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Research Paper

Distribution of fertilizer subsidies and its impact on cost of cultivation of major crops in Punjab state

B.R. GARG, M.S. TOOR, MINI GOYAL AND SATVINDER SINGH

See end of the article for authors' affiliations

Correspondence to :
MINI GOYAL
Department of Economics and Sociology, Punjab Agricultural University, LUDHIANA (PUNJAB) INDIA
minig1200@yahoo.com

ABSTRACT

Subsidies on inputs provide a good incentive to use modern technology inputs. The non-product specific subsidies are input subsidies which are given for all the crops, *i.e.* for fertilizer, irrigation, electricity, seeds and credit while the second type of subsidy is that, which is given for specific crops in the form of minimum support price and is calculated with reference to international price for the commodity. The agricultural subsidies had increased productivity, production and income of the farmers but at the same time had generated inequalities in the distribution of income as the marginal and the small farmers having small farm holdings were being deprived the benefit of subsidies. The extensive use of fertilizer, canal water and electricity due to subsidy has led to environmental degradation. Keeping in view the above mentioned facts, the present study was undertaken to know the extent of fertilizer subsidies being availed, the distribution of these subsidies across farm size and crops and the impact of fertilizer subsidies on cost of production of the major crops raised in Punjab. Fertilizers were found to be the major input on which subsidy was availed by the farmers. The absolute amount of subsidy enjoyed per farm was many times higher on medium and the large farms as compared to the small size farms. The share of paddy crop in total subsidy on fertilizers was almost 35 per cent in comparison to 48 per cent for wheat crop. Agricultural subsidy on fertilizer is must for the survival of Punjab agriculture, particularly the small peasantry. While the withdrawal of fertilizer subsidy may endanger the survival of the marginal and the small farms, it is likely to affect adversely the profits of semi-medium, medium and the large farms. In addition, this will also result into the lower productivity and production of wheat and paddy in the state as the major portion of the total subsidy is being shared by these two crops in Punjab.

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INTRODUCTION

Agriculture is the backbone of Indian economy as it provided employment to 59 per cent of the working population in the agricultural sector in the form of either cultivations or agricultural labour (Registrar General of India, 2005). The share of agriculture in GDP had declined from 55 per cent in 1950-51 to 13.2 per cent in 2008-09 at 2004-05 prices (CSO, 2010). Still, Indian agriculture is a constant source of supply of raw materials to industry and is the main support for Indian transport system as well as the purchasing power of the people in the country.

In order to augment agricultural production, subsidies on inputs provide a good incentive to use modern technology inputs. There are two types of subsidies in Indian agriculture. Firstly, non-product specific subsidies which are given for all the crops, *i.e.* for fertilizer, irrigation, electricity, seeds and credit. The second type of subsidy is that, which is given for specific crops in the form of minimum support price and is calculated with reference to international price for the commodity. The first is input subsidies and second is output pricing or price support programme. Both these instruments have been used in India to promote agricultural productivity and holding the price line.

The economists in India and abroad have been contemplating since long on whether subsidies to the agricultural sector should continue or not. Moreover, if at all, subsidies have to be provided then which section of the society deserves it most. These scholars have attempted to analyse its pro and cons. The attempts were made to compare relative benefits of subsidies among rural vs. urban sector, small vs. large farmers, industry vs. agriculture and fertilizer vs. other farm input subsidies. The continuation of the subsidies for decentralized products and to support below poverty line consumers of the