

Perverse Subsidies

There are very few things ecologists and economists agree on. In fact, on most basic issues, they are in opposite corners of the ring. But there is one matter on which their views coincide totally: publicly funded subsidies. Both believe that very few subsidies today actually end up fulfilling the objectives for which they were introduced, much less the goals of sustainable development.

Subsidies are usually justified, in some cases with reason, to offset the imperfections of the market system. Markets are certainly the most efficient economic mechanism to create wealth in a society. But they are not much good at achieving equitable distribution of that wealth. The rich tend to get richer and the poor poorer.

Equally bad, today's market system neither has the controls nor the pricing framework needed to protect the environment or conserve our natural heritage. Nor the interests of future generations. In creating wealth, we tend to mine our resources – the trees, the waters and the soils – and treat the earnings as income.

To redress these imbalances, governments often resort to subsidising activities that are aimed at helping the poor or saving the environment. They also provide many hidden subsidies through policies, infrastructure development and other actions that have a positive, redistributive impact on different segments of society.

The trouble is that even the best intentioned efforts of governments to bring about equity and sustainable development have a tendency to get distorted – and even hijacked – resulting in outcomes that are often diametrically opposite to those that were intended in the first place. This is so in our country for many types of subsidies, ranging from grants for rural housing to provision of free power to farmers.

In this age of liberalisation, our economists are now re-emphasising the need to eliminate subsidies, but their arguments rely primarily on the imperatives of cutting down government expenditures and thus reducing the budgetary deficit. With the gigantic subventions currently going in to finance day-to-day consumption in the energy, industry, transportation and agriculture sectors – amounting to sums much greater than the nation's financial deficit -- they can find hardly anything left over for investing in longer-term development action. No wonder the Finance Minister has declared war on what he calls "non-merit" subsidies.

But in reality, things are much worse than even the economists imagine. Both globally and in India, counterproductive subsidies are not only eating heavily into the national coffers but they are ending up by creating more poverty, pollution and peripheralisation than there would be without them.

The 20 billion dollars of subsidy to the world's fishing fleets is probably the major factor driving large numbers of fish stocks to rapid extinction.

Throughout the Third World, the rich few waste large quantities of purified water which they get virtually free, while the large numbers of poor bear exorbitant costs for supplies that are inadequate in both quantity and quality. The additional costs they incur in physical debility and health care are probably even greater.

The single most important factor retarding investment in India's power sector is low (and, in many cases, zero) cost at which electricity is provided to its cities and rich farmers.

Not much research has been carried out in India to evaluate the true costs of subsidies. However, recent studies at the global level sponsored by the Earth Council and the International Institute for Sustainable Development give some idea of the extent to which, today, "public funds are undermining the Earth."

In subsidising unsustainable development, governments spend huge sums of money. Just four economic sectors (water, agriculture, energy and road transportation) alone get subsidies amounting to \$ 700 billion -- nearly four percent of Gross World Product. The negative impacts on society and the environment of this enormous input have not yet been calculated, but it is not difficult to imagine figures of the same magnitude as the subsidy itself. One only has to think of the air pollution caused by urban traffic congestion, the chemical contamination of soils, the water-borne diseases, the lack of electricity in villages and global climate change. And these are only the tip of the iceberg of unsustainability.

Subsidies are appropriate only for those activities that provide social and environmental benefits the cost of which cannot be borne by private expenditure. Primary education and universal health care probably fall in this category. So do actions to conserve and regenerate the environmental resource base. And research to develop sustainable livelihood options for the poor and the poorest. But not much else.

And, even in such areas as these, where financial interventions might be justifiable, great care has to be taken to design systems of delivery that do not get appropriated by the powerful for their own benefit.