



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Vol XVII
No. 4

ISSN 0019-5014

OCTOBER-
DECEMBER
1962

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

FINANCIAL IMPLICATIONS OF LAND REFORMS • ZAMINDARI ABOLITION*

M. L. Dantwala

During the last decade a series of legislation has been enacted in India for the reform of the land tenure system. This inevitably meant extensive transfers of legal rights and titles to land ownership. As compensation was to be paid for the acquisition of all rights, there have been corresponding financial transfers. It should therefore be interesting to find out how this vast operation involving curtailment, accretion and transfer of rights was financed.

The legislation, popularly known as Abolition of Zamindari, is selected for the purpose of this study. Mainly, three parties were involved in the process of transfer of rights under this legislation : the Zamindar (or any Intermediary), the Statutory Tenant and the State Government. The financial implications of this legislation have been examined with reference to all the three parties concerned.

One of the earliest land reform measures adopted in India after Independence was the abolition of Zamindari, Jagirdari, Malguzari and similar Intermediary tenures known under a dozen different names; and the acquisition of the rights of intermediaries by the State. The Intermediary tenure existed on a significant scale in Uttar Pradesh, Bihar, Madras, West Bengal, Madhya Pradesh, Hyderabad and Saurashtra.¹ It covered an area of about 172 million acres of land constituting nearly 45 per cent of the total area. As a result of this legislation, the entire estate of the intermediaries (subject to certain specified exemptions) was vested in the Government. The estates taken over include, besides the tenant-cultivated land, all waste lands, *porambokes*, communal lands, forests, mines, minerals, wells, tanks, ponds, water channels and fisheries. Under the West Bengal legislation, the exempted properties include tea gardens, orchards, fisheries, mills and factories. The divested intermediaries were also permitted to retain lands under their personal cultivation, variously known as *sir*, *khudkasht*, *gharkhed* or *khas* land. Except in Assam, Kashmir, Himachal Pradesh, Bengal and Saurashtra, no limit has been placed on the extent of the area of such land which may be retained by the zamindars. The limit is 133 acres in Assam, 28 acres in Bengal and upto 3 economic holdings in Saurashtra. In Uttar Pradesh and Bihar where no such limit is imposed, the bigger zamindars have been able to retain large areas of land. In all such lands, the zamindars acquire full occupancy rights and would be liable to pay land revenue to the Government. Compensation is to be paid for all other rights acquired by the State. The law in Jammu and Kashmir is the only exception to this general principle. Because of the inadequacy of land records and intricacies of computation, it is difficult to make precise estimates of the amount of compensation payable to the zamindars in each State.

* The article forms part of the Paper on Fiscal and Financial Aspects of Land Reforms in India prepared by the author for the Bureau of Social Affairs, United Nations. He is grateful for the permission to reproduce a portion of the original paper.

1. Prior to Reorganisation of States.

but an idea of the order of magnitude of the amount involved will be provided by the official estimates given in the Table below.

TABLE I—MAGNITUDE OF COMPENSATION

(Rs. crores)

State	Compensation Payable				Number of years in which compensation is payable
	Compen- sation	Rehabili- tation grant	Interest	Total	
	1	2	3	4	5
Andhra Pradesh	19.53	—	—	19.53	10@
Assam	3.75	—	1.25	5.00	20
Bihar	158.00	—	80.98	238.98	40
Bombay	23.70	—	5.00	28.70	20
Madhya Pradesh	16.58	3.54	1.98	22.10	7
Madras	7.16	—	—	7.16	5
Mysore	3.90	—	—	3.90	10
Orissa	6.16	—	1.65	7.81	30
Rajasthan	25.19	27.65	10.28	63.12	15
Uttar Pradesh	93.43	70.00	34.93	198.36	40
West Bengal	56.00	—	14.00	70.00	20
Total	413.40	101.19	150.07	664.66	

@ In Telengana the period of compensation is 20 years.

The nature and content of rights and obligations of different categories of intermediaries varied a great deal from State to State. For example, the *Jagirs* were like sub-States or States within the State. The *Jagirdar*, while he did not claim proprietary right on the land, usually retained the entire rent which he collected from the tenant and had no obligation to pay any portion of it to the Government. Many of them had considerable judicial, police and administrative powers within their *jagirs*. Some of them even maintained a token armed force. In view of this, it is but natural that the compensation per acre payable under different Acts varied according to what was acquired by the State and what was permitted to be retained by the zamindars. The variations are also partly due to the differences in the method of determining the amount of compensation.

TABLE II—COMPENSATION PER ACRE

State	Acreage (in million)	Total Compensation* (in million) Rs.	Per acre Compen- sation Rs.
Madras**	17.42	267	15
Assam	1.67	37	22
Bihar	39.64	1580	39
Uttar Pradesh	52.52	1634	31
West Bengal	—	560	20

* Including Rehabilitation Grant but excluding interest charges.

** Composite State of Madras and Andhra.

The basis on which compensation is determined is not uniform in all the States. Net income has been adopted as the basis in Bihar, West Bengal, Orissa, Madhya Pradesh, Madhya Bharat and Assam. Uttar Pradesh has adopted a different nomenclature, viz., net assets to designate the annual value or income from the estate. Net assets and net incomes are calculated by deducting from the usual aggregate incomes accruing to the landlords from their estates, the aggregate of expenditures incurred by way of payment of land revenue, cess, agricultural income-tax and other local impositions, cost of management, recoverable arrears of rents, etc. The basis of calculating gross income is not uniform for all the States. In Assam, averages for the past 15 years are taken for the purpose while in Bihar, Orissa and Madhya Bharat, figures for the preceding agricultural year constitute the basis. In some States, the basic period is different for different items. Likewise, deductions in the cost of management and recoverable arrears of rent also vary from State to State. In Punjab and PEPSU, the annual rent and other dues received by the superior landlord (*Ala Malik*) is taken as the basis of computing compensation, while Saurashtra (now a part of Gujarat State) adopted land revenue as the basis. In Madras, the basis of compensation called the "basic annual sum" has no relation with the annual income of the zamindar. For the purpose of calculating the basic annual sum, the whole estate is first assessed at Ryotwari land revenue rates. The total land revenue so calculated is then reduced to one-third and from this further deductions are made on account of the establishment charges, deficiencies in collections and maintenance of irrigation works on the estate.

The unit for determining the amount of compensation is the individual proprietor in Bihar and Uttar Pradesh, but in Assam, Orissa, Madhya Pradesh and Madhya Bharat, the estate or the tenure is the unit. This difference in the unit of assessment will materially affect the amount of compensation when it is paid on a sliding scale. When the entire estate is assessed for compensation, the aggregate amount of net income would be larger than would be the case if individual proprietors were separately assessed, and the multiple or the slab-rate would be

smaller. Several compromise devices are used to reconcile the two different approaches.

For determining the amount of compensation, the net assets or the net income are multiplied at a flat rate in Uttar Pradesh, Madhya Bharat, Rajasthan, and some parts of Madhya Pradesh. In all other States, a sliding scale of multiples is adopted; the larger the income, the smaller is the multiple. The sliding scale multiples range from 3 to 20 in Bihar and 12½ to 30 in Madras. The higher multiples in the case of Madras can be accounted for by the low value of the basic annual sum. In some States, an upper limit is placed on the amount of compensation payable to an individual intermediary or an estate. The Table below gives a brief summary of the provisions in regard to the basis and the rates of compensation in different States.

TABLE III—BASIS AND RATE OF COMPENSATION

Name of the State	Basis of Assessment of Compensation	Rate of Compensation
(1)	(2)	(3)
1. U. P.	net assets	8 times the net assets.
2. Bihar	net income	varies from 20 to 3 times the net income for Rs. 500 to Rs. 1 lakh and more.
3. Orissa	net income	varies from 15 to 3 times the net income of Rs. 500 to Rs.40,000 and more.
4. Madhya Pradesh ..	net income	10 times the net income.
5. Assam	net income	15 to 3 times the net income for Rs. 1,000 to Rs. 3 lakhs and more.
6. Punjab	annual rent and other dues	8 times the rent and dues.
7. Madras	basic annual sum	30 to 12½ times the annual basic sum for Rs. 1,000 to Rs. 1 lakh.
8. Mysore	(a) annual rent	(a) varying from 20 to 75 times.
	(b) land revenue	(b) varying from 15 to 50 multiples.
	(c) value of land	(c) Rs. 20, 40 or 75 per acre.
9. Saurashtra	land revenue	6 times plus 15 times the assessment of the lands.
10. Jammu & Kashmir ..	no compensation is payable.	
11. West Bengal	net income	20 to 2 times the net income for Rs. 500 to an amount exceeding Rs. 1 lakh.

Source : G. D. Patel: The Indian Land Problem and Legislation, 1954.

In States like Uttar Pradesh where the compensation is given at a flat rate of the multiple of the net income, provision is made for payment of rehabilitation grant to smaller intermediaries in addition to compensation. The rehabilitation grant is given on the sliding scale. In Uttar Pradesh, zamindars paying land revenue of Rs. 25 or less per year are to be paid 20 times the value of net assets, while those paying a land revenue of Rs. 5,000—10,000 will be paid a single multiple of the net assets. No rehabilitation grant is to be paid to those paying a land revenue of more than Rs. 10,000 per year.

All those States which have accepted direct responsibility for payment of compensation to the divested intermediaries depend for financing the compensation on the increase in land revenue collection consequent upon the abolition of the Intermediary tenure. After the termination of the rights of the intermediaries, the new occupants are required to pay to the State Government the same amount in rent as they were paying to the zamindars. This amount would be considerably larger than what the Government was receiving from the zamindars as land revenue. The magnitude of this increase in various States is discussed subsequently. It has been argued that as a result of the arrangement mentioned above, there would be no reduction in the financial burden of rent to the new occupants. While this is true, two things need to be noted in this connection. For one thing, in most of the States where the Zamindari tenure prevailed, the rents payable by (statutory) tenants were fixed a long time ago under their respective tenancy legislation and though the tenure as a whole was inequitable in many ways, the burden of rent was not very heavy. In any case, during the last few years, prices of agricultural commodities have risen a great deal and hence the incidence of prevailing rents is rather low. Secondly, under the old system, zamindars were imposing many illegal exactions on the tenant in the form of *nazrana*, *abwab*, etc. Now that direct contact has been established between the tenant and the State, there is no longer any scope for these illegal exactions and this must be a considerable relief to the tenant.

In some States, another method has been availed of for financing compensation. Generally speaking, with the removal of the intermediaries, the tenants do not *ipso facto* acquire proprietary rights in the land formerly leased by them. The nature and quantum of rights accruing to the new occupants varies from State to State. In Uttar Pradesh, for example, the *sirdars* (the former hereditary and occupancy tenants) have heritable but not transferable rights in land. They can acquire full proprietary or *bhumidhari* right on payment to the Government, a sum equal to 10 times their rent in a lump sum, or 12 times the rent in instalments. Similar provision has been made for all other types of tenure holders such as *asamis* to acquire occupancy rights, on payment of a purchase price varying according to their status in the hierarchy. The purchase price so paid is used by the State Governments for paying compensation to the zamindars. However, when the *sirdars* acquire *bhumidhari* rights, they pay as land revenue only 50 per cent of the rent they paid as *sirdars*. This would mean some reduction in the revenue income of the State Government. It is difficult to estimate precisely the net result of this arrangement for the revenue of the State Governments. In Bihar and West Bengal and some other States, there is no provision for conferment of the occupancy rights on the tenants. In these States, the only source for financing payment of compensation is the increase in land revenue which would be equal

to the difference between the rent now received from the tenants and the land revenue formerly paid by ex-intermediaries. The latter continue to pay land revenue to the Government for the *sir*, *khudkasht*, *gharked* or *khas* land which the legislation permits them to retain.

Under the Madras Estates' Abolition Act, 1948, the tenants of intermediaries who are given the Ryotwari *patta* (Occupancy tenure) have to pay to the State only the Ryotwari revenue assessment, and not their former rent as in the case of Uttar Pradesh and Bihar. The increase in the revenues of the State will be only to the extent the Ryotwari assessment is higher than the *peshkash* received by the Government from the former zamindars. The difference is estimated to be Rs. 1 crore per annum.

In some exceptional cases, such as Punjab and Saurashtra, the responsibility for the payment of a part or the whole of the compensation is put on the tenant. Under the Saurashtra Land Reform Act, the *girasdar* will receive as compensation an occupancy price equal to six times the assessment directly from the tenant, over and above a sum equivalent to annual land revenue assessment from the Government for a period varying from 15—21 years according to the class of *girasdar*.

Since the determination of the amount of compensation in most of the States is likely to be a protracted affair, provision has been made for payment of interim compensation on some *ad hoc* basis. The amount paid as interim compensation and the basis adopted for its determination vary from State to State. Thus, in Bihar, the interim payment will be equal to 3 per cent or $2\frac{1}{2}$ per cent of the estimated amount of compensation according as the approximate amount of compensation does or does not exceed Rs. 50,000. In Bengal, the Act provides for payment of interim compensation equal to one-third of the net approximate annual income from the estate.

The final compensation is paid in cash or partly in bonds, the smaller amount being generally paid in cash. The portion of compensation which is to be paid in cash also varies from State to State. Madras has arranged for paying as much as half the compensation in cash. In West Bengal, it is payable in cash if the net income of the intermediary is Rs. 250 or less. For higher net incomes, the compensation is paid partly in cash (varying from 50 to 12 per cent) and partly in bonds according to the prescribed scales. In Uttar Pradesh, amounts of Rs. 50 or less are payable in cash in a lump sum. Arrangements are also made for adjustment of land revenue demands due from the *bhumidhars* for *sir* and *khudkasht* lands retained by them against compensation due to them. Compensation bonds in most States are negotiable and redeemable in equated annual instalments over a period varying from 20—40 years. But in West Bengal, bonds are non-negotiable and redeemable after 20 years.

For assessing the total impact of the Zamindari Abolition legislation on the revenues of the State Governments, factors other than the liability of the State Government to pay compensation and the manner and method of securing reimbursement from the beneficiaries need to be considered. On the consideration of only these two factors, it would appear that the increase in land revenue re-

ceipts consequent upon the abolition of the tenure would, by and large, suffice to meet the compensation liability through instalment payments over a period of years.

The Table below gives the annual receipts of land revenue in all the States since 1950. The receipts show an increase of Rs. 47.6 crores, between 1960-61 (revised estimates) and 1950-51. But this entire increase cannot be attributed to land reforms. It reflects the combined effect of: (i) abolition of Intermediaries; (ii) imposition of land revenue on land previously held assessment free; (iii) imposition of land revenue on Ryotwari basis on hitherto *inam* lands; (iv) imposition of surcharge on land revenue; and (v) step-up in land revenue assessment in some of the States. Of these, the last four measures are a part of the effort of the State Governments to raise additional revenue. The yield from these measures is estimated at Rs. 1.8 crores during the First Five-Year Plan and Rs. 16.1 crores during the Second Five-Year Plan. Since the annual revenue from these measures has been quite small, the bulk of the increase in land revenue receipts over the last decade must be attributed to the abolition of intermediaries. This is corroborated by the relatively larger increase in receipts in the former zamindari States like Uttar Pradesh, Bihar and West Bengal, the increase being of the order of Rs. 13.3 crores in Uttar Pradesh, Rs. 8.8 crores in Bihar and Rs. 4.6 crores in West Bengal between 1951 and 1961.

TABLE IV—LAND REVENUE RECEIPTS—ALL STATES : 1950-51 to 1960-61

				(Rs. crores)		
Year				Receipts	Year	Receipts
1950-51	..	..	..	49.6	1956-57	82.2
1951-52	..	..	..	50.3	1957-58	87.7
1952-53	..	..	..	58.1	1958-59	91.7
1953-54	..	..	..	69.2	1959-60	94.1
1954-55	..	..	..	72.9	1960-61	97.2
1955-56	..	..	..	78.4		

IN SOME IMPORTANT STATES				(Rs. lakhs)		
States				1950-51	1960-61	Difference
				(1)	(2)	(2-1)
Uttar Pradesh	..	..	..	772	2,102	1,330
Bihar	..	..	..	159	1,043	884
West Bengal	..	..	..	213	670	457
Rajasthan	..	..	..	421	813	392

Besides the increase in land revenue receipts, State Governments are also likely to get larger receipts from forests and fisheries vested under them as a result of the abolition of the Zamindari tenure. Till now, these incomes are not large, but with the fuller utilization of these resources, the income can reasonably be expected to improve.

The increase in land revenue witnessed in Table IV is, however, not the net increase in the revenues, inasmuch as the State Governments, especially Bihar, Orissa and West Bengal in which assessment was permanently settled, have to incur considerable expenditure on building up adequate machinery for land revenue administration for the purpose of maintaining record of rights, registration of transfers, partitions, sales, etc., and collection of land revenue all of which was hitherto the responsibility of the zamindar. In some of the zamindari areas, even the cadastral survey is not complete. This is a costly job and will involve a draft on the financial and administrative resources of the State Governments. The Table below shows the trend in current expenditure on Land Revenue Administration in all States from 1951 to 1961.

TABLE V—CURRENT EXPENDITURE ON LAND REVENUE ADMINISTRATION : ALL STATES*

				(Rs. lakhs)		
Year				Expenditure	Year	Expenditure
1950-51	..	..	..	737	1956-57	2588
1951-52	..	..	..	1167	1957-58	2952
1952-53	..	..	..	1385	1958-59	2966
1953-54	..	..	..	1496	1959-60	3350
1954-55	..	..	..	2295	1960-61	3724
1955-56	..	..	..	2370		

*Expenditure is net of any transfers to Zamindari Abolition Funds.

Some of this expenditure, however, will not be of a recurring character (like that on cadastral survey and record of rights) and as such, with the efflux of time, the expenditure on revenue administration may perhaps decline.

The State Governments are also likely to suffer a decline in revenue from some other sources such as agricultural income-tax and stamp duties directly attributable to land reform.

In Bihar, the receipts from agricultural income-tax declined from Rs. 69 lakhs in 1950-51 to Rs. 18 lakhs in 1960-61. In Uttar Pradesh, receipts from this source declined from Rs. 138 lakhs in 1950-51 to Rs. 55 lakhs in 1957-58. Uttar Pradesh, however, enacted the Large Land Holdings Tax Act, 1957, to replace the former Agricultural Income Tax Act, with a view to checking the declining trend in the yield from this source. As a result of the operation of this Act, the

yield in 1960-61 is estimated to have improved to about Rs. 85 lakhs. In West Bengal, where the land reform measures became effective only in the beginning of the Second Plan, gross collection from agricultural income-tax declined from Rs. 168 lakhs in 1956-57 to Rs. 70 lakhs in 1960-61.

The abolition of intermediaries also caused a decline in receipts from stamp duty and registration fees. The annual loss of revenue from stamp duty is estimated at Rs. 1 lakh in Andhra Pradesh, Rs. 19 lakhs in Bihar, Rs. 4 lakhs in Assam and Rs. 50 lakhs in Uttar Pradesh. Further, the State Governments have had to compensate the loss of the amount of cess on land revenue collections paid by the zamindars to the Local Authorities. This compensation has been estimated at Rs. 135 lakhs in Uttar Pradesh and Rs. 35 lakhs in Bihar. In Rajasthan, the loss in contribution on account of resumption on *jagirs* has been estimated to be Rs. 24 lakhs; and in West Bengal, the cost of maintenance of zamindari embankments has been estimated to be Rs. 29 lakhs.

Taking all these items together, in quite a few States, there has been a net decline in the revenue receipts even before the payment of compensation. The Table below summarises the position.

TABLE VI—NET RESOURCES AVAILABLE BEFORE PAYMENT OF COMPENSATION

States	(Rs. lakhs)		
	First Plan	Second Plan	Total
Andhra Pradesh	4	—913	—909
Assam	— 71	— 13	— 84
Bihar	—199	1039	840
Bombay	172	1418	1590
Jammu & Kashmir	— 10	— 29	— 39
Kerala	14	—349	—335
Madhya Pradesh	— 62	185	+123
Madras	—198	—114	—312
Mysore	28	703	731
Orissa	— 29	49	+ 20
Punjab	—234	—362	—596
Rajasthan	—200	543	343
Uttar Pradesh	3452	3425	6877
West Bengal	—183	—593	—776
Total	2484	4989	7473

It will be seen that for all States together, the net resources available from land revenue before payment of compensation were Rs. 24.8 crores during the First Five-Year Plan, and Rs. 49.9 crores during the Second Five-Year Plan. Taking the two Plans together, the only State which had a sizable positive balance before payment of compensation was Uttar Pradesh (Rs. 68.77 crores) followed by Bombay (Rs. 15.90 crores), Bihar (Rs. 8.4 crores) and Mysore (Rs. 7.31 crores).

Having estimated the net impact of the zamindari abolition on revenue of State Governments before payment of compensation, we may now examine the likely draft on the fiscal resources from payment of compensation.

According to the estimates given by the Planning Commission, the total amount of compensation paid in cash and bonds till the end of March 1960 comes to Rs. 164.36 crores (Rs. 81.46 crores in cash and Rs. 82.90 crores in bonds). The figure of Rs. 81.46 crores paid in cash compensation perhaps includes payment of interest charges. Moreover, the figure of compensation paid in bonds refers to the value of the bonds issued, only a part of which has been cashed and redeemed. State-wise details are given in the Table below.

TABLE VII—NET IMPACT OF ZAMINDARI ABOLITION ON STATE RESOURCES: FIRST AND SECOND PLANS
(Rs. lakhs)

State	Net Resources before Compensation	Compensation Paid	Net Impact
Andhra Pradesh	—909	372.1	—1281.1
Assam	— 84	43.7	— 127.7
Bihar	+840	1095.0	— 255.0
Bombay	+1590	403	+1187.0
Jammu & Kashmir	—39	—	— 39.0
Kerala	—335	—	— 335.0
Madhya Pradesh	+123	1234.6	—1111.6
Madras	—312	669.6	— 981.6
Mysore	+731	119.4	+ 611.6
Orissa	+ 20	227.4	— 207.4
Punjab	—596	—	— 596.0
Rajasthan	+343	1007.5	— 664.5
Uttar Pradesh	+6877	2837.0	+4040.0
West Bengal	—776	662.1	1438.1
Total	+7473	8671.4	—1198.4

As will be seen, after payment of compensation, the net resources available in all States taken together amounted only to Rs. 4.5 crores during the First Five-Year Plan and Rs. 16.5 crores during the Second Five-Year Plan. Once again, Uttar Pradesh with Rs. 40.4 crores, Bombay with Rs. 11.8 crores and Mysore with Rs. 6.1 crores were the only States which had a positive balance in revenues after payment of compensation at the end of the Second Five-Year Plan. Thus, except in these States, the compensation liability and increase in expenditure on account of land revenue administration had to be met from the budgetary resources other than those becoming available from increase in receipts from land revenue. As compared to the First Plan period, the draft on other budgetary resources during the Second Plan period was substantially large in the permanently settled areas of West Bengal, Rajasthan, Orissa and Madhya Pradesh.

The position in regard to the net accretion to State resources resulting from abolition of intermediaries in the absence of any specific measures to the contrary is not likely to improve during the Third Five-Year Plan. It is estimated that during the Third Plan period, Rs. 71 crores would be paid out as compensation as against Rs. 66.4 crores during the Second Plan and Rs. 20.3 crores during the First Plan. Since acquisition of almost all the zamindaris is over, the gross receipts under land revenue which have been progressively increasing upto the end of the Second Plan period are not likely to go up during the Third Plan period. As against this, as pointed out earlier, there may be some decline in the expenses on revenue administration, if not during the Third Plan, during the next one.