



# Investment over subsidies

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## **A reconfiguration of public policy is needed to replace agricultural subsidies with investment**

- A recent proposal published in the print media is presented also as a solution to the current agrarian impasse.
- It argues for the removal of all agricultural subsidies, which range from fertilizer subsidies to those on interest, water and power, and distributing the saving among most of the rural population.
- At its core the agrarian crisis is a case of agricultural activity not yielding enough returns for a section of the farming population.
- This group is facing a declining farm size due to partitioning across generations.
- As this population grows the process of fragmentation of the family farm will continue, with succeeding generations staring at a shrinking pie.
- There are two solutions to this problem.
- One is the obvious one of enabling some members of each household to shift out of farming.
- The other is to reconfigure public expenditure on agriculture to raise the yield of land.
- Actually, the latter would serve both objectives.
- A reconfiguration of public policy is needed to replace agricultural subsidies by capital formation or 'investment'.
- For three and a half decades now subsidies have progressively replaced public investment for agriculture.
- Having once been less than half that of investment it is now five times as large.
- The impact of public investment on both the yield of land and rural poverty, encompassing a cohort wider than farmers, is far greater than that of fertilizer, electricity, irrigation and interest rate subsidy.
- The agricultural subsidies that are now found wasteful were designed with a purpose.
- The plan was to place agricultural production on a sound footing.

- It envisioned raising the yield of land, which works to generate rising output without inflation and with reasonable profit.
- However, eliminating them merely to implement a universal basic income would be unwise.

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