2. Agricultural Subsidies – S & T

The food subsidy is likely to touch Rs 2.25 trillion and the fertiliser subsidy may go up to Rs 2 trillion, in a total budget of around Rs 51 trillion.
Together, these are about 8 to 8.5 per cent of the budget. Both are operating at a sub-optimal level.

1) What Counts as an Agricultural Subsidy in India

A) Price Support (Output-side support) - Minimum Support Price (MSP) is a pre-announced floor price at which the government (through designated agencies) procures certain crops if market prices fall. MSP architecture emerged with the setting up of the Agricultural Prices Commission in 1965 (later reconstituted as CACP). MSP coverage is commonly described as 22 mandated crops + sugarcane (FRP), and in practice is often presented as 23 commodities (including sugarcane). Government announcements of MSP for seasons are officially released via Cabinet/PIB notes (example- Kharif 2024–25 MSP approval).

Operational reality (exam-relevant nuance) - MSP is declared for many crops, but effective procurement is highly concentrated in rice and wheat and in a limited set of states—this is central to the "distorted cropping pattern" critique.

B) Input Subsidies (Cost-side support) - Major input subsidies include

Fertiliser subsidy- keeps prices of urea and other fertilisers below cost/import parity; historically a large fiscal item.

Power subsidy- free/cheap electricity for irrigation pumping (mostly a state subject, major for groundwater use).

Irrigation and water underpricing- canal irrigation charges often below O&M costs; indirect subsidy to water-intensive crops.

Seed, mechanisation, and extension support- subsidies on certified seeds, farm equipment, micro-irrigation, etc.

Credit subsidy- interest subvention on short-term crop loans; priority sector lending support.

Crop insurance subsidy- premium support under schemes like PMFBY (risk management support).

C) Direct Income/Risk Support (Farmer-focused transfers) - PM-KISAN style income support is often treated as a "smarter subsidy" because it is direct and flexible, avoiding some input misuse.

2) Subsidies Matter in India (Importance)

Ensuring Food Security and Price Stability - By lowering cost and enabling assured procurement (especially of staples), subsidies sustain foodgrain production, buffer stocks and PDS-linked stability. Protecting Small and Marginal Farmers. With low savings and weak risk-bearing capacity, subsidies act as shock absorbers against input price spikes, yield shocks, and output price crashes.

Stabilising Farm Incomes - MSP procurement (where it happens) + income support together function as **safety nets** against volatility and agrarian distress.

Promoting Productivity and Input Adoption - Subsidised fertilisers, irrigation support, seeds, mechanisation, and extension are tied historically to Green Revolution-style productivity gains.

Sustaining Rural Livelihoods and Employment - By keeping cultivation viable, subsidies support rural employment multipliers (labour, transport, local services) and reduce distress migration.

3) Arguments Against Subsidies (Expanded Critique)

Heavy Fiscal Burden and Opportunity Cost - Large recurring subsidies in fertiliser/food/power compress fiscal space for

1. irrigation efficiency,

2. R&D and extension,
3. storage/logistics,
4. climate adaptation investments.

Inequitable Distribution - Benefits often skew toward

1. larger farmers (more land, more marketed surplus),
2. better-irrigated regions,
3. states with strong procurement and infrastructure.

Resource Misuse and Environmental Damage - Cheap fertilisers + free/cheap power can drive-

1. fertiliser overuse and nutrient imbalance,
2. soil degradation,
3. groundwater depletion (especially through tube wells),
4. higher emissions and pollution externalities.

Distorted Cropping Patterns - MSP + assured procurement can bias cropping toward rice/wheat and in some cases water-intensive crops in unsuitable agro-ecologies, weakening diversification and sustainability.

Market Distortions and Efficiency Losses - Subsidies can weaken price signals, slowing the shift to

1. demand-led cropping,
2. high-value agriculture (horticulture, pulses, oilseeds),
3. efficient water and nutrient management.

Reform Disincentive - Subsidies can become politically "sticky," reducing appetite for

1. agri-marketing reforms,
2. rational power pricing,
3. better targeting,
4. private investment in supply chains.

4) Way Ahead (Policy Direction with Concrete Reform Levers)

A) Shift from Input Subsidies to Income/Outcome Support - Move gradually toward direct transfers (income support) and/or outcome-linked support (e.g., support tied to soil health, water saving, climate-resilient practices). Rationale- preserves farmer welfare while reducing input overuse and leakage.

B) Reform MSP and Procurement (Make it Broader and Smarter)

1. Decentralise procurement where feasible; limit excessive open-ended procurement.
2. Rebalance procurement basket- strengthen effective price support for pulses and oilseeds (where India often faces deficits).
3. Expand market-based alternatives-
    1. e-NAM,
    2. FPO-led aggregation and bargaining,
    3. price discovery through competitive markets.

C) Retarget Fertiliser and Power Subsidies

Fertiliser- improve targeting and promote balanced nutrients; gradual rationalisation has long been recommended in fiscal reform discourse.

Power- move from free power to metering + DBT/separate feeder models so farmers still get support but have incentives to conserve water.

D) Build Public Investment Where Subsidies Cannot Substitute - Shift part of subsidy space into

1. micro-irrigation and watershed management,
2. storage, cold chains, logistics,
3. extension and digital advisory,
4. climate-smart agriculture R&D,
5. crop diversification support and value chains.

E) Committees/Institutions Cited in "Rationalisation" Debate - Shanta Kumar Committee (2015) on restructuring FCI advocated reforms such as decentralised procurement and greater use of cash transfers/DBT to reduce inefficiencies. Kelkar Committee (Fiscal consolidation discourse) discussed rationalising major subsidies including fertiliser and food subsidy pressures.

The broader policy consensus (NITI Aayog/Economic Survey narratives) generally aligns with- targeted support + efficiency + sustainability + fiscal prudence. Subsidies in India are a mix of price support (MSP/procurement), input subsidies (fertiliser, power, irrigation, credit), and direct transfers/insurance, aimed at welfare and food security. The key challenge is to protect farmers without incentivising ecological stress, particularly groundwater depletion and nutrient imbalance.

The reform direction is "from input-price distortion to targeted income support and sustainable outcomes," alongside stronger markets, diversification, and public investment in productivity-enhancing infrastructure.

Source- https-//indianexpress.com/article/opinion/columns/for-governments-reform-drive-to-succeed-rationalise-agri-subsidies-10481697/