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LAND REFORM AND RURAL POVERTY
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LAND REFORM AND RURAL POVERTY IN INDIA

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Land Reform and Rural Poverty in India

In a continuing attempt to better understand the problems of rural poverty in India, the Near East South Asia Bureau of A.I.D. sponsored the preparation of three papers on land reform in India, plus a day-long seminar in Washington on April 17 where they were discussed. This seminar came a month and a half before A.I.D.'s Spring Review of (world-wide) land reform issues. While the results of this seminar will be one of the inputs into that broader effort, India is sufficiently important and unique to warrant separate treatment.

The papers covered a general survey of India's land reform program and its effects (Gene Wunderlich, Economics Research Service, U.S. Department of Agriculture, "Land Reforms in India") plus two case studies, one on Uttar Pradesh (Walter C. Neale, Department of Economics, University of Tennessee, "Land Reform in Uttar Pradesh") and one on Bihar (F. Tomasson Jannuzi, Department of Economics, University of Texas, "The Agrarian Structure in Bihar -- Attempts at Change and Some Implications"). Participants included staff members from both A.I.D. and State, plus Raj Krishna, EDI/IBRD and University of Rajasthan, who provided comments on the topic in general. Altogether between 15 and 20 persons attended and participated in what was a provocative, free-wheeling discussion.

The breadth of the discussion, plus the number of issues and conflicting opinions presented, make a straight-forward summary less than completely useful. Instead, the attempt is made herein to use these, plus other materials, to build a reasonably consistent picture, one which is more sustainable than any other we might develop on the basis of the presentations made to us. The reader interested in other viewpoints and more background should turn to the papers themselves.

Some Introductory Problems

At its core, land reform involves the redistribution of ownership rights to land. But since regulation of arrangements governing the use of land can accomplish similar goals, control of tenancy, share-cropping, rents and wages are often discussed in the same breath. One is also likely to find issues related to the promotion of cooperatives and the distribution of inputs raised under this heading. The term land reform, being a good word in the lexicon of political rhetoric, tends to pick up any and all schemes for rural uplift that are put forward. We will try to stick to its narrower definition and refer to other proposals by name whenever confusion may arise.

The situation is further complicated by the fact that distinctions between landless laborer, tenant, share-cropper and land-owner are easier to draw in principal than in practice. A man may lease in one parcel of land, lease out another and work as a part-time laborer on a third. Furthermore, even when he plays only one role, what he calls himself may be suggested to him by local laws: where tenancy is illegal one finds few tenants but many share-croppers and landless laborers.* These facts make much of the data collected on land use patterns difficult to interpret, if not outright useless. It also makes it difficult to identify just who it is that

* In a study of two Punjabi villages it was found that between 1950 and 1960 the number of tenant families decreased from 27 to 7, the number of cultivating owner families increased from 100 to 116 and the number of landless labor families increased from 26 to 85. Apart from continuing population pressure this shift is related to the tenancy reforms introduced at the beginning of this period. But another unexpected development, also related to the tenancy reforms, was the growth of a new land tenure arrangement known as sanjhee in which, for a share of the crop, hired laborers look after and sometimes manage the whole farm operation for owners, many of whom do not live on the land. Since the sanjhee arrangement is not recognized in law, the revenue records indicate that land under such arrangements is under owner cultivation. See J.S. Uppal, "Implementation of Land Reform Legislation in India - A Study of Two Villages in Punjab," Asian Survey, Vol. IX, No. 5, May 1969, pp. 362-371.

land reforms are supposed to be helping and to determine whether in fact they have been helped. One is forced to base one's argument on first-hand observations and intuition to a greater extent than is comfortable.

Finally, the situation is enormously complicated by India's diversity, which is especially great in the rural area. This is perhaps the main weakness of the generalizations made in this paper.

Expected Effects

Generally, land reform is advocated in the hope that it will (1) reduce social unrest, (2) increase productivity, and (3) increase employment in agriculture. Comments and doubts were raised about each of these expected effects.

1. On social unrest. The argument here is that the inequities of rural life cause social conflict and must be eliminated to reduce such conflict. Typically this argument involves the assertion that discontent among the underprivileged is rising. For some this rise is the result of growing aspirations, caused by the spread of education and the knowledge, thanks to the Green Revolution, that things can be different. For others, actual inequalities are believed to be rising, as a consequence of the unequal spread of the Green Revolution, resumptions of holdings by owners and the growing use of money wages in place of traditional tenancy arrangements. Still others provide examples indicating inroads made for the first time by outside agitators.

But there are no reliable data to prove or disprove such assertions; and equally convincing counter-examples -- where growing inequalities in income and status do not seem to be leading to increasing discontent, where some movement towards reducing such inequalities can be discerned,

or where rising opportunities for productive enterprise both on and off the farm give one some hope for the future -- can as easily be found. Furthermore, it is not at all certain that social conflict would be reduced or avoided by attempting to impose reforms; those who benefit from the absence of reforms or the lax enforcement of existing legislation are not going to give in easily, particularly when they control the reins of political power at the local level.

Finally, given the numbers involved, it is doubtful that even a thorough-going redistribution could accomplish very much. In a paper presented to USAID/India's Seminar on Employment and Income Distribution, B. Minhas demonstrated that if all land holdings above 20 acres were distributed to owner-cultivators with less than five acres, some 43.3 million acres would be added to the 57 million acres currently held by the latter group; but this would raise their average holdings from 0.31 to only 0.54 acres per capita, still leaving 60-65% of this group below the poverty line and doing nothing to help the plight of the 103 million landless, 40 million of whom are estimated to be below the poverty line.*

2. On productivity. Here we must distinguish between improvements in tenancy and redistribution of holdings. The productivity effects of the first are extremely difficult to judge since tenancy reform cannot be entered into any objectively-specified production function. It can be shown that a tenant will not apply as much inputs as will an owner, if both maximize their profits. But it can also be demonstrated that if the returns are high enough it is in the interest of the owner to alter

* The poverty line for this purpose is defined as annual per capita consumption expenditures of Rs. 240 in 1960/61 prices.

the tenancy arrangement so as to induce the tenant to use additional inputs. This is often forgotten in theoretical discussions which, typically, take such arrangements as given. It would be of interest to determine whether traditional agreements are being altered in areas where the Green Revolution has taken hold; our hunch is that they are.*

So far as redistribution is concerned, empirical studies in India suggest that, given the same access to inputs and holding soil and water conditions constant, cost per unit of production is not correlated with size of holding. This suggests that there are no economies or diseconomies of scale that would make us favor one size operation rather than another.

A counter to this argument is that the empirical studies were undertaken before modern mechanical inputs were sufficiently prevalent to influence the statistical analysis, and that such inputs introduce significant economies of scale.** If this were the case, on productivity grounds at least, we should prefer larger rather than smaller farms. But it is doubtful whether the use of proper shadow prices in evaluating mechanical inputs would show that all forms of mechanization are socially productive. Where they are not, public policy should inhibit their introduction. For the remainder, sharing and rental arrangements can be introduced, if it does not arise spontaneously, to overcome most economies of scale.

* However, if bargaining power is too unequal, such situations could result in serious tensions. Where this is the case some regulation of these changes would be useful. But just how to do so effectively is another question.

** Tractors are often cited as examples, though very small mechanized units that are economical down to 5 acres are available. A better example may be tubewells, which, some claim, are not economical for irrigating less than 15 or 20 acres.

Obviously the evidence is flimsy and speculative, but what there is certainly does not suggest that a reduction in average farm size would lead to any significant increase in productivity (i.e., decrease in total cost per unit of output).

3. On employment and total output. On the other hand, there is some evidence that output per acre increases as size of farm diminishes, again holding access to inputs, soil and water constant. If costs per unit of output are not lower, this must be because more intensive use is made of labor on smaller farms. It should be noted that this may mean less underemployment rather than more laborers per acre on smaller farms. But more important, this effect is unlikely to be significant. As Neale pointed out, the situation in India is unlike that in other parts of the world where unequal distribution of ownership implies unequal distribution of men on the land; here, men already are distributed fairly evenly and at reasonably high density levels. Furthermore, the portion of land already under crop is amongst the highest in the world. In contrast to Latin America and Africa there is little room left in India to transfer land from extensive to intensive users.

This situation is likely to continue so long as the supply of labor-saving farm machinery is small. But if it increases on larger farms, the distribution of men on the land could become much less equal. This raises perhaps the strongest argument in favor of smaller land holdings, namely that it makes some forms of mechanization less economical, thereby reducing the incentive to substitute capital for labor. But land reform is a rather unwieldy instrument for this purpose. Land ceiling legislation

has been notoriously difficult to enforce; and politically, a far easier way to accomplish the same end would be to use fiscal devices to make labor-saving capital more expensive.

All this is not to say that land reform would not be desirable on equity grounds, or that output and employment might not go up somewhat, given a larger number of small, owner-occupied holdings. But it strongly suggests that land reform is no panacea for the ills of rural India, especially those faced by landless laborers who would hardly be affected at all.

The Program and Its Effects

Scarcity of data, strong interests in obfuscation and evasion, the fact that land reform is a state subject under the constitution, and the enormous diversity of India with regard to land use arrangements make generalization from India's experience with land reform difficult if not impossible. This summary is no substitute for the set of papers presented to us, particularly the case studies of U.P. and Bihar, which come close to spanning the range of experiences from the most to the least thorough-going reforms.

In brief, the legislation enacted during the decade following independence in 1947 dealt with abolition of intermediaries (e.g., zamindari abolition), regulation of rents and tenant purchase, consolidation of fragmented holdings, ceilings on current holdings and future acquisition, and various provisions relating to agricultural workers, cooperative farming and state management. Implementation has been deliberately slow in most places, with considerable time taken in untying legal knots and in appellate proceedings.

The results to date have been mixed, but on balance modestly favorable. In general, the middle classes in the rural hierarchy -- tenants with exproprietary, occupancy or hereditary rights prior to reforms -- appear to have benefited at the expense of the upper classes -- the largest landlords and zamindars. The lowest classes who worked the land as "permanent servants", hired labor or share-croppers without rights, appear on balance not to have been significantly affected (though examples indicating that some benefited and others lost can be found). Modest increases in productivity and employment have been recorded since land reforms were initiated, but it is virtually impossible to demonstrate that land reform played any causal role. Some land consolidation has taken place, but it has been painfully slow. Attempts to regulate rents, wages, and tenancy arrangements have met either with resistance or a combination of acquiescence and evasion.

Also during this period peasant participation -- principally by the rural middle classes -- in the processes of government and planning increased significantly. While this is largely connected with the introduction of universal suffrage and elected local governments, it may also be related to land reforms insofar as they increased social and economic equality within the landholding castes. But this improvement may in the end cause more social conflict than it puts to rest, as it slowly moves rural society from a multi-class, hierarchical structure to a polarized, two-class system. As Neale, writing mainly about U.P., put it,

Before the reforms the complex ladder of rights in land had made it difficult to differentiate people on one rung from the people on the rungs immediately above and below, but after the land reforms it was possible to differentiate clearly between the man

who was a landholder -- bhumindhar or sirdar -- and the man who was totally landless. Thus a complex hierarchy was not reduced to democratic egalitarian relationships but instead was changed in the direction of a two tier class system, with the middle caste landholding groups forming a more homogeneous upper class and the landless forming a more homogeneous lower class, with both now far more in conflict with each other than the different levels of the hierarchy had been before reforms.

In retrospect, these modest results are easily explained. While the rhetoric of land reform had intellectual roots in nineteenth and twentieth century egalitarian philosophy, it was implemented by practical politicians at the state level. In the years immediately preceding and following independence, effective power shifted from those who held privileged positions under the British to the middle classes in the rural hierarchy, and the latter used land reform as a means of consolidating their newly-won position of power. The lower classes played only a passive role in this political game. Viewed thusly, land reform was a consequence of the shift in power, not its cause. Moreover, and again despite the rhetoric, land reform was never more than a subsidiary element in India's modernization strategy. Issues regarding universal suffrage, local self-government, the raising of revenues, the allocation of public funds between heavy industries, defense, power and irrigation, the building of industries to produce modern agricultural inputs, the regulation of agricultural markets and prices -- all these and related issues have been far more important than land reform in explaining Indian economic history since independence. Land reform was used as an instrument for the consolidation of political power and social status, not as a principle strategy for the solution of India's rural problems.*

* So far, this pattern appears to be independent of which political party is in office at the state level. Even the Communists in Kerala and West Bengal have been unable -- or perhaps unwilling, for the same reasons as other parties -- to push land reforms much further than they have already gone.

Underlying these political realities is the continuous growth in population, a large part of which must be absorbed on the land. With no alternative open to him and many others eager to take his place, the individual agricultural laborer seldom displays any more interest in the enforcement of existing legislation on rents, wages and tenancy arrangements than does the landlord.

Policy Implications and Recommendations for the Government of India

Few explicit policy recommendations were made by members of the seminar, but from these plus the above analysis, a range of recommendations can be considered.

1. Don't waste additional efforts on land reforms, more explicitly, on attempts to redistribute ownership rights and regulate tenancy arrangements. It follows from much that was said above that the benefits of such redistribution and regulation cannot be great in the Indian context; and the costs especially in terms of political disruptions of trying to impose them would be high.*

For those areas where significant agricultural progress seems to be occurring, as well as for the most backward areas where aspirations and political awareness of the lowest castes in the rural hierarchy are not rising appreciably, this conclusion appears fully justified. Where productivity is improving or where at least some movement towards greater

* A qualification regarding regulation of tenancy arrangements should be entered. In the process of technical change, traditional arrangements will have to change. Depending on the distribution of bargaining power and how it is exercised, serious tensions could result in the process of this adjustment. The benefits of regulation in these cases could be considerable -- if we knew what specific regulations would help and, especially, how they could be effectively implemented. As much of the above discussion suggests this knowledge is not available.

equality of social, political and economic status is occurring anyway, land reform may be more disruptive than helpful. In such places the barriers to more rapid progress arise primarily from resource and technological limitations rather than from patterns of land ownership and use. This is not to say that a correction in factor-price relationships, which make the displacement of labor by machines appear profitable on larger holdings, is not absolutely necessary. Nor is it meant to suggest that political leaders should cease to talk about the need for land reform, an action that may have its own set of political costs. But to go beyond a correction in factor prices and rhetoric in those areas where there are no serious political disruptions associated with land tenure is unlikely to represent a good allocation of political capital.

There are, however, other places where aspirations and political awareness on the part of the lower classes are growing at a much faster rate than improvements in productivity and equity. In these areas something by way of redistribution -- if not of land, then of income or of political and economic status -- must be done to alleviate growing discontent with the status quo. The remaining recommendations deal with ways of doing this.

2. Modify the environment so as to make enforcement of existing legislation harder to resist -- or more acceptable -- to entrenched political forces.

Two recommendations were made in this direction, the first involving improved records of land occupancy and tenancy conditions, and the second involving research to obtain more accurate information on the extent of income disparities, the degree of exploitation actually present and so on.

While local politicians would not initiate such actions, they may not realize the subtle impact such seemingly innocuous programs can have, or, more likely, even if they do, may find it difficult openly to oppose them.

The ability to pull the wool over the eyes of local politicians on these issues can be seriously doubted, especially when land records are involved. In an agrarian society, land is a prime object of political power, just as credit institutions and industrial licenses are in other societies; the ability to manipulate these records is something which all political groupings understand and wish to control in their own interests. Nevertheless, a careful exploration of this general manner of attacking the problem may be worthwhile exploring. To do so, effectively, however, would require a far more intimate knowledge of the situation than anyone who does not live within the system is likely to have.

3. Redistribute inputs other than land. Ultimately, what we want to do is redistribute value added. Since the elasticity of substitution between land and non-land inputs is reasonably high (e.g., consider the extent to which paddy output per acre has been pushed in Taiwan and Japan), a redistribution of inputs could accomplish as much as a redistribution of land that might in practice be acquired for redistribution. Such a redistribution of inputs might be brought about by a two-price system in which farmers with more than e.g., five acres (adjusted for quality) would be required to purchase inputs in the open market and those with less would be subsidized (perhaps through the provision of subsidized credit).

Apart from the administrative difficulties this proposal would raise -- which might on closer examination be solvable -- it was criticized on two grounds. First, it was argued that the simplest and cheapest way to provide

inputs to the small farmers is to concentrate on increasing their supplies as fast as possible; in effect, one should satisfy the needs of the larger farmers as quickly as possible so that something is left over for the smaller, rather than attempting to redistribute existing supplies. This appears, at least temporarily, to be happening in the fertilizer market, for example. If this can be done quickly, so that the price of food does not fall and the large farmer does not buy out the smaller in the interim, it has merit; but one can seriously question whether this condition can be met in a scarcity economy such as India.

Second, it was argued that it is likely to prove politically as difficult to redistribute inputs as it is to redistribute land, at least so long as these inputs remain very scarce. This argument can be questioned on two grounds, first, that new inputs involve fewer direct challenge to traditional rights, and second, that no one would be denied access, everybody would be able to get something. But more importantly, Raj Krishna, who made this proposal, recognized the political difficulties involved and took them into account by making the following proposal as well.

4. Alter the rural balance of power by promoting militant trade unionism among the landless (presumably including share-croppers and tenants as well) through Central Government subsidies. The cost of organizing peasants has been a serious obstacle to the spontaneous growth of peasant organizations in the past; a precedent for such a policy is present in public promotion and support of trade unions in industry; and in the long run this may be the only way to bring about any real redistribution, even of inputs other than land.

Obviously, whether such a policy is feasible and whether its consequences could be contained and channeled in constructive directions are open questions. The history of the Kisan Sabha, started in the late 30's by Congress, taken over in Bengal and Kerala in the late 40's by the Communists, and currently in these two states the object of fights between the CPI and the CPM, does not offer an attractive pattern to emulate. Nor does this history of the industrial trade union movement which, by driving up wages and increasing managerial problems, may be encouraging the replacement of men by machines. But where such organizations begin to develop anyway, it would be prudent to try to direct them along constructive paths.

5. Relieve pressure on the land by policies that absorb labor elsewhere. No matter which strategy for dealing with redistributive problems is accepted, it was recognized that it would have to be combined with efforts to develop productive non-farm jobs at a faster rate than has hitherto been the case, through promotion of more rapid industrialization and also, probably, through public works programs. This line of attack was not pursued as it moves too far afield from our principal topic.

But it is noteworthy in passing that a theme running through the whole discussion was the need to consider the interconnectedness of the Indian society, in order to treat any problem effectively. Just as politics cannot be separated from economics, agriculture strategy cannot be considered in isolation from strategies for other sectors. Nor can any of these problems be separated from the problems and policies related to population growth and rural-urban migration.

Policy Implications for Aid Donors

The above discussion should make it painfully clear that the Central Government has little room within which to maneuver to help the underprivileged rural classes of India. Much of the recent political posturing on this subject must be considered little more than just that. Obviously, there is even less room for a foreign aid donor to maneuver.

If land reforms are needed at all, they are needed only in some areas and then primarily for their impact on inequities rather than on productivity and employment. The judgment as to where and when they should be used is one that can only be made by the principal actors in the political arena, certainly not by foreign aid donors who, no matter how well-intentioned, cannot understand the subtle political relationships that must be paid their due if social conflict is to be held in check.

One useful thing a foreign donor can do, of course, is to offer technical services and advice. This does not necessarily imply taking a passive role especially insofar as research and analysis is concerned. What are the dynamics of the relationship between distribution and the technical changes being introduced; can we say anything about how and where and when distributional considerations will change over time? Can subtle social processes leading in the direction of equity be fostered and other forces be inhibited without directly confronting entrenched political interests? Can a practical proposal for redistributing inputs, perhaps through a two-price system, be developed? Can a practical means of double-checking on land records be developed, so as to keep local politicians honest? If answers to such questions were developed and put forward by the right people and in the right spirit, they could be very helpful and even perhaps influential.

Secondly, foreign donors can help by insisting that the employment effects of projects they help support are taken into account. The best way to do so would be to utilize prices that correctly reflect true factor scarcities in evaluating investment projects. If this were done many projects involving the production or importation of labor-displacing farm machinery might not get funded.

But when all is said and done, the best strategy is still, as it has always been, to provide economically productive resources. The final solution to rural poverty in India must include the provision of off-farm jobs. This requires increased supplies of complementary inputs with which labor can work and wage goods, especially food, with which it can be paid. Except where serious social unrest is imminent, all else is tinkering in comparison to the urgency of this task. And this is an obvious area where foreign donors can be of help.