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Book Reviews

The Subsidy Syndrome in Indian Agriculture by Ashok Gulati and Sudha Narayanan, Oxford University Press, New Delhi, 2003, pages 297, Price Rs.695

The Uruguay round of Agricultural Agreements (URAA) has brought subsidies in to sharp focus as it seeks to bring the world of trade under some discipline; its objective is to reduce trade-distorting subsidies. This has compelled countries to reappraise their policies on subsidies *vis-à-vis* the URAA/World Trade Organisation (WTO) negotiations. A common methodological framework has been devised to evaluate the Aggregate Measure of Support (AMS) (comprising Product Specific Support and Non Product specific Support) extended to Agriculture. These measures are treated as trade distorting if they are above a *de minimus* level. In developed countries, support is extended to agriculture through high output prices. In India input prices are subsidised and output prices controlled. The authors' major thesis is that this has a negative impact on Agriculture. As output prices are not in congruent with export/import parity prices, implicitly agriculture is taxed.

The book is organised in to six chapters. The key issues addressed by the authors' in the first three chapters are definitional. Chapter one sets out the scope of the study and discusses the composition of subsidies to agriculture. Chapter two considers India in a Global setting and appraises the position of India *vis-à-vis* major countries in terms of support to agriculture. It also delineates the steps being taken by developed countries to reduce support to agriculture and the pace of reform. The authors have evaluated the magnitude of product and non-product specific support to agriculture in India. Chapters 3, 4 and 5 discuss the three major input subsidies *viz.*, Fertilisers, Power and Irrigation, which constitute the bulk of agricultural subsidies. In the last Chapter, the authors present a synoptic overview of input subsidies in Indian Agriculture, pricing policy framework and the overall implications for policy. The three basic questions the book raises are:

1. Whether subsidies are financially sustainable?
2. Do they promote efficiency in resource use while sub-serving equity and welfare considerations?
3. Who benefits?

The analysis is in line with the general perception that the pricing of critical inputs to Indian agriculture is highly subsidised and distorted and does not sub-serve equity or efficiency considerations.

Chapter 3 contains a detailed analytical study of Fertiliser subsidy and its existing pricing policy framework. It discusses the distortions created by fertiliser subsidy, and fertiliser pricing. The authors discuss how Nitrogenous ,Phosphatic and Potassic (NPK) components are being utilised in proportions deviant from prescribed norms leading to environmental degradation. In 1999-2000 the NPK use ratio is estimated to be 6:9:27:1 as against 8.5:3:1:1 in 1998-99 whereas the desirable ratio is 4:2:1 Corrections in fertiliser pricing would lead to a more balanced application of fertilisers. The authors have also discussed the findings of 'The High Power Fertiliser Pricing Policy Review Committee set up under C.H. Hanumantha Rao in January 1997 and the Report of the Expenditure Reforms Commission. The authors conclude that, the fertiliser subsidy benefits the fertiliser industry more than the farmers it is meant. Although farmers receive lower fertiliser prices, the gains of input subsidisation are offset by controls on the output prices of wheat and rice, which are the major consumers of fertilisers, and hence there is an implicit tax on farmers. The options available for fertilisers policy reforms have been detailed. The Big Bang approach as an option entails the abolition of Retention Pricing Scheme (RPS), decentralisation of urea imports, raising farmers' prices by 10 to 14 per cent and giving a flat rate subsidy of Rs.1,500 on imported urea and Rs.2,000 on domestically produced urea. Besides the above, dealing with the more vexed questions of power subsidies in agriculture, power pricing policy framework for agriculture and the performance of State Electricity Boards (SEBs) are vital areas fro reform. The authors conclusively establish that the inefficiency of SEBs has contributed significantly to the deterioration of the fiscal position of the States. The huge losses of SEBs are attributed to the growing cost of power supply in combination with the SEBs pricing policy towards agriculture. The increasing cost of power supply has been the result of: (a) low levels of operational efficiency; (b) high rates of transmission and distribution losses on the one hand; and (c) high cost of expanding rural electrification. The authors have also stated that the fixing of power tariff has been at the discretion of State Governments rather than SEBs. They have estimated the degree and trends of power subsidies to agriculture and analysed the share of States by region; Northern Region cornered the bulk of power subsidy with 46 per cent share, followed by Western Region and Southern Regions with 26 per cent and 21 per cent respectively. The authors conclude that the existing method of fixing agricultural tariff encourages inefficient practices by providing perverse incentives to the farmer**.** An important conclusion is that 'the rapidly increasing subsidies in power appear to deter public sector investments in agriculture that may slow down the growth process in agriculture particularly when private sector investment fails to fill up the growing vacuum of public sector investment. The authors analyse irrigation subsidy and approaches to quantifying irrigation subsidy in Chapter 5. They present policy framework and water usage at length and brings out clearly the physical constraints, the wastage and inefficiencies in water use and inequity caused by under-pricing of surface water which leads to intensive watering of fields by farmers at the head, leaving tail enders literally high and dry and also lowering productivity per unit of water used. This chapter also briefly touches on the major recommendations of the Vaidyanathan Committee (1992) on pricing of irrigation water and stresses the need for institutional reform and discusses the role of Water User Associations (WUA). The major recommendation of the Vaidyanathan Committee on the institutional front was that user groups should be involved in the management of their irrigation systems and their role should be gradually increased from 'management distributaries to main canal systems'. The success of the Baldev medium irrigation project, Pigut medium irrigation project where the WUAs are in charge of water management fixation of rates and their collection are discussed. There is also a reference to the Mohini Pilot Project in Gujarat where water is sold wholesale on volumetric basis to the Association by the irrigation agency with the Association being responsible for the collection of water usage charges from its members. An interesting conclusion of this analysis is that there should be a statewide policy where institutions are designed to suit the physical, technical, legal and socio political framework of the States. To sustain these institutions farmers should be made co-owners of the systems through equity shares in a way that would allow them to participate in the management, design and constitution of irrigation projects.

In the concluding Chapter, the authors opine that viewing India in a Global frame it is time to review the current pricing Policy framework for inputs and reform it to ensure that it promotes growth, efficiency, equity as also financial and environmental sustainability.

Arguing for the conversion of subsidies into investments, the authors have stressed that while input subsidies are covered under the Amber Box in the Global Agreement on agricultural trade and thus have to be pruned, investments are permissible under the Green Box without any compulsion for reduction. They have concluded that increasing subsidies at the expense of investment in agriculture only serves to jeopardise growth in the agriculture sector. The policy of input subsidisation has failed to achieve its objective of ensuring equity and on the contrary it has created problems with regard to efficiency in input use coupled with financial sustainability concerns. Focusing on India’s primary economic sector, this lucid and incisive study tackles a large number of issues of crucial importance, which are pertinent to the future growth and productivity of Indian Agriculture. The book is a useful piece of academic work. The regression exercises; charts, diagrams and tables containing valuable data will be of use to agrarian economists as also policy makers.

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