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Rapporteur's Report on Changing Agrarian Relationships in Rural Areas

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Agrarian relations in rural India have undergone substantial changes, most ostensibly, because of land reforms, beginning as far back as the fifties, and under the continuing demographic pressures and technological changes. The impact of land reforms, technological and demographic changes on different aspects of agrarian relations like land distribution structure and magnitude and types of tenancy has remained a subject of intense debate and discussions. There is a broad consensus on the following conclusions at the macro level: (i) the concentration of owned land and the incidence of landlessness have not changed much; (ii) the concentration of operated land has increased; (iii) the proportions of households owning but not operating land and those neither owning nor operating land have remained nearly unchanged; (iv) the programme of land distribution to scheduled castes and tribes has made positive impact in terms of significant decline in the incidence of landlessness among these social groups; (v) the incidence of tenancy, both in terms of households leasing-in and the amount of land leased-in, has declined over the period; (vi) the terms of tenancy have also changed; the importance of share tenancy has declined both in terms of the holdings involved and the area leased-in; (vii) the households of all size classes lease-in and lease-out land. The lease market largely functions on the principle of demand and supply balance, official ban/restrictions on leasing-in and leasing-out notwithstanding (Chadha *et al.*, 2004).

Rural India, in recent times, is in throes of agrarian distress. Three sets of factors have primarily contributed to the sorry state of agrarian affairs. First, huge proliferation of small and marginal holdings, increasing shift of area from food crops to non-food crops and change in the input structure in terms of increasing use of fertilisers, insecticides, pesticides and mechanical power leading to an escalation of input cost and increasing dependence of farmers on the market. Second, the opening up of the domestic economy since the early nineties coupled with liberalisation of trade policies in the aftermath of WTO have further exposed the farmers to the vagaries of price fluctuations, both in the domestic and international markets. Third, deceleration in the yields of practically all crops, and in a majority of the regions, subdued prices, especially of the commercial crops, and serious drought during the

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last few years have further worsened the situation (Vyas, 2004; Government of India, 2005). The net result has been that a preponderant majority of the farmers get lower returns and face higher uncertainty leading to, *inter alia*, mounting incidence of indebtedness. These developments have profound implications for different aspects of agrarian relations and should manifest, among other things, in: (i) acceleration in distress induced land transfers/alienation; (ii) increase in the incidence of landlessness, especially in the proportion of households owning but not operating land; (iii) increase in the incidence of tenancy, especially reverse tenancy; (iv) increase in the concentration of operational holdings and; (v) increase in the incidence of interlocking of factor markets, in particular land-credit and land-credit-market interlocking. Insofar as terms of tenancy are concerned, while increase in the area under non-food crops has positive implications for increase in leased-in area under fixed rent tenancy, escalation in the cost of production coupled with uncertainty in weather and market prices implies increase in share tenancy with inputs cost sharing. It was also expected that restrictive tenancy legislations shall prompt large number of landowners who are engaged in non-farm activities to keep their land fallow. To what extent the above mentioned changes are actually taking place in different regions of the country with varying levels of agricultural development is a question that needs to be resolved empirically through in-depth micro studies. Against this background, the decision to include changing agrarian relationships in rural areas as a subject of discussion at the Conference is timely and welcome. In all twenty-two papers have been received out of which sixteen have been accepted for discussion in the Conference. While two papers are recommended to be published in full length, the remaining fourteen are recommended to be published in summary form. Guided by the major thrusts of the papers, the following broad heads are adopted for reviewing the papers and facilitating focussed discussion: Dynamics of Land Transfers, Land Distribution Structure, Tenancy Relations and Issues for Discussion. The papers on tenancy have been further reviewed under four sub-heads, namely, nature and magnitude of tenancy, terms of tenancy, tenancy and productive/allocative efficiency and determinants of tenancy. Some papers, especially those on tenancy relations, have looked into two or three major inter-connected issues.

I

DYNAMICS OF LAND TRANSFERS

Four papers have been included in this section. Two papers have studied the dynamics of land transfers. And two others have respectively examined the factors determining the value of different grades of land and the conditions that hasten the process of land alienation among scheduled tribe households. The paper by E.R. Patil *et al.*, discusses the dynamics of land transfers during the last fifty years between 1950-51 and 2000-01 in a *ryotwari* village in Akola district of Maharashtra. The authors discover that there had been a four-fold increase in the number of land

holders (*Khatedars*), primarily due to sub-division of land among natural heirs and breaking up of joint families. The most significant increase occurred in the proportion of landholders of marginal category; their share in the total landholders over the period increased from 15 per cent to 31 per cent. The distribution of land became less skewed; it was evident from the shifting of Lorenz curve towards the line of equality and significant decrease in the number of large land holders and the amount of land owned by them. More than four-fifths of the total land got transferred through non-market forces like inheritance, partitions, etc. A small proportion of the land (2.26 per cent) also got transferred due to implementation of land tenancy and ceiling legislations. All categories of households participated in the land sale market, though 90 per cent of the sale was reported by those who owned less than two hectares. Further, while nearly half of the households sold land to meet urgent consumption needs, two-fifths of them did so to raise funds for investment in other enterprises. Around 45 per cent of the buyers belonged to lower farm size categories and around 70 per cent of the buyers purchased land for self cultivation. R.B. Singh and R.N. Yadav reported that households of all size categories, including landless households, participated in the land market as buyers in Kanpur district of Uttar Pradesh. Regarding purpose of buying land, the landless households, who were mostly from urban areas, purchased land for constructing houses and establishing industrial units whereas the marginal, small and medium category households purchased mostly for augmenting cultivated land and constructing houses. J.S. Amarnath assesses the factors determining value of poor, average and good quality land using hedonic model in north-eastern zone of Tamil Nadu. He found that the factors like household income, distance from industry, land quality index and value productivity affected value of all grades of land positively, though their statistical significance differed from one grade to other. C.S. Murty shows how the poor economic conditions of scheduled tribe households in four north-coastal districts of Andhra Pradesh impinge on the forces and relations of production and create conditions that hasten land alienation among them. The factors like ownership of infertile and poor quality land yield low returns and leaving little surplus to invest on land improvement coupled with unremunerative non-farm employment avenues like collection of non timber forest produce (NTFP) keep tribal households in a vicious cycle of poverty. The endemic poverty obliges these households to adopt different survival strategies like borrowing from traders and moneylenders at usurious rates of interest. These two sources account for two-fifths of the total outstanding loan. The lenders engage their tribal borrowers in unequal exchange relationships which increasingly culminate in their land dispossession, to begin with, usufructuary mortgage and, subsequently, through dubious but permanent transfers of ownership rights.

II

LAND DISTRIBUTION STRUCTURE

Four papers have been included in this section. Three papers have looked into the temporal changes in the proportion of different categories of holdings and area operated accounted for by them using data emanating from agricultural census. The fourth paper has highlighted the importance of small farm sector in Indian agriculture and explores the role of contract farming in promoting the process of crop diversification among small and marginal households. The papers by R.R. Biradar and D. Rajasekhar and A. Suresh and D.C. Gupta document the temporal changes in the land distribution structure in terms of changes in the proportion of different categories of holdings and area operated by them in Karnataka and Rajasthan, respectively. The papers reveal that the continuous proliferation of small and marginal holdings and resultant shrinkage in their land base obliged many of these households to seek livelihood in other farm related and non-farm activities. In this context, Biradar and Rajasekhar report that between 1981 and 1991 an increase in the proportion of male workers employed in agricultural wage employment and rural non-farm activities was accompanied by a decrease in the proportion of those employed in crop cultivation. However, increase in the proportion of female workers employed in crop cultivation and agricultural wage employment was associated with decline of varying degree in rural non-farm and allied agricultural activities. Among non-farm activities, while increase in the proportion of male workers was higher in trade and commerce, services and non-household manufacturing industries, non-household manufacturing industries followed by services, trade and commerce were important sources of employment for female workers. The paper by A. Suresh and D.C. Gupta also brings out high inequality in the distribution of operational holdings among different social groups; for example, while the share of scheduled caste and scheduled tribe holdings in total holdings was around 32 per cent, the area operated by them was 14 per cent. These groups, however, did try to make up deficiency of land by keeping large number of livestock to sustain their livelihoods. It is evident from the fact that in comparison to their share in total operated area, these groups accounted for nearly one-fourth of all bovines and small ruminants. Even among these groups, the distribution of livestock was much less skewed compared to land. K.D. Sharma *et al.*, also bring out huge proliferation of marginal and small holdings in Himachal Pradesh between 1980-81 and 1990-91. The proportion of these holdings during the period increased from 77 per cent to 84 per cent whereas the area operated accounted for by them increased from 35 per cent to 45 per cent. Consistent with the findings of a number of studies, the authors show that these holdings used higher amount of inputs like fertilisers, farm yard manure and irrigation and practiced intensive cultivation compared to their medium and large counterparts.

Sukhpal Singh highlights the importance of small farm sector in Indian agriculture in terms of its share in the operational holdings, operated land, production of different crops, livestock, and so on and the problems encountered by small and marginal holdings in the era of liberalisation and globalisation. Citing latest data, Singh shows that the small farm sector in Punjab is over-capitalised which leads to higher cost of cultivation. The contract farming, which is also an alternative to corporate farming, with adequate safeguards is suggested as a viable solution to promote diversification towards high value crops on marginal and small holdings and overcome constraints like access to capital, technology and marketing. A number of studies, reviewed by him, show that notwithstanding some problems like discrimination against small farmers, undue quality cuts, delayed deliveries and delayed payments, contract production yielded higher returns compared to returns from other crops. To overcome above mentioned problems and making contract farming beneficial to small farmers, he suggests policy measures like institutionalisation of regulatory mechanism and monitoring of contracts by farmers' organisations and NGOs. The enactment of Model Act of State Agricultural Produce Marketing (Development and Regulation), Act 2003 by the central government which, among other things, provides for the promotion and regulation of contract farming was a step in the right direction. Besides, the formation of local level institutions by small farmers in different parts of the country to overcome their scale and other infirmities offer a silver lining in an otherwise gloomy scenario.

III

TENANCY RELATIONS

(i) Nature and Magnitude of Tenancy

The efficient functioning of land lease market, especially in today's context, has several advantages. For example (a) it allows flexibility in adjusting the land area used with low transaction costs; (b) require only a limited capital outlay thereby leaving some liquidity available for productive investments rather than locking it up all in land; (c) facilitates easy reallocation of land toward more efficient users than the current owners, especially if current landowners are old, are non-cultivating heirs, are urban beneficiaries of restitution, and so on; (d) provide stepping stone toward land ownership by the landless; and (e) help overcome through share crop tenancy market failures in labour, insurance, credit and supervision thereby potentially helping secure competitiveness of participants (Denninger, 2003, p. 85). Though there are studies to show that households of all categories participate in the lease market both as lessees and lessors, the popular notion is that it is dominated by small and marginal farmers as lessees and medium and large households as lessors. Likewise, since the tenancy estimates thrown up by secondary data sources like NSS and agricultural census are underestimates, the true extent of tenancy can be gauged

only by micro level studies. Nine papers have looked into these aspects of the functioning of lease market. The conclusions are, however, mixed. Two papers, one by R.D. Khodaskar for a village in Pune district of Maharashtra and other by Maya Kant Awasthi for Bundelkhand region of Uttar Pradesh, find traditional pattern of tenancy where most of the lessees belonged to lower farm size category and lessors to higher farm size category. The traditional pattern of tenancy relations has also been reported by A.K. Gauraha for two canal irrigated villages of Bilha block in Bilaspur district of Chhattisgarh. However, R.B. Singh and R.N. Yadav report that while the lease market was dominated by small and marginal farmers as lessees and the medium and large farmers as lessors in the backward agricultural region, reverse pattern prevailed in an agriculturally developed region. R. Rajendran discovers the prevalence of reverse tenancy in Thirvisanallur village in Thanjavur district of Tamil Nadu where a large number of small and marginal farmers had leased-out their land to medium and large farmers to cope up with the growing water scarcity. The practice of leasing-out land by the households of lower size category had become more pronounced in recent years. On the other hand, medium and large farmers had increasingly started leasing-in land to utilise their ground water resources more optimally.

At the state level, Sushila Kaul, using data brought out by agricultural census, finds decrease in the incidence of tenancy in terms of increase in the proportion of owned and self operated holdings and decrease in the proportion of wholly leased-in holdings in most of the states. The lease market, however, continued to be dominated by marginal holdings which accounted for more than three-fourths of the total leased-in holdings in Assam, Tamil Nadu and Uttar Pradesh and more than ninety-five per cent in Kerala. Among different states, the incidence of tenancy was lower in Andhra Pradesh, Gujarat and Kerala. The caste composition of lessees and lessors in Rajasthan was assessed by D.C. Pant *et al.* Their study shows that while the practice of leasing-in land was more or less equally pronounced among households belonging to different social groups except scheduled tribe, a preponderant majority of the lessors and most of the leased-out land came from households of higher castes. Broadly, similar patterns were discernible in most of the agro-climatic zones of the state. Khodaskar found that three-fifths of lessees belonged to upper castes whereas one-third came from scheduled caste households. The estimates of magnitude of tenancy in terms of proportion of operated area leased-in were available only in four papers. Two papers, one by Rajendran and other by Gauraha, respectively reported 12.65 per cent and 14.35 per cent of the total operated area leased-in. Likewise, R.D. Khodaskar's paper shows that while the proportion of leased-in land was as high as 43.10 per cent of total land under sugarcane, it was 28.25 per cent in case of *rabi* crops. Yet another paper by R.K. Khatkar *et al.*, reveals no neat pattern in the extent of tenancy in irrigated and unirrigated villages of Sirsa and Bhiwani districts of Haryana. For example, while the proportions of leased-in area were 17.67 per cent and 10.68 per cent respectively in irrigated and unirrigated villages in Sirsa district,

the respective proportions were 5.22 and 7.30 in Bhiwani district. All papers reported short term oral tenancy contracts, mostly for one year. The most notable exception was a study by R.N. Barman and P.K. Das which shows that nearly two-thirds of all tenancy contracts did actually extend up to two to three years in six villages in Nalbari district of Assam.

(ii) Terms of Tenancy

The magnitude of tenancy in terms of households participating in the lease market as lessees and lessors and the amount of land leased-in and leased-out does not capture all nuances of tenancy. Even in a narrow technical sense, the proportion of area leased-in under different terms of tenancy has substantially different implications both for allocation of resources and well being of tenants. It is, therefore, essential to study on what terms and conditions the households of different size classes lease-in and lease-out land. The neo-classical economists postulated that households are likely to choose tenancy contracts according to their risk bearing ability. The economically better off and risk takers opt for fixed rent tenancy whereas economically impoverished, vulnerable and risk averse households choose share tenancy (Hallangan, 1978; Ray, 1998). The findings emanating from the papers that have looked into the terms of tenancy are disparate. The predominance of share tenancy among households of all size classes has been observed by R.N. Barman and P.K. Das and A.K. Guaraha. In comparison, R.B. Singh and R.N. Yadav and Maya Kant Awasthi discover that households of lower size category mostly leased-in on share crop tenancy with inputs cost sharing compared to those belonging to higher farm size category who leased-in on fixed rent tenancy. Furthermore, R.D. Khodaskar finds that while fixed rent tenancy was more common in leasing land for cultivation of perennial crops like sugarcane, share tenancy with inputs cost sharing was dominant for cereal crops. At the state level, Sushila Kaul reports that fixed rent tenancy was more important in Andhra Pradesh, Kerala and Rajasthan whereas share rent tenancy was dominant in Bihar, Orissa and West Bengal.

(iii) Tenancy and Productive/Allocative Efficiency

The effect of tenancy on agricultural productivity has remained a persistent theme of discussion since the days of Adam Smith. The moot point among classical economists was the relative productive/allocative efficiency of different land tenure systems such as share tenancy and fixed rent tenancy. The debate was carried forward by Alfred Marshall (1920) whose tax equivalent approach of share tenancy is well known. In recent times, theoretical debate has branched into two schools: while one school supports Marshallian inefficiency proposition, the other has sought to demonstrate that resource allocation must be efficient regardless of types of land tenure (Cheung, 1969; Quibria and Rashid, 1984; Bliss and Stern, 1982; Otsuka and Hayami, 1988). Insofar as empirical evidence is concerned, Otsuka *et al.* (1992) in an

exhaustive survey of empirical literature find no strong evidence to support the hypothesis that yields under share tenancy are lower than under owner farming or fixed rent leasehold tenancy. In the present context, the effect of tenancy contracts on productivity levels was assessed by three papers. Barman and Das find that tenants leasing-in under output sharing ratios of 40:60 and 25:75 used higher amount of inputs on owned plots compared to the amount of inputs used on leased-in plots. Therefore, the returns from owned plots were higher compared to those on leased-in plots. However, the difference in inputs used and net returns realised between owned plots and plots leased-in on 50:50 output sharing ratio and also between owned plots and those leased-in on fixed rent tenancy was not statistically significant. In comparison, Maya Kant Awasthi finds no significant difference in the yield levels of wheat, black gram, peas, lentil and mustard between land under owner cultivation and land cultivated under different land lease arrangements. However, the total factor productivity levels, that take in to account the amount of inputs used, were higher on owned cultivated land in comparison to land cultivated under each of the three land lease contracts, namely, cash rent paid in advance, cash rent paid at the time of harvest and share tenancy. The use of chemical fertilisers and seed was found to be the major source of productivity differences. The extent of interlocking of factor markets and its effect on productivity levels was assessed by Singh and Yadav. The authors find that the incidence of interlocking of land-labour markets was more common in irrigated villages compared to unirrigated ones. Further, though there was no significant difference in yield levels and inputs used between tenants involved in interlocking and those free of interlocking, the economic status of tenants involved in interlocking was lower compared to their brethren free of interlocking.

(iv) Determinants of Tenancy

In empirical literature, factors like indivisible and non-tradable inputs, nature of crops grown, area under irrigation, etc have been reported as important determinants of magnitude of tenancy (Bliss and Stern, 1982; Bardhan, 1976). To what extent these and other factors impinge on different aspects of tenancy relations is an empirical question. Most of the paper writers on tenancy relations have attempted to examine the effect of different factors on the proportion of leased-in area. Though the findings emanating from these papers broadly support the hypothesis that households of different size categories participate in the lease market to utilise their indivisible and non-tradable factors of production like family labour, bullock labour, machinery, etc more optimally, a variety of other factors like absenteeism of land owners, inferior quality of land, land not suitably located, etc were also reported to be important in prompting landowners to lease-out land. Across states, Sushila Kaul finds that gross domestic product originating in agriculture, size of small and marginal holdings, proportion of poor and proportion of rural population were important factors affecting the proportion of leased-in land.

IV

ISSUES FOR DISCUSSION

The review of the papers in the preceding sections throws up the following issues for discussion in the Conference.

1. What are the reasons for sluggish functioning of land market in rural areas? How can the functioning of land market be activated to ensure the transfer of land to those who need it most? What sort of institutional intervention is required to activate land market and check the transfer of land from agricultural to non-agricultural uses?
2. What is the extent of land alienation among scheduled castes and tribes? Has the process of land alienation among these social groups got accelerated in recent times as a result growing agrarian distress manifested, among other things, in mounting incidence of indebtedness? What possible measures should be undertaken to check the process of land alienation among these castes and tribes?
3. What are the possible options to check the proliferation of small and marginal holdings? What is the possibility of undertaking legislative measures to check the growth of such holdings? What could be other possible solutions to overcome their scale and other infirmities in the changed economic dispensations and also in view of the fact that co-operative agriculture has been of limited success in general?
4. In view of the evidence from a large number of studies from different regions of the country that households of all size classes participate in the lease market both as lessees and lessors on the basis of demand and supply, what is the relevance of existing tenancy legislations? In today's context, are these protecting or harming the interests of the lessees? Are the restrictive tenancy legislations hampering growth of rural non-farm enterprises? What necessary changes are required in tenancy legislations to activate the land lease market and at the same time safeguarding the interests of both lessees and lessors?
5. What is the extent of reverse tenancy? What is the role of push and pull factors in prompting households of lower farm size categories to lease-out land? In this context, what is the role of factors like changes in rural non-farm employment, increase in the real wages, increasing cost of production and falling returns, growing mechanisation, increasing shift of area under food crops to non food crops, and so on? Are such households economically better off after leasing-out their land?
6. In what respects the nature of share tenancy has changed over time? Does it continue to be exploitative as is commonly presumed? Is share tenancy with input costs sharing is preferred to fixed rent tenancy by the lower category households in view of the fact that they often do not have enough resources to pay cash rent in advance and are also not in a position to bear the risk of crop failure.

7. What explains the existence of interlocking of factor markets? Is the nature of interlocking of factor markets different in agriculturally developed regions compared to agriculturally backward regions? Are these contracts a source of exploitation and surplus appropriation as argued by the Marxists or one of the means to overcome the market failures and imperfections as argued by neo-classical economists?

8. In the contemporary circumstances, what types of agrarian reforms are required to be undertaken to promote both agricultural growth and equity? What is the scope for initiating market-led or negotiated land reforms? To what extent the liberalisation of lease market promote these kinds of reforms?

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