
UNIT 20 AGRICULTURAL TAXATION AND SUBSIDIES

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20.0 OBJECTIVES

After going through this unit you will be in a position to:

- explain the types of taxation and their impact on output and prices;
- appreciate Indian policy towards taxation of agricultural income and the political economy of it;
- explain the concept and rationale for agricultural subsidies; and
- examine the extent of agricultural subsidies and their impact on agricultural production and pricing.

20.1 INTRODUCTION

You may be aware that taxes take away money from people and subsidies give money to people. Naturally, the persons who pay taxes are not necessarily the persons who benefit from subsidies. In that sense taxes and subsidies involve transfer of money between people. The main aims government seeks to achieve through a policy combination of taxation and subsidies are to

- generate income for financing its expenditures by imposing reasonable taxes on people who are capable of paying, and
- provide support to people who are less endowed and need assistance to carry out their production and consumption activities through subsidies.

Thus taxes and subsidies result in a re-distribution of income in the society. Besides these two direct objectives, taxes and subsidies affect economic activity in many different ways. As we will see in the following sections, taxes and subsidies affect the price and output levels as well. Therefore, the government should try to formulate tax policies in such a way that is conducive for economic growth and social welfare.

Keeping these in mind we may ask the question as to whether the government in India has used these instruments efficiently.

20.2 TYPES AND EFFECTS OF TAXES

There can be four types of taxes. These are:

- Lump-sum tax
- Per unit of output tax
- Ad-valorem tax
- Profit tax

In the following paragraphs we shall see how each of these taxes affect the output and price decisions of the producer. The market form we have assumed to be *perfectly competitive*. This implies that an individual producer cannot influence the price in the market because he is too small in comparison to the entire size of the market. Secondly, there is no *product differentiation*, i.e., the product sold by a producer is identical to that of any other producer. We would look into the case when there is *monopolistic power* in the hands of the producers later in this section. Let us begin with the analysis of the impact of taxes in the presence of perfect competition.

In a perfectly competitive market the producer (farmer in this case) is a price taker in the sense that he accepts the prevailing market price. At the on-going price he is free to sell as much as he can. On the other hand, monopoly power enables the producer to influence the price by restricting supply to the market.

Indian agriculture if we ignore government intervention in agricultural products markets meets the conditions of perfect competition. There are a large number of farmers, each supplying a negligible fraction to the market. Moreover, the products are more or less homogeneous in quality so that product differentiation is almost absent. Therefore, no individual farmer is in a position to influence the market price.

20.2.1 Lump-sum Taxation

Lump-sum taxes are imposed on the producers irrespective of the level of price or output. Let us analyse the effects of such a tax on price and output of the producer in Fig. 20.1.

In Fig. 20.1, the output produced is represented along the horizontal axis; the price and cost are measured along the vertical axis. The market price is P^m , given as a horizontal straight line. The AC curve in the figure measures the *average cost* of production and MC is the *marginal cost* of production. You may remember from the course 'EEC 11: Fundamentals of Economics' that AC is defined as the total cost divided by the units of output produced. On the other hand, MC measures the rate of change in the total cost if the producer decides to increase the level of output. You can observe from Fig. 20.1 that the producer will be in equilibrium at the level of output where MC and MR are equal (q^* corresponding to point E in Fig. 20.1). This is because the objective of the producer is to maximize profits. If he produces any output for which $MC < P^m$ (to the left of E), he can increase profits by producing more because it adds more to his revenue (P^m) than to his cost (MC). On the other hand at a level of output where $MC > P^m$ (to the right of E), he can raise his profits by reducing the output level. Thus the producer will produce q^* level of output.

At Oq^* level of output the profit per unit is the difference between the average cost (AC) and the price, which is EB. Hence the total profit earned is $EB.Oq^* = \text{area } ABEP^m$. Now, suppose a lump sum tax, of amount T, is imposed on the producer. This can be treated as a sort of fixed cost as the farmer has to pay it irrespective of his output level. Thus imposition of a lump sum tax increases the total cost of production by an amount T. Consequently, the AC curve in Fig. 20.1 shifts upward. However, the MC curve does not change. Thus the intersection point of the P^m line

and the MC curve does not change and there is no change in the quantity produced and the price charged. However, the profits earned decreases by an amount of T . If T is relatively small so that the producer has profits even after payment of the tax, he will continue production. But, if T is large enough, so that the revenue after tax does not cover the variable costs, the producer will stop production. Output will drop to zero. This happens because if he stops production he incurs a loss equivalent to fixed cost; if he does not, his loss is more than that. Thus we conclude the imposition of lump sum tax does not affect output or price unless it is very high.

20.2.2 Per Unit Tax

By per unit tax we mean that tax is imposed as a levy on the units of output produced. Here we observe that such a tax will affect both the marginal and the average cost of production, both will increase by the amount of per unit of tax imposed. In Fig. 20.2 the MC and AC curves shift upward to MC' and AC' .

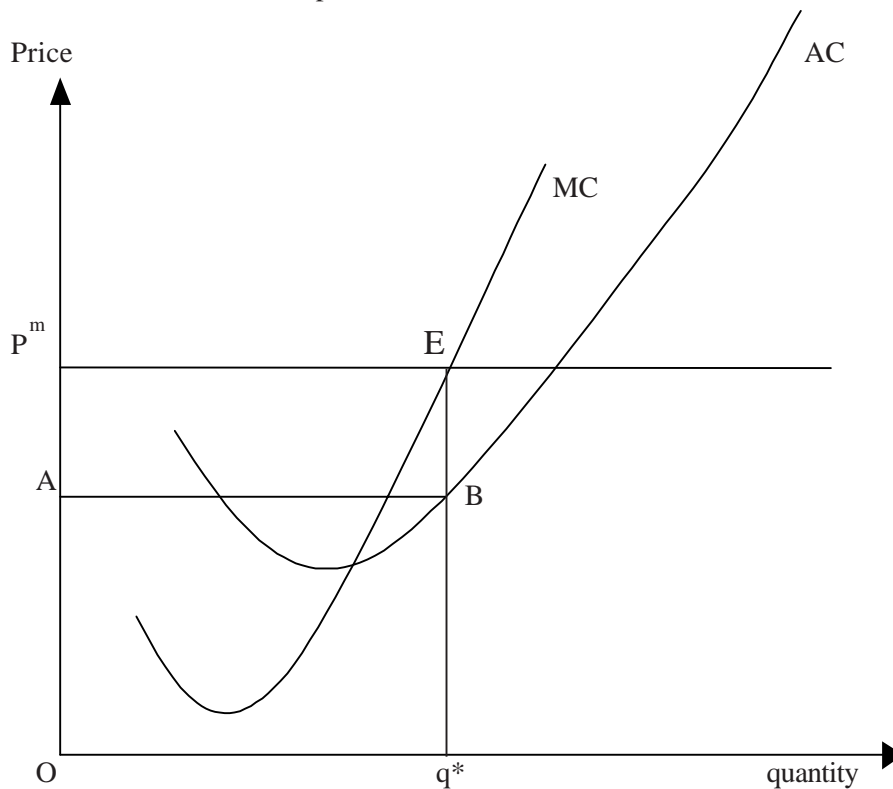


Fig. 20.1

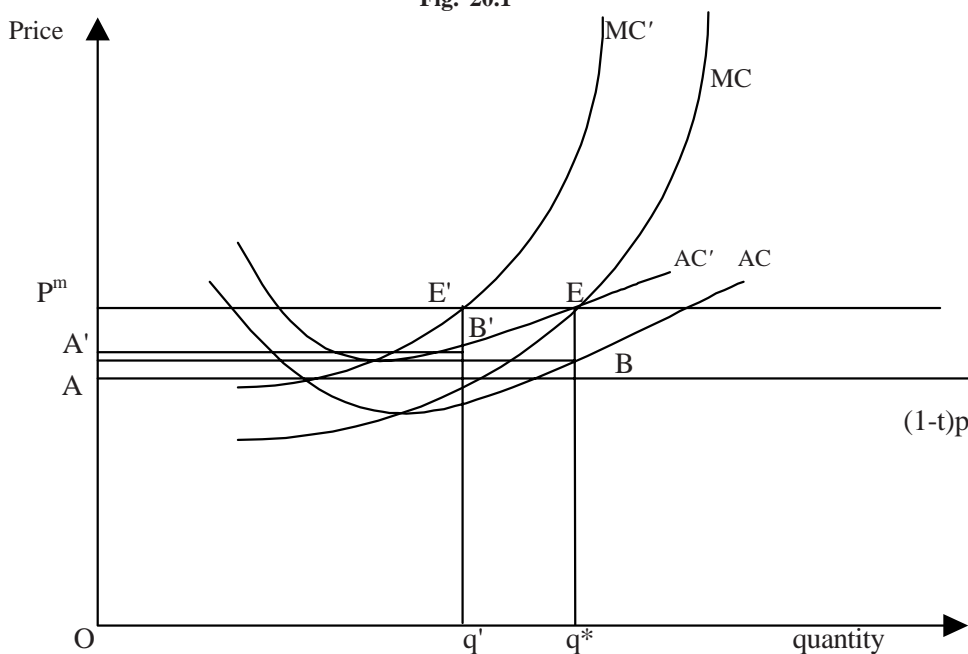


Fig. 20.2

The result is that the new point of interaction between the P^m and the MC' now shifts to E' which is to the left of the previous point E . Therefore, the output level falls to Oq' , which is less than the previous level of Oq^* .

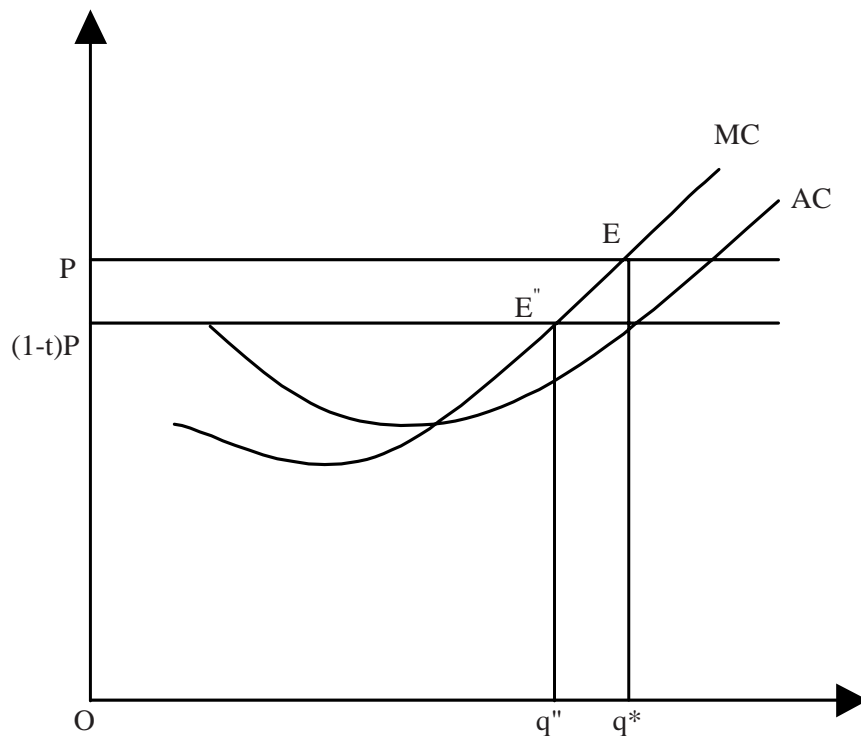


Fig. 20.3

We conclude that tax imposed on the basis of per unit of output produced leads to a fall in the output level. It also leads to fall in the profits earned by the producer as can be seen that the new level of profits, $A'B'E'P^m$ is less than that earned previously, i.e., $ABEP^m$. And this happens no matter how high or low the tax rate is.

20.2.3 Ad-valorem Taxation

Here the tax is imposed not on the output level but on the price charged in the market. The price here is given by p . Therefore, after the imposition of the tax the price that is received by the producer becomes $(1-t)p$, where t is the rate of tax that has been imposed on the price level. Note that in this case nothing happens to the cost curves, only the price line p shifts down to $(1-t)p$. Therefore, from the initial situation of E , the new equilibrium point becomes E' (see Fig. 20.3) and the equilibrium output falls from Oq^* to Oq'' . The profits have also decreased in the new situation.

20.2.4 Tax on the Income of Producers

The income of the producers is the profit earned, which is equal to total revenue minus total cost. If tax t per unit of profit is imposed then the producer is left with $(1-t)(\text{total revenue} - \text{total cost})$. Observe that due to imposition of this tax, the output decision is not going to get affected. Neither the price nor the MC curve is undergoing any change since both total revenue and total cost are unaffected. So here also Oq^* is unchanged. However, the income to the producer which was $(\text{revenue} - \text{total cost})$ falls to $[(1-t)(\text{total revenue} - \text{total cost})]$. And if it falls below some sustainable level then the producer may stop production and exit out of business. In that case output produced falls to zero. This case is similar to the lump-sum tax case covered in Section 20.2.1

20.2.5 Taxation under Imperfect Competition

Let us now turn to an imperfectly competitive market where there is only one producer of a commodity. This producer has monopoly power to influence the market price. We shall take the case of only per unit tax to show how it affects price and output.

Here in Fig.20.4 the average revenue curve is plotted as a downward sloping line, AR. It measures the price that a producer can charge if he wants to produce the corresponding output level. For example, if he decides to sell Oq^* amount of output he cannot charge more than OA price. And if he wants to sell more, say Oq' , he must charge a lesser price. This price is given by OA' in Fig. 20.4. Below the AR line we have the marginal revenue (MR) line. This measures the change in the total revenue if the producer decides to produce one extra unit. The MR also is downward sloping and it is below the AR line because as the seller decides to sell one unit more, he must lower the price for all units including the earlier units which gives MR lower than AR.

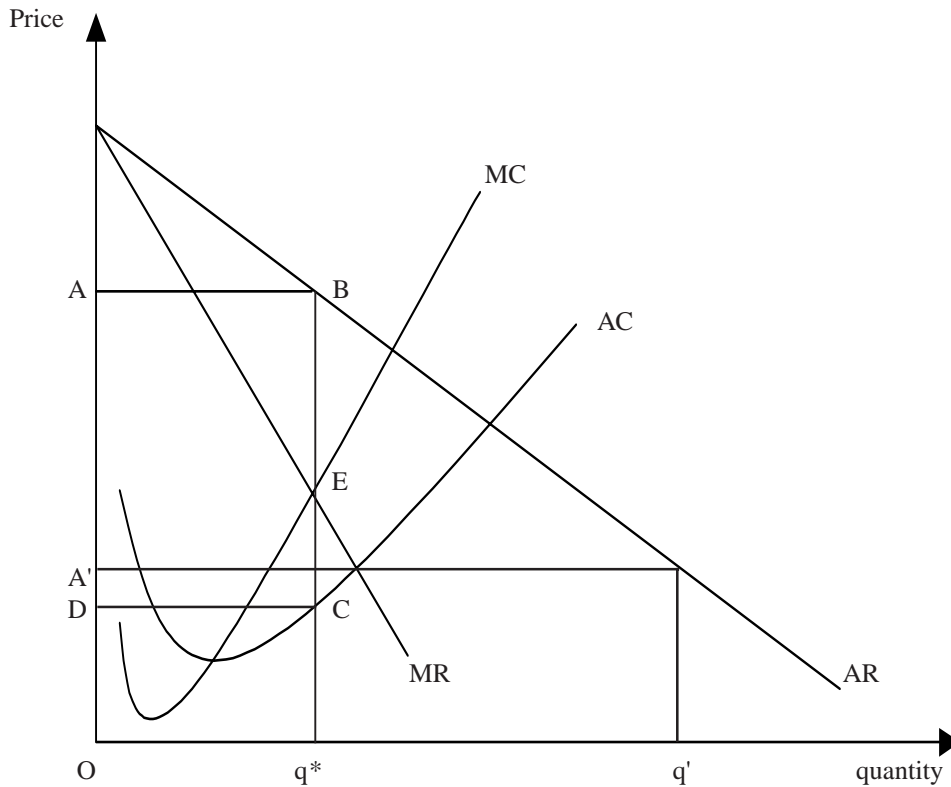


Fig. 20.4

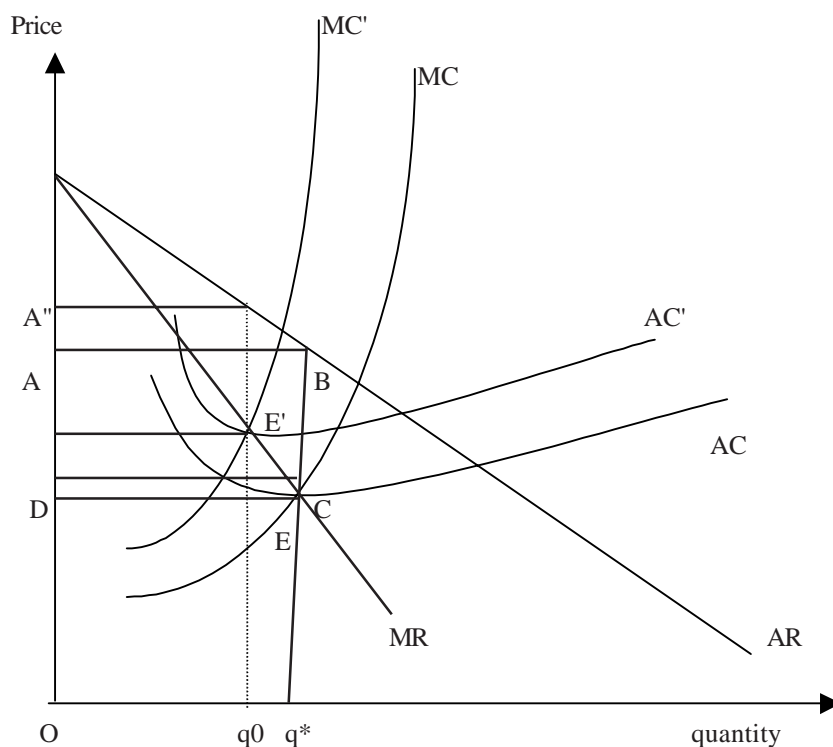


Fig. 20.5

Besides these two lines we have the familiar AC and MC curves. We are familiar with the logic of equilibrium: the producer would produce an output at which MC and MR intersect each other. That is at q^* level of output. Reason is that at an output level lower than q^* , MR is greater than MC. So by producing one unit more the producer raises his revenue more than his cost, therefore the profits will go up. This continues till q^* level of output is reached. And to the right of q^* we find that MR is lower than MC. Therefore, by producing one unit less it reduces his cost more than its revenue. So he will move to the left by producing less. At q^* the price he will charge is given by the AR line, which is Bq^* . Profits earned is total revenue minus total cost, which equals the area ABCD.

If per unit tax, t is now imposed the cost curves change. The MC curve becomes $(1+t)MC = MC'$ and the AC becomes $(1+t)AC = AC'$. In Fig. 20.5 both the curves thus shift upward. As a result, the new point of intersection between the MC' and MR is at E' and output drops to Oq^0 which is less than Oq^* . Price rises to OA'' from OA. Thus such tax reduces output, raises price and decreases the profits earned by the producer.

Check Your Progress 1

- 1) What is the rationale for imposition of taxes?
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- 2) What is the effect of taxes on the income of the producers under perfect competition?
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- 3) Do taxes lead to rise in prices under perfect competition?
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20.3 EXISTING INDIAN TAX POLICY FOR AGRICULTURAL INCOME

In India about two-third of the population are dependent on agriculture for their livelihood. Simultaneously we observe that per capita income in India is one of the

lowest in the world. About one-third of the world's poor live here. One reason for this low income level is the fact that though so many people are engaged in agriculture, productivity of labour in this sector is very low. Massive unemployment, under-employment (which means that workers are allotted far less work than they are capable of doing), unequal landholding structure, extremely low wages are the major problems/features of Indian agriculture. Many measures including taxation of agriculture have been suggested to solve these problems. But given the fact that the average level of output is very low, the issue of taxation of agriculture has always been dealt with carefully. High taxation as we have seen in the previous section may drive people out of production. With virtually no alternative employment opportunities these people may either starve or migrate to the urban areas, which are already faced with so many problems of overcrowding.

Taking this into consideration, the government policy has been not to tax agriculture income at all. Under the constitution of India, taxation of agricultural income is the right of state governments. The Central Government cannot levy tax on such income. Section 2(1A) gives a detailed definition of agricultural income. Income from agriculture up to and exclusive of the processing stage will be agricultural income. Income from processing stage and onwards will be non-agricultural income. Income from a farmhouse used for agricultural purposes will be treated as agricultural income.

Thus income from basic operations on land like cultivation, growing crops and secondary operations like land removal, digging, etc. can be classified as agricultural income and is exempt from tax. However, income from sale of trees, breeding of livestock, fishing activities, poultry farming cannot be classified as agricultural income and is not exempt from income-tax.

This blanket policy has created many problems:

- a) People engaged in non-agricultural sector have a tendency to evade taxes by somehow showing that their income is derived from agriculture. The big rich farmers are not taxed at all which cannot be rationalized. Land tax has been constant in money terms and occupies a very low share of total agricultural income. This has benefited the big farmers as they are not required to pay income tax and land revenue is quite low.
- b) Another debated clause of the agricultural income tax policy is not to tax the rent income in agriculture. Given that tenancy of land is widely practiced in India and the landlords who lease out lands in most cases are quite rich, the policy of exempting the rent income lacks a basis. Supreme Court in a case had ruled that the shareholders of a company, which is engaged in agricultural operations, could be taxed since they are not directly involved in the actual productive activities. The same logic also applies to the landlords who, like the shareholders, are not engaged in the direct agricultural activities and earn their income through merely possessing a piece of land.

In view of the above mentioned problems many proposals have been suggested from time to time to bring agriculture into the fold of direct taxes.

- a) One proposal has been to impose land taxes on the basis of ownership. Marginal and small farmers may be exempted from this tax. The emphasis on ownership in this tax is also important. Many large farmers do not cultivate the land they own; they lease them out to smaller farmers. Therefore, the tax will catch the big farmers, who own land and but do not cultivate it.
- b) To tackle the problem of non-agricultural income shown as agricultural income (for example, the farm houses in sub-urban areas, which are used for housing lavish parties, running pubs or restaurants or gardening, but completely exempted from paying any tax) the policy of imposing tax on land would come handy. There

are however debates regarding the fixation of suitable tax rates. Some contend that it should be based on productivity and potential fertility of soil. More fertile land should be taxed more.

- c) Some argue that this is not the correct policy since the quality of land can be changed by application of fertilizers, etc. Hence it should be taxed according to the nature of the crop grown on it. More valuable crops should invite a higher tax rate to the corresponding land.

While all this debate regarding determining the basis of taxation have been going on for last few decades, no effort has yet actually been made to tax the agricultural income. The agricultural rich still do not pay any tax on the large sums of money they make. The non-agricultural rich own large farmhouses, use them for hotelling, tourism and other industrial purposes and are still exempted from paying tax. In other words, the poverty of the majority of the small and marginal farmers are used by the rich people to gain tax exemption. They always harp on the fact that the Indian farmers are very poor and therefore no direct tax should be imposed on them. By giving this excuse they have ensured that they themselves do not have to pay any taxes.

What explains this state of affairs is that the policy making of our governments are too much influenced by the rich farmers and non-farmers who reap the benefits of such tax exemptions. It is a fact that an average Indian farmer is really poor and has to be provided with tax benefits. But this should not deter the authorities to tax the rich who are getting benefited by the provisions meant for the poor. However, the compulsions to stay in power make the government do things which are contrary to this logic. The farmer lobby has influenced the policy making since Independence in various ways:

- a) by turning the terms of trade in their favour against the industries
- b) securing subsidized seeds, fertilizers and power
- c) securing complete tax relief for their income.

At times the government talked of imposing a more rational tax system based on income and wealth through expert committee reports, but none of them could be implemented.

20.4 SUBSIDIES

Subsidies are just the opposite of taxes. Through taxes the government takes away money from people, subsidies transfer money from the government to the people.

20.4.1 Rationale for Subsidies

For a poor agriculture-dependent country like India, the reasons for agricultural subsidies are easily understood. Since many farmers are close to the subsistence level of living, the subsidies seek to help them carry out their production and consumption activities in a better way. Besides this fundamental objective there are several other reasons for providing subsidies:

- a) In order to increase productivity, subsidies may be given on inputs, such as seeds, fertilizers and irrigation, as a result of which they become cheap for the farmer.
- b) For introduction of improved farming inputs and technology the government may provide subsidized farming machinery (like harvester, tractor, irrigation devices) and HYV seeds.
- c) In order to promote the production of certain crops, price and input subsidies may be granted. Subsidies can be in the form of: i) cheaper inputs, ii) cheaper

transportation facilities for marketing of the harvest, iii) storage facilities, and iv) higher procurement prices offered by the authorities than the current market price.

- d) Subsidies can be granted to the farmers to produce for exports. This type of subsidies helps the farmers in becoming more competitive in the global market and in gaining a larger share of the global demand.

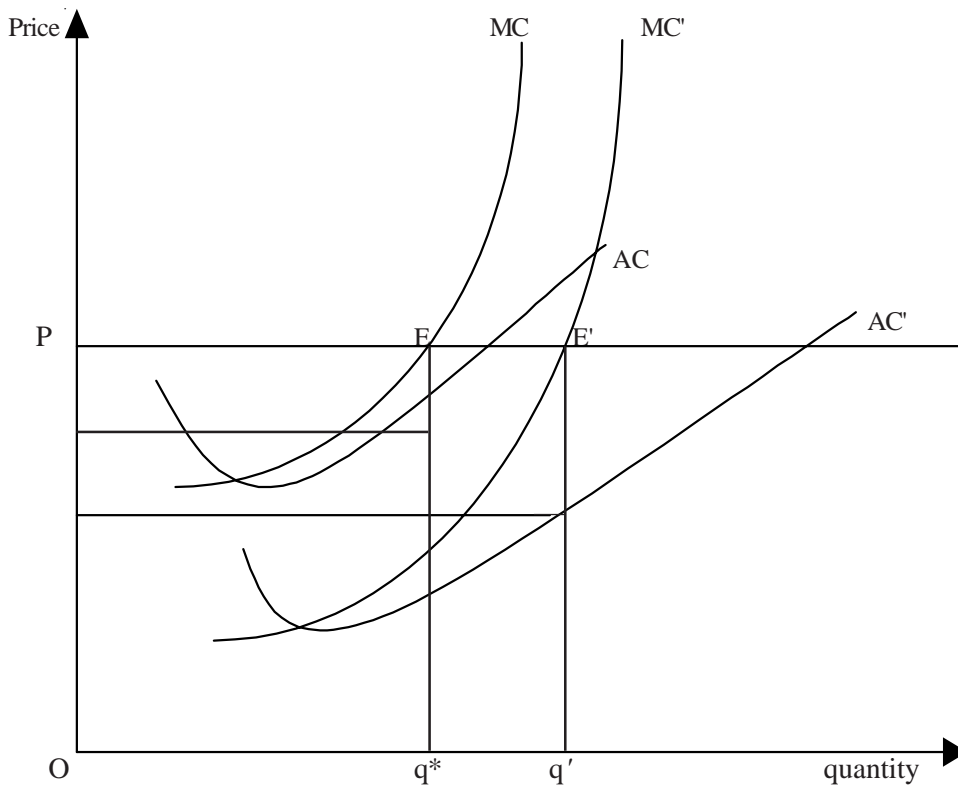


Fig. 20.6

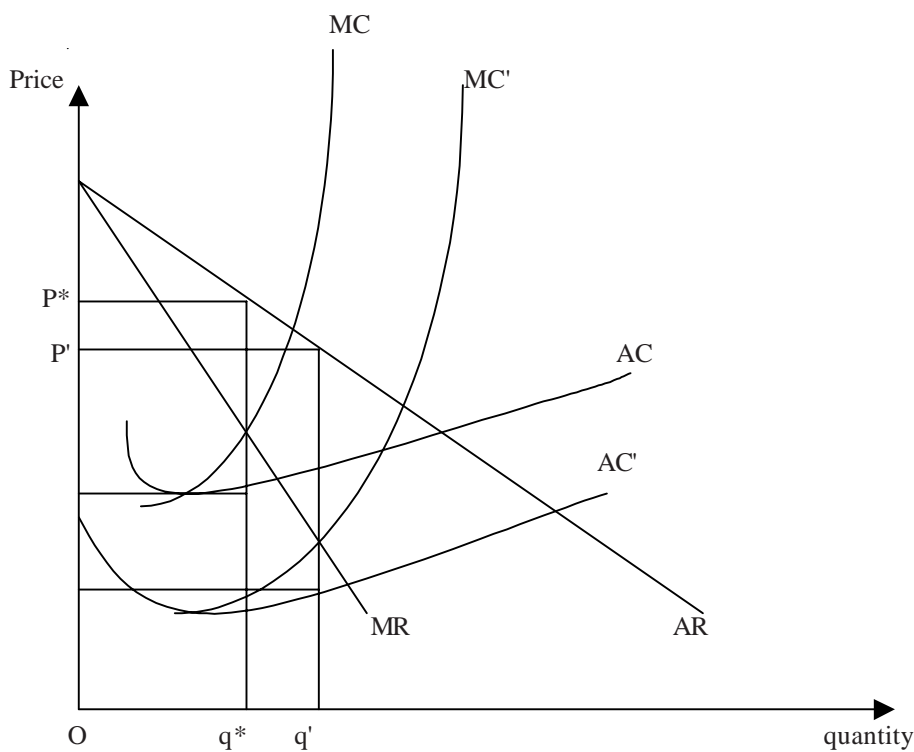


Fig. 20.7

The manner in which subsidies improve the conditions of the farmers can be seen from the tax models that we have developed in Section 20.3 of this unit. Remember that subsidies are the negative of taxes, hence for the per unit subsidy, for example,

the marginal and average cost curves in Fig. 20.1 will shift downwards. This is shown in Fig. 20.6 where the new MC and AC are denoted as MC' and AC'. Thus the point of intersection between of MC' and the p line is at E', which is to the right of E, the previous point of intersection. Thus the output and profits would increase. For an imperfectly competitive market we can similarly show the effects in Fig. 20.7. Here, as before, MC and AC shift downwards to MC' and AC'. The point of intersection with the marginal revenue curve shifts to the right. Thus the output rises and price falls; the profits can be shown to have risen.

The discussion has been entirely with respect to per unit subsidies. But since subsidies are negative of taxes the effects of lump sum subsidies, ad valorem subsidies or profit subsidies will be opposite of lump sum taxes, ad valorem taxes and profit taxes. Output will rise, profits will rise and in imperfect competition prices may fall. The effect of per unit subsidies is that they are just like input subsidies. In input subsidies the per unit cost of production decreases by cheapening seeds, fertilizers, electricity etc. So the result of such subsidies will be that the marginal and average cost will come down and as we have seen before output will rise, profits will rise and under imperfect competitions the prices will fall. Subsidies, when they lead to fall in prices, help the consumers to buy agricultural goods at affordable rates, apart from helping the producers to earn higher profits.

20.4.2 Types of Subsidies

There can be several forms of subsidies, each of which can be used for a definite purpose. We discuss them below in brief.

- a) **Input Subsidies:** Subsidies can be granted through distribution of inputs at prices that are less than the standard market price for these inputs. The magnitude of subsidies will therefore be equal to the difference between the two prices for per unit of input distributed. Naturally several varieties of subsidies can be named in this category.
 - i) **Fertilizer Subsidy:** Distribution of cheap chemical or non-chemical fertilizers among the farmers. It amounts to the difference between price paid to manufacturer of fertilizer (domestic or foreign) and price received from farmers. This subsidy ensures: i) cheap inputs to farmers, ii) reasonable returns to manufacturer, iii) stability in fertilizer prices, and iv) availability of fertilizers to farmers. In some cases this kind of subsidies are granted through lifting the tariff on the import of fertilizers, which otherwise would have been imposed.
 - ii) **Irrigation Subsidy:** Subsidies to the farmers which the government bears on account of providing proper irrigation facilities. Irrigation subsidy is the difference between operating and maintenance cost of irrigation infrastructure in the state and irrigation charges recovered from farmers. This may work through provision of public goods such as canals, dams which the government constructs and charges low prices or no prices at all for their use from the farmers. It may be through cheap private irrigation equipment such as pump sets.
 - iii) **Power Subsidy:** The electricity subsidies which implies that the government charges low rates for the electricity supplied to the farmers. Power is primarily used by the farmers for irrigation purposes. It is the difference between the cost of generating and distributing electricity to farmers and price received from farmers. The State Electricity Boards (SEBs) either generate power themselves or purchase it from other producers such as NTPC and other SEBs. Power subsidy acts as an incentive to farmers to invest in pump sets, bore-wells, etc.

- iv) **Seed Subsidies:** High yielding seeds can be provided by the government at low prices. The research and development activities needed to produce such productive seeds are also undertaken by the government, the expenditure on these is a sort of subsidy granted to the farmers.
- v) **Credit Subsidy:** It is the difference between interest charged from farmers, and actual cost of providing credit, plus other costs such as write-offs on bad loans. Availability of credit is a major problem for poor farmers. They are cash strapped and cannot approach the credit market because they do not have the collateral needed for loans. To carry out production activities they approach the local money lenders. Taking advantage of the helplessness of the poor farmers the lenders charge exorbitantly high rates of interest. Many times even the farmers who have some collateral cannot avail loans because banking institutions are largely urban based and many a time they do not indulge in agricultural credit operations, which is considered to be risky. To tackle these problems the government can provide (1) more banking operations in rural areas which will advance agricultural loans, and (2) the interest rates can be maintained low through subsidization schemes, and (3) the terms of credit (such as collateral requirements) can be relaxed for the poor.
- b) **Price Subsidy:** It is the difference between the price of foodgrains at which FCI procures foodgrains from farmers, and the price at which FCI sells either to traders or to the PDS. The market price may be so low that the farmers will have to bear losses instead of making profits. In such a case the government may promise to buy the crop from the farmers at a price which is higher than the market price. The difference between the two prices is the per unit subsidy granted to the farmers by the government. The effect will be just the opposite of what we have shown in Fig. 20.3 for the case of ad valorem taxes. The output and profits would rise. The price at which the government buys crops from the farmers is called the procurement price. Such procurement by the government also has a long run impact. It encourages the farmers to grow crops which are regularly procured. As discussed earlier, continuous procurements of foodgrains by the government has benefited the farmer.
- c) **Infrastructural Subsidy:** Private efforts in many areas do not prove to be sufficient to improve agricultural production. Good roads, storage facilities, power, information about the market, transportation to the ports, etc., are vital for carrying out production and sale operations. These facilities are in the domain of public goods, the costs of which are huge and whose benefits accrue to all the cultivators in an area. No individual farmer will come forward to provide these facilities because of their bulkiness and inherent problems related to revenue collections (no one can be excluded from its benefit on the ground of non-payment). Therefore the government takes the responsibility of providing these and given the condition of Indian farmers a lower price can be charged from the poorer farmers.
- d) **Export Subsidies:** This type of subsidy is not different from others. But its purpose is special. When a farmer or exporter sells agricultural products in foreign market he earns money for himself, as well as foreign exchange for the country. Therefore, agricultural exports are generally encouraged as long as these do not harm the domestic economy. Subsidies provided to encourage exports are referred as export subsidies.

Check Your Progress 2

- 1) What is the rationale of providing subsidies to the farmers?

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2) What are the different forms in which subsidies can be given to farmers?

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20.5 SUBSIDIES: EFFECTIVENESS, EXTENT AND FUTURE PROBLEMS

One notable point about subsidies is that it raises the profit level of the farmers. And this is true for all farmers who own land, bear cost of production to produce for the market or for self-consumption. But what about the agricultural labourers? You may be aware that about 40 per cent of people who are associated with agriculture are landless labourers. They are not benefited anyway by all these subsidies. So if the purpose of the government is to improve the living conditions of the poorest sections, it should go beyond the subsidies. It should effectively implement measures like fixing of minimum wage and regular, proper amendments of its levels with changing prices.

For the owner cultivators also, how far the subsidies have been helpful is not above doubt. As we have said earlier, procurement prices, HYV seeds, irrigation subsidies granted to the farmers have helped India fight food crisis and achieve self sufficiency in foodgrains. We are also aware that to avail the benefits of cheaper pumpsets, fertilizers, and electricity a farmer has to have a minimum amount of land and capital at his disposal. Some of the new technologies are not scale-neutral with respect to resources; productivity improves if someone has a sizeable volume of resources. So increase in production was achieved by subsidizing the rich farmers and making them richer. The poor farmer today is where he was before. In fact in many cases he became poorer because of the increase in procurement prices. The farmers with very small land-holdings, being net buyers of foodgrains, were left with lower real income level.

Subsidies have remained a major problem in the expenditure structure of the government. In the year 1990-91 major subsidies amounted to 1.7 per cent of the GDP. Over the years however, this has declined and remained at 1.3 per cent of GDP in 2000-01. Food subsidy (due to public distribution system operations) and input subsidy (particularly fertilizer) constitute the major components of total subsidy in India. Low user charges in sectors such as power, road transport, and irrigation have also impaired the state budgets, as these are provided by the state governments.

Table 20.1 gives a comparison of the subsidies granted by India with other developed countries in the field of agriculture.

Table 20.1 : Agricultural Subsidies in Selected OECD Countries and India (in US \$)

Country	Base Year (1986-88)		1997		1998		1999	
	Per Farmer	Per Hectare	Per Farmer	Per Hectare	Per Farmer	Per Hectare	Per Farmer	Per Hectare
1	2	3	4	5	6	7	8	9
Canada	12000	75	7000	42	8000	48	9000	52
E U	11000	707	16000	815	18000	890	17000	831
Japan	15000	10048	21000	10211	22000	10005	26000	11792
USA	17000	98	12000	73	19000	116	21000	129
OECD	11000	187	10000	189	11000	209	11000	218
India	11	8	55	43	61	46	66	53

We observe from Table 20.1 that agricultural subsidies per farmer and per hectare of land are quite low in India compared to OECD countries. However, OECD comprises developed economies. In these economies subsidies account for a very low share of their per capita income.

The question of subsidies is hotly debated in our country. Many people recommend abolition of subsidies. Advocates of the policy of scrapping subsidies say that subsidies distort prices; they do not let the market allocate resources efficiently. Another justification given for scrapping subsidies is that it leads to higher fiscal deficit which causes problems like higher inflation, higher balance of payment difficulties and falling exchange rate.

It is often said that subsidies results in ‘crowding out’ of public investments in agricultural capital formation. The resources available to the government are limited. If it is spent on subsidies, it cannot be utilized on irrigation, roads, health, etc. However, as we have seen earlier, subsidies serve many useful purposes. Decisions regarding changing the nature and extent of subsidies should, therefore, be made only after properly evaluating their consequences.

Check Your Progress 3

1) Does India provide a higher agricultural subsidy than the developed countries?

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2) What is the rationale for abolishing subsidies?

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20.6 LET US SUM UP

Agricultural income on an average in India is very low. Keeping this in view the government has chosen the policy of not taxing it at all. However, it is the rich farmers who are taking the maximum benefits of such exemptions. Same is true for the non-agricultural rich who show their income to be agricultural and reap the benefits. Government provides agricultural subsidies for various reasons. Subsidies in general raise output and profits, and in certain cases reduce price. However, it should be given to poor farmers and for crops which the country needs for development.

In India subsidies has served its purpose at many crucial junctures. It has helped in raising the living standards of poor peasants, mitigated the food crisis. However, in many cases it is cornered by the rich farmers. They use their power and influence to take benefits of the subsidies. In fact in many cases such uneven distribution of subsidies have led to greater inequality in agriculture. The remedy is not to do away with subsidies altogether. The high level of impoverishment of the majority of Indian farmers and the need for food security of the poor justifies that subsidies should be continued. But it must be ensured that it is targeted to the poor farmers and consumers.

20.7 KEY WORDS

Imperfectly competitive market : is the market form where there are only a few producers and where goods are differentiable (i.e., each producer produces goods which are somewhat different from others). Therefore, each producer has some limited power to influence the market price. However, if price is raised output sold falls due to a downward sloping demand curve.

Perfectly competitive market : is the market form where the goods produced by all the producers are identical and each producer produces a very small amount of the aggregate output produced in the market. As a result no producer can influence the price.

Procurement Prices : are the prices at which the government purchases crops from the farmers. Procurement is undertaken to run the public distribution system and to ensure that the poor farmers get remunerative prices for their produce.

- Public distribution system** : This mechanism helps the Indian government to make basic consumption articles available to the poor sections of the country at low prices.
- Public goods** : are those goods whose utility cannot be limited to one or two individuals. Take the case of a street light, it benefits all of those who pass by the street - not any particular individual on the street. Also, consumption of such a good by one person does not exclude anyone else from consuming it.

20.8 SOME USEFUL BOOKS

Datt, R. and K. P. M. Sundaram, 2001, *Indian Economy*, S. Chand and Co., New Delhi.

Kapila, U. (ed.), 1990, *Indian Economy since Independence: Different Aspects of Agricultural Development*, vol II, Academic Foundation, Delhi.

Misra, S. K. and V. K. Puri, 2001, *Indian Economy*, Himalaya Publishing House, New Delhi.

Parikh, K. S., 1997, *India Development Report 1997*, Oxford University Press.

Patnaik, U., 1999, *The Long Transition*, Tulika Publications, New Delhi.

Raj, K. N., 1990, *Organizational Issues in Indian Agriculture*, Oxford University Press, New Delhi.

20.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 20.1 and answer.
- 2) See Sub-section 20.2.4 and answer.
- 3) No.

Check Your Progress 2

- 1) Go through Section 20.1 and Sub-section 20.4.1
- 2) See Sub-section 20.4.2 and answer.

Check Your Progress 3

- 1) No. See Section 20.5 and answer.
- 2) See Section 20.5 and answer.