

New Perspectives on Land Reforms in India

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Abstract

Public policy making in democracies basically involves balancing pressures of self-interest groups. This is much more so in the case of land reforms. Though the Indian land reforms programme was guided by justifiable social and economic goals, after a lapse of time these policies seem to have created some practical economic problems. Though abolition of land intermediaries like *zamindari*, *inamdari* and all forms of tenancy did help the actual tillers, putting ceilings on the size of landholdings did not help to increase productivity of Indian agriculture. Operation of land ceilings and the laws of inheritance have rendered landholdings in the country uneconomical. Restrictions on corporate tenancy have prevented the entry of private investment into agro-processing activities. Therefore, it is necessary to relax the existing land ceiling and tenancy laws to enable Indian agriculture to benefit from globalisation.

Introduction

Public policy making is an essential function of all forms of government. But this function acquires added significance in democracy because of the participation of the people in generating ideas, influencing public opinion and involving peoples' representatives in policy making through the medium of political institutions. In democracy voters have the power to confer or deny their support to a political representative/ party on public policy issues. Besides, citizens organise themselves into self-interest promoting groups based on occupation, income, language, region, political ideology, etc. These self-interest groups try to achieve their goals by seeking group identity. They form associations for achieving their goals, which their members cannot achieve individually, by reducing transaction costs, increasing the resources at their disposal including their voting strength. (Olson 1965). As a result, formulation of any public policy becomes a complex process in democracy. Further, change of any existing policy imposes varying amounts of costs and benefits on different sections of a society. Hence, it becomes very difficult for any government to change a well-entrenched policy.

Economists have used theoretical paradigms to analyse and understand the process of public policy making and also to assess their impact on different sections of society. Three analytical approaches have been widely used to analyse

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the process of formulating agricultural development policies and also to assess the impact of various policies on the farmers and other sections of society. (See Swinnen and Zee). These approaches are: (1) neoclassical welfare economics approach (Pigou 1932) (also called market failure approach); (2) Marxian approach, (Larrain 1983), and (3) political economy approach. (Downs 1957; Buchanan and Tullock 1962, and Olson 1965). It should be mentioned at the outset that each of these approaches has multiple models, each trying to explain one or the other specific part of the process of public policy making. For our purpose we will treat them as representing a general analytical framework rather than looking in detail at models under each approach.

The first approach starts with the assumption that free market forces enable the economic agents to allocate a country's resources efficiently. However, free market fails to function properly when there are externalities, public goods and decreasing cost industries, in addition to highly skewed income distribution. Therefore, following Pigou, the market failure approach expects the government to intervene and formulate appropriate public policies to reduce the losses that might be suffered by society. This is considered necessary to maximise the welfare of society as a whole. This has also come to be known as 'social concerns' approach. In the context of farmers, market failure resulting from unforeseen risk (of pest attack in the absence of insurance) and uncertainty (of rainfall, which cannot be insured), forces the affected farmers to suffer loss of income, which will reduce the welfare of society as a whole through the multiplier effect. The government, which is expected to be motivated by the objective of maximising the welfare of all sections of society, is supposed to intervene and compensate the farmers through transfer payments. Such transfer payments may be raised from a general tax or a tax confined to a particular group that benefits from the failure of the market.

However, this approach assumes that the institution of government, particularly in democracy, is benevolent and omniscient and is guided by the noble objective of promoting the welfare of all people. This assumption has come to be questioned on the ground that it fails to predict the behaviour of governments in power with a reasonable degree of certainty. Further, the institution of government, like market, is not only imperfect but also prone to failure as much as the markets. Thus, corresponding to the notion of market failures, we have government failure, which may be the reflection of the failure of the political party in power or the failure of the polity and civil society as well. As a result, competition in political markets generates social waste rather than surplus. More specifically, government policies are more often imperfect and incomplete either in their design or implementation or both. Therefore, this analytical framework has come to be branded as normative, (with low predictive strength), and hence is incapable of explaining the true reality of the process of public policy making and its implementation in democratic societies.

The Marxian approach to public policy making is based on the Marxian dichotomy of the social groups into capitalists and working class and on the assumption that the capitalists manipulate the social groups in democracy in such a way as to have a government that protects and promotes their own interests at the cost of the working class. In order to buy peace, the government is allowed to bribe the working class with minimum wage policy, right to form trade unions, etc., to postpone the political revolution. This analytical framework when applied to agricultural policy formulation explains the division of the agrarian economy into landowning and landless classes. The landowning class manipulates its own group as well as other classes either to form government or support those who are sympathetic to the landowning class to control the reins of power. Once that is done, the landowning class dictates the policies to the government to protect the interests of the landowning class and exploits labourers to siphon off the surplus from land. According to the Marxian approach, any democracy with such class distinction becomes an unstable one and economic policies are formulated to protect the major economic interests of the landowning and other ruling classes and postpone the day of final conflict either through oppression of the working class or by throwing crumbs to them in the form of populist programmes.

While this approach has an element of truth in that it identifies the landowning and the landless classes and the nature of public policy that will emerge from the interaction between these two classes, it fails to provide a satisfactory explanation for all variety of public policies formulated in democracies relating to agriculture such as land reforms, and protection versus free trade in agricultural commodities. What is more, the Marxian approach assumes that there is always an irreconcilable conflict between different classes of society and rules out political alliances to serve their mutual interests. More than anything, the Marxian approach is only an ideological framework and not an analytical framework based on any prevailing economic theory.

The third and most important approach is the political economy approach, also known as public choice approach, which applies the analytical framework of neoclassical economics to political behaviour. It has a number of models within itself. This approach rejects the assumption of an all-knowing benevolent government and questions the assumption of the noble objective of the government namely, promoting social welfare by correcting market failures. The political economy approach tries to seek a scientific understanding of the functioning of democratic governments and their agencies and tries to identify the sources of government failure and the politico-economic mechanism of policy design and implementation. The political economy approach applies economic theory to understand as well as predict political and bureaucratic behaviour. It is based on the assumption that all agents including the voters, citizens, self-interest groups, political leaders, political parties, and a host of occupation groups, are guided by rational behaviour of

maximising their self-interest either individually or by forming groups. The voters want to minimise their tax burden and maximise the benefits from government expenditure; the government in power wants to continue in power; opposition parties want to come to power, by forming alliances, if inevitable; the bureaucracy wants to maximise its power and influence in policy design and implementation, and so on.

There are at least three major models within the political economy approach. The first, expounded by Mayer (1984), assumes that all policies are made by the government by using majority voting without lobbies and other influences. Another model, expounded by Becker (1983 and 1985), highlights the role of pressure groups and lobbying in public policy making, and yet another model, (Olson 1965), tries to explain the role of collective action. All these models ultimately go to explain the real political and bureaucratic behaviour. The majority voting model explains the deterministic way in which voters (legislators) decide on the basis of all-or-nothing specification, in the decision-making process. Proportional voting model explains that voting either by the voter or by the legislator is only a political formality without exerting any influence on specific public policy making. The pressure group model really clinches the issue of how lobby groups can wield influence on public policy making. The collective action model is only a variant of the pressure group model. Ultimately, the political economy approach emphasises the political and bureaucratic processes of policy making and the inputs of pressure groups that determine the specific design and implementation of public policy.

The foregoing brief account of the main theoretical approaches to public policy formulation and implementation in democracies provides a background to the study of the political economy of agriculture development policy formulation and implementation in India. These analytical approaches will help us understand the socio-political forces that operated and influenced formulation of specific agriculture development policies at different points of time. We would like to mention here that all the three approaches are relevant for our study of the impact of agricultural policies on farmers in India as the underlying logic of one or the other approach was used by different self-interest groups for formulating and implementing specific agricultural policies in India. This is also consistent with the integrated approach to understanding public policy formulation, which tries to combine both the normative (social concerns) approach and positive (self-interest) approach. (Baldwin 1989, Mueller 1989). In what follows we have presented a review of major agricultural policies that impacted the farming community during the past fifty years.

Old Policy of Land Reforms

Land is the basic factor of agricultural production. Therefore, who owns land and who cultivates it are as important as how it is cultivated in promoting

agricultural production. Agriculture has been a way of life for the vast majority of the rural masses in India. But its economic importance was recognised by the successive governments only in times of food shortages. This was true under colonial rule as well as after independence. Consequently, the main objective of agricultural development has continued to be to achieve self-sufficiency in foodgrains and to meet the domestic demand for agricultural raw materials. No doubt, there were some attempts to reform the agrarian institutional structure. But these were mainly guided by the objective of demolishing the feudal land relations that had taken deep roots in rural society and incidentally were supposed to improve the efficiency of agriculture.

Land reforms have been considered as important tools of socio-economic change in India. They constituted an important component of the strategy of agrarian reform that was designed to transform and modernise Indian agriculture. Political parties, political leaders, economists and administrators have all played their roles in justifying as well as in evolving appropriate legislation for implementing land reforms in post-independent India. Though land reform measures were vehemently advocated by the Marxists, they received both moral and intellectual support even from those espousing capitalist ideology. This was a curious case of convergence of ideologies. Marxists advocated land reforms to eliminate remnants of feudalism whose roots were traced to absentee land ownership. But the capitalist ideologists justified land reforms on the ground that ownership of land by the cultivator provides an intangible incentive to 'convert land into gold' which would improve productivity of agriculture.

Land reform policy has economic, social and political dimensions. The economic dimension of land reforms involved the ownership of land by a small group that did not actually cultivate but exploited the actual tillers who were the tenants and agricultural labourers. On the other hand, because of inadequacy of returns and absence of surplus with the tenants, they could not undertake improvements on land. The landlords having no personal interest in the lands they owned, also did not take interest in investing on land improvement. As a result, land productivity went on declining. This was the dynamics of underdeveloped agriculture.

As far as the sociological dimension is concerned, traditionally, the upper castes owned land and the lower castes were the tenants/agricultural labourers. Even today we do not find the lower castes owning land in any significant measure and the upper castes working as tenants/agricultural labourers in India. This social dimension perpetuated the social inequalities. It is here that the economic inequality created under the economic dimension got reinforced by the social inequality in agrarian relations.

Coming to the political dimension, it may be noted that, historically, the

owners of land have been supporters of the governments in power. This was much more evident during British rule in India. Because of the numerical minority position of the former *zamindars* and the later landlords and their economic stranglehold over the tenants, they depended on the government for their protection, (thus promoting their own self-interest). At the same time, the government depended upon them for its own survival so long as tenants, though large in number, did not organise themselves against the exploitative political and social systems. This has been the experience of almost all countries that faced agrarian problems.

The British rule in India introduced permanent land revenue system which, over time, became widely known as *zamindari* system. Under this system of land settlement, those who agreed to pay a fixed sum of land revenue regularly to the British government were made the owners of demarcated lands. They, in turn, collected whatever land revenue they wanted from the actual tillers who were their tenants. There was also a practice of sub-letting, which involved middle-level landlords in between the *zamindars* and the tenants. The *zamindari* system created one of the worst exploitative land relations in India and strengthened the feudal socio-economic system. *Zamindars* became staunch supporters of British rule in India. This annoyed the Congress party, which was mobilising the Indian masses against British rule. So the Congress party declared in one of its annual sessions that after independence it would support abolition of the *zamindari* system. In pursuance of this resolution, the Congress Agrarian Reforms Committee was appointed under the chairmanship of J.C. Kumarappa, which recommended a wide range of reforms in 1949. After independence the Congress government, under the leadership of Jawaharlal Nehru, abolished the *zamindari* system. But since the Constitution had guaranteed the right to property under Article 19, the *zamindars* approached the Supreme Court, which ruled that the policy of abolition of the *zamindari* system violated the right to property and was hence *ultra vires* of the Constitution. The Congress government amended the Constitution to limit the scope of the right to property. Thus, a major institutional /structural was achieved by abolishing the *zamindari* system of land relations. This policy helped the farming community in general and tenants of the *zamindars* in particular. Nobody shed tears over the demise of the *zamindari* system in India.

However, the *zamindars*' lobby was still powerful at the state level to frustrate the main objective of this land reform measure. Chandra, *et al.* (1999) have narrated the methods used by the *zamindars* to evade the *zamindari* abolition law. They have made the following observation:

'There were, however, certain important weaknesses in the manner in which some of the clauses relating to zamindari abolition were implemented in various parts of the country. For example, in UP, the zamindars were permitted to retain lands that were declared to be under their "personal cultivation." What

constituted “personal cultivation” was very loosely defined (making) it possible for not only those who tilled the soil, but also those who supervised the land personally or did so through a relative, or provided capital and credit to the land, to call themselves a cultivator. Moreover, in states like UP, Bihar and Madras, to begin with, (i.e., till land ceiling laws were introduced) there was no limit on the size of the lands that could be declared to be under the “personal cultivation” of the zamindar.....

The result, in actual practice, however, was that even zamindars who were absentee landowners could now end up retaining large tracts of land. Further, in many areas, the zamindars, in order to declare under “personal cultivation” as large a proportion of their lands as possible, often resorted to large-scale eviction of tenants, mainly the less secure small tenants.’ (pp.376–77).

Therefore, reform of tenancy became inevitable. Accordingly, the next land reform measure contemplated was the abolition of tenancy, which continued to operate under the earlier *zamindar* landlords, and also under *ryotwari* and *inamdari* systems of land relations. To begin with, attempts were made to provide security of tenure and fixing fair rent payable by the tenants to the landowners. These measures dominated the land reform measures during the 1950s and 1960s. These tenancy reform measures were motivated by protecting the interests of a large number of tenants who constituted the vote bank for the Congress party. But during the 1970s, the very institution of tenancy was abolished. Though this policy was effectively implemented in Assam, Gujarat, Kerala, Tamil Nadu and West Bengal, in other states the self-interest lobby of landlords forced the state governments to resort to delay tactics. (Thimmaiah and Aziz 1984). This is evident from the number of tenants who benefited from the policy of abolition of tenancy in different states shown in Table 1. As a result, informal tenancy has continued in many states even to this day. This is because the landlord lobby was powerful in other states to prevent implementation or at least postponement of abolition of tenancy. As a result, in 1990–91, about 1.28 million hectares of land was leased in by the cultivating farm families. Such prevalence of informal tenancy might have benefited the cultivating families in states like Punjab and Haryana. But many landowners who owned some land but who were employed in non-agricultural occupations, started leaving their lands uncultivated for fear of losing their lands to the tenants who may be landless labourers or small and marginal farmers. This has led to substantial area of cultivable land being left idle, particularly in those states where feudal land relations were deep rooted. For instance, according to All India Agricultural Census of 1990–91, about 10 million hectares of land was left uncultivated in the country, of which 1.35 million hectares was in Bihar, 1.82 million hectares was in Madhya Pradesh, 1.1 million hectares was in Maharashtra, and 2.81 million hectares was in Rajasthan. In other words, though the policy of tenancy

abolition helped the tenants and actual cultivators, it has also created a problem of vast tracts of land being left uncultivated. This is a loss to the agricultural sector in the country. Recognizing this negative impact, the Government of India is contemplating supporting the state governments' proposed policy of allowing for leasing in and leasing out of small parcels of land owned by those who cannot cultivate their land to the adjoining actual cultivators.

Table 1: Number of Tenants Conferred Ownership Rights, and Area Accrued to Them

State/Union Territory	No. of Tenants Benefited (Lakhs)	Area Accrued (Lakh Acres)
Andhra Pradesh	1.07	5.95
Assam	29.08	31.75
Bihar		
Gujarat	12.76	25.92
Haryana		
Himachal Pradesh	4.01	NR
Jammu & Kashmir	6.1	26.32
Karnataka	6.05	14.5
Kerala	28.42	
Madhya Pradesh		42.9
Maharashtra	14.92	
Manipur		
Orissa	NR	NR
Punjab	0.18	NR
Rajasthan	0.18	NR
Tamil Nadu	4.98	6.95
Tripura	0.14	0.39
Uttar Pradesh	NR	NR
West Bengal	14.6	NR
D & N Haveli	0.26	0.64

Note: NR = Not reported by the state governments/Union Territories.

Source: Government of India (2000-01).

Following the policy of abolition of tenancy, there was another policy that was inspired by the philosophy of achieving a socialist pattern of society. This policy was enunciated in the Second Five-Year Plan document in the following way:

'Essentially, this means that the basic criterion for determining the lines of advance must not be private profit but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned

that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment — and in fact all significant socio-economic relationships — must be made by agencies informed by social purpose'. (1956, p.22).

Socialist ideology became a powerful force during the 1970s in the formulation of agricultural development policy. The socialist ideology silenced even non-ideological dispassionate economists from advancing more appropriate policies to enable Indian agriculture to achieve higher productivity and gainful employment opportunities for the rural masses. The socialist ideology was behind putting the ceiling on agricultural holdings. The Second Five Year Plan (1956) gave prominence to it and justified the policy in the following arguments:

'...the objectives of land reform are twofold: firstly to remove such impediments upon agricultural production as arise from the character of the agrarian structure; and, secondly, to create conditions for evolving as speedily as may be possible, an agrarian economy with high levels of efficiency and productivity.' (p.178)

The policy of putting a ceiling on the size of landholdings was, no doubt, consistent with the policy of putting a ceiling on private investment in industrial activity under the Industrial Policy Resolution of 1956. During the 1960s and early 1970s, the Planning Commission suggested a national programme of land reforms in which prescribing ceilings on the size of landholdings was an important component. The central government provided grants-in-aid to the states to enable them to prepare proper land records to facilitate implementation of the policy of land ceilings and distribution of surplus land. Though land and agriculture-related policy issues were state subjects under the Constitution, the central government, in consultation with the Planning Commission, suggested that the ceiling for irrigated land with two crops should be 4.05 – 7.28 hectares, for irrigated land with one crop 10.93 hectares; and for dry lands 21.85 hectares per family. Most of the state governments have, by and large, followed these national standard guidelines, as may be observed from Table 2 below.

However, the application of land ceiling legislation has not been uniform in all the states. For instance, in Andhra Pradesh, Bihar, Gujarat, Haryana, Jammu & Kashmir, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Rajasthan and Tamil Nadu, the ceiling laws were made applicable to both ownership and tenanted holdings, (i.e., operational holdings), whereas in Assam, Maharashtra, Orissa, Punjab, Uttar Pradesh and West Bengal they were applicable to only ownership holdings. Further, tenancy has been abolished only in Jammu & Kashmir, Karnataka, Kerala, Maharashtra and West Bengal. Furthermore, in geographically small states like Assam and Kerala, the ceiling limits for irrigated land with two crops were fixed at

higher limits of 7 and 6 hectares per family respectively, whereas in bigger states like Andhra Pradesh, Karnataka and Tamil Nadu the ceiling limits were fixed at lower limits of 4 and 5 hectares per family respectively. (Mearns 1999, pp.46–48).

Table 2: Ceiling Limits Introduced by the State Governments on Landholdings (hectares per family)

State	Irrigated land with two crops	Irrigated land with one crop	Dryland
Andhra Pradesh	4.05–7.28	6.07–10.93	14.16–21.85
Assam	6.74	6.74	6.74
Bihar	6.07–7.28	10.12	12.40–18.21
Gujarat	4.05–7.28	6.07–10.93	8.09–21.85
Haryana	7.25	10.90	21.80
Himachal Pradesh	4.05	6.07	12.14–21.85
Jammu & Kashmir	3.60–5.06	—	5.95–9.20
Karnataka	4.05–8.10	10.12–12.14	21.86
Kerala	4.86–6.07	4.86–6.07	4.86–6.07
Madhya Pradesh	7.28	10.93	21.85
Maharashtra	7.28	10.93–14.57	21.85
Manipur	5.00	5.00	6.00
Orissa	4.05	6.07	12.14–18.21
Punjab	7.00	11.00	20.50
Rajasthan	7.28	10.93	21.85–70.82
Tamil Nadu	4.86	12.14	24.28
Sikkim	5.06	4.00	20.23
Tripura	4.00	4.00	12.00
Uttar Pradesh	7.30	10.95	18.25
West Bengal	5.00	—	7.00
Suggested national guidelines in 1972	4.05–7.28	10.93	21.85

There is no record of the basis on which the ceiling limits were suggested by the central government; different ceiling limits were adopted by different states. All that we know is that Farm Management Survey data were used to show an inverse association between the size of farm, (operational holdings), and productivity. (Rao 1966, Rao 1972, Berry and Cline 1979). These and other findings were widely used by economists to rationalise and by political parties to justify putting ceilings on the size of landholdings. It may be mentioned in this context that though the central government and the Planning Commission gave general guidelines to the state governments on the ceiling limits, the Planning Commission very clearly advised

the state governments to exempt certain categories of landholdings from ceiling laws. The Second Five-Year Plan document (1956) elaborated this advice in the following words:

'While determining the general ceiling on agricultural holdings in a state, it will also be necessary to consider the categories of farms to which the ceiling need not apply. Three main factors could be taken into account in deciding upon exemptions from the purview of the ceiling, namely, (1) integrated nature of operations, especially where industrial and agricultural work are undertaken as a composite enterprise, (2) specialised character of operations, and (3) from the aspect of agricultural production the need to ensure that efficiently managed farms which fulfil certain conditions are not broken up.

If these considerations are kept in view, there would appear to be an advantage in exempting the following categories of farms from the operation of ceilings which may be proposed: (1) tea, coffee and rubber plantations; (2) orchards where they constitute reasonably compact areas; (3) specialised farms engaged in cattle breeding, dairying, wool raising, etc; (4) sugarcane farms operated by sugar factories; and (5) efficiently managed farms which consist of compact blocks, on which heavy investment or permanent structural improvements have been made and whose break-up is likely to lead to a fall in production.

In the nature of things, these are general suggestions which should be adapted to the needs and conditions of each state. For instance, in those parts of the country where culturable wastelands are available and a sufficient number of cultivators are not always easy to obtain, a ceiling may not be necessary at this stage or may be set at a higher level than that envisaged here. Similarly, there may be areas in which the level of the ceiling may be lower because of the high density of population'. (pp.196–97).

These elaborate guidelines of the Planning Commission were not heeded by all the state governments. No doubt, plantations were exempted from land ceiling laws. But other types of farms and farm enterprises were not even considered by the state governments for higher ceiling limits let alone for exemption. The obsessive objective of promoting social justice through implementing land ceilings, (which became a mirage after some years), blinded the political leaders and bureaucrats, who failed to evaluate the long-term impact of putting low levels of ceilings on land holdings and abolition of all forms of tenancy. There were also some political developments in the country that facilitated implementation of such a restrictive land ceiling policy. During the 1970s, the caste composition of the state-level political leadership of the Congress party started changing. The new leadership which hailed from non-dominant backward castes realised that seeking continued support from dominant middle-caste landowners was becoming counterproductive, and hence they decided to cut them down to size by putting

ceilings on landholdings. There was some resistance to such a policy from the dominant castes who owned large holdings. But imposition of emergency in 1975 eliminated even that resistance to the implementation of land ceiling laws. (See Thimmaiah and Aziz 1984).

Land reforms, particularly abolition of tenancy, no doubt gave some land to the actual tillers in some states. Even the implementation of ceiling laws is reported to have benefited a large number of farmers as shown in Table 3 below. But they did not result in significant redistribution of surplus land among the landless. This is evident from the high Gini coefficient of ownership holdings computed from the National Sample Survey data on landholdings.

**Table 3: Implementation of Land Ceilings in the States
(Area in Acres as on September 1988)**

State/UT	Declared Surplus	Taken Possession	Distributed to Individual Beneficiaries	Total Number of Beneficiaries	Average Extent of Land Distributed per Beneficiary
Andhra Pradesh	791461	639030	577551	529116	1.09
Assam	612380	575837	505202	445648	1.13
Bihar	415447	387463	305858	377730	0.81
Gujarat	230911	158646	134963	31906	4.23
Haryana	93239	88244	87309	27435	3.18
Himachal Pradesh	316556	304895	4374	6365	0.69
Jammu & Kashmir	455575	450000	450000	450000	1.00
Karnataka	267758	155118	118441	32047	3.70
Kerala	138439	95987	64922	148423	0.44
Madhya Pradesh	294838	262406	186158	72558	2.57
Maharashtra	607194	566228	458974	80160	5.73
Manipur	1830	1685	1685	1258	1.34
Orissa	178016	166814	155401	136686	1.14
Punjab	222594	105181	103557	28303	3.66
Rajasthan	610374	566228	458974	80160	5.73
Tamil Nadu	196966	182762	171066	183369	0.93
Tripura	1995	1994	1599	1424	1.12
Uttar Pradesh	570398	538300	402018	360389	1.12
West Bengal	1354689	1265937	1032201	2476910	0.42
D & N Haveli	9406	9305	6851	3353	2.04
Delhi	1132	394	394	654	0.60
Pondicherry	2326	1177	1023	1359	0.75
Total	7373524	6510874	5305229	5536565	0.96

Source: Government of India (2000-01).

It was 0.731 in 1960–61, which declined to 0.709 in 1970–71 just before implementation of land ceilings, but increased to 0.712 in 1981–82 and stood at 0.710 in 1991–92. This would imply that the data presented in Table 5 above relating to the surplus lands released from big landowners after implementing ceilings and their distribution among the landless class are not reliable. This is not a hunch. Other scholars like Damle, (1989), have reported that big landholders used all possible means to evade the ceiling laws, which is consistent with the above values of inequality coefficients of ownership landholdings. They prove the hypothesis that landowners, (a powerful lobby in the Indian political scene), succeeded in protecting their own self-interest to a substantial extent. It may, however, be noted in this context that Besley and Burgess, (1998), have found that:

‘... there is robust evidence of a link between poverty reduction and two kinds of land reform legislation — tenancy reform and abolition of intermediaries. Another important finding is that land reform can benefit the landless by raising agricultural wages. Though the effects on poverty are likely to have been greater had large-scale redistribution of land been achieved, our results are nonetheless interesting as they suggest that partial, second-best reforms which mainly affect production relations in agriculture, can play a significant role in reducing rural poverty.’ (p.20).

We have already mentioned above that abolition of *zamindari* and other forms of intermediaries did help the former tenants of those areas. That policy also made a beginning in dismantling the feudal socio-political system that had taken deep roots in *zamindari* areas. But the point we are making is that many states abolished all forms of tenancy and put unreasonable limits on the size of landholdings. Such wholesale tenancy abolition, coupled with the operation of the laws of inheritance, reduced the average size of landholding. The area as well as the number of small and marginal farms increased phenomenally during the last three decades. Though efforts were made to consolidate landholdings that were subdivided and fragmented, operation of the provisions of land reforms and laws of inheritance prevented economically viable holdings from emerging as a normal feature of Indian agriculture. It may be observed from Table 4 that the average size of holding declined from 2.28 in 1970–71, before the ceilings on landholdings were imposed, to 1.69 ha. in 1990–91, after two decades of operation of land ceilings, and the proportion of small and marginal holdings increased from 70 per cent to 78.2 per cent. Correspondingly, the proportion of large holdings declined to as low as 1.5 per cent. This trend is true of both ownership and operational holdings. Along with this decline in the size of holdings, productivity of agriculture has also declined, which is not a coincidence but one of the contributory factors.

**Table 4: Number of Operational Holdings and Area Operated in India:
1970–71 and 1990–91**

Category & Size	No. of Operational Holdings (million)		Area Operated (million hectares)		Average Size of Holding (hectares)	
	1970–71	1990–91	1970–71	1990–91	1970–71	1990–91
Marginal (below 1ha.)	36.20 (51.0)	63.39 (59.4)	14.56 (9.0)	24.89 (15.0)	0.40	0.39
Small (>1–2 ha.)	13.43 (18.9)	20.09 (18.8)	19.28 (11.9)	28.83 (17.4)	1.44	1.43
Semi-medium (>2–4 ha.)	10.68 (15.0)	13.92 (13.1)	30.0 (18.5)	38.38 (23.2)	2.81	2.77
Medium (>4–10 ha.)	7.93 (11.2)	7.58 (7.1)	48.24 (29.7)	44.75 (27.0)	6.08	5.10
Large (above 10 ha.)	2.77 (3.9)	1.65 (1.5)	50.10 (30.0)	28.66 (17.4)	18.10	17.21
All Categories	70.0 (100.0)	106.64 (100.0)	162.1 (100.0)	165.51 (100.0)	2.28	1.69

Note: Figures in brackets indicate percentages to all categories of holdings.

Source: Government of India (1970–71 and 1990–91).

What is more, as may be observed from Table 5, on an average a marginal farmer would be having three parcels, each measuring less than one-fifth of a hectare. Though the number of parcels is higher even in the case of medium and large farmers, the size of the parcel is moderately higher. Those who own small pieces of land cannot lease them out because of the operation of tenancy law. They cannot cultivate either as some of them are employed in non-agricultural occupations and because these holdings are economically unviable for a main occupation. As a result, large tracts of land have remained uncultivated.

In the wake of structural economic reforms initiated in 1991, the investment limit for the industrial sector under Monopolies and Restrictive Trade Practices (MRTP) Act has been removed. This would mean that the ownership of industrial units involving unlimited amount of capital has come to be promoted disregarding its impact on the resultant inequalities of income and wealth. But economists are reluctant to recommend removal of the ceilings on landholdings with a view to encouraging flow of private investment into agriculture. What is relevant here is that there was consistency in land reform measures and industrial licensing and MRTP policies under the old regime of promoting a socialistic pattern of society. But now industrial licensing has been abandoned; MRTP Act has been quietly

Table 5: Sub-division and Fragmentation by Size of Holdings in India (1976–77)

Particulars	Marginal (<1 ha.)	Small (>1–2 ha.)	Semi-medium (>–4 ha.)	Medium (>4–10 ha.)	Large (>10> ha.)	All Sizes
Average number of parcels	2.68	3.50	4.26	4.80	5.35	3.45
Average area of parcel per holding (ha.)	0.16	0.46	0.64	1.24	2.78	0.60

Source: Government of India, *All India Report on Input Survey, 1976–77, Vol. I*

buried in the wake of Competition Law, but there is no change in the policy of ceilings on landholdings. This is a blatantly discriminatory policy against agriculture. This discriminatory policy has prevented improvement in capital formation in agriculture even after the introduction of economic reforms. This is evident from Table 6 below.

Table 6: Capital Formation in Indian Agriculture Before and After Land Reforms (Per cent)

Year	Public Sector Gross Capital Formation in Agriculture as % of Aggregate Gross Capital Formation		Private Sector Gross Capital Formation in Agriculture as % of Aggregate Gross Capital Formation	
	At Current Prices	At 1980–81 Prices	At Current Prices	At 1980–81 Prices
1960–61	28.13	33.15	71.87	66.85
1965–66	31.25	25.35	68.75	74.65
1970–71	27.10	27.36	72.90	72.64
1975–76	28.46	29.27	71.54	70.73
1980–81	38.87	38.87	61.13	61.13
1985–86	37.07	35.14	62.93	64.86
1990–91	28.23	25.91	71.77	74.09
1991–92	24.72	21.78	75.28	78.22
1992–93	23.05	20.07	76.95	79.93
1993–94	26.30	22.82	73.70	77.18
1994–95	24.56	23.03	75.44	76.97
1995–96	22.35	18.05	77.65	81.95
1996–97	NA	16.17	NA	83.8

Source: Ramesh Chand (2001, p.173).

After the 1960s both private and public capital formation were impressive though public sector capital formation was fluctuating. Though both started declining during the eighties, the decline of public sector capital formation was much sharper. During the decade of economic reforms, declining capital expenditure of both the central and state governments, consequent on the need to reduce fiscal deficit, has obviously not improved public sector capital formation in agriculture. Private sector capital formation also did not improve as the agriculture sector has continued to be unattractive as a result of the restrictive policies of the government of India and the state governments. This is evident from the decelerating rate of growth of private sector capital formation in agriculture presented in Table 7 below. It may be observed that the green revolution improved the growth rate of capital formation in agriculture during the 1960s but decelerated sharply after the impact of the green revolution tapered off.

Table 7: Annual Compound Growth Rates of Capital Formation in Indian Agriculture

Period	Gross Capital Formation in Agriculture %	Gross Fixed Capital Formation in Agriculture %	GDP From Agriculture %	Public Sector Gross Capital Formation in Agriculture %	Private Sector Gross Capital Formation in Agriculture %
1950–1990	3.07	3.10	2.69	2.31	3.65
1950–1960	2.57	2.38	2.99	—	—
1960–1970	4.68	4.69	2.02	2.69	5.62
1970–1980	4.83	5.10	1.53	7.76	3.39
1980–1990	-0.56	-0.52	3.51	-4.20	1.09

Source: Mallick (1993, p.668).

Of all the restrictive policies, tenancy law and ceilings on landholdings are the most important constraints that have kept private sector investment from flowing into agriculture. Economists would argue that land is limited in supply and hence has to be rationed whereas capital is not that scarce and, therefore, may be encouraged to be invested without limit. If this were so, where is the need for laying out the red carpet to attract foreign direct investment? In other words, there is no rationale in the argument for continuing the existing ceiling limits on landholdings in India in the wake of liberalisation and globalisation.

It is now realised that abolition of all forms of tenancy has led to waste of scarce land by the owners who cannot cultivate. The lands inherited by those living in urban areas, employed in the non-agricultural sector, cannot be leased by them. Neither are they in a position to cultivate. Though they own the asset, they

do not derive any income from it. From the point of view of society, so much of land, which is an important asset, is going waste. This is the direct consequence of the combined effect of abolition of tenancy and operation of laws of inheritance. Even before the emergence of these economic consequences, the earlier assumption that the size of holding and productivity were inversely related came to be questioned by Ashok Rudra and Ashok Sen (1980), who observed that:

'The general conclusion to emerge is the diversity of Indian agriculture, regarding the existence of the negative relation between size and productivity: "the negative relation may hold in certain parts of the country at certain times." It also appears that even when the inverse relationship holds, it may hold in certain ranges but not in others, and in many cases it is particularly noticeable "only for small size classes." While counting the different regions, one would find that the inverse relation is more frequently confirmed than rejected, it would be a mistake to take it to be an empirical generalisation for Indian agriculture as a whole' (p.693).

Graham Dyer, (1991), after re-examining the empirical basis of inverse relation between farm size and productivity in some developing countries, including India, has come to the conclusion that:

'In the static context, we have seen that the inverse relation is not the product of superior efficiency on the part of small farms nor is it due to better quality land on the small farms, but arises from the desperate struggle of poor peasants for survival on below-subsistence plots of land in a relatively backward agriculture, and the matrix of exploitative relations within which they operate. Redistribution of land on the basis of the inverse relation argument, therefore, far from alleviating poverty and creating employment opportunities, will only deepen and perpetuate extreme levels of exploitation and poverty. Furthermore, in the dynamic context of the development of the forces of production, in the shape of Green Revolution technology, the inverse relation is likely to disappear. Inverse relationship argument no longer has any rationale in the context of changing production conditions.' (p.87).

Further, after reviewing the entire debate on the issue, Dyer, (1997), has concluded that:

'Thus, in the dynamic context of the development of both the relations and forces of production, in the shape of new technology, the inverse relationship breaks down and disappears. Rich peasants are able to capture the gains from the new technology, and with increased accumulation develop into capitalist farmers. These findings would seem to lay to rest the possibility of employing the inverse relationship evidence in favour of redistributive land reform'. (p.128).

While ideologically oriented economists and policy makers may not like Indian agriculture to lose its importance as peasant agriculture, the combined operation of domestic liberalisation and Agreement on Agriculture under World

Trade Organisation regime will no doubt change not only the form but also the content of Indian agriculture in the years to come. For the first time, Indian farmers will be exposed to the new competitive environment made possible by integrating Indian agriculture into global agriculture through WTO. This new trade environment may create rewarding opportunities as well as hidden threats. Therefore, the government of India as well as the state governments will have to formulate appropriate agricultural development policies with a view to strengthening Indian agriculture. Invariably, such a policy package should include necessary changes in the old land reform policy.

New Perspectives on Land Reforms

The main objective of government policy on agricultural development under the liberalisation programme should be to reassert that agricultural growth is important both from the point of view of moving the agricultural sector to a higher growth path and also from the point of view of raising the income levels of those dependent on agriculture. It may appear paradoxical to emphasise the need for promoting agricultural development with such a unidimensional objective of achieving higher growth with a view to raising the income levels of those dependent on it when its relative contribution to GDP is declining very fast. Even in terms of value added, the contribution of agriculture to GDP is much lower mainly because of low prices of agricultural commodities and low productivity. But still there is a socio-economic justification for giving prominence to the growth of agriculture because nearly 60 per cent of India's workforce is still dependent on agriculture and allied activities as the main occupation. Since economic liberalisation and the new industrial policy, including liberalisation of foreign trade, may not create adequate employment opportunities to absorb the growing workforce, it would be appropriate to allow agriculture to develop into a commercial enterprise which will encourage flow of private investment and latest technology, which, in turn, will result in increased employment opportunities and income in rural areas.

In the wake of economic liberalisation, there has been some opposition to encourage and promote commercialisation of Indian agriculture. This opposition is mainly based on the fear that commercialisation of agriculture may result in a radical shift of cropping pattern from cereals production to commercial crops, which may lead to a shortage of food grains. Besides, it is argued that commercialisation of agriculture will entail entry of corporate investment into agriculture, which will result in dispossession of land by traditional agricultural classes, particularly small and marginal farmers. These fears are no doubt well-founded and any attempt to promote commercialisation of Indian agriculture will have to ensure that it does not result in a fall in food grains production and loss of ownership of land by the cultivating classes whether they are small, marginal or even big farmers. At present,

there is no bar on private corporate investment flowing into agro-based processing and exporting activities. But these activities have not attracted much private investment mainly because they do not have guaranteed supply of quality raw materials or primary agricultural products. Some multinational companies have started agro-processing activities in certain regions by encouraging contract farming of the required primary agricultural products. Even so, contract farming is considered risky without appropriate changes in land reform legislation of the states. It would, therefore, be necessary to make some changes in the land reforms legislation to encourage flow of corporate investment into agro-processing and export activities.

Now our perceptions about improving the living conditions of the ordinary masses have changed drastically. It is no longer believed desirable to give small pieces of land to the poor and expect them to rise above the poverty line. It is also realised that it is better to allow people to earn some supplementary income from the small pieces of land they own rather than force them to leave it idle for fear of losing it to the tenants. It would be necessary to amend the relevant provisions of land reforms legislation of the states to legalise hiring in and hiring out of small pieces of land for cultivation. It is also necessary to allow corporate organisations to lease in (but not own) land for getting assured supply of raw materials for undertaking agro-processing activities by having their own horticulture, floriculture and aquaculture farms. All these relaxations fall within the exemption guidelines highlighted by the Planning Commission as far back as 1956. Thus it is necessary to amend tenancy laws to encourage leasing of land for productive use. Land ceiling limits that are presently operating should be enhanced, (if not abolished), to appropriate sizes for cultivating horticulture and floriculture products. Without such changes in tenancy and land ceiling laws, it is not possible for Indian agriculture to exploit the opportunities that will be created under the WTO regime.

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