

The Sub-Optimality of the Electricity Subsidy on Tube Wells in Balochistan (Pakistan): An Analysis Based on Socio-Cultural and Policy Distortions

Authors : Rameesha Javaid

Abstract : Agriculture is the backbone of the economy of the province of Balochistan which is known as the 'fruit basket' of Pakistan. Its climate zones comprising highlands and plateaus, dependent on rain water, are more suited for the production of deciduous fruit. The vagaries of weather and more so the persistent droughts prompted the government to announce flat rates of electricity bills per month irrespective of the size of the farm, quantum or water used and the category of crop group. That has, no doubt, resulted in increased cropping intensity, more production and employment but has enormously burdened the official exchequer which picks up the residual bills in certain percentages amongst the federal and provincial governments and the local electricity company. This study tests the desirability of continuing the subsidy in the present mode. Optimization of social welfare of farmers has been the focus of the study with emphasis on the contribution of positive externalities and distortions caused in terms of negative externalities. By using the optimization technique with due allowance for distortions, it has been established that the subsidy calls for limiting policy distortions as they cause sub-optimal utilization of the tube well subsidy and improved policy programming. The sensitivity analysis with changed rankings of contributing variables towards social welfare does not significantly change the result. Therefore it leads to the net findings and policy recommendations of significantly reducing the subsidy size, correcting and curtailing policy distortions and targeting the subsidy grant more towards small farmers to generate more welfare by saving a sizeable amount from the subsidy for investment in the wellbeing of the farmers in rural Balochistan.

Keywords : distortion, policy distortion, socio-cultural distortion, social welfare, subsidy

Conference Title : ICHSS 2016 : International Conference on Human and Social Sciences

Conference Location : Boston, United States

Conference Dates : April 25-26, 2016