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Lesson No.

- 1.1 : Agricultural Price Policy
- 1.2 : Land Tenure System and Land Reforms
- 1.3 : Agricultural Demand and Supply
- 1.4 : Development of Agricultural Marketing in India
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ECONOMICS OF AGRICULTURE**LESSON NO. 1.1****AUTHOR : DR. O. P. SHARMA****Agricultural Price Policy**

Price mechanism plays an important role in the optimum allocation of resources, optimum distribution of national income and stabilization of income output and employment. It is the level of price inflation and deflation—which brings instability in the economy. Throughout the World, governments have tried to manipulate prices so as to influence level of output in agriculture and for the overall development of the economy. Economic history of U.S.S.R. shows that how U.S.S.R. government tried to mobilize surplus from agricultural sector keeping prices of agricultural products very low. Now a days it is felt that compulsion is not always necessary for the transfer of surplus. Agricultural development itself may bring down the prices of agricultural products which in turn may help in the reduction of cost of production in manufacturing and industry. Not only this agricultural sector contributes in different ways for the development of the economy i.e. through the supply of food grains, agricultural raw materials, capital and labour and the expanded market for industrial goods.

Manipulation of prices of Agricultural products as well as of inputs can help in achieving all the objectives laid down. Objectives of the Agricultural price policy in a developing economy are as follow :

1. To assure remunerative prices to the farmers

For encouraging the adoption of modern technology and investment in agriculture with a view of maximize agricultural production. This can be one of the many objectives. But the price policy may not be very effective in traditional agriculture because the traditional agriculture has a backward sloping supply curve with regard to both the aggregate production as well as the marketed surplus. It is said that the response of supply as well as of demand to price changes in agriculture may not be so responsive as these are in industries. There is one important difference between the demand for agricultural goods and industrial goods. Demand for agricultural products like food grains, sugar, oil seeds, vegetables, fruits etc. is income-inelastic i.e. demand for agricultural products does not increase as and when income increases. Similarly, when the prices of agricultural goods fall, consumption will not greatly expand nor will it greatly contract if food prices rise. Thus, a low price elasticity and income elasticity indicate that demand for agricultural products is insensitive because (i) food is necessary for life, the changes in its price does not effect demand and (ii) with a rise in income, people spend relatively more income on industrial products.

Moreover as Mellor¹ says that traditional agriculture is a technologically stagnant and highly labour oriented agriculture—that neither the aggregate agricultural production nor the marketed surplus will increase, when prices of agricultural products increase. However, price policy may be quite effective in a technologically dynamic low capital intensive agriculture.

2. To fulfil the production targets

The other objective of the price policy may be to maintain an appropriate relationship between prices of competing crops as to fulfil the production targets in respect of different commodities commensurate with the rise in demand. For example, with the increase in population there may be need to increase the production of both the foodgrains and pulses and also of cotton. To achieve this objective a price parity is required to be maintained. If government fails to achieve this parity there may be disproportionate increase in area under one crop or the other. Parity between prices of individual agricultural commodities and general agricultural prices can be seen through the following formula.

$$\frac{\text{Price Index of all individual agricultural commodity}}{\text{Price index of all agricultural commodities}} \times 100$$

This parity helps in the adjustment in crop mix for the purpose of achieving targets of production for different crops.

3. To achieve a balance between economic interest

An other objective of the Agricultural price policy may be to maintain a balance between the economic interests of producers and consumers i.e. to reduce the margin between the producer's price and the consumer's price. This objective is generally achieved through the fixation of maximum and minimum prices. This objective is very difficult to achieve because the Agricultural Price Policy in an under developed country must ensure :-

- (a) incentive for widest adoption of improved technology and for the maximisation of production.
- (b) must encourage optimum utilization of land.
- (c) must aim at ensuring as near as possible a balance between supply and demand for various crops.
- (d) must not effect the prices of exports and imports, and
- (e) the effect of the agricultural price policy on other sectors of the economy, especially with reference to wages, cost of living, industrial cost structure etc., should also be kept in view.

4. To ensure reasonable relationship between Agricultural and Industrial Sector

Another objective of the Agricultural price policy may be to ensure a reasonable relationship between (i) the prices of foodgrains and non food

grains and (ii) between Agricultural Commodities and manufactured commodities so that the terms of trade between two sectors of the economy do not change too sharply against one another. This can be seen through the following formula :-

$$\frac{\text{Price Index of all agricultural commodities}}{\text{Price Index of all manufactured commodities}} \times 100$$

5. To accelerate the growth of output as a whole

Another objective may be to ensure faster growth rate in agriculture. For this remunerative prices are supposed to be paid to agriculturists and prices of agricultural goods are kept deliberately high. This can be seen through the following formula :

$$\frac{\text{Price index of all agricultural commodities}}{\text{Price index of farm inputs}} \times 100$$

But there are many difficulties in maintaining higher prices of agricultural goods.

6. To stabilize general price level

To stabilize price level in the economy, so as to avoid inflation is another important objective of the policy. In the wake of economic development government spends in a big way for the development and diversification of industries, for the construction of roads for the development of transportation and communication, railways, irrigation projects, power generation etc. All these projects do not produce anything for direct consumption. Thus, when new purchasing power is injected and that too for mobilizing resources through deficit financing and bank money is utilized for financing such projects and inflationary situation is created in the country and if government fails to check rise in the prices of food grains, and other consumer goods causes an increase in the prices of industrial goods and a race starts between rise in cost and rise in prices. To avoid this govt. deliberately maintains a low price for agricultural goods so as to avoid further rise in prices. For this government has to formulate a price policy which may neither discourage production in agriculture nor cause an injury to the consumers. Policy to be followed depends on the situation prevailing in the economy i.e. in addition of price control government may go for rationing, subsidisation of foodgrains etc.

7. To increase the marketed surplus :

Another objective of the policy may be to induce farmers to bring more foodgrains and other raw material in the market. If it is the only objective government may allow high prices for agricultural goods but this all depends on the situation prevailing in the country. If the negative supply operates them higher prices may not induce the farmers for bringing more produce in the market. If so govt. has to go for other measures like levy foodgrains, stock restrictions, compulsory sale to the government, and linking up the supply of inputs like irrigation, power supply, fertilizers etc. with the marketed surplus etc.

8. To smoothen the prices of agricultural goods :

Another objective may be to avoid fluctuations in the prices of agricultural goods. We all know that agricultural prices are subject to wide fluctuations i.e. prices go down substantially at the time of harvest and go up in the lean period. Therefore, the objective of agricultural price policy may be to avoid these fluctuations and to maintain and stabilize the agricultural prices so as to save the farmer and to encourage him for more production.

9. To mobilize resources for Economic Development :

As has already been stated and discussed in the earlier lessons some times governments try to mobilize resources for financing plans from agricultural sectors and makes use of price policy.

10. Other Objectives :

There can be other objectives, like, to ensure relationship between prices of inputs and outputs in agriculture, to bring integration of prices in various regions, to encourage a particular cropping pattern etc.

We have listed various objectives which can be laid down for agricultural price policy but it should be kept in mind that :

- (i) Success of price policy depends upon the price elasticity of supply of various crops. Greater the price elasticity of various crops, greater will be the impact of changes in their prices. It is because of the fact that production in agriculture is influenced by many factors like, fertility of land, type of cultivation, tenure system, availability of irrigation facilities, climate, size of the farm, availability of other inputs availability of credit, rainfall, nature of the crop etc.
- (ii) Agricultural price policy must take into consideration its impact on other sectors of the economy. For example, to improve production in agriculture through the manipulation of prices, may escalate price in other sectors and may impinge on exports etc.
- (iii) All the objectives cannot be achieved simultaneously with a specific agricultural price policy. To achieve the specific objectives, price policy has to be modified. Nature of Price policy will definitely be different in different stages of agricultural development. It will vary in traditional agriculture and dynamic agriculture.
- (iv) Price policy may be negative or positive. Under the negative price policy government makes use of conceived methods of extract maximum surplus from agricultural sector so as to compel the farmer to go for more production. For example, low prices, compulsory contribution, high taxes, compulsory or levy foodgrains etc. However, under a positive policy, government gives inducement for more production, imposes less taxes, gives subsidies, and concessions in the provision of irrigational

facilities, enhances water supply, supply of power and other inputs etc. Now a days it is felt that positive price policy is more successful than the negative price policy.

- (v) Price policy alone cannot achieve above objectives single handed. Action under price policy requires certain other measures such as supply of inputs, irrigation facilities and package programmes. Economists also differ about the effectiveness of the Agricultural Price policy. For example, it is suggested that if the aim is to accelerate innovation and growth of agricultural output, it would be better to subsidize package inputs than to guarantee minimum price of output. If product prices are raised, peasants may or may not take to improve cultivation. They may simply spend the extra income on consumption and government expenditure on support will be wasted. If inputs are subsidized the benefit can be availed of only if inputs are used. Input subsidization also avoid raising food and raw material prices against the growing industrial sector. Thus, both (price support and subsidization) are needed as complementary instruments of policy.

Thus, we can say that Agricultural Price Policy is a potent tool for reshaping allocation of resources and distribution of income both within agriculture and between agricultural and non-agricultural sectors. In an economy, suffering from chronic shortage of foodgrains it can further be employed to protect the consumers against unduly high prices of foodgrains and the producers against the loss of income resulting from market imperfections.

Agriculture Price Policy in India

After independence, India's agricultural price policy has moved through two distinct phases upto 1965, the government was following an adhoc type policy, marked by spells of hectic activity in years of poor crops and complete complacency in years of good crops. In 1965, however, Agricultural price commission was appointed and therefore, the subsequent period witnessed the beginning of a more stable and meaningful price policy.

Prior to the beginning of the first five year plan, two committees were appointed by the government of India who in their recommendations gave hints towards the desired price policy. In 1947, the Foodgrains Policy Committee was formed which recommended a policy of progressive decontrol, reduction of dependence on imports of foodgrains and a substantial increase in domestic production within the earliest possible time. Another committee, known as Foodgrain Procurement Committee (1950) recommended the continuation and extension of the system of rationing in the country.

During the first five year plan period, due to the relatively easy situation on the food front, the government followed a policy of complete decontrol. However, prices of agricultural products started showing a rising trend in the end of first five year plan, forcing the government to introduce partial

controls, Concerned about rising prices of foodgrains, the government appointed the Foodgrains Enquiry Committee in 1957. The committee strongly recommended the setting up of a Foodgrains stabilization organisation to stabilize the food prices. It also recommended the building up of a buffer stock, licensing of whole sale traders and fixation of minimum and maximum prices. Thus, till 1964, the agricultural price policy was more concerned with the stabilization of consumer prices and not much attention was paid to providing any incentive to the producers.

The appointment of the Jha Committee on Foodgrains Prices on August, 1964, marked the beginning of a new phase in the evaluation of price policy in India. The committee recommended the establishment of the Agricultural Price Commission to advise the government on continuous basis.

Agriculture Price Commission (APC)

The Agricultural Price Commission was set up under the chairmanship of Dr. M.C. Dantwala in January, 1965 to advise the government on price policy for agricultural commodities with a view to evolve a balanced and integrated price structure in the perspective of the overall needs of the economy and with due regard to the interests of the consumer while recommending the price policy and the price structure, the commission may consider :

- (a) the need to provide incentive to the producer for adopting improved technology for maximizing production;
- (b) the need to ensure the rational utilization of land and other production resources.
- (c) the likely effect of the price policy on the rest of the economy, particularly on the cost of living of workers and industrial cost structure.

The APC does not follow a mechanical approach in deciding upon the price policy. While recommending a price policy for a commodity, the commission takes a comprehensive overview of the entire structure of the economy of that commodity, its demand and supply situation, costs of cultivations, export potential, price trends and the general economic health of the economy. Besides the commission also takes into account the level of administrative prices for competing crops so that a measure of inter crop price parity is achieved while recommending the price policy, the commission also suggests such non-price measures as would facilitate the achievement of the objectives of the price policy.

Along with the setting up of APC, the government took another step by setting up of food corporation of India, in 1965. The main functions of this corporation are to procure, store and distribute foodgrains. Open market operations in food grains through the agency of FCI can, if properly planned serve the twin purpose of offering price support during periods of bountiful crops and price moderation during years of scarcity.

Through APC, which was renamed Commission for Agriculture Costs and Prices in 1980, the government has employed three types of instruments

to achieve its policy objectives. One of these is with regard to the minimum support guarantee to producers so that in the event of a glut, prices are not allowed to fall below the minimum economic levels. Another aspect of the minimum support prices is that these are also used as procurement prices i.e. prices at which government buys surplus coming in the market. These minimum support/procurement prices are generally announced before the start of sowing season. These prices are fixed for major agricultural commodities. The second instrument is the fixation of issue prices at which fair price shops sell cereals like wheat, rice etc. This is intended to safeguard the interests of low income group consumers, although there is no bar on anyone including rich consumers, to buy from these distribution depots. And the third is the maintenance of prices within limits through buffer-stock operations. This is to mitigate fluctuations in prices.

Buffer-stock operations refer to buying and selling the same with the purpose of moderating price fluctuations. The buffer stock operations influence the market forces and through that the allocation of resources. It, therefore, does not damage the market mechanism, but instead makes use of it. Building up and maintaining buffer stock of food grains have been an important element of India's food policy. It is, however, being extended to cover more commodities to strengthen the public distribution system. It is clear that total stocks with the government are not meant to be used as buffer stock. Over and above the buffer stocks, the government has to keep operational stocks needed for meeting the requirements of fair price shops working as part of the public distribution system.

LAND TENURE SYSTEM AND LAND REFORMS

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- 1.2.1 INTRODUCTION

Indian economy is a planned and growing economy. One of the objectives of planning in our-country is to increase industrial and agricultural production. But, as we already know our agriculture suffers from a number of defects. One such defect is the system of land tenure, i.e., the way land is owned. In addition to this, there is the problem of tenancy system and the size of holding. It is generally admitted that

agriculture development is the real basis of economic development. But the agriculture is organized in a way that permits exploitation of the tiller, his incentive and initiative are killed and he does not try to increase agricultural production which is so essential for capital formation. All these defects are, therefore, to be eliminated if agriculture is to contribute its share to the economic development of the country.

Land reforms imply not only elimination of defects regarding tenure and tenancy but also introduction of scientific methods of cultivating land because this is the only way to transform our agriculture. Land reforms can also facilitate the spread of operative movement by making the introduction of this principle in the field of farming, credit, and sales. All this clearly indicates that land reforms can really add to the tempo of economic development. The concept of land reforms aims at the abolition of intermediaries and bringing the actual cultivator in direct contact with the state. The purpose of land reforms becomes two-fold. On the one hand it aims to make more rational use of the scarce land resources by consolidation of holding, imposing ceiling and floor on holding to make cultivation more economical, and on the other hand, redistributing agricultural land in favour of landless labour and improving the conditions of cultivation.

Thus the scope of land reforms includes

- (a) abolition of intermediaries.
- (b) tenancy reforms
- (c) ceiling and floor on land holdings
- (d) agrarian reorganisation including consolidation of holding, and prevention of subdivision and fragmentation.
- (e) organisation of co-operative farms.

All these reforms will be discussed one by one.

1.2.2 OBJECTIVE

The main objective of this lesson is to familiarize the student with the system of land tenure that was existing in India and the reforms that were carried out to improve upon the system of land ownership so as to bring about growth in the agricultural sector. In this context, the entire range of land reforms including tenancy reforms, ceiling on land holdings, consolidation and cooperative farms will be discussed.

1.2.3 LAND TENURE AND TENANCY REFORMS

In the preceding lesson you have studied the nature and causes of the problem of low agricultural productivity in India. It needs no emphasis that agricultural productivity has to be raised by a very substantial margin for meeting the full requirements of our rapidly growing population and also achieving a higher rate of economic development. Agriculture is the largest sector of Indian economy providing

means of livelihood to nearly 70% of the population. Without the development of this sector, there can be little hope for economic development. Now the development of agriculture requires two broad sets of measures. One relates to the provision of the modern improved seeds, manures, fertilizers, irrigation, improved implements, machines etc. These inputs are absolutely necessary for raising productivity of agriculture. The second set of measures relates to the replacement of the existing disincentive ridden agrarian structure by an efficient and growth inducing institutional framework. The first is the method of technological reforms and the second is the method of institutional or structural reform. Both of these reforms are equally efficient for the development of our agriculture. As a matter of fact, institutional reform is the first step in the direction of revitalization of agriculture and should precede technological reform. The reason is that technical improvements in agriculture would remain fruitless and would not lead to any progress worth the name so long as the agrarian structure is not congenial and favorable to economic growth. India's past experience also suggests the same conclusion. In the pre-independence period our efforts to increase agricultural production by the provision of technical facilities did not succeed because we did not change the defective agrarian structure which was the main cause of stagnation in agriculture. The major defect in the agrarian structure at the time of independence was the following :

- (i) Unjust and growth retarding system of land tenure.
- (ii) Un-equal distribution of land ownership together with a serious extent of sub-division and fragmentation of holdings.

1.2.3.1 LAND TENURE :-

The term 'Land Tenure' refers to the sum total of arrangements whereby land is owned, rented, leased or otherwise held for use. The word tenure comes from a Latin word which means 'to hold'. Land tenure is thus a study of the rights of ownership and rights of cultivation of land that can be held by its user under different set of conditions. He may hold it in the capacity of an owner or as a mere tenant with no ownership. Further, the tenant may hold the land as an occupancy tenant or as a tenant at will. If there is an occupancy tenant, he has a permanent and heritable right in land. On the other hand, if he happens to be tenant at will, he has no security of tenure which means that he holds land at the pleasure and mercy of landlords who can also increase the amount of rent quite frequently.

1.2.3.2 Importance of Land Tenure

Agriculture production takes place within the framework of a tenurial system. If this framework is defective, as is the case in most of the developing economies, it becomes a serious obstacle in the way of agricultural progress. Improvement in agriculture is not possible unless this degenerated and disincentive ridden system is removed and replaced by a more efficient and just one. Besides this, the system of

land tenure determines the social and political status as well as the economic power of the agricultural population which is quite a high proportion of the total population in less developed economies.

1.2.4 SYSTEM OF LAND TENURE PREVAILING IN INDIA AND ABOLITION OF INTERMEDIARIES

At the time of independence, India had three main land tenure systems known as Zamindari, Ryotwari and Mahalwari.

1.2.4.1 Zamindari System

This system prevailed in nearly one-half of the country. It was a creation of British rule in India. The system was introduced by Lord Cornwallis in 1793 with a view to create a class of people who would help the British rulers in collecting revenue and who would observe the British interests in India. What Lord Cornwallis did was that absolute, permanent and heritage rights of ownership in land were vested in persons who formerly used to be mere revenue collectors for the Government on a commission basis. These revenue collectors now became the owner of the land for which they previously used to collect revenue, and came to be known as Zamindars.

The main features of this system were

- (i) A landlord or few landlords owned all the land or a village or number of villages. In some cases they cultivated a portion of their vast land estates with the help of hired laborers and shares croppers but the bulk of the land was given on rent to tenants for cultivation.
- (ii) Zamindar was directly responsible for the payment of land revenue to the government.
- (iii) Under permanent settlement which was introduced in Bengal, North Madras and Benaras, the amount of land revenue payable by Zamindar to government was fixed once for all. But under temporary settlement which was prevalent in U.P. and M.P., the amount of land revenue was not fixed permanently. The Government reserved for itself the right to revise the land-revenue after every twenty or thirty years. In actual practice, however, the revisions of land revenue was rare even in the temporary settlement areas.
- (iv) Though the land revenue paid by the Zamindar to the State was fixed, the Zamindars were authorised to increase rent charges from the tenants as frequently as they liked.
- (v) The village waste lands were the property of the landlords.
- (vi) The State was not in touch with the actual tiller of land because of a long chain of intermediaries between the two.

A system similar to Zamindari system developed in most of the Princely States such as Madhya Pradesh, Maharashtra, Hyderabad and Rajasthan. This came to be

known as Jagirdari or landmark settlements. Jagirdars or landmarks were given the right to collect rents from the cultivators in lieu of specific services rendered by them to princes. Unlike the Zamindars, however, the Jagirdars did not have the right to manage or to cultivate land given to them as Jagirs. They enjoyed the right to collect rent only.

The Zamindari system was introduced in India on the lines of the British landlord system. It was hoped that, like English landlords, the Zamindars would live in villages, invest capital, make improvements on land, persuade their tenants for adopting improved and scientific techniques of farming. But this hope did not materialize and the system became a serious bottleneck in the way of agricultural progress. It suffered from a number of defects :-

- (i) The Zamindars took no interest on their lands. They lived a luxurious life in big towns and cities far away from their lands. Their only interest in land was the extraction of maximum possible rent from their lands.
- (ii) The state lost all contact with the actual cultivators because of the existence of a long chain of intermediaries between the State and the cultivator. In the absence of any contact with the cultivator, the State could do nothing to improve their conditions.
- (iii) With the growth of population the demand for land increased. This enabled the Zamindars to charge excessive rents from the tenants. In some of the densely populated fertile areas the rents were often as high as 3/4th of the gross produce of lands. Those tenants who did not agree or were unable to pay rents at enhanced rates, were ruthlessly evicted from their holdings. The result was rack-renting of the tenants and insecurity of tenure.
- (iv) The cultivators had no incentive to work hard on land because they knew that it was the landlord who benefited from their hard work. There was also the fear of eviction.

The system resulted in a serious financial loss to the government since the land revenue was permanently fixed (in permanent settlement areas). The state could not increase the land revenue although the Zamindars collected exorbitant rents from the cultivators.

In view of these serious defects this system was abolished after the attainment of independence in 1947. This is discussed later.

1.2.4.2 Ryotwari System:

This was another system of land tenure which was prevalent in large parts of the country. This system of tenure is in existence even at present in most parts of this country. In fact this is the ideal system of land tenure. Under this system, the cultivator known as Ryot is supposed to come in direct link with State. He holds the

land directly. from the state and is directly responsible to the State for the payment of income revenue. Thus there was a direct contact between the State and the actual tiller of the soil. In the initial stages the system was free from intermediaries. Later on with growth of population and the consequent increasing pressure on land, the ryots also started sub-letting their lands to the tenants, who in turn, did further sub letting to others and so on. In this way several layers of intermediaries were introduced between the State and the actual cultivator. The difference between the Zamindari and the Ryotwari system almost disappeared and they became similar in structure and operation.

1.2.4.3 Mahalwari System:

This system was first adopted in Agra and Oudh and was later on extended to Punjab and parts of U.P. and Bihar. It is known as Mahalwari because it refers to the whole mahal or village rather than to an individual. The most distinguishing feature of this system is joint holding of the entire village land by the village community, technically known as the body of co-sharers. The members of village community or co sharers are jointly as well as individually responsible for the payment of land revenue to the State. Each village undertakes to pay through its headman, known as Lambardar, a specified amount of revenue which is distributed among the villagers. Primarily each cultivator pays for himself but ultimately he is responsible for his co-villagers and they for him. The village common land and the village waste land are also common property of the village community. With the passage of time joint ownership of land by village community has gradually disappeared in most of the Mahalwari villages. Joint ownership has been replaced by individual ownership and individual assessment of revenue.

1.2.4.4 Abolition of Zamindari System:

The Zamindari system was a product of the British rule. Contrary to the expectation of its authors, it proved to be very harmful for India. It was the main cause of the stagnation and inefficiency of the Indian agriculture for about 100 years preceding independence. The cultivator suffered due to exorbitant rents and insecurity of tenure under this system. The landlords, on the other hand, grew rich at the expense of helpless tenants. They were given to wasteful and conspicuous consumption and were least bothered about investment and improvement on their lands. This system was socially undesirable as it reduced the tenant to the position of serfs. Politically this system created a class of vested interests which opposed the progressive nationalist forces in the fight for freedom and even after the attainment of independence. The system was described as economically inefficient, socially undesirable and politically inexpedient. The system had outlived its utility, if any, and its abolition was long overdue.

The abolition of Zamindari was taken up as a national policy soon after

independence. Legislation for the abolition of intermediaries was passed in the States. The process of abolition was initiated in 1950 and was completed within a decade in all the major zamindari and Jagirdari areas.

Abolition of intermediaries involved the following steps : (i) taking away the rights of land ownership from the Zamindars and vesting them in the government, (ii) allowing occupancy rights to Zamindars in the personally cultivated land (khud kasht) conferring occupancy rights on the tenants.

Unlike in the socialist countries like Russia and China abolition of zamindari in India was accompanied by the payment of suitable compensation to the Zamindars. The mode and rates of compensation however varied from state to state . In most of the states, the basis of compensation was the net income of the Zamindar from his land at the time of abolition. Compensation was fixed as a multiple of this net income. The multiple was kept high in the case of small Zamindars with low net income and was low in case of big Zamindars with large incomes.

Compensation was paid by the various States either in cash or in bonds or partly cash and partly in interest bearing bonds. The total amount of compensation payable to all the States was about Rs. 640 crores.

The difficult task of abolition is not practically complete in all the states. As a result of this measure about 20 lakh tenants (formerly intermediaries) have come into possession of land. But the process has been rather slow. It has led to prolonged and costly litigation between the Zamindars and the State. It has also imposed serious financial burdens on the State in the shape of compensation and other incidental expenses.

SELF-CHECK EXERCISE

- (i) What is meant by land tenure system?
- (ii) Briefly discuss the Ryotwari system of land tenure.

1.2.5 Tenancy Reforms

The abolition of intermediaries did not result in bringing all the tenants of erstwhile Zamindari and Jagirdari estates into direct contact with the state. As the Zamindars were allowed to keep their khud kasht lands, the tenants or crop-shares in these personal estates continued to hold land from their former intermediaries and had no direct contact with the state. Further it may be noticed that all the tenants who have come into direct contact with the State as a result of abolition of intermediaries do not cultivate the land themselves. In many cases they have leased out their lands to sub-tenants. The abolition of intermediaries does not affect the position of the sub-tenants who hold the land from the tenant in-chief, the main beneficiary of abolition. Moreover the problem of tenancy exists on a fairly large scale in the ryotwari areas. The ryots can sublet their land to tenants whose interests need to be safeguarded. So even after the abolition of intermediary rights, the tenancy

problem exists and it will continue to exist so long as the leasing of land is not banned. Tenancy laws which define the rights and obligations of the tenants vis-a-vis the land owners thus become imperative.

Tenancy legislation has a fairly long history in India. The pre-independence tenancy legislation mainly focused its attention on the regulation of rents and security of tenure as its practical effect. However, the effect was to protect the interests of the landowner than to provide benefits to the tenants. On the eve of independence tenants-at-will of land owners in ryotwari and sub-tenants of intermediaries in the Zamindari areas enjoyed very little legal protection.

This was the background in which tenancy reforms were undertaken in the post independence period. Tenancy legislation, which regulates the relationship between land owner and tenants, was passed in a number of States in the period of the First Five Year Plan. Tenancy laws are now in existence in all the States. The following are the main provisions of these laws :

1.2.5.1 Regulation of Rent

Before independence, rent which the tenant was required to pay, used to be half of the produce or even more. This was an excessive rate of rent by any standard. Such a high rent had an adverse effect on agricultural production. The First Five Year Plan recommended that the rate of rent should not exceed $1/4$ or $1/5$ of the produce. Acting on this recommendation the State governments have passed legislation fixing the maximum limit of the rent which can be legally charged from the tenants. Some of the states have fixed rent at a level which is higher than the limit recommended in the plans. For example in Punjab and Haryana the maximum rent chargeable from tenants has been fixed at $1/3$ of the gross produce. Not only the rent is fixed higher than the limit proposed by the Planning Commission but the enforcement of rent laws has also been found to be rather less. Various enquiries made to evaluate effects of tenancy reforms show that not only the rents charged are much higher than those fixed by law but majority of land owners have no hesitation in stating them.

1.2.5.2 Security of Tenure

Legislation providing security of tenure has also been enacted in all the States.

The legislation has three main features: (i) eviction of tenants should not take place except as provided in law, (ii) land may be resumed by an owner for personal cultivation only, and (iii) in the event of resumption a prescribed minimum area of land be left with the tenant. The progress achieved in the enactment and implementation of measure has not been uniform in different States. In some States all tenants have been given full security of tenure and no right of resumption has been allowed to owners. In some other States, the landlord is permitted to resume a limited area of

land for personal cultivation subject to the condition that a prescribed minimum area is with the tenant. There are still others where there is a provision for the land owner to resume a limited area for personal cultivation but no provision for leaving a minimum area with the tenant. The main difficulty experienced in the implementation of this measure has been a vague and elastic definition of personal cultivation. Taking advantage of this a large number of land - owners have ejected their tenants under the guise of 'voluntary surrenders'.

1.2.5.3 Right of ownership of tenants

'Land to the tiller' has been the accepted national policy ever since independence. The first Planning Commission recommended that they should be entitled to become owner of holdings provided those holdings are not presumable by the landlord for cultivation. The necessary legislation has been passed in all States. It authorises tenants to acquire ownership right on payment of a price which is much less than the market price of land. In most of the States the right to purchase land is optional. Being optional, this right has not been exercised by a large majority of tenants. An important reason why the right has not been exercised is that the tenants are too poor to pay the required price.

1.2.6 SIZE OF AGRICULTURAL HOLDINGS

One of the crucial problems confronting Indian agriculture is the inadequate size of holdings in India.

Size and pattern of holdings in India

The holdings in India are small and fragmented, i.e. a holding is not one compact block or at one place. It is in scattered strips usually separated by long distances. Supposing a man has a holding of 20 acres scattered in strips of 5 acres each. If this has to be divided into four heirs, then an heir would not accept a single strip of five acres as his share. In case he did, it would lead to sub-division of a holding but not fragmentation. But the usual practice is that each heir would take 1.25 acres from each plot of land. Sub-division and fragmentation are thus the twin results of the division of land amongst the heirs.

In India, as has been pointed out earlier, the size of holdings is ridiculously small. When we compare the size of our holding with that of holdings in advanced countries, our holdings literally look toy-sized. In India the average size of ownership holdings (to which most of the statistics pertain) is very small. But still smaller is the size of cultivated holding. According to a report of National Sample Survey (1954-55) the average size of operational holding in India is only 5.43 acres. 71% of the holdings are below 5.43 acres, 27% of the holdings are between 5 to 20 acres and only 1.10% is above 50 acres. The averages size of farms is lower in South India as, compared to that in North-West India. We can have a better idea of the problem, when we compare this figure with those of other countries. For example, the size of operational holdings

in U.S.A. is 145 acres and in U.K. 20 acres. U.S.S.R., Denmark, Norway, New Zealand, Yugoslavia all have holdings much larger than ours. Of course, Japan is one country which is advanced otherwise but where an average operational holding is smaller than ours (less than 2 acres).

In the same way, fragmentation of holdings has also gone very far in this country. Earlier studies done (for e.g. by Mr. Keating and Dr. Mann) revealed the extent of this problem. The farm management studies, conducted recently, support it as well. They reveal that as the size of the farm increases, number of fragments per farm increased. This shows that the unit of cultivation is reduced to a ridiculous degree, so much so that cultivation becomes uneconomical. Just to take one example; in U.P. the farms between 5 to 7.5 acres are on an average divided in about nine fragments. In one of the villages in Punjab 34.5% of the cultivators had over 25 fragments each.

1.2.6.1 Causes of Sub-division and Fragmentation

There are many factors that have led to this evil :-

(i) Growth of Population : Rapidly increasing population unaccompanied by industrial development has been the most important cause of the problem. The inevitable result is more and more pressure of population on land leading to smaller and smaller holdings. 70 per cent of the population depends on agriculture and this percentage has remained more or less constant for the past so many decades.

(ii) Institutional Changes: The joint family system, which was a very common social institution in India a few decades back started breaking up as a result of the Western influence. Property was no longer held jointly. Industrialization and consequent growth of towns created the desire and necessity to partition property and live apart. The result was sub-division and fragmentation of holdings.

(iii) Laws of inheritance : Our laws of inheritance have also been responsible for the malady. According to our laws, property is divided equally among the sons (and now daughters also). But strictly speaking, it is not a cause, it is a factor which facilitated the process.

(iv) The decline of indigenous industries: During the British rule, cheap machine-made goods came to India. The competition from these goods crushed the indigenous industries. The artisans who were dependent on these industries for their livelihood fell back on land. This further accentuated the problem.

(v) Agricultural indebtedness: Another factor that has accentuated the problem of sub-division and fragmentation is increasing indebtedness of the cultivator. Once the cultivator takes a loan from the money-lender he cannot get out of his clutches. Excessive interest rates and other unscrupulous ways of the money-lender entrap the cultivator for generations. And ultimately a part of the holding is taken away by the money-lender. When the British government imposed restrictions on the transfer

of land from agriculturist class, there cropped up a class of agricultural money-lenders. As a result of transfer of a part of land to the money lender, less is left with the cultivator.

(vi) Attachment to landed property: In India, people look upon land not only as a source of livelihood, or a mode of living but as a mode of life also. They insist on getting a share out of their ancestral property and cultivate even if the share consists of a small piece of land they keep it and refuse to sell it.

1.2.6.2 Economic Effects of Sub-division and Fragmentation:

Advantages:

- (i) It ensures fair and just distribution of property. When land gets divided equally amongst the heirs we get a large class of peasant proprietors, instead of big landlords on one side and landlord cultivators on the other. It gives rise to a middle class.
- (ii) All heirs have something to start with in life.
- (iii) When the holdings are scattered, the cultivator gets varied types of land. That enables him to raise a number of crops which means less risk of crop failure. It also keeps him busy for a longer period in the year. For example, one field may be flooded by water while another is free from it and one-crop may fetch lower price and that is compensated by higher price for the other. But even if such advantages are there, we cannot recommend fragmentation. The interest of the country is above the interest of the individual.

It is also claimed that small holding means intensive farming which is not possible at large farms.

Harmful Consequences:

A study of disadvantages of sub-division and fragmentation will show that its advantages are not of much significance. Sometimes small farms are justified. Japan is the frequently quoted example in this case. There the average size of holding is only two acres. Lewis holds the same opinion. But the trouble in India is that even the small holdings are found in a number of fragments, perhaps the smallest in the world. It is a strong impediment in the introduction of improved and moderns methods of production.

The chief disadvantages are given below:

- (i) Improved methods of cultivation cannot be used to get maximum yield and the result is higher cost per unit. The fixed costs as on tube well and tractors remain the same up to a point. And it would not be worthwhile incurring such a cost when the holdings are very small because the average fixed cost comes out very high.

There is a vicious circle operating in agriculture. Old and

primitive methods mean less of income ; less income means poverty as a result of which the farmer cannot adopt better methods of cultivation.

- (ii) Even variable costs do not change in exact proportion and it may not be worthwhile incurring such costs (e.g. expenditure on fencing) when the holdings are very small.
- (iii) On a small holding it is not possible to make an economical use of even such equipment as the cultivator has. For example, a farmer with two acres of land may have a pair of bullocks who will stand idle for most of the time though the cost of maintaining the bullocks remains the same. In a capital poor country like India, the under-utilization of even such meager capital is a grave disadvantage.
- (iv) In case of fragments even irrigation becomes almost impossible. When a well is dug on the fragment, water will have to be taken to other fragments through channels located in the fields of the other cultivators. Hence irrigation of all fragments would be difficult.
- (v) It leads to waste of precious agricultural land. Much land is wasted on fencing. Loss of land also takes place when the holding, due to persistent sub-division becomes too small to be cultivated. It has been estimated that in Punjab 60% of the land is wasted on account of fragments being too small to be cultivated and another 1 % is wasted on boundaries and fencing.
- (vi) Another important disadvantage of fragmentation is that close supervision, so essential for profitable cultivation is impossible: how can one cultivator look after scattered pieces of land simultaneously? His cattle and all other equipments are kept in his house in the village, and are daily carried to the field. It involves time and energy of both the cultivator as well as his cattle. This is also the case when he moves from one fragment to another. This not only wastes his time, but also tires him and his cattle. So often he tries to save his time by passing through other people's land. And the obvious result is disputes which lead to expensive litigation, and enmities that are then passed on to the next generation.

So we find that sub-division and fragmentation of holdings have many disadvantages which have obstinately stood in the way of improvement in agriculture. The combined evils of sub-division and fragmentation can be Summed up as : this destroys enterprise, results in enormous wastage of labour, leads to

loss of land owing to boundaries, makes it impossible to cultivate holdings intensively as would otherwise be possible and prevent the possibility of outsiders with more money as tenant farmers or as purchasers of good agricultural property. So progressive agriculture demands restriction on sub-division and fragmentation.

SELF-CHECK EXERCISE

- (i) What are the main causes of sub-division and fragmentation of holdings?
- (ii) Why is subdivision and fragmentation of holdings harmful for agricultural growth?

1.2.6.3 Solution

Consolidation of Holdings : The solution of fragmentation lies in consolidation of holdings. Consolidation of holdings means of the re-arrangement of holdings among several landowners in such a way as to make the holding held by a landowner more compact. The size of the holding remains the same. The difference is that the landowner gets a compact area equivalent in value and size to what he owned as scattered pieces.

As has been pointed out above, consolidation holds the key to solve • fragmentation of holdings. It will save land, time and labour and make irrigation possible. It will also facilitate better planning of the village land as a whole.

Progress of Consolidation

Consolidation of holding was first taken up on voluntary basis through Cooperative Societies in Punjab in 1921 But it was soon realized that compulsion was needed. So an element of partial compulsion was introduced in U.P., Madhya Pradesh etc. The State Government could undertake scheme of consolidation where a given proportion of landowners owning a given proportion of land agree to it. But even then much progress did not take place. So after Independence in 1947 compulsory consolidation was introduced. The State Government assumed the power to take up the work on its own initiative. Such laws now exist in almost all the States. Mumbai was the first State to enact such legislation in 1947. Some States like Kerala and Tamil-Nadu took up the issue later.

The progress of consolidation of holdings has been uneven and unsatisfactory. In some states, the performance is very good and in others, it is poor. In some states the laws exist, but no progress has been made, in still others the Legislation was enacted only recently. Punjab has shown the best result. Till the end of the Second Five Year Plan, consolidation was complete on 96% of the total land in Punjab. This percentage was 18 in U.P., 10.5 in Madhya Pradesh, and 8.5 in Rajasthan and almost negligible in Andhra Pradesh and Bihar. Till the end of the Second Five Year Plan, 29.6 million acres of land had been consolidated. The target proposed for the Third Year Plan was 2 million acres, which was completed. The total consolidated area by the end of the Third Plan was 240 lakh hectares .

Difficulties in Consolidation

Important difficulties which are faced in the process of consolidation are :

1. The farmers are not only illiterate but conservative also. They cannot understand the benefits of consolidation. That is why the progress of consolidation work is rapid in those States where the peasants are conscious of its benefits e.g. Punjab.
2. Sentimental attachment to ancestral land is an important hindrance. The peasants refuse to part even with tiny bits of ancestral property, even when they get exactly the same area in exchange.
3. Lack of uniformity of land is another difficulty. All pieces of land are not identical. And those who have better quality of land are not interested in exchanging it with land of less superior or inferior quality.
4. Consolidation is a lengthy process. It involves many stages some of which are really difficult and require considerable administrative capacity. The revaluation of records has to be brought up to date. Different plots are examined then the details of principles on which lands are to be allotted are laid down. The villagers are invited to lodge their complaints against the allotment and then land is transferred and compact holdings are formed.
5. On the whole, we find that the movement has not evoked the necessary cooperation of the people especially of rich peasantry who propagate against consolidation. Consolidation is undoubtedly desirable and we should expedite it at the earliest. But two things have to be borne in mind. Firstly, consolidation does not increase the size of the holdings, it only makes it compact. Secondly fragmentation is a continuing process. Therefore, after consolidation further fragmentation needs to be prevented. This brings us to the study of other solutions.

Prevention of fresh fragmentation

As has been pointed out above, mere consolidation of holdings will not solve the problem permanently. The present laws of inheritance and the practice of sub-division and fragmentation will undo it in a generation's time. So fresh fragmentation -has to be avoided. For this the minimum limit, beyond which further sub-division should not take place must be laid down. In almost all the States a floor on holdings has been fixed. For example, it is .3.25 acres in U.P. and 4 standard acres in Delhi. Though all the States have enacted this legislation there are administrative difficulties in its execution. The minimum . limit also varies from State to State.

Creation of Economic Holding

Another solution of small holdings is creation of economic holdings. But it is not easy to define an economic holding, because different economists have given

different definitions. For example, it is defined as one “which will provide average family the minimum standard of life considered satisfactory.” Stanley Jevons wants to give a high standard of living while Keating associates reasonable standard of living with it. The Congress Agrarian Reforms Committee used the term economic holding to mean a holding which, under given conditions would provide (a) reasonable standard of living and (b) full employment for a family of normal size and at least a pair of bullocks.

Obviously an economic holding should mean that holding which, together with other factors of production give us the best result in terms of output and at the same time, provides reasonable living to the dependants on it. So the size of the economic holding will vary with the fertility of the soil techniques of cultivation, crops to be grown nature of farming and the irrigation facilities. The size of economic holding will be different under different conditions.

Whatever be the factors determining the size of economic holding ; one thing is certain, that a major part of holding in India is far below the size of economic holding.’

The question is can we convert these into economic holdings? i.e. from where will we get the land? Lakhs of small cultivators will be thrown out of job. There are other obstacles also. It is not easy to take away the surplus land from the rich landlords. It is equally difficult to persuade the poor peasants to sell their uneconomic holdings as sentimental attachment with land is too strong to permit it. In a democracy, force cannot be used. It means that at the present moment creation of economic holding does not seem feasible. It will be possible for us only when there is substantial diversion of population from land to industry.

Another thing that has to be kept in mind is that even when economic holdings are created the problem won't be solved. It has to be seen that the economic holdings once created are not split up afterwards. That will have to be checked by law. The law of inheritance has to be amended in such a way as will not allow the division of land after that limit. Only division of income may be permitted.

Creation of family holding:

Another concept, family holding, has been introduced by the Planning Commission. A family farm has been defined as the area of land which yields a gross average income of Rs. 1600/- per annum or a net annual income (including remuneration for the family labour) of Rs. 1200/- and is not less than a plough unit.

Since creation of economic holding will take a very long time, we have to make a start with the creation of family holding. Even that would have to be preceded by some diversion of population' from land to industry.

Co-operative Farming:

Economists and politicians have looked upon cooperative farming as the best

solution of the uneconomic holdings in India. The Congress Agrarian Committee long ago expressed the view that efficiency of agriculture cannot increase substantially without cooperative farming. Co-operative farming holds the key to solution of this problem.

The term cooperative farming is used in more than one sense. Sometimes it is used to indicate a system in which farmers owning and cultivating the land individually join hands for non-farm operation like marketing of crops, purchase of seeds, manure, tools etc. This is given the name of Co-operative Better Farming or Service Co-operation or Co-operative Servicing of Individual farming or Co-operative. This is a case of co-operation only. Under corporative farming proper, or Co-operative joint farming the cultivators pool together their holdings voluntarily and manage the whole farm as one unit under elected management.

While cultivation is joint, the ownership of land is individual. The distribution of income is functional and not personal. They who give their land only get rent and they who work on land only, get only wages. They, who do both, get rentals well as wages. The profit is shared in proportion. Mostly, when we talk of co-operative farming, the reference is to co-operative joint farming.

1.2.6.4 Difficulties in the way of solution:

Firstly, these societies are not spread all over the country. They are mostly found in Punjab, Uttar Pradesh, Andhra Pradesh and Rajasthan. In other states the progress is far from satisfactory. Secondly, a major part of these societies (50% to 60%) are formed just for the purpose of getting assistance from the government or to escape ceiling on holdings. Societies are quite often formed by members of the same family or with the same family or with friends and relations. Very few societies are working properly.

So these weaknesses found in the working of co-operative farming societies have to be removed. All the difficulties (of different solutions) mentioned above highlight the fact that the problems of sub division and fragmentation are not merely an administrative one. Its solution is possible Only if it is viewed as part of the larger problem of Indian Policy.

SELF-CHECK EXERCISE

- (i) What do you understand by co-operative farming?
- (ii) What is consolidation of holdings?

1.2.7 CEILING ON AGRICULTURAL HOLDINGS

We have seen that apart from a degenerate and disincentive ridden tenurial framework, our agrarian structure suffers from large disparities in land ownership and also sub-division and fragmentation of holdings. Various measures have been adopted from time to time to remove these defects of the agrarian structure. To reduce the disparities in land ownership, ceiling on land holdings has been introduced. To

tackle the problem of fragmentation, consolidation of holdings scheme had been adopted and to enlarge the size or the production unit co-operative farming is being introduced.

1.2.7.1 Ceiling on Land Holding :

Ceiling on land means fixing an upper limit to the area of land which an individual may be allowed to own. Land in excess of this upper limit is to be taken away from the existing owners and is to be re-distributed among landless agricultural labourers and small peasants. The principle of ceiling was first suggested by the Planning Commission in the First Five Year Plan. The Second Plan recommended that steps to impose ceiling should be taken in all States. The general principle laid down by the Planning Commission in this respect was that ceiling should be put at three times the family holding. Family Holding was defined as the area which under the existing techniques of production can be cultivated by a family of average size working with such assistance as is customary in agricultural operation.

The main purpose of land ceiling is to reduce disparities in the ownership of land by cutting down the size of large and very large farms. It has two aspects: (i) Ceiling of future acquisition of land; (ii) Ceiling on existing holdings. The reduction of disparities will help to achieve two objectives: (i) It will make available surplus land which can be distributed among the landless agricultural labourers : petty land holders and other poor classes in rural areas. The result would be the creation of a contented and broad based land-owning peasantry. (ii) Ceiling will have the way for a co-operative rural economy by creating homogenous rural society in which there would be no large disparities in the economic and social status of the various members. In the absence of ceiling co-operative farming and other forms of co-operation cannot be successful because some members of the co-operatives will be owners of large farms and others, of small farms and it would be extremely difficult to bring them together in the same co-operative society.

Following arguments are put in its favour:

- (i) Utilization of the surplus land with big landlords will enable us to increase the size of the small holdings. That will not only mean fuller employment for those who are dependent on land, but would increase agricultural output also.
- (ii) With this reform, the landless tenants/labourers will also get land of their own. This will put an end to their exploitation and thus increase output in land.
- (iii) This 'will' facilitate consolidation of holdings.
- (iv) This would provide sound basis for the development of co-operative rural structure in general.
- (v) The biggest advantage claimed in its favour is that it will bring about

fair distribution of land and would help us in the attainment of socialistic pattern of society.

Some people do not favour the idea of land ceiling.' They. have put forth the following objections to the imposition of ceilings :

(i) It has been suggested that ceilings will have an adverse effect on agricultural production. The argument is that the well-managed an efficient big farms will be split up as a result of ceiling and transferred from the resourceful to the resourceless people who will fail to make the necessary improvements and investment. Agricultural production would thus suffer as a result of the break up of larger farms.

This objection does not, however, seem to be based on actual facts because the Farm Management Surveys and some other studies clearly show that productivity per acre of small holdings is higher than that of large holdings.

(ii) Another objection is that ceiling will not release enough land for enlarging all petty holdings and for giving land to all landless agricultural labourers. It is argued that the number of land-owners having land in excess of the ceiling is not very large so that the surplus land surrendered to the government would not be enough to satisfy the land hunger of all landless labourers or to make all uneconomic holdings, economic. So the measure will fail to achieve the purpose it has in view.

The answer to this objection is that something is better than nothing. Even if some petty holdings can be enlarged by using surplus land and some landless labourers can be made owners, it would definitely be an improvement upon the existing situation.

(iii) It is objected that ceilings on land holdings would put a ceiling on agricultural income for which there is no justification so long as there is no ceiling on non-agricultural income.

This argument is also based on a fallacious reasoning. A ceiling on agricultural land is not the same thing ,as a ceiling on agricultural income because the same land can be made to produce a much larger income than at present through more intensive cultivation.

So we conclude that most of the objections to ceiling are based more on ignorance or prejudice than on sound reasoning. They are not altogether false but have been considerably exaggerated.

1.2.7.2 Progress of Ceiling :

Ceiling legislation has been enacted in all states. The level of ceiling, however, differs from State to State. It is 50 acres in Assam, 30 acres in H.P. and 25 acres in West Bengal.

So, progress of land reforms in respect of ceiling on land holdings may be described under the four heads : (i) unit of application (ii) upper limit for land (iii) exemption and (iv) availability of surplus land and its distribution.

(i) Unit of Application : Under the old declaration of the act the basis of fixation of ceiling was an individual instead of a family. It means that every member of a family could keep land up to the prescribed limit of ceiling As a result, despite the ceiling law, each family came to possess large areas of land.

But under the present and new policy the basis of fixation of ceiling is the family and the unit of family is strictly defined.

(ii) **Maximum Limit:** The maximum limit fixed under the old Act was very high and the gap between the lowest and the highest limit was very high, e.g., in Punjab and Haryana the limit ranged from 30 to 80 acres. But under the new policy this upper limit of holding has been lowered and the gap between the lower and the upper limits has been narrowed.

(iii) **Exemption:** With regard to exemption different laws were laid down for different states. Among the lands exempted were orchards, grazing lands, sugarcane fields of sugar factories, co-operative farms, mechanised farms and lands under religious trusts etc. This list of exempted land was a long one and there did not seem much use of that type of regulations. So in the new policy special amendments are made in this regard and the number of exemptions has been considerably lowered. Under it, mechanised farms of old princes and private trusts are no longer on the list of exemption.

(iv) **Surplus land and its distribution :** Though the ceiling legislations were enacted in all States, the pace of its implementation has been rather slow. In most of the States rules have been framed and declarations of holders of surplus lands have been obtained but the surplus lands have not been taken away for redistribution. Apart from the slow implementation, the ceiling programme has suffered from many other weaknesses. Firstly, the limit of three times the family holdings has not strictly been adhered by all the States. In a number of States, ceilings have been placed at a limit which is higher than that proposed by the Planning Commission. High ceilings have reduced the effectiveness of this measure. Secondly, large malafide transfers of land have taken place in various States to circumvent the ceiling legislation. These malafide transfers became possible mainly because of the long gap between the enactment of ceiling legislation and its actual implementation. Thirdly, there has been wide spread misuse of the exemption provisions.

A Conference of Chief Ministers was held in July, 1972 to consider all aspects of the problem of ceiling. The national guidelines on ceilings were drawn up and sent to all States. Consequently, ceiling laws of most States have been amended and the position, according to Agricultural Statistics at a Glance (2002) is as follows :

State	Level of Ceiling (Hectares)
Andhra Pradesh	4.05 to 21.85
Assam	6.74
Bihar	6.07 to 18.21
Gujarat	4.05 to 21.85
Haryana	7.25 to 21.85

Himachal Pradesh	4.05 to 28.33
Jammu & Kashmir	3.68 to 9.20
Maharashtra	7.28 to 21.85
Karnataka	4.05 to 21.85
Kerala	4.85 to 6.07
Madhya Pradesh	7.28 to 21.85
Orissa	4.05 to 18.21
Punjab	7.00 to 20.50
Rajasthan	7.28 to 70.82
Tamil Nadu	4.86 to 24.28
Tripura	4.00 to 12.00
Uttar Pradesh	7.30 to 18.25
W. Bengal	5.00 to 7.00

Note: The lower limit is for irrigated land with two crops, and the upper is the (upper limit) for dry land. In spite of the revised legislation on ceiling in the light of the Chief Ministers meet the progress in acquisition and distribution of surplus land has not been achieved. It is very slow and much below expectation.

1.2.8 SUMMING UP :

The system of land ownership in India suffered from a number of defects, namely the systems of land- tenure, subdivision and fragmentation of holdings, which had a considerable negative impact on the growth of the agricultural sector. A number of reform measures undertaken in the form of tenancy reforms, abolition of intermediaries, ceiling on land holdings and consolidation of holdings improved the situation to some extent, but there is still a lot to be done in this direction.

1.2.9 SUGGESTED READINGS :

The reading list is the same as for Lesson No.1.

1.2.10 QUESTIONS FOR PRACTICE : LONG-ANSWER TYPE

- (i) Discuss the various systems of land tenure prevailing in India.
- (ii) Discuss the advantages and disadvantages of subdivision and fragmentation of land holdings.
- (iii) What is meant by ceiling on land holdings? Why is it needed? Discuss the progress made by ceiling legislations in India.

SHORT-ANSWER TYPE

- (i) What is family holding?
- (ii) What is the Mahalwari system of land tenure?
- (iii) Write a brief note on security of tenure.
- (iv) Write a brief note on co-operative farming.

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ECONOMICS OF AGRICULTURE**LESSON NO. 1.3****AUTHOR : KHUSHWANT SINGH****Agricultural Demand and Supply**

The agricultural and the industrial sector of an economy, on many occasions, have been found to face the fluctuations in prices, income and output in the same direction simultaneously. However, the intensity of these fluctuations has been greater in agricultural sector when compared with that in the industrial sector. The reason for relatively greater price fluctuations in case of agricultural products lies *in the nature of their supply and demand*. The supply as well as the demand for most of the agricultural products is relatively less price elastic. How the inelastic supply and inelastic demand for agricultural products magnify the fluctuations in their prices, is explained below.

Suppose demand for a product falls. If the supply is inelastic, price of the product will have to be reduced considerably as its supply can not be markedly reduced. If the supply of product were quite elastic, it can be reduced as soon as the demand falls and the ultimate prices will not fall much because of the reduction in supply.

Similarly if instead of change in demand, there is a change in supply, the price will change too much if demand is price inelastic. Suppose supply falls. The price should rise. The buyers will be willing to pay a much higher price if the demand cannot be reduced too much, i.e. if the demand is price inelastic. On the other hand, if the demand is relatively more elastic, the price rise will be relatively small. This point can be easily explained with the diagram in figure (A).

In the first place, we shall illustrate how the elasticity of supply affects the price fluctuations when demand changes.

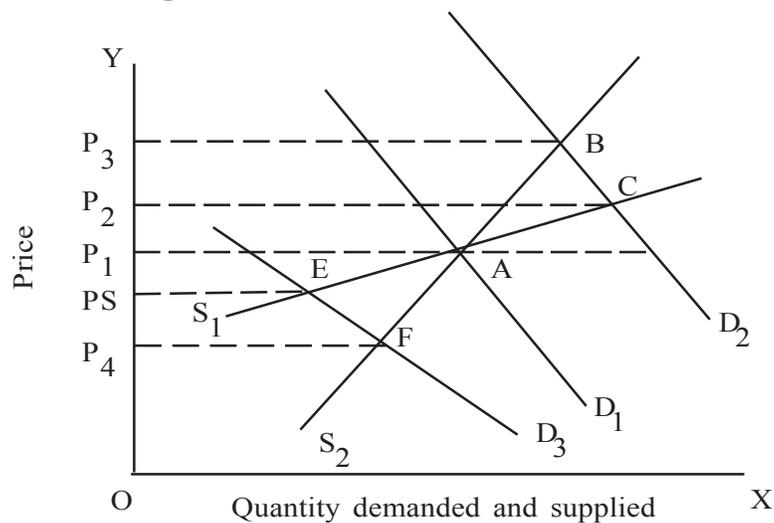


Figure (A)

We may have a look at Figure (A) for this purpose. In diagram (A), D_1 is original demand curve, while D_2 represents an increase in demand, D_3 shows a decrease in demand. Supply curve S_1 shows greater price elasticity as compared with S_2 . With S_1 as well as S_2 supply curve and D_1 demand curve price will be P_1 , which may be regarded as original price. If the producers' supply reactions are represented by S_1 then price will rise from P_1 to P_2 when demand curves shifts from D_1 to D_2 . If producers' supply reactions are represented by the curve S_2 (less elastic supply) same shift in demand from D_1 and D_2 will cause a greater rise in price to P_3 . Similarly when demand falls from D_1 to D_3 , price fall will be greater when the supply is represented by the curve S_2 (less elastic) rather than by the curve S_1 which shows a relatively greater price elasticity of supply.

In Figure (B), we show how a relatively less elastic demand reacts to greater price changes when supply changes.

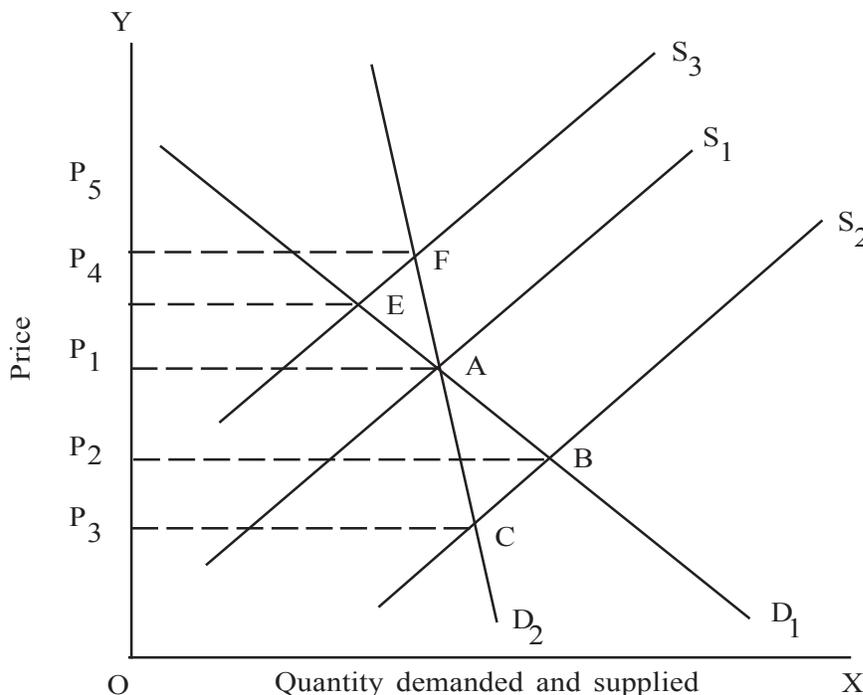


Figure (B)

In the diagram, S_1 is the original supply curve whereas the D_1 , and D_2 are the demand curve. D_1 curve shows greater price elasticity than the D_2 curve. P_1 the original price, suppose supply increases and is now represented by supply curve S_2 . The price will fall to P_2 if the demand

was represented D_1 and to P_3 if the demand was represented by D_2 .

Intersection of new supply curve with D_2 , which as we have seen, shows relatively less price elastic demand, results in a greater price fall as compared with that with D_1 . Similarly, we see that a decrease in supply as represented by S_3 will lead to a higher equilibrium price (P_3) if the demand is less price elastic than when the demand is more price elastic (in the later case equilibrium price is P_4).

Both the supply of as well as demand for the agricultural products are relatively less price elastic when compared with those pertaining to non-agricultural products and this results in relatively greater fluctuations in their prices.

Demand and supply of agricultural products relatively less price elastic :

It is necessary to explain the reasons why supply and demand for agricultural products are relatively less price elastic.

(a) Demand for Agricultural Products :

We may divide the agricultural crops into two categories for analysis their demand, namely the food crops and the fibre crops.

So far as food crops are concerned, it is obvious that people can not extensively vary their demand for such crops. Their intake is biological determined. If the people in a country have sufficient income and already consuming the food crops, in their basic form, as per biological requirements, any fall in their prices will not further increase their consumption. Similarly people in such a country will continue to consume almost the same amount of these crops (in their basic form) when their prices rise, simply because with their high level of income, they can easily pay higher prices for these crops. The price elasticity of demand for food crops, will be thus, quite low, especially in a high income country. And we should note here that the problem under discussion pertains mainly to well developed, high income countries.

Demand for fibre crops, no doubt, is more elastic than that for food crops. But still price elasticity for most of these crops is less than unity in most of the developed countries. The reason is that most of the fibre crops are meant to meet the basic necessities of life and the demand for such products, at the given point of time cannot be very price elastic.

(b) Supply of Agricultural Products :

There are many reasons for the low price elasticity of supply of agricultural products. Most important points are as follows :

(i) The peculiar cost conditions :

In the short run production costs can be divided into two parts namely (i) Fixed costs and (ii) variable costs. The production continues, as we know,

so long as the price, even if falling, covers the average variable costs. Now, in agriculture portion of its variable costs is quite small when compared with the fixed costs and therefore, the price of a crop even after a fall may still covers its variable costs and production of the crop may continue. In fact, we should consider another important point regarding variable costs in agriculture. Production of a crop is spread over a span of time. As time passes, variable costs turn into fixed costs. Therefore, the variable portion of total costs becomes still smaller.

(ii) Biological nature of production process :

Whereas the distinction between fixed costs and variable costs explains why no attempt is made to reduce the supply of crop, the biological nature of the crop explains why its production cannot be increased when its price rises, especially during a season. If once the crop has been sown and prices start rising, it may not be possible to bring more area under cultivation during that season simply because the climate suitable for sowing of that crop is no longer there.

(iii) The Market Structure :

Market structure obtaining in agriculture also make the supply of individual crops or all crops taken together, inelastic for one season or a period covering more than one season.

(iv) Inflexibility in the total area under cultivation :

There is yet another reason if we look at the production of one single crop beyond a season, its production will undergo a change due to a change in its price through diversion of land from one crop to other crops.

(v) Immobility of Labour :

We have stated above that land under cultivation generally does not change when the prices of crops change. It neither increases nor decreases. It does not increase simply because additional land is not available for cultivation. But what prevents it from going out of cultivation when the prices of crops fall ? The answer lies in the lack of mobility of agricultural labour to the non agricultural sector.

Because of the relatively less elastic demand as well as supply of agricultural products the prices of agricultural products as explained above are likely to experience larger fluctuations than those of industrial products during a particular time span.

The study of Schultz highlights the differences in the nature of instability in agriculture and in industry. We can say that agriculture reacts to changes in market conditions by taking the major part of the impact of prices while maintaining production most intact. Industry on the other hand, reacts to be changed market conditions by adjusting its production and the prices remain rather stable.

Price spread :

The price spread is simply the difference between the average retail price per unit sold and the farm value of the equivalent quantity sold by farmers, with credit given for the value of any by products. A price spread does not provide information concerning the profitability of any of the business between the farm and retail market levels. The price spread simply compares the total value of the product that comes in the back door of the business with the total value of that which goes out of the front door. It does not in any way include the costs that are incurred through add services. While the product is being moved from the back to the front of the store.

Most farm products require the addition of some of the marketing services before they can be used in the direct satisfaction of human wants. These services may be in the form of further processing transportation, grading, packaging, or any one of a number of other services. The fact remains that these services must be performed to some degree prior to the time that the item is consumed. Thus, the product in demand by the consumer at the retail level is a difference of time, place or form. That is, fresh peaches in an orchard in Patiala are not the same product as canned peaches in light syrup in a super market in Delhi. For that matter fresh peaches in a Patiala orchard are a different product than fresh peaches in a super market in Bangalore. In each case, marketing services have been added to change the time, place and/or form in which the product was available. As a result, costs have been added.

Market Margin :

The market margin refers to the difference between prices at different levels of the marketing system. The marketing margin is the difference between farm price P_f and retail price P_r . It is also represented as the vertical distance between the demand curves (or the supply curves) in Figure 1. The marketing margin refers only the price difference and makes no statement about the quantity of product marketed.

The value of the market margin is the difference in price at two levels of the marketing system multiplied by the quantity of product marketed. In figure 1, the value of the marketing margin will be equal to $(P_r - P_f) Q_{rf}$. Viewed in this manner, it is similar to the concept of valued added. It is the value of the marketing margin that is measured by the marketing bill and the market basket statistics.

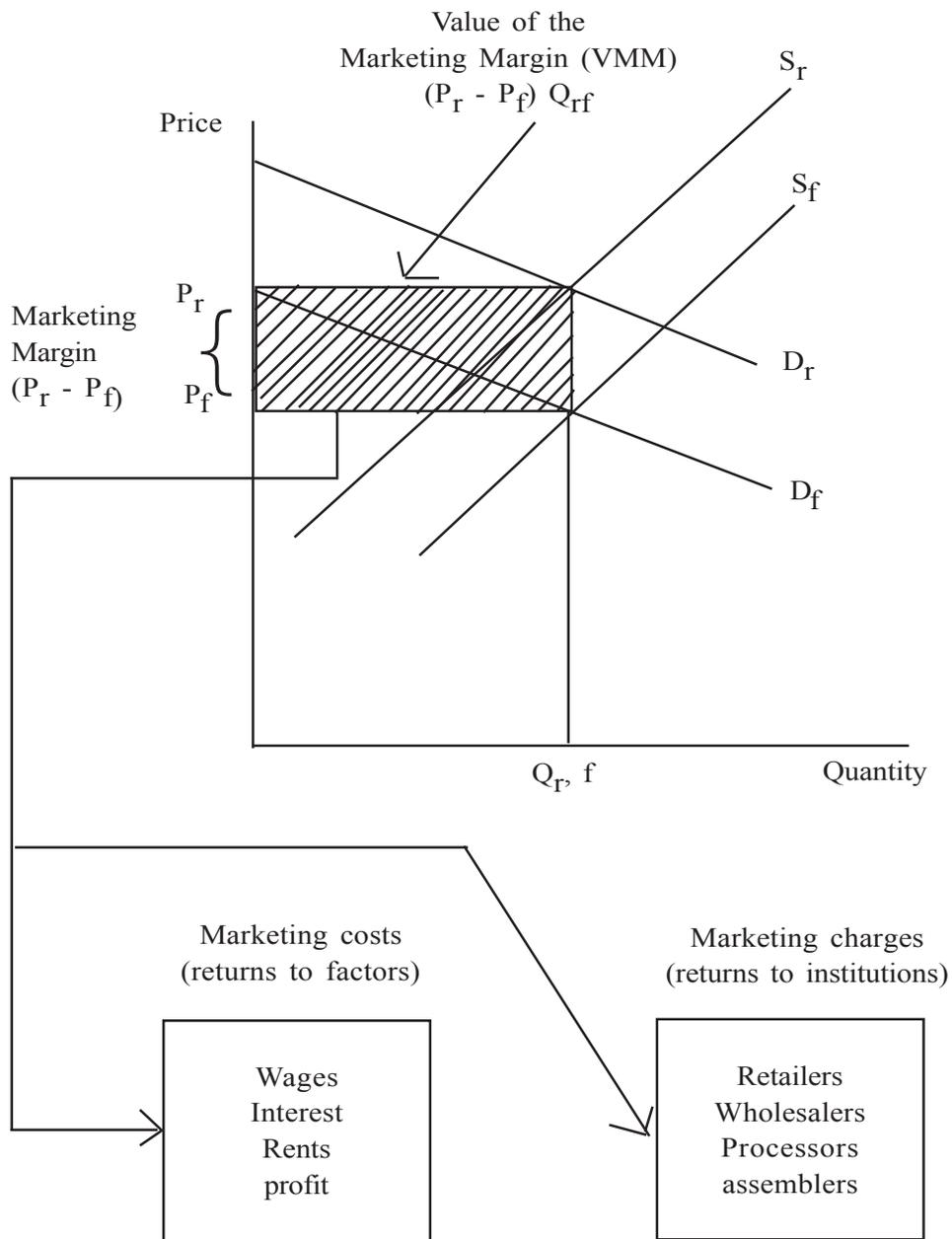


Figure 1

The value of marketing margin may be viewed an aggregate or may be subdivided into different components. One way of subdividing the VMM is in terms of its returns to the factors of production used in providing the processing and marketing services rendered between the farmer and the consumer. These would include such things as wages, as a return to labour, interest as a return of borrowed capital, rents, as a returns to land and buildings and profits as a return of entrepreneurship and risk capital. This

subdivision of the VMM is referred to as the marketing costs.

Another way of subdividing the value of the marketing margin is in categories of returns to the various agencies or institutions involved in the marketing of products, such as the return to retailers for their services, wholesalers for their activities, processors for their manufacturing activities and assembles for their work that they perform. This sub division of the VMM is referred to as the marketing charges.

It should be recognised that in Figure 1 we used a marketing margin that was constant over all quantity ranges. This simply says that, regardless of the volume marketed, the absolute dollar difference between what is charged at the farm level and what is charged at retail levels remains fixed or constant. This is not a necessary characteristic of what actually occurs.

Marketing margins may be of absolute or percentage type. Further more, absolute marketing margins may be decreasing, constant or increasing as quantity increases. Percentage margins also may be decreasing, constant or increasing as quantity increases. Each of these types of marketing margins are represented geometrically in different ways. Notice the geometric representations of absolute marketing margins and percentage margins in the Figure 2 and 3.

It is reasonably clear from earlier studies that many wholesalers use a constant percentage market. That is, they add a fixed percentage margin to the cost of goods sold. On the other hand, retailers appears to make greater use of a fixed-absolute or dollar margin. While a constant absolute margin seems to be most preferred, there is evidence of decreasing and increasing absolute margins in certain products.

The conclusion is that total marketing margins for agricultural product, as far as wholesaling and retailing are concerned, is a mixture of percentage and absolute margins. This means that margins are difficult to sort out in as meaningful a pattern as we would otherwise hope.

Measurement :

Where the product essentially retains its identity from the farm to consumer (for example, fluid milk, eggs, fresh fruits and vegetables), the measurement of the margin is rather straightforward and easily understood. The major problem is converting from farm units to equivalent retail units. The greater the amount of transformation and the greater the number of forms of foods in the final consumer product, it becomes the more difficult to identify and measure the margins for individual farm products. For example, white bread may include wheat flour, eggs, sugar and vegetable oil. One can measure the farm value of all ingredients and determine the difference between this and retail prices. But how does one allocate the margin among the different farm ingredients ? Furthermore, the highly processed products have so many types and variations that the margin calculations for one has little relevance to another.

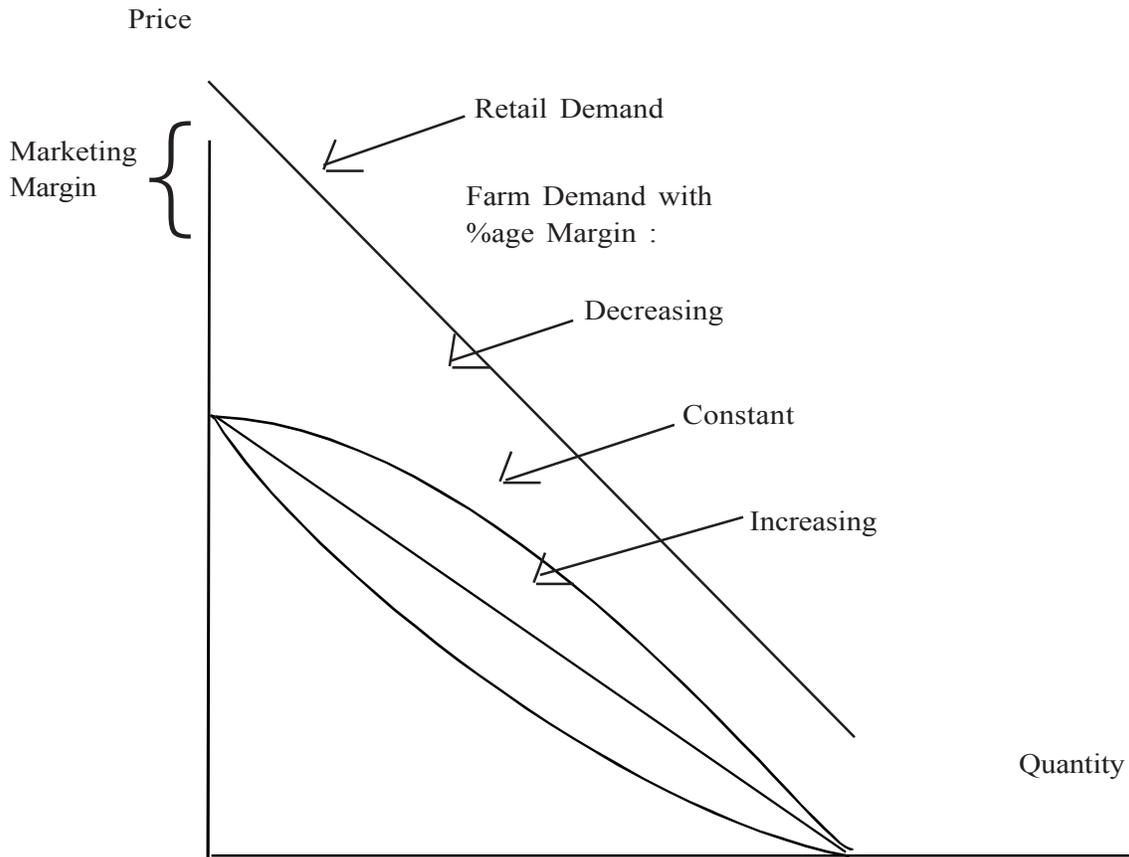
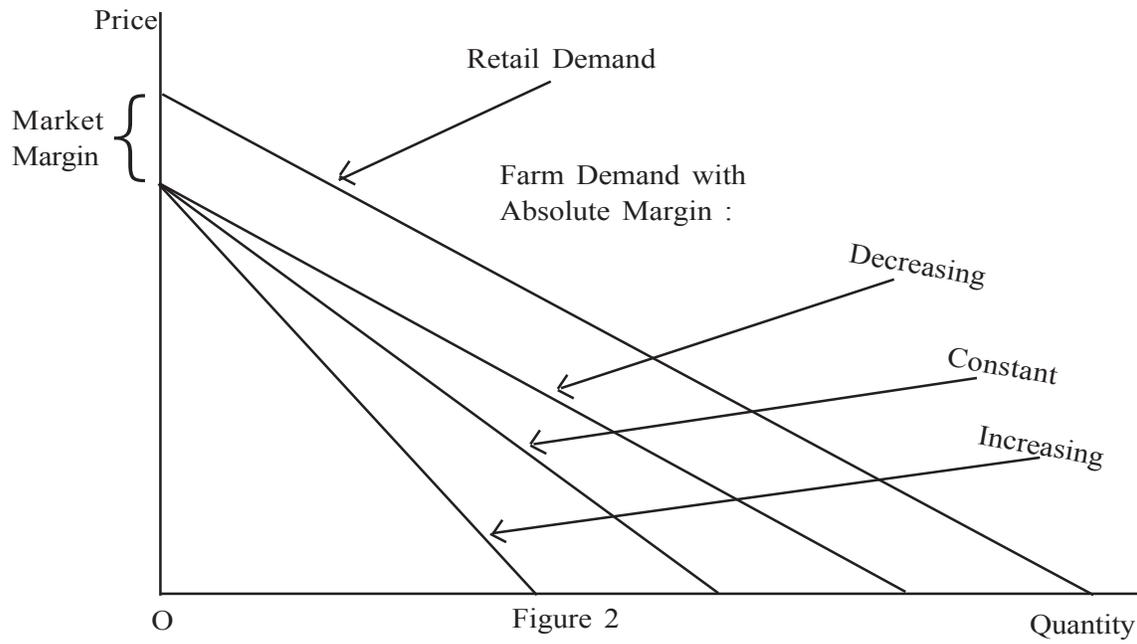


Figure 3

Incidence of changes in primary demand, primary supply and marketing costs :

Changes in income, prices of substitutes, and tastes and preferences normally shift the primary demand for farm products. Likewise the impact on primary supply of cost changes, technology, or prices of other products which can be produced with the same resources were examined. Now we will examine how these shifters of either supply or demand are reflected through different levels of marketing system. Furthermore, we will examine the impact of changes in supply or demand for marketing services on market equilibrium at each level of the system.

First let us trace of impact of a shift to the right of the primary demand for a good product. Assume an initial market equilibrium in figure 4 illustrated by primary demand of Dr_1 and primary (farm level) supply at Sf_1 . Marketing are constant at m regardless of quantities marketed. Assuming also that stock holding is not a significant part of demand at any point in the system and that the quantities can be expressed in equivalent units at farm and retail, derived demand at the farm (Df_1) and supply can be expressed directly on the same diagram.

Derived demand at the farm (Df_1) lies below the primary demand by the amount of the marketing costs (m). The derived supply at retail (Sr_1) lies below the primary supply by the amount of the marketing costs (m). The intersection of retail demand Df_1 and retail supply Sr_1 at Q_1 determines the retail price of Pr_1 . The intersection of farm demand Df_1 and farm supply Sf_1 is also at Q_1 , but price at this level is Pf_1 . And the marketing margin is $m = Pr_1 - Pf_1$.

Suppose now that increasing per capita income shifts primary consumer demand to the right of Dr_2 . Considering the retail level separately the shift would increase the retail price to Pr_2 and quantity to Q_2 . But how is the change reflected at the farm level of the market? Since the marketing process industry is subject to constant costs and if competition is present, the derived demand at the farm level is shifted to the right by the same amount that retail demand is shifted. The new farm demand level is Df_2 . No other shifts in demand would occur and the supply relationships would not be altered. Farm price would rise to Pf_2 and quantity demanded and supplied at the farm is Q_2 . The marketing margins determined by $Pr_2 - Pf_2$ still equals m . Thus, the demand shifts to the right increased quantity and prices at both market levels. Marketing margins remained the same.

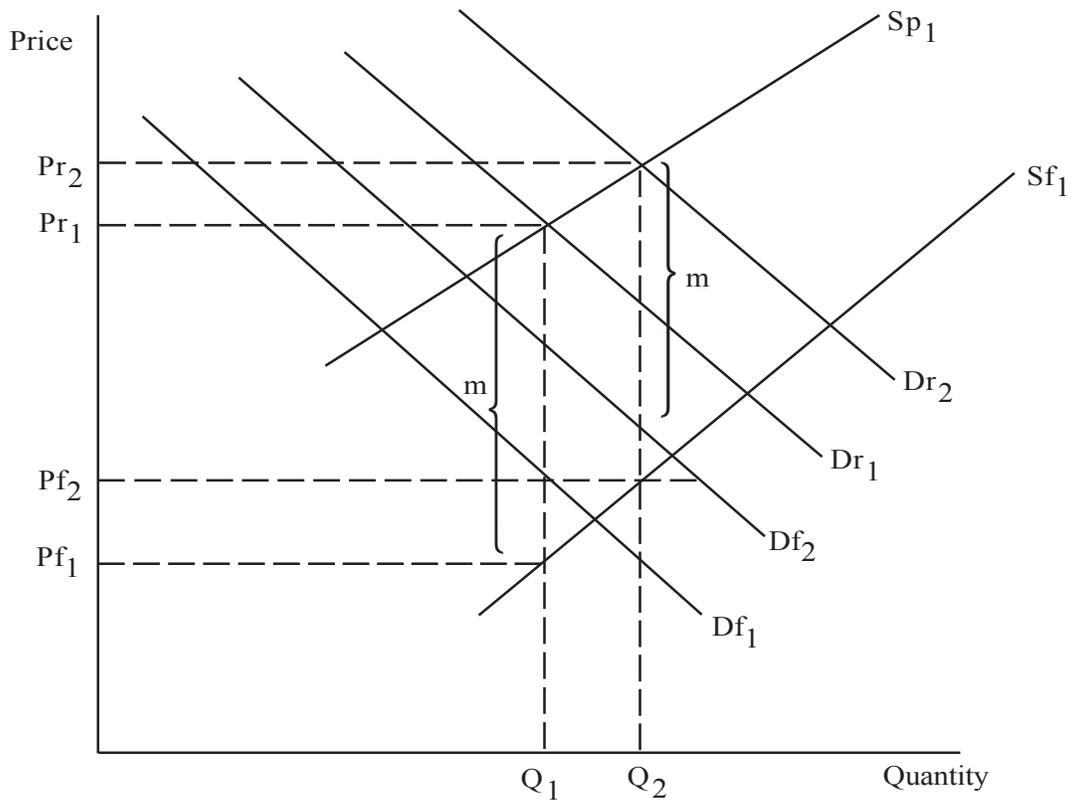


Figure 4 : Incidence of price charges due to demand shifts

A common occurrence in agriculture is a supply shift. Over the long run, it shifts to the right because of technological change. Year-to-year changes are likely to occur because of weather changes, and year-to-year changes in demand are usually of smaller magnitudes.

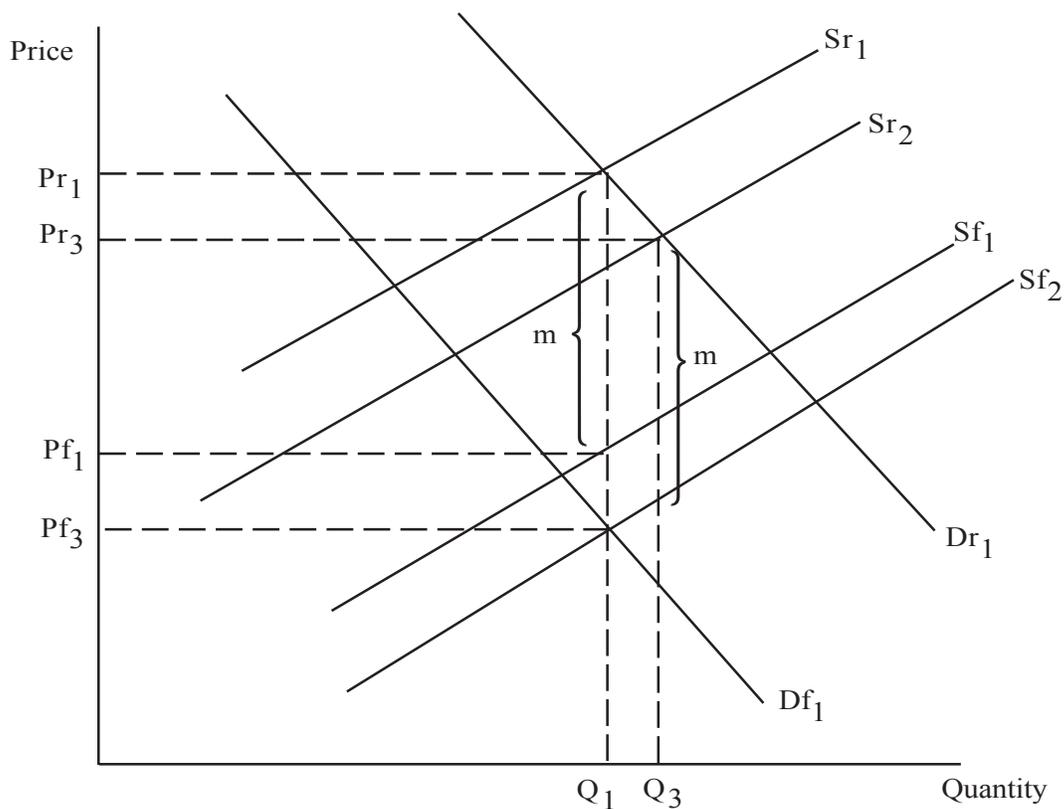


Figure 5 : Incidence of price changes due to supply shifts.

The impact can be illustrated by the use of Figure 5. Assume that initial equilibrium, as in the preceding example at Pr_1 , Pf_1 and Q_1 . The technological advance shifts the primary supply relationship downward and to the right, from Sf_1 to Sf_2 . Because retail supply lies above farm level cost by the amount of the marketing changes m , the shift implies a movement in the retail level from Sr_1 to Sr_2 . The new equilibrium results in a retail level price of Pr_3 , a farm level price of Pf_3 and a quantity of Q_3 . However, the marketing margin is still constant at m . Thus, the technological advance reduces both farm and retail prices while increasing the equilibrium quantity supplied and demanded.

The incidence of demand and supply shifts when the processing distributing industry is subject to increasing or decreasing costs will add an additional dimension to the adjustments. With increasing costs, shifts of the primary demand or primary supply to the right will cause increased marketing margins shifts to the left will result in reduced market margins.

The impact of a change in marketing costs that has no impact. On primary demand is illustrated in Figure 6. Suppose that the transportation rates increase. Because transportation is an important component of good

marketing costs approximately 8 percent for all food and much greater for some products it will mean that farm level demand is shifted downward from Df_1 to Df_4 in Figure 6. This also means that the retail supply curve is shifted upward from Sr_1 to Sr_4 by the amount of increased transport cost. The new marketing margin n will be greater than old margin m by the amount of increased transport cost.

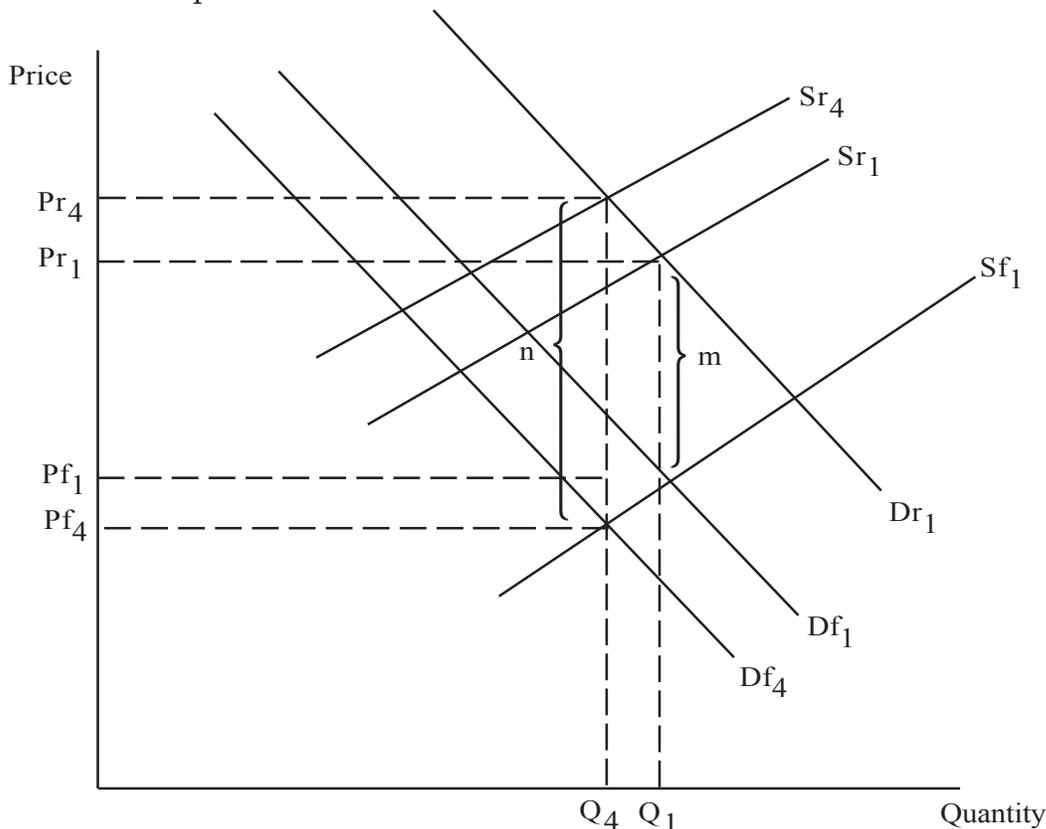


Figure 6 : Incidence of price changes due to a change in Marketing Margin

Note that both farm and retail prices changed by approximately the same amount in Figure 6. The relative incidence at the two market levels will depend on relative relation & elasticity of supply and demand. The more inelastic supply is in relation to demand, the greater the impact on farm-level prices relative to retail prices. The more inelastic demand is in relation to supply, the greater will be the impact on retail prices. The two times of completely inelastic supply or completely inelastic demand indicate. The maximum impact of changes in marketing costs with completely inelastic demand, the entire impact is on retail price. With perfectly inelastic supply the entire impact is on farm-level price.

ECONOMICS OF AGRICULTURE**LESSON NO. 1.4****AUTHOR : Ms. SUKHGEET KAUR****DEVELOPMENT OF AGRICULTURAL MARKETING
IN INDIA****1. Introduction**

Agricultural marketing is defined as “sum total of economic activities that are undertaken to help the movement of the produce from the point of production to the point of consumption.” It includes preparation for the market such as cleaning, grading, processing, packing, assembling, storage and sale services. A properly structured market is an essential pre-requisite for insuring remunerative prices to the producer, reducing non functional margins of traders and commission agents and promoting movement of surpluses for economic development. In India, agricultural marketing has got serious drawbacks like lack of strong transport facilities, absence of market information and competition, prevalence of innumerable middlemen, fraudulent practices with regards to quantity and weight of produce. Over the years, several institutional reforms and policy formulations have been tried to ensure an orderly marketing system and to mitigate the marketing problems of farmers.

The marketing system prevalent in India varies from a system which is operated freely by private enterprise on the one hand and the system controlled by the government on the other hand. In between these two extremes, there are arrangements with varying degree of government intervention. At the centre, agricultural marketing is in the hands of the Ministry of Agriculture and Rural Development. At the State level, either independent departments handle agricultural marketing or it is entrusted to the State level, either independent departments handle agricultural marketing or it is entrusted to the State Department of Agriculture or Co-operation. Marketing Boards have also been opened in various states which are gradually taking over the responsibility of agricultural marketing in the state.

2. Objectives

The objectives of this lesson include discussion of some key issues relating to structure, conduct and performance of the agricultural marketing in India.

After reading this lesson you would be able to :

- give the significance of agricultural marketing and the special features of agricultural goods.

- indicate the present position of agricultural marketing in India.
- analyse the defects in the system of agricultural marketing in India.
- examine the measures taken by the government to improve the system of agricultural marketing in India.
- and suggest improvements in the system of agricultural marketing.

3. Structure

This lesson is divided into five sections. The first section highlights the significance and the special features of the agricultural markets and characteristic of agricultural goods. The second section provides a review of the present structure of agricultural marketing in India. In the third section, the defects of agricultural marketing system in India are enlisted. In the fourth section, the measures taken by the government are discussed. In the last section, summary and conclusions are given and some suggestions are made for the improvement of the agricultural marketing system in India.

4.1 Significance of Agricultural Marketing

An important problem of Indian agriculture concerns the marketing of its produce. The marketing system renders valuable service to an economy by facilitating the sale and purchase of agricultural products thereby providing a link between the producer and the buyer. The existence of a good marketing system is not only an assurance to the farmer that his produce will be bought, but also provides an indication about the demand pattern of various agriculture and allied commodities.

In a growing economy, agricultural market system links the non farm sector with the farm sector and offers opportunities to producers to produce a variety of products not just for home market but also for international markets. This assumes great significance for a country like India which is getting integrated with the world economy.

A very significant contribution of agricultural marketing system is that it transmits the impulses of modern knowledge and latest technologies from technologically advanced areas to the backward and remote regions of the country. A well designed marketing set up promotes the well being of the people. The farmer gets the highest possible price for his produce and is induced to produce greater volume and more variety of goods so as to earn maximum revenue. Secondly, the consumer can buy a number of goods and services at the right prices. Agricultural prices get aligned with non agricultural prices.

4.2 Special Features of Agricultural Marketing

The marketing problems in agriculture differ sometimes dramatically from those found in other allied industries due to the existence of large number of farmers confronted with inelastic demand for their produce, the

lack of product differentiation, fluctuation in output due to weather and other natural factors and extreme perishability of farm products.

The price that the farmer gets for his produce depends upon the organisational and operational efficiency of market structure. A study has estimated that a paddy farmer in Punjab gets only 53 percent of paddy's final gross sale proceeds, the rest 31 percent is pocketed by the broker and 16 percent is the marketing cost (Sidhu, 1990). Another study has revealed that the farmer's share in total sale proceeds is only 34% for guava 53% for oranges, 29% for mausambi and 37% for papaya. (Misra, 1999)

By its very nature, agricultural production has a number of peculiarities which influence the marketing of farm produce.

1. As production is seasonal commodities are not available throughout the year, but only during certain periods. Hence storage facilities and financial arrangements during storage assume importance.
2. Agricultural products are bulkier and more perishable as compared to other products. The bulkiness causes difficulties in the physical handling of the products. Perishable farm products require special care in handling transport and storage.
3. The producers are scattered over a large area and the individual units of production are small hence the transport and marketing facilities have to function well for the collection of agriculture produce.
4. Services such as haulage, financing, transport and market information are of considerable significance in determining the pattern of agriculture.
5. Lastly the volume of production and the marketable surplus is uncertain as it depends on natural factors. This makes it difficult to judge the volume of farm produce that marketing services would be required to handle, after harvesting of crops.
6. As the demand of agricultural products is relatively inelastic, there are frequent fluctuations in the price of the products.

Due to the interplay of all such factors, agricultural markets are volatile, often depressed and highly sensitive to downward pressures. The main characteristics of agricultural goods which make marketing much more different and complex from other industries are :

Characteristics of Agricultural Goods

<i>Production Characteristics</i>	<i>Product Characteristics</i>	<i>Consumption Characteristics</i>
1. Small Scale	1. More bulky and less value	1. Continuous
2. Scattered	2. Perishable	2. Regular and in small quantity

- | | | |
|----------------------------------|--|---------------------|
| 3. Moving towards specialisation | 3. Varying, uncertain Quality & Quantity | 3. Inelastic demand |
| 4. Seasonal Production | 4. Elastic Supply | |

5. Present Structure of Agricultural Marketing in India

There are various ways by which farmers dispose off their surplus produce. The first method used by farmer is to sell the produce to the village moneylender cum trader. The moneylender may buy it either on his own or as an agent of a bigger merchant of the neighbouring mandi town.

The second method is the primary or weekly village market known as haat or shandy. At present there are about 22000 haats and they cover an average area of 8-16 kilometres in radius although some of the bigger markets serve a bigger area (Govil and Tripathi, 1996). Besides, fairs are held once a year in important villages or towns in connection with religious festivals. In haats and fairs, farmers bring their produce as well as livestock and sell them.

The third method of agricultural marketing is through the mandies in small and large towns. The farmer has to make special arrangements to carry his produce to the mandi, which may be located at a distance of several miles from the fields. In the mandies, the brokers or dalals act as middlemen who help the farmer to sell their produce to wholesalers and State Procurement Agencies such as Central Procurement Agency like Food Corporation of India and State Government Procurement Agencies like Food and Supply Departments, etc. The arhatiyas also sell produce to retailers or flour-mills and processing units. For example in the case of cotton, the wholesaler sells of the cotton ginning factories and in the case of foodgrains like wheat he sells to the flour mills or to retailers.

6. Defects in the system of Agricultural Marketing

Agricultural marketing is beset with a number of serious shortcomings. The present position is far from satisfactory. The following are the main defects :

6.1 Malpractices of buying and selling : The secret methods of buying and selling, use of defective weights, existence of a large number of intermediaries and arbitrary deductions from the sellers' dues make marketing defective. In this system the share of the farmer in the price of the produce is reduced substantially. The results of a study reveal that farmers obtain only about 53 percent of the price in the case of rice and only 39 percent in the case of vegetables. According to one estimate the share of middlemen in the case of fruits was 46.5 percent (Misra and Puri, 1999). Arhatiyas and brokers cheat the innocent farmers. Many a time, the farmers are forced to pay excessive 'arhat' to the arhatiyas, tulai for weighing the produce, palledari to unload the bullock carts and for doing other

miscellaneous jobs, guarda for impurities in the produce, and a number of other undefined and unspecified charges.

6.2 Inadequate Storage : The Indian farmer does not have good storage facilities to store the produce. The produce is generally kept in carts, pits, kaccha storehouses where it is not safe. According to one estimate about 10 to 20 percent of the produce is eaten away by the rats (Dutt and Sundaram, 1999). Moreover the quality of the produce gets deteriorated. The lack of proper warehousing facilities also means that the farmer is more prone to make distress sales. The average farmer does not have the capacity to wait for better prices. As his economic condition is miserable he is forced to sell to the village moneylender or to the trader so as to clear his debts. As a result he does not get fair price for his produce.

6.3 Inadequate means of transport : Transport facilities are grossly inadequate. Farmers face many difficulties in transporting their produce from the farm to the markets. Apart from the under developed state of the transport system in the country, there is also a shortage of fast moving vehicles. This makes the transportation of the various perishable agricultural goods to the market very difficult. The cost of transportation increases. A part of the produce is damaged on the way, farmer do not get good returns for their produce and at various places the marketable surplus is also reduced.

6.4 Inadequate credit : The cost and availability of credit facilities is also inadequate. As a result the holding capacity of the farmer is reduced. He is forced to sell the produce immediately after harvesting the crops. As most farmers sell their produce at the same time this leads to a glut in the market and depresses the prices. Sometimes the farmer is forced to sell to the moneylender at the price which is much lower than the market price. Not only does the farmer not get adequate returns, but he also loses freedom with regard to the rate of his produce.

6.5 Lack of Grading and Standardisation : There are inadequate facilities for grading and standardisation of the different varieties. As the various varieties of the produce are not graded properly, therefore it becomes difficult to assign proper prices to them as per their quality. This discourages the farmers from producing superior varieties. Consumers too do not get any satisfaction from such transactions. Only the middlemen profit from such transactions.

6.6 Non availability of Market information : Farmers do not receive correct and upto date information about prices, demand, international trends, government policies, etc. The information provided by the moneylenders, traders and other middlemen is generally incorrect and biased in favour of the purchasers.

6.7 Inadequacy of Institutional Marketing : The arrangements

for institutional marketing are inadequate. The number of co-operative marketing societies is small, only a few regulated markets are functioning properly and government arrangements to buy produce are also inadequate. As a result of which the farmers sell their produce separately on individual basis and have no or very weak bargaining power. Consequently they do not get fair prices for their produce.

7. Government Measures to Improve Agriculture Markets

The government has taken various steps to improve the condition of agricultural marketing in an effort to protect the interests of both producers and consumers. The following measures have been undertaken by the government.

7.1 Co-operative marketing : The Co-operative Act of 1912 made provision for the formation of co-operative institutions of all types and for all purposes and thus paved the way for the formation of co-operative marketing societies. During the second world war the activities of these societies increased due to the public distribution of foodgrains. Since 1954 multipurpose societies have been established to provide credit to the farmers and also market the agricultural produce. The members of the society sell their surplus produce to the society and get advances to carry on with their agricultural operations. The society sells the produce in mandis and pays the farmers the balance of amount due to them.

7.1. I. Advantages of Co-operative Marketing Societies :

The principles of Co-operative Marketing as applied to agriculture have shown very good results in Denmark, Germany and other European countries as well as in Canada and the United State of America. The advantages of Co-operative marketing societies are :

- (a) The weak bargaining power of the individual farmer is replaced by the strong collective bargaining of the marketing society.
- (b) Co-operative Marketing societies link credit, financing, marketing and processing to the best advantages of the farmer.
- (c) The co-operative marketing societies have good storage facilities, which not only protect the produce from rodents, rains and thefts, but also enables the farmer to wait for better prices.
- (d) These societies can have their own transport facilities or make arrangement for easier and cheaper transport of agricultural products.
- (e) Grading and standardisation of products can be easily done by a co-operative agency than by an individual farmer. This discourages farmers to adulterate their produce.
- (f) Co-operative marketing societies are able to influence the prices by controlling the flow of supplies and also by bargaining for better prices for agricultural products.

- (g) By eliminating middlemen and entering into direct dealing with buyers, co-operative marketing societies eliminate exploitation and ensure fair prices to both the producers and consumers.
- (h) Co-operative marketing societies arrange for bulk purchase of agricultural inputs like seeds, manures, fertilisers, pesticides etc. and consumer goods at lower prices and then distribute them to members.
- (i) Co-operatives can arrange to obtain data on market prices, demand, supply and other related information from the market on a regular basis.
- (j) Co-operative societies can undertake processing activities like crushing of oilseeds, ginning and pressing of cotton.

In addition to all these advantages, co-operative marketing system can arouse a spirit of self-confidence and collective action in the farmers. They can help in enlarging the marketable surplus of agricultural produce and even influence the cropping pattern through proper planning as well as implementation of plans.

7.2. II. Progress of Co-operative Marketing in India

The task of developing Co-operative Marketing was started in the Second Five-Year Plan on the recommendation of the All India Rural Credit Survey report. The Co-operative marketing structure is of 2 types—two tier and three tier system. There is the primary society at the district level and the state marketing society at the apex in two-tier system. In the three tier system besides the two levels found in the two-tier system there is the central marketing society at the district level. At present the co-operative marketing structure comprises 2633 general purpose primary co-operative marketing societies at the mandi level, covering all the important mandies in the country, 3290 specialised primary marketing societies for oilseeds etc., 172 district/Central Federations (Misra and Puri, 1999) and the National Agricultural Co-operative Marketing Federation of India Ltd. (NAFED) at the national level. NAFED is the apex Co-operative marketing organisation dealing in the procurement, distribution, export and import of selected agricultural commodities. NAFED is a central nodal agency of the government for undertaking price support operations for non perishable commodities such as pulses, oilseeds and for market intervention in perishable horticultural item like potato, onion, grapes, Kinnow, oranges, eggs, apples, chillies, black pepper etc. During the period from January 1997 to February 1998, market intervention was implemented for 13 items in various parts of the country. The marketing of agricultural produce through Co-operatives has registered a remarkable growth from Rs. 1950 crore in 1980-81 to about Rs. 11500 crore in 1995-96. National Co-operative Union of India (NCUI) is the apex institution of the Co-operative movement encompassing all types of Co-operatives. It promotes and develops Co-

operatives in the country, assists people in their efforts to build and expand the Co-operative sector. It imparts Co-operative education and organises training programmes for the managers and executives of Co-operatives.

Though there has been overall progress in Co-operative marketing, it has not been evenly spread in different states. While states like Punjab, Haryana and Maharashtra, have made remarkable progress, states like Andhra Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal have shown a decline in co-operative marketing in certain years. The financial performance of marketing co-operatives is poor and many of them are incurring losses. Moreover the coverage of marketing Co-operative in terms of either the number of members or in terms of share in total marketed produce in the country has been quite insignificant. Further these societies are mostly confined to certain commodities like wheat, sugarcane and jute and do little business in case of coarse grains, fruits, vegetables and pulses etc. Thus the progress is unevenly distributed.

7.2 Regulated Markets : The objective of a regulated market is to protect and farmer from malpractices, reduce the marketing charges and ensure fair prices to the farmer. The number of regulated markets which was 265 in 1950-51 has increased to 7062 in 1999. A marketing committee that represents the interests of the state government, legal bodies, traders, commission agents and the farmers administers it. The task of the market committee is to fix market charges, prevent unauthorised deductions, ensure use of correct weights and measures, issue licenses to functionaries, conduct supervision and check up of proper weighing, provide reliable and upto date market information, settle disputes and punish those found guilty of dishonest and fraudulent practices.

Considerable success has been achieved in states like Punjab and Haryana. The regulated market system has proved very useful in removing fraudulent practices, standardising market practices and ensuring fair price to both the producer and the consumer. The income generated by the regulated markets is used for the development of rural infrastructure. These markets also include provisions for grading and for monitoring of prices. However the development of regulated markets and the enforcement of Agricultural Produce Act has been uneven in most states. Kerala, Mizoram, Nagaland, Jammu & Kashmir, Sikkim, Andaman & Nicobar Island, Dadra and Nagar Haveli and Lakshadweep have not yet enacted the necessary legislation for the regulation of markets. Where ever there are regulated markets, the benefits of those have gone to the large farmers who possess large marketable surplus. Moreover the management of existing regulated markets has yet to be put on a scientific basis.

7.3 Grading and Standardisation : Grading and Standardisation of agricultural commodities has been carried out by the government to encourage farmers to grow good quality of crops and also to induce

consumers to identify and pay the right price for the goods. For this the government has passed the Agricultural Produce (Grading and Standardisation) Act to facilitate the issue of certificates of grading for various commodities. Under this provision grading stations has been established for commodities like ghee, flour, eggs, etc., and standards have been laid down for 162 agricultural and allied commodities. The graded goods are stamped with the seal of Agricultural Marketing Department—AGMARK which not only enjoys the benefits of a wider market, but also commands better prices. There is an emphasis on strengthening of the existing Agmark laboratories and opening up of new regional laboratories in various places. A Central Quality Control Laboratory has been set up at Nagpur and eight other regional laboratories have been established to test the quality and purity of agricultural products applying for the government's Agmark. The government is further streamlining quality control enforcement, inspection and improvement in grading.

7.4 Warehousing Facilities : Proper warehousing facilities for agricultural products is of great importance in enhancing the bargaining power of the farmers and in preventing distress sale. The farmers can get loans from Co-operative societies and commercial banks on the security of goods kept in godowns. The government has taken some important steps towards provision of such facilities. The Central Warehousing Corporation was set up in 1957 with the purpose of constructing and running godowns and warehouses. The State Warehousing Corporations have been set up for the same purpose. Food corporation of India (FCI) has constructed its own network of godowns. The combined storage capacity with all these public agencies is about 43 million metric tonnes. Rural godowns with a storage capacity of about 1.2 million metric tonnes have also been built up (Agrawal, 1999).

7.5 Uniform and Standard Weights : The Standard Weights Act was passed in 1933 to promote the use of standard weight. The Central Government adopted the metric system of measures in 1958 to introduce uniformity in weights.

7.6 Dissemination of Market Information : The government has made arrangements for collection and dissemination of information about agricultural products. Daily prices of important agricultural products are being broadcast from regional stations of All India Radio. Weekly trends on market prices are broadcast by AIR and Doordarshan. Market intelligence reports giving information on stocks, market arrivals, sales, prices, etc. are displayed in a number of markets all over the country. The newspapers also publish agricultural prices on a daily or weekly basis.

7.7 Market Inspections, Research and Training : The Government of India set up the Directorate of Marketing and Inspection to :

- (i) Promote grading and standardisation of agricultural and allied products.
- (ii) Regulate market practices.
- (iii) Provide training facilities for personnel.
- (iv) Promote market extension.
- (v) Undertake market inspection, research and training and
- (vi) Implement Meal Food Products Order, 1973.

The Directorate has specified the grades for 162 agricultural commodities and enforced compulsory quality control before export on as many as 4 agricultural commodities. A Central scheme for development of infrastructure facilities in selected regulated markets is being implemented.

7.8 Stabilisation of Prices : The government announces minimum support prices and procurement prices for various agricultural commodities in accordance with the recommendations of the Commission for Agricultural Costs and Prices. The Food Corporation of India purchases the agricultural commodities from farmers at remunerative prices. These are then sold to the consumers through the public distribution system at low prices.

7.9 Transport Arrangement : The government has taken a number of steps to increase the length of surface roads, route length of railways and shipping tonnage. However the number of villages connected with all weather roads is still very small at 46%. Much remains to be done in areas such as planning, construction and maintenance of rural roads, loading and unloading facilities of the railways, proper linkages between road transport and railways, etc.

7.10 Marketing Surveys : The government has conducted various surveys on the problems of marketing of agricultural products and services and published the findings of these surveys. These surveys also give suggestions for the improvement of the agriculture marketing system.

7.11 National Institute of Agriculture Marketing was established in 1988 to provide teaching, training and consultancy programmes for augmenting the agricultural marketing infrastructure of the country.

8. Summary

The structure of the agriculture market shows that the markets are increasing in size. The centre price of the country's market mechanism is the private trade. While the unorganised section of the market is larger than the organised section, the share of the organised section is increasing. Despite the large size, localised monopolies or oligopolies are found.

The evaluation of the Indian agricultural marketing system on the efficiency criteria reveals that except in case of pricing efficiency in regard to the inter relationship between prices prevailing in different markets at a given point of time, the existing agricultural marketing organisation has

much scope for improvement both in terms of operational efficiency (i.e. marketing margins which is the difference between what the final consumer pays and what the producer gets) and the distributive justice efficiency (i.e. equality of services to all types of producers and consumers).

To deal with these problems, the government has adopted a number of measures to improve the system of agricultural marketing such as the establishment of regulated markets, construction of warehouses, provision for grading and standardisation of product, standardisation of weights and measures, daily broadcasting of market prices of agricultural crops on All India Radio, improvement of transport facilities etc.

These measures would be of great help in informing the marketing system. It is imperative that this package of programmes is speedily extended to cover all the agricultural goods and all the farmers. Necessary infrastructure needs to be created at all the rural haats and their linkages with national markets established. Grading and Quality control aspects need to be given more attention. The price support policy needs to be effectively implemented. Agricultural market research should receive adequate support from the government both at the centre and the state levels. There is a need to develop the network of transportation facilities throughout the country. Increase in the number of regulated markets and efficient management of existing regulated markets is the need of the hour. In the area of co-operative marketing societies, greater representation of small and marginal framers and more diversification in the activities of the societies is urgently needed. Lastly, the establishment of multipurpose societies which link various activities such as production, storage, sale etc., is required. Such societies would look upon all the requirements of the farmers in an integrated way especially those related to agricultural processing, credit and marketing facilities.

9. Key Words

Co-operative Marketing—organised sale of farm products on a non-profit basis in the interests of the producer.

Distress sale—sale of agriculture produce at lower prices by the farmer to repay old debts or to fulfil certain contracts previously undertaken.

Marketing Margin—is difference in the price paid by the consumer and the price received by the producer.

Regulated markets—are markets set up as per the Agricultural Produce Act to eliminate unfair practices and ensure remunerative prices to producers.

ECONOMICS OF AGRICULTURE**LESSON NO. 1.5****AUTHOR : DR. VIPLA CHOPRA****MARKETED AND MARKETABLE SURPLUS**

- 1.5.1 Introduction
- 1.5.2 Objectives of the lesson
- 1.5.3 Distinction between Marketed and Marketable surplus
- 1.5.4 Importance of Marketable surplus
- 1.5.5 Steps to increase the marketable surplus
- 1.5.6 Measurement of Marketable surplus
- 1.5.7 Cause of low marketable surplus in India
- 1.5.8 Marketable surplus
- 1.5.9 Conclusion
- 1.5.10 Short Answer type question
- 1.5.11 Long Answer type question
- 1.5.12 Recommended Books

1.5.1 Introduction

In predominantly agricultural countries, it is not the agricultural production but the surpluses they generate for the market that play a pivotal role in the development of such countries. In the absence of adequate marketable surplus, the development effort of such a country can be adversely affected. Therefore, for agrarian economies, it is not merely to increase agricultural production, but simultaneously marketable surplus must also increase regularly.

1.5.2 Objectives of the lesson:

In this lesson we will study what is marketable and marketed surplus? What is difference between there two? What is the importance of marketable surplus? What are the steps to increase the marketable surplus? What is the cause of law marketable surplus in India?

1.5.3 Distinction between Marketed and Marketable Surplus

Firstly a distinction must be made between marketed surplus and marketable surplus.

Marketable Surplus

Marketable surplus refers to the amount which is available for the sale in the market. It is the theoretical surplus available for disposal with the farmer, left after his genuine requirements of family consumption, payments of wages in kind, food, seeds and wastages, etc. have met. In subsistence farming, the farmer reserves a part of the produce to meet family requirements, for cattle feed and seed, etc. and sell it the market what is left except that he may sell the entire cash crops. Under commercial

farming the farmer is motivated by profit consideration and the entire output is put on the market, the farmer meets his consumption requirements through purchases from the market.

Thus marketable surplus will consist of the entire output in the case of cash crops (like sugarcane and cotton) and only that part of the food crops which is in excess of the family requirements and the requirement of seed. Marketable surplus, thus refers to the potential surplus available with the farmer for disposal.

Marketed Surplus

Marketed surplus, on the other hand, represents only that portion of the marketable surplus which is actually marketed. It is usually meant for the non-farm rural as well as urban population.

'Marketed Surplus' may be less than, equal to or even more than 'marketable surplus'. In most cases, marketed surplus in any year will be less than the marketable surplus, because the farmer is not ready to sell the whole of his marketable surplus. He may hoard a part of it. If the farmer anticipates a rise in prices or expects shortage or famine conditions, he may hold back a part of the marketable surplus. He would like to wait for a better price for his crop. This applies to big farmers who have lot of marketable surplus to sell but who prefer to wait for a better price.

The 'marketable surplus' and 'marketed surplus' will be equal under ideal conditions. However, it looks strange, although true, that the marketed surplus is sometimes greater than marketable surplus. This happens when the farmers are in distress. He may have to meet urgent commitments to the money lender or to the cooperative societies or some other urgent obligations. In such distressing circumstance, he may have to sell more than he possibly could. In such cases, the marketed surplus is more than the marketable surplus. This brings home the distinction between 'real' and 'forced' surplus. Further the small cultivators may repurchase in the lean season the quantity sold during the harvest season. In such cases, the marketable surplus is actually less than the marketed surplus.

Thus, marketable surplus is the difference between the total quantity of agricultural produce and such part as has to be retained for family requirements, payments in kind, etc. Marketed surplus, on the other hand, refers to the actual quantity that is sold in the market.

The gap between marketed and marketable surplus may be due to various factors. Small farmer may not have surplus at all. But whenever the surplus emerges, that part of it which will be actually marketed will be affected by the general conditions of the village in question, the standard of living of the farmer and investment opportunities within their reach. If the living standard of the farmers is high, they would be selling more of their

produce to meet the financial needs of a high living standard. Similarly, if the investment opportunities are wide and easily available, sale of farm produce will be larger to meet the larger demand of funds for investment.

1.5.4 Importance of Marketable Surplus

The importance of marketable surplus has been generally viewed from three angles viz. food surplus, industrialisation and economic growth. Marketable surplus is must for economic growth. This surplus is used by the non-farm and urban population to meet its requirements for food and raw materials. In a developing economy, industrialisation and urbanisation can be increasing rapidly and, therefore, the non-farm and urban population is increasing too, consequently, there is a greater need for agricultural marketable surplus. By increasing agricultural output and also by increasing the marketable surplus, the farmer can make a positive contribution to economic growth, W.H. Nicholls highlights the significance of rising marketed surplus and asserts, "Until underdeveloped countries succeed in achieving and sustaining (either through domestic production or imports) a reliable food surplus, they have not fulfilled the fundamental preconditions for economic development."

Marketable surplus helps economic growth in another way also. Part of the marketable surplus would be exported to foreign countries. With agricultural revolution it is easy to expect an increase in exports of farm surplus. The increased earning of foreign exchange will help to finance import of capital goods which are so essential for the process of economic development of predominantly agrarian economies.

Marketable surplus assists economic growth in another way. For example, increased marketed surplus will mean increased income with the farmers and consequently increased demand for manufactured goods. This will naturally lead to large volume of production in manufacturing industries. Just as the increasing number of industrial workers in urban areas provide a large market for surplus farm products, so also increased income of farm population results in large demand for manufactured goods. The growth process is facilitated in both ways.

An increase in marketed surplus helps in releasing some labour force from agricultural to the non-agricultural sector. When marketed surplus increases, some workers can be shifted from the agricultural to the industrial sector causing no decline in agricultural output. The underlying idea has been depicted in the models prepared by W. A. Lewis and G. Ranis and John C.H. Fei (1961) in previous chapters.

W.W. Rostow shows how take-off was facilitated in Japan and Russia through the rise in agricultural productivity and marketed surplus. Russia increased the flow of marketed surpluses by establishing collective farms and by setting up of large-scale state farms which acted as agencies for channelising a large percentage of the surplus, to the urban sector. Large part of agricultural surplus was siphoned off by Japan for capital formation in industry by heavy

land taxes. China organised agrarian cooperatives which resulted in a substantial increase in agricultural production and made possible the transfer of a large part of it the Central Government at fixed rate. In Poland the increase in the flow of marketable surplus has been brought about by the offer of various incentives to peasants like greater credit facilities, increased supply of consumer goods and even by reversing its investment policy. Compulsory grain levies have also been adopted in Poland.

Thus, from the above, we find that to sustain an increasing tempo of development, it is important that the magnitude as well as the flow of marketable surplus should be augmented.

1.5.5 Steps to increase the marketable Surplus :

(i) The following steps may be suggested to increase the marketable surplus : Price mechanism is said to be the most important means of effecting the transfer of agricultural surpluses.

(ii) A high degree of monetization of the rural sector and the transfer of the subsistence sector into market oriented economy would effectively help the transferring of agricultural surplus.

(iii) The steps such as the collection of land revenue and fertilizer and irrigation charges in kind may also help the State Government to procure sufficient amount of farm product.

(iv) The establishment of more regulated markets may also contribute in maintaining a fairly steady and uniform flow of marketable surplus. Such markets promote fair market practices and protect the incentives of the farmers.

(v) To attract sufficient volume of marketable surplus, there must be a well-defined price policy which act as powerful instrument. A reasonable minimum price for principal food grains should be announced at the time of harvest and price is to be kept stable for over a period. While fixing the minimum support prices for principal food grains of wide consumption, care should be taken to see that there is parity between the prices of agricultural products and those of other commodities indispensable to the day-to-day life of the peasants.

(vi) A better and cheap transport system also encourages the flow of surplus from rural areas to urban areas.

(vii) The real solution to the problem lies in increasing actual production. In this context, a definite and stable agrarian policy is very much desirable. Thus there are some important means through which agricultural surplus may be effectively transferred from rural to urban areas.

1.5.6 Measurement of Marketed Surplus

In any country, developed or under-developed, a precise idea about the magnitude of the marketable surplus is important as it helps in projecting the future development activities in the various sectors. Measurement is required not only from the regulated market but also from unregulated and unorganised markets. In India, however, a series of

difficulties are encountered in the actual measurement of marketable surplus.

One serious problem in getting reliable information on marketed surplus is that a large proportion of the farmers sell out considerable part of their product at the time of their harvest to meet their immediate cash requirement and later on when they require foodgrain for their consumption they purchase back from the markets. Hence, foodgrain released by the farmers do not represent the real marketable surplus.

Most of the small and marginal farmers make local sales of their produce which are generally not recorded while making an estimate of marketable surplus. Moreover, arrivals are not repeated by year of production form both the previous and the current crops year, estimates of marketable surplus will be inflated.

Another difficulty faced in calculating the surplus is in anticipating the part of production kept aside as seeds etc. The estimates have to be ex-ante under the assumption that the requirement of seeds in the coming year will be more or less equal to the actual quantity of seeds used in the current year.

Further, large quantities of the product move from one market to another for sale and resale and in this way transactions are accorded twice. If so happens, the figures of marketed surplus would get inflated.

1.5.7 Cause of low marketable surplus in India.

There are various reasons for low marketable surplus in India. Some important reasons are given below :

1. Level of production :

Level of production and size of marketable surplus are closely related. Other things remaining same, more production would always mean more marketable surplus. Availability of irrigation facilities and reduced dependence on rains shall help in building the confidence of farmers in sound harvest and results into their hoarding no part or at best only a small part of the surplus produce. This will help in augmenting the marketable surplus.

2. Small size of holdings :

Size of holding is very small in India i.e. marginal and small farmers are in abundance, they produce more of foodgrains which is sufficient only for their self-consumption and lead to low marketable surplus.

3. Consumption habits :

Consumption habits of the farmers have their strong influence on the marketable surplus. If the farmers consume the products directly which they produce and least depend upon the processed products from other sectors, obviously, marketable surplus would be comparatively low. For example, major proportion of rice produced by the Punjabi farmer is marketed since rice is not a staple food in Punjab.

4. Family size of the farmer :

In India, the family size of farmers are large. Therefore, the products requirement for self-consumption is high. People highly depend upon the agriculture products. Moreover still in Indian agriculture there is dominance of subsistence cultivators. That is why marketable surplus is very low in India.

1.5.8 Suggestions to improve marketable surplus:

These drawbacks may be removed through various steps taken by the government. Among them some important steps are :

- (a) the measures that can induce to consume less and sell more of the output. One method is to increase the demand for manufactured articles. Such demand will induce farmers to sell more of their foodgrains.
- (b) A proper price policy may also help in bringing increasing quantities of foodgrains to the market. In this respect price should neither be fixed so high that could generate inflationary pressure nor should it be so low that could discourage the producer. The most suitable way is that government should provide cheap agricultural inputs to the farmers with a fixed procurement price.
- (c) The payment of loans to co-operative credit societies and banks may also be made in kinds. In this way marketed surplus may be increased.
- (d) Taxes may also be used to restrict consumption and increase marketable surplus. An increase in land tax and tax on agriculture may force the farmers to sell more of their surplus grain in the market.

1.5.9 Conclusion:

In the above lesson we have discussed the meaning of marketable and marketed surplus, their difference, importance of marketable surplus, how marketable surplus can be improved. Marketable surplus is directly related to agricultural productivity. If agriculture productivity is more and domestic demand is less then obviously marketable surplus is more. If in an economy, there is need to increase marketable surplus then steps should be taken to increase production. In any country, developed or under-developed, a precise idea about the magnitude of the marketable surplus is important as it helps in producing the future development activities in the various sectors.

1.5.10 Short answer type questions:

Write short note on:

1. Marketable surplus
2. Marketed surplus
3. Causes of Marketable surplus
4. Measurement of marketed surplus
5. Suggestions to improve marketable surplus

1.5.11 Long answer type question

1. Define marketable and Marketed surplus. How both are different?
2. What are the reason of low marketable surplus in India.
3. How can marketable surplus be improved?

1.5.12 Recommended Books :

1. WTO and the Indian Economy by Dr. G.K. Chadha (Ed.) 2001 Indian Eco. Association.
2. GATT to WTO Gandhian Alternative to Nieu by Sandeep Chauhan, Deep and Deep Publications Pvt. Ltd., 2001.
3. World Trade Organisation (WTO) and Developing Countries by Surendra Bhandari, Deep and Deep Publications Pvt. Ltd., 1998.
4. A study of World Trade Organisation by K.R. Gupta, 2000.
5. Indian Economy by S.K. Misra and V.K. Puri, 2000 Himalaya Publishing House.
6. Futile Grandstanding by Rohit Saran in Doha in India Today, Nov. 26, 2001.
7. The Financial Express, Nov. 22, 2001.
8. The Tribune, Nov. 17, 2001.
9. The Indian Economy by I.C. Dhingra, 2000.

AGRICULTURAL TAXATION

- 1.6.1 Introduction
- 1.6.2 Objectives of the lesson
- 1.6.3 Need of taxation
- 1.6.4 Present position of taxation
- 1.6.5 Agricultural Tax Burden and Incidence
- 1.6.6 Raj Committee's Recommendations
- 1.6.7. Summary
- 1.6.8 Glossary
- 1.6.9. Short answer type Questions
- 1.6.10 long answer type questions
- 1.6.11. Suggested Readings

1.6.1 Introduction

In India, agricultural sector occupies a very dominant place in the economy and, therefore, it ought to contribute substantially to the cost of economic development. During the process of development, it has to supply larger food surplus and raw materials to other sectors of the economy. It also has to supply increasing proportion of the manpower. Thus, prices are pushed up. But the rise in price may not always call for the increased production and increased supply of agricultural commodities, especially of foodgrains. In fact a rise in price may actually lead to decline in production. To increase the agricultural surplus, it is therefore, suggested that taxes should be introduced in this sector.

1.6.2 Objectives of the lesson

In this lesson we will discuss the different types of taxes, what is their need and their relevance in India.

1.6.3 Need of taxation

Professor Kaldor argued: "The taxation of agriculture has a critical role to play in the acceleration of economic development, since it is only the imposition of compulsory levies in the agricultural sector itself which enlarges the supply of savings for economic development.

The other important reason of suggesting agricultural tax is that India's economic development plans have necessitated mobilisation of increasing volumes of domestic

sources. A country may depend, to some extent, on external resources, which are mainly available by way of loans and grants. But in general, and in the long run, a developing country will have to depend on its own resources, after all the external loans will have to be repaid. But in Indian plans, in spite of reducing foreign aid and foreign capital investment has suffered from inadequate domestic resources. Domestic resources for financing our plans were 73 percent in the first plan which declined to 5 percent in the second and with a slight improvement of 59 percent in the third plan. The basic reason of inadequate domestic resources is the failure of mobilising savings from agriculture sector. It has been agreed that when government is investing increasing larger amounts on agricultural development plans, why should not a substantial portion of the resulted increase in income of the farmers be taxed.

The classical theory is that since agriculture accounts for the major part of the labour force and the gross domestic product, resources for taxation and capital formation both must come primarily from agriculture. This is certainly true in the initial stages of economic development, and this pattern was followed in many early developed economies. The experiences of many countries like Russia, Japan, China, which have succeeded in finding out suitable tax measures and in imposing adequate taxes on the agricultural sector, shows that agricultural taxation can play significant role in accelerating the economic development of a country, particularly when the agricultural sector forms the largest segment of the economy, Japan was the first Asian country which despite its traditional form of agriculture, primitive methods of cultivation and very small size of land holdings succeed in bringing a striking phase of agricultural development with the help of revenue derived from agricultural taxation. In Japan, substantial increase in agricultural production was attained by the adoption of increased irrigation facilities, improved seeds, advanced knowledge. The affluent sections of the farming community are coming under the net of excise taxation which covers a wide range of manufactured goods now entering into the consumption patterns of the rural rich. Consequently, the contribution of rural sector to the revenues of the state through indirect taxation is steadily growing.

Self check exercise

- Q.1 Why is there a need of taxation in any economy?
- Q.2 Taxes are beneficial for the development of any economy-comment.
- Q.3 What do you mean by agricultural taxation?

1.6.4 Present Position of Agricultural Taxation

In a broad way, agricultural taxation includes taxes paid by the agriculturists directly and also those borne by them indirectly. In India, direct taxes on agriculture consist mainly of land revenue, cesses and surcharges on land revenue cesses on crops and agricultural income tax. Like other non-agricultural consumers, the agriculturists also pay indirect taxes in the form of excise duty, sales tax, import duty, transport tax, recreation tax, etc.

Ⓐ Land Revenue

Traditionally, land revenue is the oldest of all taxes and, at present, the most important tax on agricultural land. The land tax is levied and collected by state governments. In assessing land revenue, states have followed different basis like net assets or value of net produce or left to the judgement of the assessing officers. The magnitude of land revenue in India has been continuously rising since 1951-52. From Rs. 48 crores in 1951-52, the amount collected has gone up to Rs. 766 crores in 1991-92. The importance of land tax has, however, greatly declined in recent times as a result of the introduction and extension of many new levies. In 1951-52, land revenue accounted for 17 percent of the total state tax revenue but in 1991-92 its share is 1.5 percent.

(ii) Agricultural Income Tax

Agricultural income tax is levied and collected by the states. The lead to impose tax on agricultural income was taken by Bihar in 1938. At present the states which have levied agricultural income tax are Assam, West Bengal, Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh, Orissa, Karnatka, Tamil Nadu and Kerala. As compared to tax on income of non-agricultural sector, the rates of agricultural income tax are much lower. This tax has always occupied an insignificant role in India-a little more than 1 percent in 1951-52 and about 0.4 percent of the sales tax revenue in 1991-92.

The insignificance of the contribution of the farmers will be still more clear if we consider the tax revenues of the centre and the states. We find that the direct taxes paid by the farmers by way of land revenue and agricultural income tax worked out to be 7 percent in 1951-52 and came down rapidly to 0.9 percent in 1991-92.

(iii) Direct Agricultural Taxes

Year	Land Revenue (Rs. Crores)	Agricultural Income Tax (Rs. Crores)	Total Direct Agricultural Taxes (Rs. Crores)	Tax on Agriculture as percentage of Total Tax revenues of Central and State Governments
1951-52	48	4	52	7.0
1970-71	113	11	124	2.6
1991-92	776	204	970	0.9
1997-98	1400	210	1610	N.A

(iv) Indirect Taxes:

As far as indirect taxes are concerned, these are imposed equally on agricultural population as well as on non-agricultural population. For instance, excises duties, sales tax, electricity duties, motor vehicle tax, recreation tax, stamps and registration tax etc. are paid by rural as well as urban population. Since the indirect taxes fall

upon all people, it is rather difficult to measure their incidence falling only on agricultural population.

In the agricultural sector, even though there are indirect taxes. There are also a large number of subsidies granted on various inputs and several charges such as electricity duties etc. are considerably lower as compared to that of other sectors; this reduces the burden of these taxes to a negligible level.

Self check exercise

Q.4 What is Agriculture Holding Tax?

Q.5 Name the states which have implemented agricultural income tax.

Q.6 Write a note on Indirect taxes on farmers.

1.6.5 Agricultural Tax Burden and Incidence

In recent years, attempts have been made to measure gross as well as net burden and incidence of agricultural taxes on that basis, it has been proved whether Indian agriculture is over taxed.

According to V. P. Gandhi in 1951-52 agricultural sector contributed Rs. 200 crores in form of direct and indirect taxes, whereas the non-agricultural sector contributed Rs. 450 crores. Thus, the ratio between agricultural and non-agricultural sector in contributing direct and indirect taxes was 44:56. In 1968-69 this gap again widened. The ratio of the two sectors was 33:67 in 1951-52. It leads to the conclusion that during the planning period, the average tax in the agricultural sector instead of rising has actually declined. The estimates of average and marginal tax rates also prove that agricultural sector is under-taxed, per capita taxes on incomes are showing an increase in both the agricultural and non-agricultural sectors.

E.T. Mathew attempted to study the problem of incidence on the basis of net tax burden or fiscal burden. He located the total central and state tax revenue between the agricultural and non-agricultural sectors in 1958-59 and found that the former paid 6.8 percent and the latter 9.2 percent of its income in taxes.

S.L. Shetty presented the estimates and analysis of relative taxable capacity and tax burden in respect of farm and non-farm sectors in India during the first eighteen years of planning. These estimates and analysis, undertaken at the aggregative sectorial level, formed first part of a comprehensive examination of the hypothesis that the farm sector in India was under-taxed. He also worked out inter-class analysis of tax burden in the two sectors.

Hanumantha Rao calculated the incidence of agricultural taxes based on the results of fields survey in the three regions of Andhara Pradesh. On the whole, he observed some fall in the real tax burden over the period. N.A. Khan also maintained that the most important sector in which investable surpluses could be generated was agriculture.

S.S. Johl's analysis suggested that the agricultural sector in India was taxed

lightly was compared to the non-agricultural sector of the economy. He also observed that this tax burden was decreasing over period of time and the additional income were taxed very nominally.

Thus, the case for agricultural taxation in India can be discussed from three angles: theoretical, equity, capacity and the productivity.

Self check exercise

Q.7 How can we calculate the incidence of taxation?

Q.8 Write a note on burden of taxation.

1.6.6 Raj Committee's Recommendations

Various proposals for additional agricultural tax have been made by official organisations (such as Planning Commission) and economists. These proposals have three main objectives: (a) to secure larger investible and marketable surplus for agriculture, (b) to provide an incentive to raise agricultural output, and (c) to introduce an element of progression in agricultural taxation so that it may become more equitable.

For the attainment of these objectives, Planning Commission suggested the introduction of a progressive surcharge on land revenue and surcharge on live stock. Some economists suggested that the land revenue should be raised and progression should be introduced. Others had suggested that the regressive type land tax should be eliminated and it should be replaced by a progressive agricultural income tax.

Since agricultural tax is a state subject, the imposition of additional taxation has always been a source of conflict between the Central and the State. The central govt. appointed the Committee on Taxation of Agricultural Wealth and Income, under the Chairmanship of K.N. Raj in Feb. 1972. The main recommendations of the committee were: (a) a progressive Agricultural Holding Tax (AHT) should be imposed on agriculturists who have no other assessable income; (b) in case of assesses having non-agricultural taxable income, income from agriculture should be included in the total income for the purpose of calculating income tax; (c) income from livestock, fisheries, poultry, dairy farming etc. should be subject to tax; (d) an integrated taxation of agricultural property though wealth tax should be introduced; and finally (e) capital gain tax on transfer of agricultural lands should be imposed.

Among all the recommendations, the most controversial is agricultural holding Tax (AHT). The basic criticism against AHT relates to its procedure for the computation of the marketable value of agricultural lands. Besides, it is also pointed out that the committee has not given proper thought to the administrative difficulties in collecting the relevant data. The lack of proper record of occupational holdings, incorrect reporting of aggregate holdings of families, problem of benami holding are some other problems in the way of implementing AHT. But apart from all such criticism, the introduction of AHT by the committee has been complemented as well. It is said that AHT is sufficiently progressive type of land revenue tax and

avoids the necessity of constitutional amendment or the centre state confrontation on this issue. The state government have finally decided not to accept AHT on one or the other ground.

Partial Integration of Agricultural and non-Agricultural Income

Another major recommendation of the Raj Committee was the aggregation of both agricultural and non-agricultural income for the purpose of income tax. This recommendation was based on the principle that the tax burden of assesses with similar income did not differ sharply merely because of the fact that part of it was derived from agriculture. Integration would also help to check evasion.

The Union Government had accepted the Raj Committee's recommendation regarding partial integration of agricultural income with non-agricultural income by incorporating it in the 1973-74 budget proposals.

The Planning Commission has strongly recommended the imposition of a highly progressive agricultural income tax on the following grounds: (1) Government has invested large amounts of money in agriculture but very little out of it has flowed back from the agricultural sector; (2) In recent years, agricultural performance has improved considerable and has improved the per capita disposable income of the farmers; and (3) the number of rich farmers has been increasing very fast due to the emphasis on intensive development programmes in selected areas. These farmers are bearing almost no burden.

This recommendation again has been turned down by the chief ministers of states. Since agricultural income tax is a state subject, the imposition of such tax is impossible without constitutional amendment. The progressive agricultural income tax is considered to be justified on the ground that while there is progression in the taxation on non-agricultural income there is not such progression in the taxation of agricultural income. The progressive agricultural income tax faces various economic and administrative problems like problem of determining farm income problem of locating assesses cost of collection of tax etc.

With all these suggestions, opinions and discussions, it may be made clear that Indian agriculture is under-taxed and it has a great potentiality for bearing additional burden of taxes. State government has rejected Raj Committee's major proposal of AHT. Agricultural income tax has also been turned down by the chief minister of state. However, Government accepted Raj Committee's proposals to integrate agricultural and non-agricultural income for calculating income tax. Thus the problem of mobilising additional resources from agricultural sector for the purpose of development is yet to be solved satisfactorily.

Self check exercise

- Q.9 Why there is a centre-state conflict on agricultural tax ?
- Q.10 What is Raj committee's recommendation on Partial Integration of Agricultural and non-Agricultural Income
- Q.11 What are the main recommendations of Raj committee regarding AHT?
- Q.12 What are the criticisms of Raj committee's recommendations?

1.6.7 Summary

In this lesson we have discussed the need of agricultural taxation. In India what is the present position of agricultural taxation. Agricultural taxation includes taxes paid by the agriculturists directly and also those borne by them indirectly. In India, direct taxes on agriculture consist mainly of land revenue, cesses and surcharges on land revenue cesses on crops and agricultural income tax. The case for agricultural taxation in India can be discussed from three angles: theoretical, equity, capacity and the productivity. In recent years, attempts have been made to measure gross as well as net burden and incidence of agricultural taxes on that basis, it has been proved whether Indian agriculture is over taxed. Various proposals for additional agricultural tax have been made by official organisations (such as Planning Commission) and economists. Planning Commission suggested the introduction of a progressive surcharge on land revenue and surcharge on live stock. Some economists suggested that the land revenue should be raised and progression should be introduced. Others had suggested that the regressive type land tax should be eliminated and it should be replaced by a progressive agricultural income tax.

1.6.8 Glossary

Recommendation	:	suggestion or proposal
Incidence	:	occurrence
Progression	:	succession

1.6.9. Short answer type Questions

1. Define AHT
2. Write a note on AHT.
3. What are the main recommendations of Raj committee?
4. What is the relevance of agricultural taxation in economic development?

1.6.10 long answer type questions

1. What is the present position of Agriculture Income Tax? Do you think that additional burden on agriculture may create the problem of food security?
2. Critically evaluate the recommendations of Raj committee?

1.6.11 Suggested Readings

E.T. Mathew	:	Agricultural Taxation and Economic Development in India.
V.P. Gandhi	:	Tax Burden on Indian Agriculture (Chapters3-5).
Ruddar Datt and	:	Indian Economy (Latest Edition)
K.P.M. Sundram	:	
Vipla Chopra	:	Mobilization of Resources from Agriculture: A Case Study of Punjab. (M. Litt Thesis)
A.N. Sadhu & A. Singh	:	Fundamentals of Agricultural Economics.