continuing with fertiliser subsidies; it does not benefit the target group and it is a huge burden on the government's finance. On the other hand, some believe that the government should continue with agricultural subsidies because farming in India continues to be a risky business. Most farmers are very poor and they will not be able to afford the required inputs without subsidies. Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity. These experts argue that if subsidies are largely benefiting the fertiliser industry and big farmers, the correct policy is not to abolish subsidies but to take steps to ensure that only the poor farmers enjoy the benefits. Thus, by the late 1960s, Indian agricultural productivity had increased sufficiently to enable the country to be self-sufficient in food grains. This is an achievement

to be proud of. On the negative side, some 65 per cent of the country's population continued to be employed in agriculture even as late as 1990.

Economists have found that as a nation becomes more prosperous, the proportion of GDP contributed by agriculture as well as the proportion of population working in the sector declines considerably. In India, between 1950 and 1990, the proportion of GDP contributed by agriculture declined significantly but not the population depending on it (67.5 per cent in 1950 to 64.9 per cent by 1990). **Why was such a large proportion of the population engaged in agriculture although agricultural output could have grown with much less people working in the sector?** The answer is that the industrial sector and the service sector did not absorb the people working in the agricultural sector. Many economists call this an important failure of our policies followed during 1950-1990.

Assignment

(1) Write a conclusive view, on subsidy is beneficial for agriculture sector or not.

GAURAV KUAMR

(1-6-2020)