

Govt looks to boost potato exports with transport subsidy

Team MP

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Kolkata: The state government is providing transport subsidy for the benefit of potato farmers, businessmen and cold storage owners, for exporting potatoes to other states. The state is giving a subsidy of Rs 50 per quintal for export of potatoes by road and Rs 100 per quintal for export in railways. The subsidy will continue till the end of December.

The state government will be spending around Rs 15 crore from the state exchequer, for the purpose of providing subsidy. "We will be keeping a hawk eye on the export of potatoes to other states, to prevent any misuse of the money for the subsidy. There have been instances when businessmen have not exported potatoes even after taking the government subsidy. There will be GPS monitoring on trucks for export through road," a senior official of the state Agricultural Marketing department said.

However, the state government wants to have more export by rail as the process not only saves time but also lessens the chance of irregularities in export. Potatoes from the state are mainly exported to the neighbouring states like Jharkhand, Assam and Odisha.

A meeting was recently held under the chairmanship of state Agricultural Marketing minister Tapan Dasgupta in presence of senior government officials, associations of businessmen dealing in potatoes and cold storage owners associations, where the decision of providing the transport subsidy was taken. It may be mentioned that the Mamata Banerjee government has already allowed storing of potatoes in cold storages till December 31, nearly free of cost. In November end, cold storages are closed for routine maintenance work for the next year. The state has an annual requirement of 65 lakh metric tonnes. This year, the state has a production of around 85 lakh metric tonnes, which is much lower than last year's figure of 110 lakh metric tonnes. An official in the state Agriculture department said that there is still three months left for the new crop to hit the market. "We have 11.5 lakh metric tonnes of potato in the cold storages. That is enough for three months. So if we can manage the supply effectively, people will not face any problem," he maintained. The businessmen have demanded that there should be restrictions on the import of potatoes from other states at this juncture, to ensure that the existing stock gets exhausted in a smooth manner. The state government, however, is yet to take a decision on this.

Commentary 1

This article is about Kolkata, a capital city of west Bengal state of India, subsidizing potato farmers, businessmen and cold storage owners, for exporting potatoes to other states.

Subsidy is a lump-sum amount of money given by the government to the producers to increase production of the good or services, encourage export and make certain goods or services affordable.

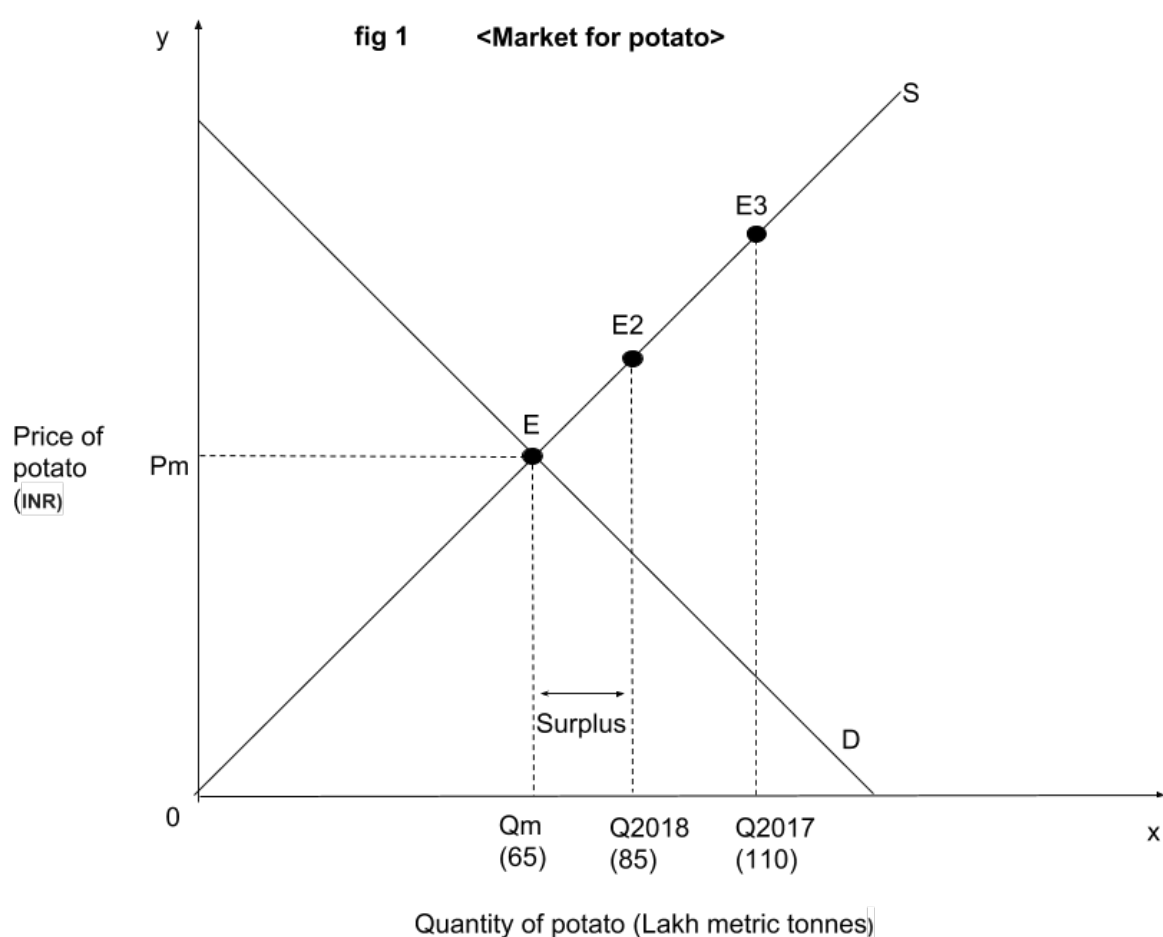


Figure 1 shows that West Bengal has overproduced potatoes(Q_{2018}) over the equilibrium quantity(Q_m). The surplus was stored in buffer stock and Kolkata has decided to promote potato exports to other states by granting subsidies.

Consumer(importer)'s surplus increases($a+b \rightarrow a+b+c+e+h$) hence, they are better off. Supplier(exporter)'s surplus increases($c+d \rightarrow c+d+b+f$) hence, they are better off too after the subsidy. However government spends “around INR 15 crore(1, 00, 00,000) from the state exchequer” as a subsidy which is represented by the area $b+c+e+h+g+i+f$. Society's surplus

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decreases($a+b+c+d \rightarrow a+b+c+d-g-i$) hence, they are worse off. Welfare loss, loss of a portion of social surplus that arises when marginal social benefits are not equal to marginal social costs($MSB \neq MSC$) due to market failure, is created($g+i$) as Kolkata subsidizes exports, causing over-allocation of resources and failing to achieve allocative efficiency(allocation of resources, that social surplus is maximized).

GPS businesses will be better off as "There will be GPS monitoring on trucks for export through road" the state Agricultural Marketing department said. Therefore there will be an increase in demand of GPS products which will increase profit of the firms.

Rail way and transport firms will be better off as "the state government wants to have more export by rail". Thus, more subsidies are provided when using rail ways(100INR). This result, increase in demand for use of rail ways, causing their profit to increase.

Cold storage owners are likely to be worse off because if potatoes are being exported the demand for storage will decrease. Decrease in demand of cold storages will cause their profits to decrease.

Potato exporters of the other states will be worse off as "there should be restrictions on the import of potatoes from other states" If this happens they won't be able to export any potatoes to West Bengal which will decrease their profit.

Central government could be better off as more use of rail ways and roads can lead to increase in tax revenue. Since, transport companies would have to pay for using rail ways or highways which are owned and operated by the Government of India through the Ministry of Railways.

Advantages of subsidizing potato exports vary. Firstly, reduction of cost on operating buffer stock. Since fewer potatoes will need to be stored. Secondly, possible increase in the market shares for the potato market. As more potato is exported to other states it could become familiar or get a reputation of good quality potato, which can lead to increase in market share of West Bengal potato in the potato market even subsidy is no longer provided.

Disadvantages exist on the other hand. Firstly, the money for the subsidy could have been used differently for example, subsidy to lower income families. The opportunity cost(the cost of next best alternative foregone) has occurred as Kolkata subsidizes potato export.

Secondly, it creates negative externalities, like pollution. Hence, it will lead to market failure because of divergence between MSC and MPC.

In the long run, with support of subsidy, West Bengal can specialize in producing potato and export it. Both importer and exporter can be better off as comparative advantage in their opportunity-cost exist. According to “David Ricardo” by specializing to industry which their relative opportunity costs are lower and then trading will increase the total production of two producers compared to the production before trading.

Government is advised to promote free-trading as it increases social surplus. On the other hand, cost benefit analysis should be done and calculate whether welfare loss caused by subsidizing export is smaller than surplus gained from free-trading.

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