

1. The high level of subsidies provided to agriculture sector and various welfare programmes by the Indian government is a big leakage from the government exchequer that impairs the abilities of the government for fiscal consolidation on the one hand and create productive assets and infrastructure on the other. Comment. (150 words)

Answer:

Subsidies are government assistance to various sectors and individual households for the welfare and development. In a highly unequal society marked by vicious circle of poverty like India subsidies play a very important role in meeting the minimum basic needs of life such as nutrition, education, health, housing etc at an affordable price.

Overtime, however, subsidies in India have increased to a level that is unsustainable given the resources of the government. The major subsidies in India viz., food, fertilizer and fuel subsidies stand close to 5 per cent of GDP of India. Subsidies, therefore, are undoubtedly one of the main leakages from the government exchequer.

There are studies which show that there is positive impact of subsidies on agricultural production and productivity. But it is contended that productivity and production gains are limited to certain regions and the impact has been not commensurate. Alternatively, if the amount spent on subsidies would have been used to develop rural infrastructure, power, irrigation, extension services, warehousing and marketing the outcomes would have been much better. Subsidies are like social consumption of resources without creating durable assets whereas creation of infrastructure has the potential to provide sustainable employment and enhance production and productivity.

There is no doubt that subsidies are a major burden on the budget. Fiscal consolidation would require that non-plan expenditure, especially poorly-targeted, populist, irrational, and wasteful subsidies are reduced. Government has a medium term target to reduce subsidies below 2 per cent of GDP for fiscal consolidation. But it will be erroneous to say that entire non-plan expenditure is non-development expenditure, because they create domestic demand for goods and services that push up GDP growth. Kelkar committee had also warned that fiscal consolidation should be led by revenue increase rather than expenditure cut because the latter is recessionary.

As far as creation of infrastructure is concerned government should increase its spending, promote PPP model and foreign investment wherever possible with adequate regulation. Resources are not a unique problem for India in case of developing infrastructure. We can take a clue from China and other emerging economies how they have mobilized internal and external resources for the development of infrastructure.

There is no justification for subsidies and free lunches because these are dead weight burden on the government budget. It is better to empower people by creating infrastructure, skill formation and creating income generating opportunities by using the scarce resource. If need be user charges should be introduced to conserve precious resources and their optimum use.

PRACTICE QUESTIONS

Answer the following Questions

1. The recent decision of the government to open up positions at the senior levels in bureaucracy through lateral entry is an important but only small step in the direction of much needed reforms in the higher civil services. Analyse. (150 words)
2. Identifying the broad contours of the 'Transformation of Aspirational Districts' programme, explain how it adopts a novel strategy to address backwardness. (150 words)