

Cutting off subsidies for ultra-rich doesn't really help

Though the confusion over whether the R10 lakh annual income cap beyond which LPG subsidies will not be available persists—it is not clear if the cap applies to individual or family incomes—this is really missing the point. Even if you assume it applies to family incomes, a mere 8 million households have an annual income of over that according to the PRICE survey of FY15—that is under 3% of the population. First, since 6.7 million households have already given up their subsidy under the prime minister's #GiveItUp campaign, chances are a lot of them will be part of the 8 mn households; so the incremental savings will be minimal. Two, and more important, the 8 million needs to be contrasted with the 15 million new subscribers that have been added between April 1, 2015 and December 1, 2015—indeed, with over 100 million households in the country still without LPG connections, the government is going to have to keep increasing the number of connections. Right now, with oil prices so low, the subsidy is small, but as the number of subscribers rise and oil prices rise, the numbers could get frightening. That is when the government will rue not hiking LPG prices gradually in the manner the UPA did with diesel prices.

Assuming the R10 lakh cut-off applies to family income, that means the government is willing to subsidise 97% of households in the country. Even super-rich countries don't give out subsidies to the middle-classes and the rich. India is, of course, stuck in the case of the Food Security Act where Parliament has legislated that two-thirds of the country has to get 5 kg of wheat and rice at R2 and R3 per kg per month—that is, they are expected to pay a fraction of the market price. At least in the case of LPG and kerosene where Parliament has not tied the government's hands, we should be looking to restrict the subsidy to the poorest 30% of the country. If we don't, the costs of the subsidy will once again threaten the government's finances.