

Subsidies

Mahesh N. Buch

One of the favourite whipping boys of economists with a free market bias, neo-liberals, businessmen and ultra conservative right wing politicians is the question of subsidies. The whole economic scenario in India is said to be vitiated by subsidies given by government, which is causing the budget to be skewed and keeping the fiscal deficit at a high level. According to them if subsidies are abolished the economy will suddenly revive and India will prosper.

One begins with an assumption that even the so-called neo-liberals will concede that the Government of India and its policies will conform to the Constitution. The Preamble mandates social, economic and political justice and Article 38 directs the State to secure a social order for the promotion of welfare of the people. Article 39 directs the State to ensure that the material resources of the community are distributed as best to subserve the common good and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. A social order aimed at promoting the welfare of people contains within itself the principle of equity as the guiding star for our economic policies. If production of wealth is one of the major objectives of society in India, the promotion of equity is one of the principal duties of government. It is in this context that the subsidy regime has to be viewed. The word subsidy is defined in the Chambers 21st Century Dictionary as " a sum of money given, eg, by a government to an industry, to help with running costs or to keep product prices low". It also means help or assistance, especially to those who need such assistance in order to remain afloat. By itself the word subsidy is neutral, that is, it is not really intrinsically either good or bad. Quite often subsidy is paid for activities or to persons who need assistance and could not have survived without such help. The entire social security regime in the United States and much of Western Europe is based on the principle that the State must provide for those who are unemployed,

indigent, unable to afford basic health care and are in need of social support. Such a system is obviously predicated on taxing the more prosperous citizens and using this money to support those in need.

One can safely state that there is no country in the world which does not have one form of subsidy or the other for a selected group of people. Corruption which is tolerated or, because of the policy of the rulers, is encouraged is itself a form of subsidising the rich and influential by looting the common man. A governmental system which facilitates corruption by its officials at the cost of citizens is a form of subsidising a group of persons in power. The entire sordid horse-trading in our Legislatures in order to obtain and retain power is a form of subsidy to the corrupt. Assistance by the United States to Israel above and beyond that country's minimum security needs is a subsidy to Israel indirectly at the cost of its Arab neighbours. Almost every single proxy war is fought on the basis of subsidies, including the low intensity conflict indulged in by Pakistan against India through surrogates. Arms for the Pakistan Army given by the United States and partially passed on to the Taliban form part of the subsidy regime. How are these subsidies better than a subsidy given by the Indian Government on diesel and LPG which would benefit the farmer, the worker and the lower and middle income group people of India?

Let us come to the Indian context. Regardless of the jugglery of figures by the Planning Commission and the claim by government that India has been successfully able to make a substantial dent in poverty. India still remains a country with huge numbers of people who are so poor as to be unable to sustain themselves. One estimate is that any where between forty to fifty percent of children are under nourished. Malnutrition is not a function of lack of knowledge of what constitutes a healthy diet. Malnutrition is a direct consequence of the parents not being able to afford to feed the child

and, therefore, the child is perpetually hungry and physically underdeveloped, prone to disease and cumulatively liable to have serious intellectual deficiency. One cannot expect the brain of a child who is physically underdeveloped to reach a level of growth of the brain of a well-nourished child. Malnutrition, therefore, seriously affects both the physical and mental health of an entire nation. Which State, whose avowed objective is the welfare of the people, can afford to leave such vast masses of its citizens to their own device without intervening strongly for their economic upliftment? Which State can afford to allow its children to starve or the people to die of hunger? Certainly not the democratic India in which we live. Ideally the State must create gainful employment for the masses so that everyone is able to make a reasonable living and feed his children. However, till that happy day arrives does not the State have a duty to make the wherewithals available to the poor to be able to survive? This would be by way of a subsidy, call it what you will.

We are not ignorant of affluence, which is why so many of our businessmen figure in every international list of billionaires. Our Parliament and, following suit, our Legislatures have voted themselves substantial increases in emoluments at frequent intervals. Today the position is that a Member of Parliament (MP) has the following emoluments and perquisites: -

1. **Salary : Rs. 50,000 per month (increased from Rs. 16,000)**
2. **Daily allowance** for every sitting of Parliament or of a parliamentary committee, subject to an additional three days allowance before and three days after a parliamentary session and two days before and after all the meetings of a committee - Rs. 2,000 per day. (Increased from Rs. 1,000 per day)
3. **Constituency Allowance:** Rs. 45,000 per month
4. **Office Expenses:** Rs. 45,000 per month
5. **Travel facilities:**
 - a) To attend a session of Parliament, meeting of a committee or any other duty as a member: First class A.C. for self plus one first class and one second class AC fare for rail travel, or one and one-fourth air fare if the travel is by air and Rs. 16 per kilometre if the travel is by road.

- b) **Additional air travel facilities:** Every MP is entitled to 34 single air journeys in a year anywhere in India, together with a spouse and unlimited number of companions and relatives. If there is an unspent balance of air travel it can be carried over to the next year.
 - c) For rail travel a MP is allowed unlimited first class air-conditioned travel for himself/herself and his/her spouse, plus one companion who will be accommodated in A.C two-tier.
6. **Accommodation:** A Member of Parliament is entitled to official accommodation in Delhi and to annual supply of forty lakh litres of water and fifty thousand units of electric power free of cost. The water and power allowances can be carried over to the next year. In addition, the MP is entitled to purchase of furniture worth Rs. 60,000 plus Rs. 15,000 worth of non-durable furnishing items. In addition, every three months the cost of washing of sofa covers and curtains will be borne by the State.
 7. **Telephone facilities:** A Member of Parliament is entitled to three telephones to be installed. He is entitled to a mobile telephone also, and 1,50,000 local calls per year and broadband internet charges of Rs. 1,500 per month
 8. **Medical facilities:** On payment of Rs. 500 per month a Member of Parliament is entitled to complete CGHS coverage.
 9. **Ex-Members:** Every Ex-Member of Parliament is entitled to a pension of Rs. 20,000 per month and an additional Rs. 1,500 per month for every year in excess of five years of membership. His or her spouse would be entitled to fifty percent of the pension as family pension. Rail travel facilities for an Ex-Member of Parliament would be unlimited first class A.C. travel if he goes alone and two second A.C. travel facilities if he or she goes with a companion.

The above emoluments and perquisites of the MPs have been given in detail to show that our Members of Parliament are in the top income-earning bracket in India, at least in the public sector. With no disrespect to our legislators it is clear that they are well above the poverty level income recently prescribed by the Planning

Commission as Rs. 28 per day in an urban area and Rs. 22 per day in a rural area. Is this not a form of subsidy?

Let us take another form of subsidy. In a completely free market economy (one does not refer here to the virtual economic piracy of the bad old days of American capitalism as practiced by Henry Ford, Vanderbilt or Rockefeller) industry has to fend for itself in the matter of land, infrastructure, capital, labour, cost of production and marketing. The State will not acquire land and make it available at concessional rates to industry. All our industry is located on land given free or very cheap by government through either allotment of government land whose opportunity cost is thus foregone, or by acquiring it at low rates from farmers. The entire cost of infrastructure has so far been borne by the State and will continue to be borne by it. Power, water, communication connectivity and transport facilities have been provided by the State either free of cost or at highly concessional rates, government gives tax breaks and, where the industry is really influential, then government frames policies which create semi-monopolistic conditions in the industry. When industry turns sick government bails it out. Many industries are defaulters in the matter of taxes and user charges. Kingfisher Airlines is one such example. Very often the power connection of an industry is not discontinued because of default of payment of electricity dues, the argument being that if industry closes workers will become unemployed. In other words, the amount due, by not being recovered, is a form of subsidy to that industry. One does not hear the neo-liberal crying out in horror at such subsidies.

The argument given for concessions to industries are that it is only when industries are set up that there will be job creation and, therefore, any incentive offered to industry is in fact a welfare measure because people thereby gain employment. The Indian businessman being such a philanthropist, one supposes that he draws no benefit from the largesse given by government! The exact opposite is in fact the truth. In many of the so-called backward areas industrial schemes, where large industrial estates were created, most of the industries have closed. The industrialists took full advantage of the land, the tax breaks, the subsidised loans and other

facilities given by government, set up some token industries and when the period of concessions was completed, transferred the assets to their main units located in more traditional areas where there is an advantage of cluster. Malanpur in Bhind District, adjacent to Gwalior and virtually its suburb, was an industrial area developed under the backward areas scheme. Today most of the industries have moved away, the landscape is one of stripped factories which look like the wreckage of a war zone and the industrialists, after enjoying subsidies, have moved elsewhere. Why is there no neo-liberal outcry against this? The whole policy of industrial location through subsidies has just not worked. In fact the Gujarat policy is better, where land and infrastructure are available in such inhospitable regions as Kutch and industry is invited to establish there. Now industrialists make an economic decision. The cost of establishing in Surat District is prohibitively high, whereas in Kutch it is relatively low. Because infrastructure is available in Kutch the industrialists prefer to locate there. An industrialist is given no subsidy, but he does find that it makes economic sense to locate in Kutch rather than in Baroda. In a way this is a subsidy which does not ignore market forces.

Let us see the areas in which the poorer half of India is subsidised and that, too, very inefficiently. The largest, of course, is the National Rural Employment Guarantee Scheme. It is a subsidy in that even where it is honestly administered, which is almost nowhere, in terms of output the scheme is not very productive because it has not been designed as an assets creation programme but as only a programme for providing employment for a hundred days per year. Nevertheless, with all the corruption and inefficiency which plague this scheme, it has brought a little more money to the very poor in rural areas. One positive effect is that it has created some hope in rural Bihar so that migration of cheap labour to rich agricultural areas such as the Punjab is substantially reduced. This has forced the Punjabi farmer to pay attractive wages to the Bihari labour to persuade it to work in the Punjab. This is a form of subsidy which does promote welfare. Tied to this would be the entire subsidy regime for agriculture, whether it be by way of subsidised seed and fertilizer,

subsidised water rate for irrigation, subsidised power and more money being pumped into rural infrastructure so that there is both employment creation and general upgradation of the economic and social infrastructure of rural areas. Here what we need is not less of subsidies but rather a complete redesigning of the administrative system so that the schemes of subsidy are honestly and efficiently administered.

We have a subsidy on petroleum products. Petrol and aviation fuel are used by affluent people and by the airlines for operation of their aircraft. This is fuel for the rich and can be taxed. LPG is used for cooking purpose across a wide spectrum of society, including the lower income groups and a substantial number of people of the economically weaker sections. It is said that on every cylinder of gas the oil companies take a substantial loss and have to be subsidised by government. Similarly, it is said that heavy losses are being incurred on account of diesel. Diesel is the fuel for all our goods transport vehicles, the locomotives of the Indian Railways on non-electrified sections and it powers tractors and pump sets used in the agriculture sector. Every paisa of additional cost added to diesel would push up the cost of transport and, therefore, the price of goods that the average citizen uses. It also pushes up the cost of agriculture because cost of running of tractors and of non-electrified pump sets increases. This pushes up the price of food grains and contributes to inflation. If LPG become more costly and people turn to alternative fuels, God help our trees because they would be cut down in increasing numbers even in urban areas. A subsidy on fuel, therefore, if fully justified.

Why are fuel costs high? Partially it is the cost of crude oil but more importantly it is the taxes such as import duty, excise duties, various types of sales tax and value added tax is what keep the price of petroleum products high. The revenue earned from petroleum products is what is passed on by government as subsidy to the oil firms. Government wants to keep earning that revenue, but it wants to transfer the burden of subsidies to the consumers, many of whom would have a major economic slide back and reduction in life style if the subsidy were withdrawn. Why is government not prepared to forego that revenue so that fuel prices may remain affordable?

Should the neo-liberals not answer this question?

Let us take education and health care. Under Article 47, the State is directed to raise the level of nutrition and the standard of living of its people and to make health care amongst its primary duties. In Britain the National Health Service gives health coverage to everyone living in the British Isles. In India most State Governments are allowing the health facilities in the public domain to run down so that the private health care facilities can prosper. Is this not a clear violation of the primary duty of the State? Similarly, in education it is the duty of the State to provide free and compulsory school education. Government seems to be willing to invest thousands of crores of rupees in setting up eight new Indian Institutes of Technology and seven new Indian Institutes of Management. School education, however, is woefully neglected. Here the public-private partnership mode is advocated by our dear Planning Commission, even though in the America which is beloved of the Planning Commission, school education is firmly in the public domain. At the lowest end of the spectrum of education neglect of school education has resulted in our having one of the worst run school systems in the world. At the top of this spectrum the Indian Institutes of Management charge an unrealistically high fee, which students can afford only by taking a hefty loan, the nightmare of whose repayment looms large before them. Therefore, instead of acquiring knowledge the students only try and acquire a higher employability profile so that they can be immediately employed on high remuneration. Genuine education, research and development go by the board. Neglect at one end and high fees at the other have given us exactly the same result, a complete lack of genuine education. Is this what the free market economy is designed to do?

Subsidies come with a price. One has to find funds for subsidies and a government which will not progressively tax the affluent naturally resorts to deficit financing. If, for example, Mukesh Ambani had to pay an expenditure tax of Rs. 650 crores on the Rs. 650 crores he spent on constructing his new house in Bombay, or the Swaminarayan sect had to pay Rs. 1,500 crores tax on the Rs. 1,500 crores spent on the Akshardham temple at Delhi, government would have the funds for genuine

subsidies. The alternative would be for potential big spenders to demonstrably prove that they are diverting luxury spending to physical or social infrastructure development, thus relieving pressure on the budget. In any case deficit financing for a defined purpose is not really evil, as any Keynesian economist will vouch, provided it creates assets which begin to contribute to economic development.

The administration of subsidies is our biggest weakness. First and foremost subsidies cannot be a means of populism and both the need for subsidy and its quantum and time span must be carefully thought out. The administration of each subsidy has to be made over to a dedicated officer or organisation, whose area of responsibility and accountability must be defined. Within the organisation there must be interlocking accountability, with the sins of the subordinate being visited on the superior. Punishment must be swift and sure and there has to be ruthlessness in awarding it. Equally important is reward for good work. The supervisory, monitoring and evaluation has to be tight knit and the subsidiary regime must be free of politics, completely open and amenable to public viewing and review. I refuse to believe that we cannot run a system efficiently and honestly because I personally have run systems accordingly. I know government has many officers better than I --- all they need is a sense of direction, a motivation to succeed and freedom to operate without interference, badgering or worse.

In the ultimate analysis the key word is equity. If equity is to be ensured in a country with massive income differentials, then effective use of subsidies has to be one of our major weapons. Let us not shy away from it.

Mahesh N Buch was born on 5th October 1934. He graduated in Economics from the Delhi University in 1954 and obtained his Masters Degree in Economics from Cambridge University in 1956. He also spent a year at the Woodrow Wilson School as a Parvin Fellow in 1967-68. In April 2002 he was awarded the degree of Doctor of Science (Honoris causa) by the Rajiv Gandhi Technical University, Bhopal (MP). He was awarded Padma Bhushan in recognition of his distinguished service of high order in the field of Civil Services in the year 2011.

Mahesh Buch joined the premier civil service of India, the Indian Administrative Service (IAS) in 1957 and has held a number of senior posts under the state government in the State of Madhya Pradesh and in the federal government. These include the posts of Collector and District Magistrate of a district, Director, Tribal Welfare, Secretary and Commissioner of the environmental group of departments including Town Country Planning, Housing and Forests, head of the Delhi Development Authority, Director General of the National Institute of Urban Affairs and Vice-Chairman of National Commission on Urbanisation. He voluntarily retired from service in October 1984.

Mahesh Buch is Chairman of the National Centre for Human Settlements and Environment at Bhopal, an applied research institution working in the field of settlements planning, afforestation, environmental protection, watershed management, consumer protection and skill development. He has won the UNEP award for implementation of desertification control programme in 1994-95, the Aga Khan Award for Architecture in 1998 and the Man of Vision Award instituted by the Hindustan Times in 2003. His main areas of concern are Town and Country Planning, Housing, Afforestation and Environmental Protection.