PROPOSED AGRICULTURAL POLICY RESOLUTION AND DEVELOPMENT OF SMALL AND MARGINAL FARMS – SOME ISSUES

VISHWA BALLABH AND KAILASH SHARMA*

ABSTRACT

The paper discusses the proposed Agricultural Policy Resolution in the context of increasing number of small and marginal farms and improving productivity on these farms. Some inadequacies of the proposed policy document are indicated that relate to land reforms, efficiency and equity in agriculture and organization of small and marginal farmers. It is cautioned that if the proposed policy document is accepted as it is, it will strengthen the existing inequitable distribution of economic gains and millions of small and marginal farmers will either be bypassed from the development process completely or they will trail behind.

1. Introduction

Immediately after independence the agrarian debate in India was surrounded by the question of land to tiller, and equity and efficiency issues. The immediate need was to eliminate a parasitic land owning class to ensure the release of the creative energies and potentialities of rural masses. The dominant school of thought in India, however, was concerned with the question of viable and efficient units of cultivation and in most cases viability and efficiency were identified not with small but with large farms (Joshi, 1978). With the unprecedented expansion of rural population from 290 million in 1950 to 520 million in 1981, the per capita availability of land in India has shrunk. In 1970-71, there were 70 million holdings; and by 1985-86 they increased to 98 million; the size of average holding came down to 1.68 ha from 2.30 ha in 1970. The number of small and marginal holdings are increasing rapidly. Recently, the Government of India has proposed to evolve a new agricultural policy to streamline and accelerate pace of agricultural production (Government of India, 1990). In view of the increasing number of small and marginal farms it is important to examine the likely consequences of the proposed agricultural policies on the development of small and marginal farms. This paper is a modest attempt in that direction.

2. Factors Contributing To Development of Small and Marginal Farms

In the late 50's, farm management data showed that production per acre on large farm is distinctly smaller than that on small ones (Dantwala, 1959; Sen, 1962;
Bardhan, 1973; Bhardawaj, 1974; Bhalla, 1979 and others). Therefore, if small farmers are indeed more productive, then it follows that land redistribution that is desirable from an equity standpoint would also lead to a higher output. Recent trends in productivity of marginal and small farmers as compared to other groups require attention in the context of growing proportions of small and marginal farmers\(^1\). A large number of field studies from different parts of the country suggest that the inverse relationship between farm size and land productivity has been weakening (Parthasarathy, 1987). Binswanger and Rosenzweig (1986) hypothesized that the scale of owned and operational holding should have different consequences on land productivity. Holding owned area constant, expanding the scale of operation through renting or share cropping in area, should be associated with decreased land productivity and vice versa. Ryan and Walker (1990) did confirm the hypothesis of Binswanger and Rosenzweig. These results confirm that either the nexus between farm size and productivity was not understood properly or the negative relationship is weakening in recent times. These results have important implications in the sense that division of land holdings would result in productivity loss unless corrective steps are taken to improve the productivity of small holdings.

Some important factors contributing towards economic development of small and marginal farms are discussed below in relation to what is contained in the Draft Agricultural Policy Resolution [DAPR] (Government of India, 1990). The issues discussed here are: technology, price factors, irrigation and organisation.

\subsection*{2.1 Technology}

Many writers have been critical about the impact of "green revolution" on small and marginal farmers. According to them the benefits of the "green revolution" were primarily captured by the large and more affluent farmers; this is primarily due to nature of technology which may be scale neutral but not resource neutral. The region-wise distribution of the green revolution technology was also not uniform (Rao, 1975). We believe that the problems of small and marginal farmers are different and they operate under different set of constraints and operating choices than their large counterparts. Therefore, it is important that these choice sets and

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\(^1\) There has been tremendous increase in number of small and marginal farms and decline in number of holdings in large farm category. Large farms have lost both absolutely and relatively in terms of area operated by them. The population pressure along with inadequate absorption of labour in non-agricultural rural and urban sector and subdivision of holdings are mainly responsible for this trend. According to Professor Dantwala if this trend continues the proportion of marginal holdings will go up to 60 per cent and together with the small land holding they will constitute 80-85 per cent of operational holdings by the end of century (Dantwala, 1987),
constraints are understood properly to accelerate growth rate in agriculture on small and marginal farms. There are plenty of studies which suggest that the slack in adoption of technology by small and marginal farmers is largely due to inaccess or unavailability of credit, extension, and information rather than any inherent incapabilities in them. One reason for the failure of small and marginal farmer being not able to harvest fruits of improved technology is that most of our efforts are diverted towards crop centred rather than resource centred research (Jodha, 1986). The DAPR does not specify how this gap will be fulfilled. The text on research and extension talks about further intensification of research on biotechnology, etc. No doubt these are important aspects. But as Jodha (1986) has rightly pointed out “It seems as if the policy makers expect technology to act as a substitute for institutions and public policies. Looking at the lack of institutional and other support, one gets the impression that technologies are expected to take care of all problems, namely, the farmers’ weak resource position and constraints emanating from the absence of institutional and infrastructural support required for adoption and operation of any productive technology”. There is complete absence of any discussions on institutional research and extension in the DAPR. In fact, the assumption made in the DAPR (GOI, 1992, p.2) - that agricultural sector is unique in the sense that efficiency and equity considerations do not conflict with each other in it is not correct. Such assumption would lead us to believe that any programme/technology which is desirable from efficiency criterion is necessarily equitous. The above assumption is not correct and, therefore, many programmes and policies which may be designed to accelerate growth in agricultural production may adversely affect or bypass small and marginal farms.

2.2 Price Factors

In 1965 Agricultural Price Commission (APC) was established (renamed in 1985 as Commission for Agricultural Costs and Prices (CACP), with the following objectives:

(i) To evolve a balanced and integrated agricultural price structure in the perspective of the overall needs of the economy and with due regard to the producer and consumer.

(ii) To accelerate growth rate in agriculture sector.

(iii) To ensure rational utilisation of land and other productive resources and to streamline the likely effect of agricultural prices on the rest of the economy, particularly on the cost of living, levels of wages, industrial cost structure, etc.
The APC (now CACP) while fixing the price should take into account the changes in the terms of trade between agricultural and non-agricultural sector (added in 1980).

The objectives as laid down in terms of reference of APC are to some extent mutually conflicting, and difficult to realize for three reasons—(i) if the objective is to promote growth, through subsidies or price incentives, there is clear possibility that implied policy would hurt the interest of buyers of agricultural food and agricultural raw materials, (ii) the difficulty is compounded by two other factors, first if relative prices are to play an efficient allocative role and not to lead to undesirable cropping pattern shifts, policies must be designed to cover all major crops which is a daunting task to accomplish and second, since public distribution of subsidised food grain can not hope to meet entire market demand, the impact of policies on market prices assumes importance. Thus for the Government handling only a fraction of the marketed surplus, the pricing objectives may in the end be defeated by market forces and (iii) it is also not clear whether, these conflicting objectives could be reconciled in the long run (Krishnaji, 1990).

In DAPR (GOI, 1990), time and again, it has been emphasized that the farmers must be provided (emphasis added) incentive prices. This is significant departure from the earlier declared Agricultural Price Policy. Three factors affect utility of price mechanism as a vehicle to accelerate growth rate: (i) output price elasticity, (ii) extent of marketable and marketed surpluses and (iii) time of sales. The empirical evidence suggest that farm output price elasticity varies between 0.4 to 0.5 for most crops (Krishnaji, 1990). Output price elasticities of commercial crops like sugarcane, cotton, etc. are generally higher than the food crops. Raj Krishna (1982) has argued that assuming a realistic estimate of 0.4 for the long run elasticity of output in relation to terms of trade, the 16 per cent growth over five years would require a one shot 40 per increase in real terms of trade of agriculture. Whether such changes in terms of trade can be sustained and prices of foodgrains and other farm produce can be increased to realize the approximately three per cent annual growth rate in agricultural output is a questionable conception. But this does not mean that the terms of trade have no relevance in the context of accelerating productivity. While very favourable terms of trade by themselves can not provide great incentives to increase production, unfavourable or declining terms of trade can not create the necessary conditions for adoption of better techniques and higher production (Rath, 1985). Even if this is possible to accelerate production through the price incentives, the benefits of such measure would hardly accrue to millions of small and marginal farmers, since they may not have enough surplus to sell or they may even be net buyers of food grains. Hence, in absence of subsidised food grain supply to rural
poor masses through PDS such a policy will have an adverse impact on the welfare of small and marginal farmers.

No one, however, will question the necessity of providing price support for the farm produce. The logic of a support price leads to the notion of a price range, especially in relation to the objective of dampening price and income fluctuations arising out of unpredictable and market conditions. In contrast to the support price, it is not easy to settle what constitutes an incentive price. The rationale of a price incentive lies in the promotion of growth. The general consensus is that minimum support prices—now indistinguishable from procurement prices must fully cover the average cost of production. The debate on constituents of cost refers to the appropriateness of the inclusion of not only the so-called paid out cost but also the imputed value of family, land and labour inputs in calculation of the average cost. To overcome regional disparities it has been suggested that the bulk line procedure should be used meaning, thereby, the minimum cost that covers the cost of farmers producing bulk share of the output (say 80—85 percent) should be covered.

The inclusion of wage rate at minimum wage rate and rental value of land is not without problems. Since the market wage rate most often is less than the minimum statutory wage rate, inclusion of this wage rate would raise cost of production and hence would result in abnormal extra profit to those farmers employing hired labourers. Secondly, rental value of land increases with improvement in irrigation and infrastructure facilities and hence it would result in extra profit to already well endowed regions.

Relative to incentives through output prices, input subsidies may be a cheaper option albeit in short run—an immediate increase in food and raw material prices being avoided. However, experience with fertilizer subsidy programmes suggests that the input subsidies may also not be equitous (Table 1). Most interesting is the inter-state variation in the biases against the small farms. In seven States which include two green revolution States (Madhya Pradesh, Rajasthan, Uttar Pradesh, Bihar, Orissa, Haryana and Punjab) the share of small farms (less than one hectare size—group) in fertilizer consumption of each State (col 2) in 1978—79 was lower than their share in

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2. The new Government at the centre has withdrawn fertilizer subsidy in its new budget. We predict that this would not affect major commercial crops for two reasons: (i) the share of fertilizer in total cost of production is less for commercial crops and (ii) price elasticity of fertilizer for commercial crops is also relatively less than foodgrain crops. See, for example, Chand (1991). All over the country, the farmers' union would demand for higher prices for their produce. This policy will naturally favour large farmers who have more marketed surplus to sell.
Table 1. Relative Shares of States in Fertilizer Subsidy and the Share of Small Farms in Each State.

<table>
<thead>
<tr>
<th>States</th>
<th>Share of small farmers (less than 1 ha. size-group) in Fertilizer consumption (1978-79)a</th>
<th>Gross cropped area</th>
<th>Gross irrigated area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Madhya Pradesh</td>
<td>1.8</td>
<td>3.97</td>
<td>6.56</td>
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<tr>
<td>Rajasthan</td>
<td>2.0</td>
<td>3.13</td>
<td>4.58</td>
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<tr>
<td>Uttar Pradesh</td>
<td>8.6</td>
<td>22.58</td>
<td>21.97</td>
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<tr>
<td>East</td>
<td></td>
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<tr>
<td>Assam</td>
<td>N.A.</td>
<td>N.A.</td>
<td>15.33</td>
</tr>
<tr>
<td>Bihar</td>
<td>12.8</td>
<td>17.73</td>
<td>18.04</td>
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<tr>
<td>Orissa</td>
<td>12.5</td>
<td>16.82</td>
<td>20.80</td>
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<tr>
<td>West Bengal</td>
<td>27.8</td>
<td>21.98</td>
<td>21.50</td>
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<tr>
<td>North</td>
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<tr>
<td>Haryana</td>
<td>1.7</td>
<td>3.76</td>
<td>2.84</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Punjab</td>
<td>3.9</td>
<td>6.29</td>
<td>5.80</td>
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<tr>
<td>South</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>11.1</td>
<td>9.46</td>
<td>17.83</td>
</tr>
<tr>
<td>Karnataka</td>
<td>12.6</td>
<td>5.16</td>
<td>11.33</td>
</tr>
<tr>
<td>Kerala</td>
<td>69.4</td>
<td>34.76</td>
<td>29.89</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>24.9</td>
<td>19.59</td>
<td>24.55</td>
</tr>
<tr>
<td>West</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Gujarat</td>
<td>3.5</td>
<td>3.15</td>
<td>3.97</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>4.1</td>
<td>3.01</td>
<td>5.77</td>
</tr>
</tbody>
</table>


gross cropped area in each State (col 3) and, interestingly, substantially lower than their share in gross irrigated area of the respective States (col. 4) (Subba Rao, 1985). The exceptions are West Bengal and Kerala, where the share of small farmers in fertilizer consumption is substantially higher than their share in the gross cropped area and gross irrigated area. In other States like Karnataka, Gujarat and Maharashtra, the small farmers share in fertilizer consumption roughly corresponds to their share in the gross irrigated area. Inspite of these distributional problems, we
believe that input subsidies should be preferred over output price incentives because (i) they have no adverse consequence on small and marginal farmers as consumers of food grains and (ii) with proper and better institutional and organisational arrangements the input use levels can be improved and consequently productivity can be raised on these farms.

2.3 Irrigation

The importance of irrigation in agriculture does not need emphasis. An empirical simulation model of the impact of food price movements in a general equilibrium framework showed that while all social classes gain from favourable weather or irrigation (technology induced output growth under flexible price system), the rich farmers derive largest benefits from a system of technology change under price incentives. Even when one makes allowances for output response to price incentives, the poor classes lose while the rich gain substantially (Subba Rao, 1985). Access to and control of water resources have, therefore, important implications for equity and income distribution in rural communities. Owing to limited availability of water in some areas, several issues emerge in their use such as overexploitation, intergenerational distribution, etc.

While the distribution of surface water is not equitable between head and tail end of canal system, the access to and ownership of ground Water Extraction Machines (WEMs) is highly biased in favour of large and medium—large farmers (Ballabh and Shah, 1989). Several factors have been identified for unequal distribution of WEMs—high investment, lack of finance, lower capacity to bear risk and poor access to credit markets, etc. Some of the Government policies such as spacing and licensing norms designed to control over—crowding and over—draw have also adversely affected small and marginal farmers (Ballabh and Shah, 1989).

There are three possible ways to make water distribution more equitable among different classes of farmers: (i) by making investment in public tubewells, (ii) organising small and marginal farmers and motivating them to invest in group tubewells and (iii) promoting market for ground water. Unfortunately, experience with State owned tubewells is not encouraging; their performance in terms of both efficiency and equity is disappointing (Ballabh and Shah, 1989). We do not believe that their performance could be changed in the near future. There have been several experiments for organising small and marginal farmers around tubewells on individual initiatives such as Pani Panchayat in Maharashtra, INADP and VASFA group tubewells in Deoria (U.P.) and Vaisali (Bihar), respectively, and ASSEFA promoted group tubewells in Tamil Nadu (for details see Nagabrahman, 1989). In these experiments it was tried to overcome social and economic constraints faced by small
farms. Their success rate varied. However one things is clear from these experiments that there is a strong need for organisational support at grass root levels—an organisation which can deal with technical and social complexities. Unless such organisations are evolved it is unlikely that the group tubewells could be replicated at significant scale.

Shah (1989) argued that one way to overcome structural constraints of small and marginal farmer is by promoting market for groundwater and by appropriate electricity pricing. According to him if tubewell owners are charged flat tariff on horse power basis as opposed to pro-rata basis the tube well owner will have strong incentives to extract as much water as possible and sell it to non-owners of tube wells. However, this may also lead to wastage of water and electricity. For this he suggests that we need to restrict the supply of electricity.

The more equitable distribution of non land resources will have far reaching consequences in mitigating income inequality and poverty. We will plead for better distribution of land resources also but if, for whatever reasons, it cannot be done now more concerted efforts should be made for non land resources. Professor Dantwala has rightly urged the social scientists concerned with elimination of poverty and affluence in rural areas to shift their emphasis from redistribution of land to a more equitable access to non land resources such as irrigation and inputs like seeds, fertilizer and credit (Dantwala, 1987a). The response to such challenges in new Agricultural Policy Resolution has been disappointing; it merely states it is the intention of the Government to revise the existing laws to bring about equitable distribution of land and other natural resources like water and make the tiller of the land its owner (GOI, 1990, p.6, emphasis added). We do not believe that mere enactment of law would make distribution of natural resources such as water equitable. As Ballabh and Shah (1989) have pointed out in the connection of ground water resources, there is a need to examine the efficacy and wisdom of legislative measures or reforms because there are numerous users. The administrative machinery will have to deal with millions of farmers and therefore legal provisions are difficult to implement cost effectively.

2.4 Organisation

The issue of organization of small and marginal farmers is quite important and is already mentioned in the context of technology and irrigation. In the process of development, the matters relating to organization assume special significance. Also, the issues of organization is broad, multifaceted and complex. Therefore the treatment here is admittedly sketchy and less settled.
In relation to organization, the DAPR specifically mentions about Panchayats (GOI, 1990, p. 5). Therefore, the Panchayat System needs some discussion here. The Panchayats are village-level statutory bodies and are administrative links between villages and the administration above i.e. taluka, district and state. These Panchayats are able to identify local needs and aspirations that are important inputs for designing development programs. Most often the Panchayat System has been blamed for inequitous representation of rural poor in its functioning. However, the effectiveness of Panchayats in West Bengal, Karnataka, Gujarat and Maharashtra has been relatively noticeable.

The DAPR (GOI, 1990, p. 5) talks about strengthening Panchayati Raj bodies. However, the nature of strengthening envisaged is not mentioned. In this regard the following issues need careful considerations: (i) how to make Panchayats more equitable in their functioning? and (ii) whether Panchayats should take up development activities per se? If yes then, do they have the required capability to do that?

The issue of making Panchayats more equitable is crucial and would involve empowering poor in villages. The task of empowering poor is easily said but is difficult to perform. If the answer to the second question above is no, then, what kind of other local institution or organization should be considered for the purpose? Another related issue is to what extent can we go on increasing the number of local organizations? These issues are quite complex and the answer could be given in specific context. Nonetheless, it is important to reiterate that without a proper organization at the grass-root levels that is conducive to the development of small and marginal farmers, they will be bypassed from the process of development. The experience of National Dairy Development Board in this connection may provide possible solution. Unlike other agencies the NDDB has followed commodity-based approach and established an organisation to deal with a single commodity. This experiment is not yet tested in other commodities except in dairying and to some extent in edible oilseeds. Since they have succeeded to a large extent, this model needs to be tested for other commodities. At the same time we should be open to any other institutional form which can cater to our need. In this connection emphasis should be placed on research in organisational and institutional alternatives for equitable development to all regions and people.

3. Conclusion

The issues relating to the increasing number of small and marginal farms and the problems relating to improving their productivity are of great importance for agricultural policy.
The proposed agricultural policy document prepared by Ministry of Agriculture, Government of India, is inadequate to address these issues satisfactorily mainly in relation to prioritizing land reforms related activities, efficiency and equity matters in agriculture and organization of small and marginal farmers. Overall, as it stands, the proposed Agricultural Policy Resolution, if accepted as it is, will bypass the small and marginal farmers and will strengthen the existing unequal distribution of economic gains in the system.

References


