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Agriculture: Subsidise, but tax the rich farmers

Zero subsidy, no tax; or high subsidies, 10 per cent tax? Rich farmers must choose



So the farmers of Punjab are protesting again in their unique coercive way. Such protests are very old and happen everywhere. This is because the underlying economics problem is unsolvable. Thus, for the last 1,000 years, at the very minimum, societies across the world have grappled with this problem: how to detach earnings from productivity.

The periodic protests by farmers, since they were first recorded in Europe in the 13th century, are only one manifestation of this. There are several others that are not quite as dramatic.

Try as anyone will, the link between productivity and earnings in it refuses to go away. Clearly, therefore, it is a permanent one.

However, that doesn't mean that the link should not be weakened. All societies have tried to do this at least.

But as we can see from the protests in Europe and other places, even that hasn't worked. It's simply impossible to detach productivity from earnings without resorting to massive income transfers.

The US and the European Union have been doing it via massive subsidies. So has India. But how do you do that without hugely annoying the transferors?

But China hasn't made this sort of transfer. If anything, the transfers there are in the opposite direction! The farmers subsidise the non-farmers. That's because they can't protest.

Few people know it but until the reforms of 2007 and 2008, the total extraction by the state from farm incomes was a whopping 43 per cent. It has been brought down to 'only' 17 per cent or so now.

THE UNBREAKABLE LINK

But let's leave China aside and revert to the original and universal problem of the link between productivity and earnings. Having been a journalist for 44 years, I know from experience that journalism is a very low-productivity, low-income profession but, fortunately, enjoys no compensation via income transfers.

There's another low or, in fact, zero productivity activity. This is general administration by governments, that is, the *babudom*. It administers rules that it

makes. There's no value addition. But its earnings are high relative to its productivity. The government looks after its own.

Practically all other economic activities lie somewhere in-between. Farming lies at the lower end because it faces conditions of perfect competition where no individual farmer can change the price. That's why they try to do it by banding together.

Sometimes they get what they want but are still unable to break the low returns link with low productivity, which is the real problem. But just as with those who administer rules for the government, so with farming. The link

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can't be broken except with massive income transfers.

INCOME SUPPORT

Last week some of us were discussing this problem. One of the discussants, an American, said farm subsidies can be given provided also that farm incomes were taxed, as indeed they are for all government employees who administer rules. One Indian discussant said yes, fine, but in that case increase the subsidy to farmers. This would be the equivalent of dearness allowance, I suppose.

So then the issue became one of linking the subsidies with the tax rate. Specifically, how much of the subsidy can a government recoup via an income tax, as it does in the case of DA? Would this not amount to a sleight of hand?

The answer depends on how a society views citizens' duties and their entitlements. In India we tend to place a zero value on duties and an infinite value on entitlements. It's a general problem

and especially true of farmers. It's this that has to change.

The point is an old one: not everyone who claims — mind, claims — to be a farmer is either a farmer or so poor that he or she can't afford to pay 10 per cent of his or her income as tax if the overall income exceeds, say, ₹10-12 lakh a year. That sounds fair.

It would, therefore, be very useful if a survey was conducted to identify these high income earners in farming. We can then ask them to pay at least a small portion of the subsidy for their less fortunate farmer 'brothers'. That is, a cross subsidy between farmers rather than to farmers from non-farmers.

There is, of course, another way to break the dreadful productivity-earnings link in agriculture: abolish MSP altogether. Rich farmers can be asked to choose which method they prefer: zero subsidy and no income tax or high subsidies and 10 per cent income tax.