



## SUBSIDIES AND THEIR IMPACT ON AGRICULTURAL PRACTICES

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### Introduction

A key component of government involvement in the agriculture industry, agricultural subsidies have a big impact on farming methods and economic dynamics. Governments can offer farmers financial or in-kind subsidies in order to accomplish a variety of goals, such as stabilising farmers' income or guaranteeing food security. Subsidies, as a tool of policy, are vital in determining the decisions taken by farmers and the general course of agricultural growth. However, subsidies do not have a one-way effect on agricultural practices; rather, there may be both positive and negative effects. Subsidies have been criticised for distorting market signals, contributing to environmental degradation, and escalating income inequality within the agricultural sector, even though they have been successful in boosting productivity, encouraging technology adoption, and supporting farmers through economic uncertainties. The article investigates the complex nature of agricultural subsidies, looking at their various forms and the wider effects they have on farming methods.

### What is a Subsidy?

A government serving for individuals, households, and enterprises that aims to stabilise the economy is known as a subsidy or incentive. It provides enterprises with the chance to remain afloat and/or competitive while ensuring that people and families have access to necessities. In addition to fostering long-term economic stability, subsidies support governments' ability to react to unanticipated shocks like the COVID-19 epidemic or economic shocks during recessions. There are many different types of subsidies, including direct government spending, subsidies for taxes, soft loans, price support, and government-provided goods and services.

Subsidies can refer to any kind of support, including implicit subsidies or help from non-governmental organisations, even though they are typically provided by the government. There are two types of subsidies: indirect (tax breaks, insurance, low-interest loans, accelerated depreciation, rent rebates) and direct (cash gifts, interest-free loans). They might also be wide or specific, lawful or

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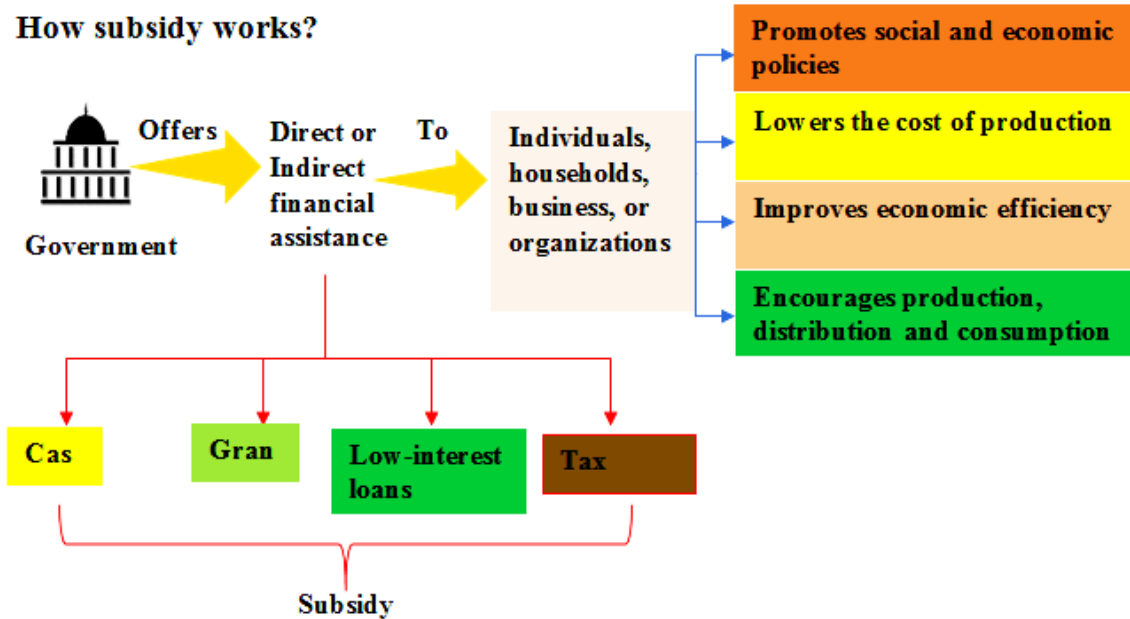
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unlawful, moral or immoral. Subsidies paid to producers or consumers are the most prevalent kind. Producers benefit from production subsidies, which can take the form of payments to elements of production, direct support, or market price support. Subsidies for consumers or consumption are frequently used to lower the cost of goods and services for consumers. For instance, in the US, buying petrol used to be less expensive than purchasing bottled water.

keeping the final cost to consumers unchanged.

## 2. Consumer/consumption subsidy

A subsidy that supports consumer behaviour is known as a consumption subsidy. These kinds of subsidies are most prevalent in developing nations, where the government pays for necessities like food, water, power, and education on the grounds that everyone should be able to afford these necessities, regardless of their level of poverty.



### Types of Subsidies:

#### 1. Production subsidy

By partially offsetting the costs or losses associated with production, a production subsidy incentivizes suppliers to boost the supply of a specific product. Production subsidies aim to increase a product's output in order to stimulate the market, all the while

#### 3. Export subsidy

A government support for exported goods intended to help the nation's balance of payments is known as an export subsidy. It is well known that export subsidies are misused.

#### 4. Import subsidy

A government subsidy for imported goods is known as an import subsidy. An import subsidy, which is less common than an

export subsidy, lowers the price of imported goods for consumers. The impacts of import subsidies vary depending on the subject matter.

## 5. Employment subsidy

Even in times of financial crisis, employment relationships are maintained by subsidised wages or employment. After a crisis, it is especially advantageous for businesses to bounce back swiftly from a temporary stoppage. Employees are protected from losing their jobs as well as other advantages related to their employment, like retirement pensions and yearly leave.

## 6. Tax subsidy

Governments can accomplish certain goals through tax subsidies, sometimes referred to as tax breaks or tax expenditures, without having to give out funds upfront. The government can encourage actions that boost the economy or society at large by providing tax advantages. Tax subsidies, though, can sometimes have unfavourable effects. Tax subsidies are less transparent than direct cash payments and can be harder to reverse, even if they can be useful in reaching some goals.

## 7. Transport subsidy

A transport subsidy is a kind of financial assistance given by the government or another organisation to lower the price of travel for people or companies. Transportation subsidies are primarily intended to support

certain social or economic objectives, increase accessibility, and lower the cost of transit.

## 8. Energy subsidy

Energy subsidies are policies that lower costs for suppliers and consumers alike or maintain prices for suppliers above or below market levels. Energy subsidies can take the form of direct financial payments to vendors, clients, or affiliated organisations, as well as indirect forms of assistance including price controls, trade restrictions, tax exemptions and refunds, and restrictions on market access.

## Impact of Subsidies on Agricultural Practices

Understanding the different forms of subsidies is essential for comprehending their diverse implications on agricultural practices.

### 1. Positive Impact of Subsidies on Agricultural Practices:

**a. Increased Productivity:** A major goal of subsidies is raising the productivity of agriculture. Subsidies can boost agricultural yields and total production by giving farmers financial support for inputs like fertilisers and premium seeds.

**b. Income Stabilization:** For farmers, subsidies can serve as a safety net, particularly in times of market turbulence or natural calamities. Programmes for income stability aid farmers in maintaining their financial

stability and avoiding sudden retirements from the field.

- c. Technology Adoption:** Subsidies often encourage the adoption of modern agricultural technologies by making them more affordable for farmers. This fosters innovation and the adoption of sustainable practices, leading to improved efficiency in resource use.

## 2. Negative Impact of Subsidies on Agricultural Practices:

**a. Distorted Market Incentives:**

Subsidies, according to their critics, can manipulate market incentives by causing artificial price inflation or deflation. This distortion may cause some crops to be overproduced, which would add to surpluses and unbalanced markets.

**b. Environmental Degradation:** Certain

subsidies can unintentionally encourage unsustainable farming methods, which would harm the environment. Subsidies that encourage overuse of pesticides or fertilisers, for instance, can contaminate the land and water.

- c. Income Inequality:** Smallholder farmers may not always get subsidies fairly, which contributes to income inequality in the agriculture industry. Subsidy programmes may favour large

farms with more access to resources disproportionately, thereby marginalising smaller farmers.

### Conclusion

In brief, subsidies significantly influence agricultural practices all around the world. Their detrimental implications on market incentives, environmental sustainability, and income disparity cannot be disregarded, even while they have favourable benefits on productivity, income stabilisation, and technology adoption. Achieving equilibrium between aiding farmers and guaranteeing sustainable farming methods is essential for optimising the advantages of subsidies while reducing their disadvantages. Authorities must carefully plan and oversee subsidy schemes in order to build a sustainable and just agriculture industry.