

Subsidy Reforms & Fiscal Position: RSTV - Big Picture

Rajya Sabha TV programs and discussions are very insightful and informative from a UPSC perspective. In this article, we provide a gist of the RSTV Big Picture debate on subsidy reforms and the fiscal position in India. This topic is important for the economy section under the [UPSC syllabus](#).

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Context:

Finance Secretary TV Somanathan has recently underlined the need for improving the fiscal position of the government through reforms in the farm, food, and fertilizer subsidies so that additional funds can be generated for the development of infrastructure and education system.

Introduction:

- The Finance Secretary said that subsidy reforms are necessary, a point reiterated by all the finance ministers in their tenures.
- There are three major subsidies in India: Food Subsidy, Fertilizer Subsidy, and Subsidy on Petroleum linked products. The subsidy on petroleum-linked products is over and the subsidy on food is rising.
- The Finance Secretary said that it is a fairly tough choice to bring changes in these two major subsidies when the country is fighting the pandemic. He acknowledged that the food subsidy is going to stay, and that the issue is about the fertilizer subsidy.
- The government favours fertiliser subsidy reaching farmers directly rather than the companies. In this direction, the government is working on the direct benefit transfer scheme.

Why are subsidy reforms needed?

There are certain issues that need to be addressed and that is why the subsidy reforms are the need of the hour. These issues are discussed below:

Rising Fiscal Deficit

- In the [budget 2021](#), it was indicated that the total deficit is going to be around Rs.12 lakh crores and it has been noticed that certain announcements made post-budget have also put pressure on the fiscal health of the government.
- The [fiscal deficit](#) during the crisis of 1991 was 7.8 percent while in the current situation, it is declared to be around 9.5 percent. The figure might be higher as we reach near the fiscal year-end. This is a crucial issue that has to be addressed.
- We have seen that during the global meltdown, countries like the UK, Germany, and France found it difficult to handle subsidies of similar nature. So, for a country like India, where pressures are many times bigger, it will be very difficult.

Nature of Reform:

- Another important issue is ‘what should be the nature of reform’? There are many types of subsidies that are provided by the government. For example, medical education subsidies.
- If the government wants to bring reforms in the subsidy regime, then it should look into the entire gamut of subsidies rather than focusing on food and fertilizer subsidies. Because it ultimately matters whether the subsidy is serving its purpose or not.

Agriculture and Rural Community:

- As far as the agriculture and rural communities are concerned, since 1950 till date, we have only been providing crutches to the rural economy and not addressing the true issues.
- If we look at the terms of trade, it has continuously remained against the interest of rural communities, agriculture in particular.
- Providing subsidies has only acted as the crutches, the agriculture sector has not moved towards empowerment. Hence, agriculture and rural economy should be kept in mind while bringing the transformation through the subsidy reforms.

The vehicle of subsidy needs to be changed:

- We have various evidence from the world that indicates subsidy is an inefficient method for helping the poor.
- There are various experiments across the world and in India, apart from subsidies which need to be looked into and should be implemented because evidence suggests that they perform better than the vehicle of subsidy.
- Hence, this inefficient method of subsidy needs to be changed completely.

Challenges involved in bringing these reforms:

- Farm, food, and fertilizer reforms are administratively easy but politically difficult in view of the ramifications.

- Reforms in education and infrastructure are easy to announce but difficult to implement administratively as the cooperation of states and other stakeholders becomes necessary because they are state subjects.
- As far as the food subsidy is concerned, it is not the issue of how this should be done but whether it should be done.
- In the [National Food Security Act](#) (NFSA), it is mentioned that rice should be provided at Rs. 3 a kilo and wheat should be provided at Rs. 2 a kilo. It means, changing this structure would imply changing the Act itself which may become a matter of issue for the opposition party. Hence, political consensus should also be kept in mind while bringing these reforms.
- According to Montek Singh Ahluwalia, farmers would be against the government if it hints at making subsidies more efficient. Farmers demand that [MSP](#) should be raised. They want more free electricity or water. Subsidy reforms cannot be implemented by merely passing an order.
- Given the constraints, the government has been successful many times in pushing for subsidy reforms, for example, doing away with petroleum subsidies.
- In the case of fertilizer subsidies, the central government is directly transferring money to farmers even though the middlemen are protesting against it and are demanding that money should be given to them in order to distribute it to farmers.
- The provisions of the NFSA restrict the ability of any government to push for food subsidies.
- On education and health, no political party objects to it. However, they are state subjects and the central government can't do much. The central government can only give money.

Reforming Health and Food Subsidy:

- If we look at the health expenditure, let's take the example of Uttar Pradesh. Almost 70 percent of the health expenditure is out-of-pocket expenses which means that the poorest of the poor are spending a lot and not getting appropriate care. Hence, this is a crucial sector that needs reforms.
- There is a critical scope, even in the rural areas, at the PHC level, at the community health care level of bringing in the private sector.
- The government should think about the larger reform when thinking about bringing down the subsidy. It should club politics and economics together to bring the transformation because "good economics is good politics".
- As the current method of food subsidy is considered inefficient, there is a need to think about alternatives. There are two alternatives:
 - Government can issue vouchers to the poorest of the poor, allowing them to buy food on the basis of that voucher. It is going to bring down the expenditure involved in the administrative procedures such as on Food Corporation of India, etc. This will help the government to just maintain the buffer stock rather than managing each and every expenditure.

- Another option is the critical experience of Brazil which has implemented a “conditional cash transfer scheme”. It will also help in bringing down the expenditure of the government as well as the overall fiscal pressure.

Conclusion:

- Subsidy reforms are complex affairs. Given the current state of affairs, food subsidy should be the last thing that should be done in subsidy reforms.
- States and the central government need to work together in order to rationalize the subsidy regime and the amount saved therein should be spent in other sectors.

