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These rates, as compared to the rates of agricultural income-tax in the provinces would show that agricultural income tax is treated too leniently; even in the U.P. the maximum does not exceed 33-1|3 per cent of the total net income.

This state of affairs is, in part, due to the continuing political influence of the landlord class in our community, and in part this may also be ascribed to the fact that agricultural incomes are in their nature more precarious than non-agricultural and so call for the creation of reserves on which landlords can fall back upon during lean years. Whether we should have two sets of exemption minima, or higher exemption limit similar to that under Indian Income-tax in the ryotwari districts and a lower one in the permanently settled districts, which in the months to come will be abolished and converted into ryotwari, is a matter of detail that may be explored by the land revenue establishments as early as possible. The recent proposal of the Madras government to secure advance payments of land revenue under the present circumstances is justifiable, though it can never be considered to be a substitute for progressive agricultural income-taxes.

TAXATION OF LAND AND AGRICULTURAL INCOMES

(With Special reference to Madras)

by

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The land tax has long dominated the Indian financial system and the right of the government to land revenue, as to any other tax, is incontrovertible. The old theory that the land revenue in India is to be regarded as a rent and not a tax is now abandoned. The Indian Taxation Enquiry Committee (1926) treated India's land revenue frankly as a tax and so do most modern writers. Having been the mainstay of provincial finance for many years, it manifests regressive features. The land revenue system is the product of the haphazard and time-serving arrangements made by the British rulers. The reform of the land revenue has been in the air for quite a long time now. There is an urgent need for the complete rehabilitation of Indian agriculture, in view of the persistence of the serious food crisis for over six years, the dependence

on food imports, the high level of prices of food grains and the tardy progress of the Grow More Food campaign. The country's population has been increasing by about 4 millions a year, but foodstuffs only by about 2 $\frac{3}{4}$ million tons. Further, the partition of the country has also worsened our food position. As against 77% of undivided India's population, the Indian Union has got only 73% of the area, 72.5% rice acreage 70% wheat area and 70% of the irrigated area. It is against this background that the reform of land taxation has to be considered. The death-knell of the zamindari system has been finally sounded. The object of zamindari abolition, in Madras at any rate, is, among other things, to bring about a uniform tenure throughout the province by replacing the zamindari tenure by the ryotwari system. The next question to be tackled is the rationalization of the system of land revenue which is at present on a regressive basis. Before dealing with the improvements that have to be made in the land revenue system, we must analyse its defects.

The Indian land revenue is the target of modern fiscal criticism. It does not help to regulate production according to any plan. Its inelasticity, regressiveness and inadaptability to fluctuations in prices are well known. The system is also full of anomalies. Considered in relation to the area, the tax varies to the extent of 20% between provinces, and 300 to 400% if viewed in relation to the provincial population. "It is uncertain in incidence, inconvenient in assessment and collection, uneconomical in its administration, unequal in its distribution, and inelastic and far from benefitting the cultivator, who pays the tax, it is prejudicial to the growth of capital and the improvements to agriculture."* The system is not progressive with reference to one's ability to pay. The big landholder and the small pattadar pay assessment on the same rate. For instance, a person owning one acre and a person owning one thousand acres pay at the same rate. Thus all agriculturists, irrespective of differences in income, are taxed uniformly at the same rate. The rate is not adjusted according to the economic capacity of the tax payer. Moreover, the land revenue code recognises no uneconomic holdings and every bit of cultivated land is assessed. It is noteworthy that while the smaller incomes of the non-agricultural classes are exempted from direct taxation, a very substantial portion of the net earnings of even the poorest is taken away as land revenue. The Indian peasant is one of the poorest and yet heavily taxed peasant in the world. In Madras, the incidence of land revenue is not uniform in different districts, as a result of the rates having been fixed at different periods with reference to the prices prevailing in those districts during the twenty non-famine years immediate-

* N. S. Narasimha Iyengar—Indian Journal of Economics, Vol. VII (1927) Page 147.

ly preceding the year of settlement. Further, the assessment does not vary with the nature of the crops grown and people who grow commercial crops are better off than those who raise food crops.

A serious defect of the present system of assessment is its inflexibility. The method of assessment differs in detail in the various parts of the country, but, as a rule, the amount to be paid by the ryot annually is fixed in terms of money. It is estimated on the expected yield and holds good for a period of thirty years. The fixing of revenue in cash for long periods coupled with vigorous collections spells ruin for the bulk of the peasantry whose holdings are astoundingly small. The present system of settlement is not adjusted to the trend of prices in the period during which it is current. In many cases cultivation is either on the margin of subsistence or below it. So, a fall in prices or any damage to crops due to natural calamities causes hardship to peasants who are forced to borrow money to meet revenue demands. In our country on an average, every third or fourth year is from the point of view of agriculture, a bad year and since revenue and rent demands remain constant, the peasantry is driven into the clutches of money-lenders. It is noteworthy that while between 1929 and 1939 agricultural prices fell by 50% the total land revenue collection in India fell very slightly. The rates are fixed and inelastic and if the prices of foodgrains fall below the average prices adopted for determining the assessment, there is no relief to the ryots. In our province, for instance, the rates have been the same when the price of a bag of paddy was Rs. 3 in 1932-33 and when the price of the same is Rs. 13 now. A thirty year settlement was decided on with a view to giving landholder a fixity of revenue payments (a canon of taxation highly favoured by Adam Smith) and to even out the minor fluctuations in prices. But fixity of payments, where receipts are not fixed, is no advantage to the tax payer. While the minor fluctuations were provided for, the major fluctuations in prices have been allowed to work out their injurious consequences. As has been pointed out, the ripples and waves were insured against but the tides were left to have free play on the boat. These features have made the land revenue system regressive and unfair to the poor and hence it needs immediate revision. The late Mr. Ramsay MacDonald, dealing with this matter pointed out, "over-assessment and the rigidity of payment, therefore, have undoubtedly tended to impoverish the people and a system of revenue collection, thoroughly sound in theory and meeting the requirements of unassailable economic doctrine, has in practice become a grievous method of oppression and the subject of formidable attack."*

* N. S. Narasimha Iyengar—*Indian Journal of Economics*. Vol. VII (1927) Page 147.

We must also understand the significance of land revenue in provincial finance and especially in the finances of the Madras government. The consequences of any land revenue reform on the provincial revenues must be studied. Before World War I, land revenue was the mainstay of Indian finance. But since then there has been a progressive diminution in the importance of land revenue in the revenues of all provinces in India. The percentage of land revenue to the total revenues of our country has fallen from 25.1 in 1912-14, to 5.46. In Madras province, land revenue which contributed about 31.4% of the total revenues in 1935-36, contributes only 11.3% now. It is evident, therefore, that its relation to the total revenues has fallen sharply in recent years. But our province is one of the most important agricultural provinces in the Indian Union. Next to the United Provinces, Madras is deriving the largest amount of income from land revenue. The yield of land revenue in U.P. is 664 lakhs and in Madras 563 lakhs. Viewed from this angle, the land revenue of Madras assumes a special significance. A radical change has come over the composition of the revenues of the Madras province. In this new and altered situation, there are two ways of looking at the future of land revenue. First, it may be argued that this is the right time to scale down further this regressive tax with the ultimate object of abolishing it. Since it contributes only 11.3% the present is the right time to abolish this tax with a bad past. This could not be done when it was the largest source of revenue. Secondly, it may also be argued on the other hand, that since the tax accounts for only about a tenth of the total revenues, it may be retained. The question now is how far it is feasible to sacrifice the revenue wholly or partially when the Madras government has already sacrificed excise revenue of about 17 crores. Further, as Dr. B. V. Narayanaswami Naidu has pointed out,* "The incomes on Registration and Stamp duty and Sales Tax, which are responsive to price changes may decline with the future declension of prices, when the future of the other sources of revenue is so gloomy, it will not be an act of financial wisdom to give up a long established tax and a steady stable resource like land revenue." It must be noted that land revenue is easily collected and also willingly paid. The people have been immemorially accustomed to contribute this, and so it has all the authority of prescription and tradition in its favour. Moreover the boom prices of the later half of the war years and the post-war years have to some extent mitigated the burdensomeness of land revenue.

The land revenue has indeed no element of progression and it is imperative that the present system should be replaced by progressive taxa-

* J. R. MacDonal—*The Government of India*—Page 141.

* Dr. B. V. Narayanaswami Naidu *Madras Finance*—Page 26.

tion of agricultural income. The Madras government has already formulated a policy, of which the major elements are the following, namely, abolition of Zamindaris, levy of an agricultural income-tax and embodying the progressive principle in land revenue assessment. These should be reckoned as a complete modification of the existing system. The abolition of Zamindaris is almost an accomplished fact now. This has been taken up first so that there might be a uniform ryotwari system in our province. It is time that the next step is taken in the direction of the levy of an agricultural income-tax. The Government of Madras has already published in 1947 a bill to provide for the levy of an agricultural income-tax. Many have advocated a rational and scientific system of agricultural income taxation. The equity of such a tax on agricultural income cannot be questioned. Two decades ago, the Indian Taxation Enquiry Committee has argued that, if a man having a sum of money to invest can secure a return of say Rs. 5,000 from a speculative venture, Rs. 3,000 from Government paper and Rs. 2,500 from investing in land, there is no reason why the first two investments should be subjected to the income-tax and the third free. The provinces of Bengal, Assam, and the state of Travancore have already imposed such a tax. Their example can well be followed by Madras which is trying to get fresh and additional sources of revenue. The Madras Bill of 1947 has proposed to levy the tax on every person whose total agricultural income is not less than Rs. 5000 a year. In the computation of agricultural income, cultivation expenses, land revenue, local rates and cesses, rent to a superior landlord, interest on mortgage, insurance premia and the like will be excluded.

The present moment is very opportune for the imposition of such a tax because of the high price level. The tax evidently satisfies the canons of convenience and equity. The schedule of rates contemplated also makes the system and procedure simple and clear. The only problem is how far the tax will be productive in the short period, as well as in the long period. The yield of this tax will depend on the number of landholders in the province getting incomes above Rs. 5,000 a year. In this respect the abolition of Zamindaris removes the biggest landholders who would have been the largest payers of this tax. Dr. B. V. Narayanaswami Naidu has calculated that its total yield will be about Rs. 30 lakhs a year.* This additional revenue of thirty lakhs is not of much fiscal significance to-day owing to the boom conditions and the inflated cost of administration and public expenditure. This tax cannot be productive in the short period nor help to bridge the gap caused by the loss of excise revenue. Moreover, if in the future maximum limits to the holdings are fixed, then the yield will further diminish. So, from the point

* B. V. Narayanaswami Naidu, *Madras Finance* Page 43.

of view of productivity, it has not much in its favour. But its virtues of simplicity, equity and convenience are not to be ignored. Whatever may be the yield or the effects of the tax, the experiment is well worth making if only to appease the growing feeling in this province against the antiquated method of land revenue which lets off the higher and bigger people lightly.

What is needed is a recast of the present system, replacing the present regressive tax by a progressive tax. The progressive principle can be embodied in the system in various ways. Exemption of land revenue payment up to a certain limit, say Rs. 10, has been suggested. Another suggestion is to exempt from taxation all landholders owning one or two acres. Both these are bound to encourage the splitting up of holdings to enjoy the privilege of exemption from payment. This will be opposed to the policy of consolidation of holdings. The loss of revenue, which will be to the extent of Rs. 1½ crores, will be a great fiscal sacrifice to the Government of Madras. The sound principle seems to be, the smaller the land-holder the lower the rate of assessment and the larger, the higher the rate. All these should be examined with great caution. In any revision of the land revenue system, we should not ignore the benefits of land survey, record of rights etc., of the present system. So we may conclude that in order to introduce an element of progression, "the present land revenue may be replaced by a basic tax on land determined by considerations of extent and fertility, superimposed by a tax on agricultural income."* It is understood that the Madras Government will take up this reform soon after the Ryotwari system is substituted for the Zamindari tenure.

Another important reform is the revival of the crop-war rate, that is, the rate of assessment shall depend on the nature of the crop grown. The Economic Adviser to the Madras Government, Dr. B. Natarajan, has suggested that a portion of land revenue may be collected in the form of major cereals.† The ryots may be given the option to pay the tax in kind. This system may be combined with the scheme of national reserves of food grains.‡ The large stocks held by government in this system could be used to tide over famine years and also to feed deficit areas. Thanks to the procurement system, the administration is also familiar with the methods of collection and storage. Of course during periods of high prices, the ryots will be unwilling to pay the tax in kind. But during a period of low prices, it will be very advantageous for them to pay it in kind. This scheme is well worth a serious and fair trial.

* Sri O. P. Ramaswami Reddiar—*Agrarian Reform and Parity Economy*.

† Dr. B. Natarajan—*Prices and Prosperity in Agriculture—Madras Information*.

The fixity and inelasticity of the rates during the period of settlement is a serious defect of the present system. Something must be done to rectify this and the only feasible thing is to make suitable provisions for cyclical fluctuations in prices by having assessments that would automatically adjust themselves to the price level and to the ability of the assessee. In Lyallpur in the Punjab, an experiment was made whereby remissions from standard rates were guaranteed automatically every year in proportion to the fall in current prices from the prices adopted for commutation of the standard rates. The commutation rates are worked out on the basis of the average prices of the previous twenty years. These rates should be the maxima rates that government can take during the currency of the settlement and they should not be so taken unless the price level in the year is as high as that represented by the commutation rates. The central idea of the scheme is that the land revenue demand should be adjusted to the price level. An objection against this system is that the revenues of the government will vary from year to year. This is not very serious, since the smaller price fluctuations from year to year may be forecast with some accuracy. It is not difficult to frame budgets even though the sources of revenue are variable. A similar system known as *the Olungu Settlement* was tried in the districts of Tanjore and Tinnevely in the Madras Province during the depression of 1820-50. The rate of assessment was linked to the price level of the principal agricultural products. The system survived till 1860 in Tanjore; but it was not a complete success, for the following reasons. The Olungu standard rates were formed to suit certain pre-conceived views about collections and were raised by round-about methods. The ryot had to pay assessments even for the lands that had been relinquished. Moreover, the commutation prices did not take the average of all the previous normal years into account. But with the better statistical data available now, these short-comings can easily be overcome and a good system of linking the rate of assessment with the price-level may be adopted in Madras.

Many schemes of land revenue reform have thus been proposed with the mixed motives of agrarian reform and economic justice. In the revision of the land revenue system, the object must always be to evolve a sound land revenue policy, which will be an internal part of a comprehensive plan of agrarian reform. A new land policy would certainly give a great impetus to agricultural development in this province. But it must be noted that the fiscal results of any reform should receive prominent consideration, if not precedence, over the rest. The economic benefits of these reforms in the long run may be immeasurable; but in the present fragile state of provincial finance, ample care must be taken to see that the immediate effects are not detrimental to the growth of provincial revenues.