CHAPTER II

REVIEW OF LITERATURE: AGRARIAN CHANGE AND CREDIT MARKET

2.1: INTRODUCTION

Agrarian Change could be defined as the process, which broadly takes into consideration the changes taking place in agrarian structure, production relations, and overall social and economic institutions governing agriculture, determines the growth of agriculture. In order to understand the dynamics of agrarian change and its impact on farmers’ indebtedness, the debate begins with ‘Mode of production’ in the context of Indian agriculture. The critical changes that have come through the six decades have caused direct and indirect impacts on the agrarian structure. As far the ‘forces of production’ and ‘production relations’ are concerned over half a century, there are two important interim institutions namely ‘market’ and ‘technology’ that have influenced the changes over decades.

When one looks at the rapidly changing agrarian structure over the last six decades, we confront four dominant phases in the literature. In the first phase agricultural economists focused on the ‘mode of production’ and the entire credit market operations were discussed in that context. This was followed by the technological interventions and productivity enhancement phase. That brought in requirement of additional credit demand and as a consequence credit market changed its course. The third phase was dominated by the bank nationalisation and intensification of agricultural markets. These two simultaneous institutional interventions changed substantially the credit market operations and turned these to adjust with the changing agrarian structure. Finally the market centric approach forced through liberalisation introduced significant changes in the credit market followed by various recommendations of the RBI and also committees appointed by Government of India. Our review below follows the above chronological events but focusing largely on the hypothesis connecting credit market changes with the broad agrarian changes.

1 Economic institutions are market, credit market (formal and informal), extension agencies etc. The social institutions denote the cultural and traditional practices, which generally is an outcome of belonging to a certain caste and class etc.
2.2: DEBATE ON MODE OF PRODUCTION

The “mode of production” debate remain central theme of discussions from sixties till late eighties in the scholarly writings on agrarian issues primarily by the Marxist researchers, and most of their writings appeared in the publication of Economic and Political Weekly during seventies and eighties. The changes witnessed by Indian agriculture over the period have manifested themselves in increasing incidence of farmers’ indebtedness and persistent agrarian crisis. In this context, the need to revisit the “mode of production” debate for identifying the initial steps that influenced agrarian change and farmers’ indebtedness seems crucial.

After Independence, the Marxian emphasis on agricultural growth and agrarian structure gave a platform for the emergence of the ‘mode of production’ debate. It has remained one of the most discussed and debated issues in Indian agriculture since mid sixties to late eighties. Many scholars made attempt to identify the dominant mode of production prevailing in agriculture with the support of empirical and theoretical work. With some yardsticks, they come up with Capitalism, Pre-capitalism, Semi-feudalism, Colonial mode of production, Dual mode of production etc. However, there are few others, who did find suitable to call social formations rather than the mode of production (Banaji 1972, Gupta 1977, Davey 1974). In Indian agriculture context, the scholars appear to be in no consensus on the dominant mode of production prevailing in the countryside. The debate has remained inconclusive. This was mainly due to diverse agrarian conditions existing in different parts of the country making difficult to capture them within a single mode of production. Although, the theme was widely and critically debated, it interestingly did not gained the required attention in a period since nineties when Indian agriculture started showings signs of persisting “crisis”.

The mode of production debate also included credit market as both cause and effect of the production relations. The interlinkage between various markets and resultant exploitation dominated the writings. But all that began with the feudal characteristics persisting in many parts of British India continued its remnants even during the phase of land reforms and beyond.

2.2.1 Feudal Mode of Production

In South Asian context, the important concern was to understand how the “parasitic” class extract surplus from the poor peasants and landless labourers through credit or other market operations. Share-tenancy, usury, bonded labour, etc., were thus considered as the major means to appropriate surplus. The proponents of feudalistic mode of production in India have worked primarily to capture the key feudalistic elements present in the Indian agriculture. These look
into causes behind the prevalence of semi-servile condition of the majority of agrarian population against a handful of rural rich. The important contributors to this debate are; Amit Bhaduri, Pradhan H. Prasad, Nirmal Chaudhury among others. This lead to intense debate among the scholars whose area of investigation was primarily to explore the transition of the agrarian economy from feudalism to Capitalism against those whose major tool of enquiry confined to identify the “feudalistic mode of production”

From the surveys of 26 villages of West Bengal in 1970, Bhaduri (1973) identified four prominent features of the ‘semi-feudal’ relations and listed them as: i) share cropping, ii) perpetual indebtedness of the small tenants, iii) concentration of two modes of exploitation, namely, usury and land ownership in the hands of some economic class, and iv) the lack of accessibility for small tenants to the market. With these features, he concluded the presence of semi-feudalistic mode of production in Eastern India. Bhaduri, however, was criticised by many scholars for giving too much emphasis for the debt bondage, usury as the major factor inhibiting the growth of capitalist agriculture. The study of Pradhan and Prasad (1974) based on field data from parts of eastern India came with the similar findings. There result showed share cropping and usury as the predominant mode of surplus appropriation and major factors behind the semi-servile conditions of poor, low level of consumption, low productivity of land and labour in the region. Nirmal Chandra (1974) used secondary data published by the state government on 250 farms in five districts of West Bengal and come to the conclusion that there is lack of any capitalist transformation in the rural area.

Ashok Rudra (1978) analysed the features of feudalism such as tenancy, usury, non-free labour and argued that despite the presence of these features it could very well be a feature of capitalism. He asserted that only such attachment or such dependence as arises out of extra-economic factors could be legitimately treated as a characteristic feature of feudalistic relations. No attachment, or dependence of lack of freedom, which arises from economic considerations ought to be given such a characterization. Interestingly, the debate on feudalistic mode of

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2 Rudra prefers to use the term feudalistic to avoid the term ‘semi-feudal’. According to him, in Indian discussions of mode of production, one has freely resorted to the terms 'semi-feudal’ or ‘feudalistic’ without always taking care to make explicit what of extension of modifications of the core concept, as indicated by the term ‘feudalism’, are involved. This has largely responsible for confusions (Rudra, 1987)

3 He discarded certain features and considered it peculiar to feudal mode of production. For him, tenancy could be a full-fledged capitalist institution when it is the tenant who is the dominant party and the lessees are small poor landowner. Only when the lessee is a poor farmer and the leases is an enterprising farmer then it could be a feature of capitalism. Similarly, he denies money lending by itself plays negative role. To him, if loan is taken for productive purpose then it is very well an index of capitalist forces and relations. And, as far non-free labour is concerned, he states that non-economic coercion could be similar to economic-coercion and which may take place in capitalist relations of production.
production remained stagnant after eighties. The feudal mode thus characterizes the interlocking of the debtor with the feudal lords and the extent of exploitation depends upon the depth of this relationship.

2.2.2 Colonial and Asiatic Mode of Production

Some of the scholars believe that the impact of colonialism on Indian agriculture has been of high magnitude and significance of mode of production prevailing in it cannot be understood in terms of the standard categories of feudalism and capitalism alone. They therefore call for the conceptualization of a new mode of production and proposed the nomenclature ‘colonial mode of production’ for such a new mode.

It was Marx who theorised “Asiatic mode of production” based on his own studies on India between the period 1853 to 1859, as an addition to the existing modes of production namely ancient, feudal and capitalist. Though, Asiatic mode of production was never adequately described by Marx, but the theory originated when Marx understood that the pre-capitalist social organisation in Asia could have been different from that in Europe, given the unique features of the Indian village community. These were- i) the absence of private property in land; ii) the existence of the self-sufficient village communities characterized by a unity of agriculture and craft industry; iii) the historic stagnation of the Indian social formation; and iv) the ‘despotic’ state, based on tax and rent equivalence. Some scholars, however, criticised Marx, by arguing whether he regarded the Asiatic mode of production theory as the earliest (earlier than “ancient”) or a mode prevailing outside of Europe (Habib, 2010).

Interestingly, Marx in the latter stage ignored his own theory of ‘Asiatic mode of production’ when he (and Marxist) faced with the problem of addressing the variations observed in the histories of various people and cultures outside Europe, during Soviet revolution of 1917. He strongly argued that all people had similar histories, passing through an identical line of successive mode of production, viz. Primitive society-slavery-feudalism-capitalism, which in essence meant overlooking suggestions in Marx’s own writing about the ‘Asiatic’ and ‘Petty’ modes of production (Habib, 2010.). Thus, failure of Marxist to stick with his own theoretical conception of Asiatic mode of production is well evident.

Some of the prominent Marxist scholars\(^4\) in their work have articulated in favour of a distinct mode of production, capable to explain the impact of imperialism on Indian economy. Basically, the theory was originated with the notion of ‘drain of wealth’ from Indian State to
Britain, which resulted in lack of surplus accumulation of wealth in India. According to Bagchi (2002), the colonial period was marked by the de-industrialization and de-commercialization of agriculture. In same line, his later work suggests that the impact of colonialism in the nineteenth century was to increase the “ruralisation” and “peasantisaton” of India, as well as to increase poverty (Bagchi, 2009).

Banaji (1977) rejects the co-existence of modes of production, and argues that the distinguishing characteristics of colonial modes of production were their subordination to metropolitan accumulation and pre-dominance of semi-feudal relations of exploitation in agriculture. Alavi (1975) in his known work on the colonial mode of production in India, argued that both the concept of ‘feudalism’ in India (during the period of direct colonial domination) as well as the contemporary phenomenon of rural ‘capitalism’ cannot be grasped theoretically. In all their implications except specifically in the context of the world-wide structure of imperialism into which it is articulated. It is an important condition, which distinguishes the conception of a colonial mode of production from feudalism and capitalism. Like Banaji (1977), he attacks the notion of coexistence of modes and seeks a unifying concept of colonial mode of production. In order to define the colonial mode, Alavi (1975) points out that colonialism can transform the meaning of a social relationship (say of appropriation) although it does not change its form. Some of the Indian Marxist researchers working on Indian history have rejected the concept of the Asiatic mode of production and need to be dispensed with. The Asiatic mode of production was criticised by many scholars for its very limited role in explaining the pre-colonial social formation of India in terms of the postulates of historical materialism and class struggle (Bula, 1980). The sources on which Marx depended in his formulations were not only scanty but also unreliable.

The forgoing discussion on the “Mode of Production” debate in the context of Indian agriculture have largely focused on identifying the various possible modes of production existing in the country in terms of chief features. Despite the in-depth discussion the topic generated for over two decades yet, there are various lacunae in the existing work. First, most of the empirical work on the issue were largely confined to a single period and concentrated to the agriculturally developed regions like Punjab, West Bengal, Haryana, Tamil Nadu etc. Based on the findings in these states wide generalisation on the emergence of capitalistic or feudalistic mode of production was made by the scholars for the entire country, which may not be necessarily true due to difference in the agrarian conditions (impacting forces of production and production relations). For example, how one would define the mode of production in a tribal setting where the production is meant only for subsistence, where the capital investment in terms of purchased inputs is meager? There are some scholars who have tried to capture the
prevailing mode of production within a given agrarian conditions. For example, study of Athreya (1991) tried to capture the agrarian change in two different eco-types. Second, a lot of emphasis was given to the theoretical discussions in order to match the criteria put forward by the western Marxists scholars on different modes of production, which had its origin in the historical and agrarian settings of the west at a given point. Third, mostly the debate confined to agriculture and anything outside of agriculture influencing the process of agrarian change did not receive the required attention. For example, the contribution of informal source of income to the income of farm households, and impact of policy change, etc. Pandian (1990), states that the scholars engaged in the debate gave ‘inadequate attention in analysing the ‘productive forces’ in the intense debate on peasant capitalism and agrarian transition in India. While, according to Gail Omvedt (1981) debate has given much emphasis on the colonial period and failed to analyse the qualitatively different process at work in the post-colonial phase.

2.2.3 Capitalistic Mode of Production

Followed by the feudal mode, there emerged the capitalistic mode of production. The agrarian structure underwent significant changes that motivated changes. This encouraged many Indian scholars to investigate the predominant modes of production in the countryside. The major focus was to identify the presence of capitalistic elements in agriculture. Some of the prominent Indian scholars such as Ashok Rudra, Utsa Patnaik, Paresh Chattopadhyay among others tried to capture the extent of capitalistic transition in India. Since Punjab was one of the agriculturally progressive states, who got maximum benefit of “biochemical package”, was considered as a suitable case to examine the transition of the agrarian economy from feudalism to capitalism. This motivated Ashok Rudra and his colleagues to study big farmers in some villages in the agriculturally prosperous state of Punjab. In order to identify capitalist farmers Rudra (1969) emphasised positive association between : i) Percentage of land rented out to total land owned, ii) the proportion of cash outlays on wages, per acre, iii) the percentage of the total produce that was marketed, iv) the value of modern capital equipment per acre, v) Cash profit per acre. But his field data, failed to indicate any strong association between any of these pairs. Hence, he concluded that there is no evidence that such a category of capitalist farmer exists. Incidentally, Rudra (1969) did not take into account the credit market operations.

Patnaik (1971), criticised Rudra for confusing others on two quite different propositions: i) that within the prevailing non-capitalist economy a small but growing class of capitalist do exists , and ii) Punjab’s agriculture is characterised by sharp polarisation into two main classes, capitalist and wage labourer. While disproving the second proposition, she argued that Rudra disproved the first tendency of the emerging capitalist farmers and neither production for the
market nor the use of hired labour could necessarily be taken as an indicator of the penetration of capitalism in agriculture. Further, she also strongly asserted that Rudra’s criterion of high positive association between pairs of variable, “would make sense only in a unreal idealised world in which different classes existed only in their purest form” (Thorner, 1982). Chattopadhyay (1972) criticised Rudra, for “overestimating the development of capitalism in India and under estimating “the strength of the pre-capitalist modes of production still prevalent in Indian agriculture”. Interestingly, Rudra (1978) in his later work formulated a two class theory of agrarian structure, based on the notion of class contradictions. But the mute question remains unanswered that why these scholars have kept out the credit market development out of the ‘mode of production’ debate and that too in capitalistic mode.

After Rudra, Utsa Patnik (1986) tried to explore the extent of capitalistic transition in agriculture. According to her, when capitalism tends to become the main or leading mode of production gradually replacing the pre-capitalist modes, it is expected to be accompanied by increasing trends in production, more for sale than for own use and hired labour; iii) mediation by money or increasing monetization; and iv) generation of surplus over costs and consequent accumulation of capital. Despite, her severe criticism of Rudra’s view on capitalist farmer, her findings on capitalist farmer matches with Rudra’s work. She concluded that Indian agriculture is largely pre-capitalist, with signs of capitalistic tendency penetrating into agricultural sector.

For Patnaik (1986), the distinction between pre-capitalist/feudal modes of production relies primarily on the productive reinvestment of surplus and accumulation of capital. While Gunder Frank attacks Patnaik for her statement that “extended reproduction and accumulation” is a criterion of capitalism. He criticises Patnaik, that she has defined capitalism narrowly as to require that the surplus value be invested on the very spot where it is produced i.e., in agriculture itself, or in the same geographical area (Thorner, 1982). Thus, the debate on capitalistic mode of production remained clouded with confusions and lack of clarity and the recent changes such as economic reforms and the associated changes impacting Indian agriculture did not receive the required attention. Above all the neglect of the parallel developments in the credit and labour market leaves the discussion incomplete.

**2.2.4 Capitalistic Mode of Production**

Mode of production being a dynamic concept is associated with change in the extent of transformation towards capitalist mode. Here an attempt is made to examine the various forces under operation conducive or constraining the transformation process with respect of differentiation of peasantry, extent of commercialisation and means of surplus appropriation.
2.3: DIFFERENTIATION OF PEASANTRY

In order to analyse the path of change in the agrarian class structure in general and other associated trends towards de-peasantisation, proletarisation, or sticking to petty holdings, we discuss the debate on peasant class and its various dimensions. In the debate on ‘mode of production’ of seventies agrarian class and changes in it were confined to agriculture and the influence of other sector on agriculture remained almost neglected. But the contemporary literature on agrarian class structure gives due importance to the influence of non-agricultural sector (Bernstein, 2009, Harriss, 2010, Athreya, 2009).

The debate on peasantry is influenced by two separate schools, one followed by Marxist scholars such as Lenin and Kautsky and the other by Neo-populists such as Chayanov and Shahnin. The two schools have different opinion about the peasantry and the process of socio-economic change among the peasantry. The Neo-Populist has given primary importance to the demographic factors, while the Marxists have emphasised on both the demographic and economic factors, particularly the latter to understand the process of change among the peasantry. The discussion on identifying peasant classes in India was done by Indian scholars in their scholarly work by Patnaik (1971; 1986), Bardhan (1982), Athreya et al. (1987), Harriss (1991).

In contrast to Marxists the contemporary Neo-Populists in India have taken the persistence of peasantry as evidence that family based peasant production is not determined by the laws of capitalist mode of production. However, some scholars have argued that a peasant or family mode of production does not exist nevertheless, contend that peasant production possesses internal logic which permits it to resist the pressures of capitalist production relations and prevents peasant disintegration (Atwood, 1979; Harriss, 1982).

Some of the crucial factors identified by Neo-Populist writers were summarised by da Corta (1992) are as follows: a) the higher productivity of small farms compared to larger ones, primarily because of their capacity to intensify and self exploit their family labour; b) the greater stability brought about by their ability to survive without profits as long as subsistence is met; c) the leveling effects of family life cycle especially the partitioning of large farms at inheritance and population growth; d) State intervention through various public policies which aimed at helping the small and poor peasants. These are the factors, which were considered crucial for the persistence and survival of small farms against the big one. However, the first criteria on the higher productivity of small farms through the theory on inverse relationship
remain clouded with diverse findings as far Indian agriculture is concerned. Against Neopopulist, the Marxist based on their experience in Russian agriculture, conceptualised “differentiation of peasantry” as an outcome of capitalistic development in agriculture. They see that persistence of ‘peasant phenomenon’ through small holder production is determined and controlled by capitalistic mode of production.

Major factors identified by researchers in India, which could inhibit the process of depeasantisation, are: i) historical such as impact of “parasitic landlordism” in colonial India where moneylenders and merchants kept control on the rural economy (Low, 1996); ii) diversification of livelihood sources, differ across the rich against the poor. In studies done by Bardhan (1984) and Harriss (1987) in the green revolution belt of West Bengal and North Arcot region respectively, found the rise in the income in the region has led the landed castes to rise as a class of ‘farmer entrepreneurs’ and enable them to diversify their income sources. Some of the contemporary studies reflect upon the low level of differentiation among poor or marginal farmers. Engagement of poor farmers in “survival” activities helps them to reproduce themselves, primarily through sale of their labour power (OECD, 2012). Similar findings came from the study of Ramachandran et.al. (2010) based on data collected from three village survey conducted in Andhra Pradesh in 2005–06. They found the high contribution of non-agricultural income ranges between 35 to 55 percent of the total household incomes in the three-villages. Such tendency helps the poor to cling to a piece of land, however small and prevents further differentiation.

Lenin defined “depeasantising” as a process that signifies the utter dissolution of the old, patriarchal peasantry and the creation of new types of rural inhabitants (Patnaik, 2010). Besides demographic pressure in inter-generational land transfers, there are few other factors, which encouraged depeasantisation. These are- i) liberalization policies facilitating transfer of Common Property Resources (CPRs) to corporate sector for doing agribusiness (Bandopadhyay, 2008); ii) change in land policy to allow certain sector to acquire fertile land for Special Economic Zones (SEZs) and for other non agricultural use etc., (Assadi, 2007,

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5 Amartya Sen initiated the debate on the operation of inverse relationship in Indian in 1962 in a remarkable article based upon Chayanovian explanation. Thereafter, various India scholars have tried to examine the validity of the theory through empirical work, but most of them did not find clear incidence of the operation of the theory. The study of Rudra(1968) based upon the use of Farm Management Survey data, did not find any clear evidence of high productivity in small holdings. Similarly, Usha Rani’s (1971) study, found that yield per acre remains constant over different size groups of farmers. Hence, she concludes that no firm generalization can be made about variation of intensity of cropping over different size group. Later, Patnaik (1979), in her known study, critiquing Chayanov, found both the yield and labour productivity increase with the scale of farming. Thus, in Indian context substantive evidence is there which disproves the validity of the theory and the debate is still prevalent.
As far as the extent and dynamics of differentiation is concerned, it would be interesting to shed light on the earlier studies against the contemporary. The earlier studies on class differentiation in India found a significant proportion of the middle class cultivating households (Athreya et al., 1990 and Harriss, 1982) in contrast to the findings based upon Leninist differentiation of peasantry (Patnaik, 1987, Bardhan 1984). These findings added the confusion in the operation of Lenin’s model of polarisation among the peasantry in the country. Nevertheless, contemporary study particularly based on Kautsky work came up with diverse findings. Harriss (1982) states that “class differentiation of the peasantry has not occurred as extensively as orthodox Marxist would have predicted” and he would have found an expansion in commodity production which was unanticipated by orthodox Chayanovians. Similar, findings came from some other studies in Tamil Nadu. In the resurvey of two villages by Athreya (2008) in Tiruchirappalli, he found that “the fragmentation of holdings, about which many researchers expressed apprehension a generation ago, has more or less stopped”. The major cause contributing to such a trend is due to the change in the pattern of inheritance, where parents avoid dividing their farms. Instead, they send their surplus sons in non-farm careers. Harriss, et.al. (2010) while resurveying of the Iruvelpattu village in 2008 (after 1981), found the tendency of proletarianisation in terms of increase in the number of landless households and a continuous reproduction of the small-scale farming. The scholars contest apprehension of Kurien (1980), in which had argued that the agricultural economy of the state experienced significant growth without “structural change” and would lead to the tendency of small farmers to leave land and farming to join the ranks of the rural proletariat. In a recent study based on secondary data, Basole (2010) states that persistence of petty production in agriculture, industry and services is interpreted as ‘arrested class differentiation’. However, a closer look at the class differentiation sheds light on the evolving relations of production. For him the differentiation that is taking place in rural India is more between heterogeneous rural gentry and a heterogeneous rural poor, than between capitalist and worker (Basole, 2010).

Table 1.1 depicts the major peasant class categorized by scholars who have worked on agrarian change issues in India. At the methodological level, these show significant contribution is made in overcoming shortcoming in the works of Lenin and Chayanov. The contemporary Marxists in particular criticize Lenin's method of using land and asset categories to demarcate peasant classes. Instead, they developed direct indices. Patnaik in this regard, in her 'labour exploitation criterion' (E) classifies households in term of ‘labour exploitation ratio’ to identify peasant
classes on the basis of their relation to labour use. She defines it as total use of outside labour divided by family labour days. While, Athreya et al., (1987) work based on Kautskian indices, developed another criterion called ‘surplus criterion’ to demarcate classes. Both Patnaik and Athreya severely criticise each other’s classification for identifying the peasant class in agrarian settings. Despite these developments in classification methods of ‘agrarian class’ most of the contemporary Marxists' empirical studies continue to use 'land and assets' indices for classification of households (Harriss, 1982, Basole, 2010).

Table 2.1: Peasant Class Classification in India

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Major Peasant class</th>
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<tbody>
<tr>
<td>D.Thorner (1976)</td>
<td><em>Mazdoor, Kisan and Malik</em> (Based on actual labour contributed to the production process and the share in the product)</td>
</tr>
<tr>
<td>Utsa Patnaik (1986)</td>
<td><em>Owner cultivators</em> (big, small and marginal farmers), <em>leaseholders</em> and <em>agricultural labourers</em>. (using labour exploitation criteria)</td>
</tr>
<tr>
<td>Ashok Rudra (1969)</td>
<td><em>Rich capitalist farmers</em> against <em>tenants and labourers</em> (Based on class conflict theory)</td>
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Most of the Indian scholars who have worked in the area of peasant class differentiation have categorized agrarian class into rigid compartment and overlooked any scope of fluidity. Similarly, caste a crucial component in perpetuating inequality in the possession of land asset in rural area did not receive sufficient attention. “Peasant-class” categorization is limited to...

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6 Athreya et.al., (1991) criticise Patnaik’s labour exploitation criteria, he argued that a household using the labour exploitation criterion could be classified as one belonging to exploiter class but in reality it may not possess any surplus because whatever it gets through by exploiting the wage labour in turn is taken away by the merchants and moneylenders (Athreya et al., 1987). While, Patnaik severely criticises Athreya, for their use of “surplus criterion” approach in which they have used ‘poverty’ perspective using nutritional norm, and applying a Physiocratic view of the centrality of grain production and hence of ‘grain deficit’. She is apprehensive of obtaining a wrong result by posing a uniform norm of minimum nutritional requirement of 600 gms. The calculation may underestimate ‘grain- deficit’ for manual workers and surplus will be underestimated for sedentary persons due to different nutritional requirement of these two groups. The second problem with the definition of ‘surplus’ adopted by the author is that it appears to ignore surplus retained in non-grain form altogether. She also foresee the problem of double counting of family consumption.
agriculture and the impact of anything beyond agriculture in bringing change in the class is largely ignored\(^7\). Most importantly, Rudra (1969) and Thorner’s (1976) classification of peasant-class based on class contradictions remain superficial. It does not include the vast share of intermediate agrarian class belongs to middle peasantry who exists between Malik, Mazdoor and Kisan. Unlike, Rudra and Thorner, Patnaik succinctly included all the major peasant classes in her classification using the labour exploitation criteria (E). Later on, various studies using Patnaik’s criterion (Bardhan 1984; Patnaik, 1986) found a small section of capitalist and rich farmer classes primarily depend on wage labour beside a larger section of agricultural labour class. In a recent study Banerjee (2009) used E criteria and try to identify capitalist farmers in the three diverse agro-climatic regions. First region represented fertile irrigated agriculture with multiple cropping (WB), the second agriculture with fair share of area under irrigation and commercial crops (AP-sdp) and the last one backward agriculture with predominance of dryland agriculture and insignificant share of area under irrigation (AP-atp). He found the presence of rich peasant households across farm sizes in WB-Raina, a high demand for labour across the farm sizes in the AP-sdp region and concentration of rich peasant and the landlord households in the higher size class in AP-atp. This indicates irrigation and commercialisation has blurred distinction between capitalist and non-capitalist farmers. In a recent work based on post-Marxism, Chakrabarti, et. al., (2003) have criticised Patnaik for her reductionist approach towards differentiating class. They assert, such reductionism not only leads to obliteration of process related to surplus labour generation but also to relations of property. They found the use of labour exploitation criteria at the empirical or “real” level have ignored the crucial role of property relations necessary at the analytical level. With the improvement in technology and reduced dependence on wage-labourers the labour-exploitation criteria as a tool to classify “peasant class” is doubtful. Similarly, the tendency of ‘small’ farmers to employ wage labourers during peak agricultural season is overlooked (Bernstein, 2010). Most of the studies pertaining to “peasant class” were done at a point. Therefore, these were unable to capture the factors influencing or constraining differentiation under operation. The different studies have used different criteria to understand the agrarian class and its dynamics.

### 2.3.2 Petty Commodity Producers

The existing literature on peasantry has given sufficient evidence that in Indian agriculture a large section of petty commodity producers are able to reproduce and sustain the forces of capitalism. It contradicts the predictions made by the proponents of capitalist theory that with

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7 Athreya re-survey, brings the impact of informal sector on agricultural wage. Similarly, study of Basole (2010), Bernstein (2001, 2010), Harriss (2010, 2010) also reflect on this aspect.
the advancement of capitalistic tendencies in agriculture the small peasants will vanish. Representing the tendencies to class differentiation of petty commodity production, Bernstein (2001) stated that “the peasantry is hardly, a uniform, or analytically helpful, social category in contemporary capitalism, whether considering the past reference or in considering changes in agriculture and rural social existence generated by imperialism/globalization. Thus “commodification of subsistence” is a central dynamic of the development of capitalism” (Bernstein, 2010).

The dissolution of the small-scale peasantry, may lead to the tendency of de-peasantization or de-agrarianisation process. According to Lenin the process is associated with different combinations of (i) pressures of reproduction on small-scale farming and (ii) opportunities for employment outside ‘own account’ farming. (Bernstein, 2009). As far as the first case, the petty commodity producer often face simple reproduction ‘squeeze’ as petty producer or on both capital and labour, associated with the commodification of subsistence and may result into depeasantization (Bernstein, 2010). Similarly, the class differentiation of peasants proceed via the increasing ‘entry’ or reproduction costs of petty commodity enterprise, resulting in the dispossession/proletarianization of weaker producers without any necessary formation of classes of rich peasants or capitalist farmers (Bernstein, 2001). It is now a well established fact that peasants today are engaged in farming along with a range of other employment activities (Bernstein, 2010, Basole, 2010). These diverse combinations of farming with other activities help the petty commodity producer to survive in conditions of extreme constraint (Bernstein, 2001).

But, as far the exploitation aspect is concerned this are the class of farmer who are exploited mainly be merchant and usurious capital and surplus is largely extracted through the mechanism of unequal exchange, and through the participation of the farmers in the interlinked markets. Thus, wage-labour and petty commodity production co-exists together, as free labour and as owner-producer, has impeded the development of proletarian class (Basole, 2009).

2.3.3 Commercialisation

Rapid commercialisation of agriculture leads to increased profit as well as enhanced investment in agriculture. Predominance of marginal and small farmers engaged in commercial agriculture, who are unable to cope up with the changes in the behaviour of market is the major factor contributing to rise in farmers’ indebtedness and a major cause contributing to increasing farmers’ distress in the recent years. This section focuses on the debate on commercialisation of agriculture and the major elements contributing to increasing tendency of farmer indebtedness.
Commercialisation of agriculture has been defined differently by different scholars at different points, and the common feature reflected in all these definitions are increasing commoditisation and farmers’ link with market. Though, there are differences of opinion about the extent of commercialisation among the researchers. For some, Colonial period in the British regime accelerated commercialisation process, Krishna Bharadwaj (1985) has listed certain conducive factors that have given an appropriate background for the rapid commercialization of Indian agriculture. These factors proved conducive for the emergence and success of capitalistic mode of production in India when other modes of production failed to do so. While, another set of researchers states that much earlier to British intervention, commercialisation was widely prevalent in India.

The diversity in the spread of commercialisation has been well recognised by a few researchers and states that the commercialisation and its spread has not been uniform across different countries and in different regions of India and over different historical periods (Bharadwaj, 1985). Robb (1992) based on his work with reference to Bihar in the early nineteenth century contradicts the idea that poor, ‘less commercial’ areas took little part in commerce and experienced little occupational diversity. The researcher states that wide range of occupation was found even in rather depressed area of Bihar. He also supports the simultaneous existence of multiple modes of production against the all encompassing capitalist mode.

To distinguish the different nature of commercialisation, particularly in the context of British period and backward agriculture, researchers have tried to classify the commercialisation process in terms of its distinct features. Intervention in the colonial period gave scope for

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8 Krishna Raj (1985), defines commercialisation as a principal element in the transition from pre-capitalist to capitalist modes of production”. While, Ludden (2003) defines commercialisation as a “historical process that turns more things into commodities, brings more people into market exchange, makes more social transactions, commercial transactions, and interprets more of the value of things through pricing”. And, Thirthankar Roy (2007) defines commercialisation of agriculture as a process where peasants start producing primarily for sale in the distant markets, rather than to meet their own need for food or to sell in local markets.

9 Land was made, by civil law, an alienable individual property by the colonial state which would instill a spirit of capitalist entrepreneurship in agriculture; There was already a marked differentiation in the peasantry; The imposition of a dear revue demand to be paid in cash and before the harvest; resulted in an imperative need to raise cash;The timing of the revenue payments coincided with a period in the productive process; when the cultivators were short of cash; Direct compulsion was used to propagate cultivation in the case of indigo and poppy whereas commercialization was forced upon certain sections of the cultivators in the case of other crops like jute, sugarcane and oilseeds; Exports and internal markets for cash crops developed and were made more accessible; by transport and communications networks developed by the state; Irrigation works were carried out by the state and other incentive inputs provided to stimulate the growth of more productive commercial crops; With land becoming pledgeable property, money lending against land mortgages become common. All these development were conducive for the commercialization process (Krishna, 1985).
widening the basis for commercialisation of Indian agriculture. However, it was confined to limited regions and primarily undertaken by the peasants for paying tax/revenue to the British government. For such compulsive involvement of peasants in the market, Krishna Bharadwaj (1985) and Bhaduri (1983) used the word “forced commercialisation”. And, for Bharadwaj (1974), ‘compulsive involvement’ in the market accompanied by increased monetisation in the form of crop sharing to fixed rents or from kind wage to money wage may not necessarily reflect the establishment of capitalist relations of production. Because such commercialisation may not result in the development of the economic condition of farmers. A recent study using macro as well as field-level data from three villages of Telengana, Vakulabaranam (2010) found the operation of “forced” and “voluntary” commercialisation. In the earlier case, when farmers forced to grow commercial crop in order to meet the collateral requirements, while, the latter operates when the price rises. Robb (1992) in his work on commercialisation in Bihar’s agriculture in nineteenth century, found the tendency of coercive commercialisation. Producers lagged direct control over production, or access to the wholesale market, and a large share of profit was taken away by middlemen. He found commercialisation was incomplete and impeded from ‘inside’. The cultivator was unable to break his subordinate position in the product market, and the market or the state was unable to prevail against the intermediary. Similar tendency was found by Washbrook (1992) in his historical work on south Indian state of Bellary in nineteenth century, he found expansion of commercialisation was not associated with a broadening prosperity, but result into progressive crisis in agricultural production and social reproduction. While, Nadkarni (1980) based on his field work in 15 villages in Ahmednagar district of Maharashtra found a wide prevalence of “superficial commercialization” as an outcome of forced commercialisation. Where farmers made distress sales and repurchase later, apart from the fact that distress sales form only a small part of the marketed surplus, a good part of these transactions may involve sale of superior food grains for purchasing quantitatively more of inferior food grains (Nadkarni, 1980). Against, the common notion that the colonial period was generally associated with forced commercialisation, some studies have well reflected that it was beneficial in certain areas and for certain people (Robb, 1992; Washbrook, 1992).

The nature of commercialisation and its impact on peasantry remain a controversial issue among researchers. For Bhaduri (1986), under a forced commerce, exchange relations may be ‘efficient’ from the point of view of the surplus extracting class. Moreover, commercial mode of exploitation not only exhibits unequal relations of economic power, but more importantly, it is also a mechanism for maintaining such unequal power structure, often at the cost of retarding agrarian growth. WashBrook (1992) with his historical analysis of Bellary region of South India, found that in the colonial period the benefits of expanded cash cropping in cotton and
groundnuts passed to a small group of large-farmers ‘magnates’, who were also dominating the markets in credit, commodities and employment. Their superior position, deny access to market benefits to the smaller clients and used the forces of commercialization to strengthen their own social and political grip on the countryside.

During green revolution period and its success in parts of the country is considered as a watermark period as far the commercialisation of agriculture began in modern lines in India. The period witnessed a new trend of increased profit and investment in agriculture. Thorner was excited with this new development in the countryside and coined the term “gentlemen farmers” for such emerging capitalist farmers (Patnaik, 1986). As far the success of bio-chemical package which was promised to be “scale neutral”, meaning that it could be adopted, with benefits, on any size of farm unlike the use of machinery. However, “scale neutral” technology proved beneficial to resource access capitalist farmers, with the access to formal agricultural credit, irrigation facility, market support etc (Harriss, 1982, Kurien, 1980). Thus, studies have noted that the new technology have further increased the economic difference and inter group tensions among the agrarian population (Mencher, 1974). There was a fear among the academic community that the green revolution may turn into a red revolution, but the caste difference among the poor agrarian class is considered as a preventive factor to unite them and fight for a common cause and a major reason behind the near absence of such an incidence (Mencher, 1974). The period also witnessed entry of petty producers in commercial agriculture with inequality in access to sufficient investment capacity and led to increased indebtedness. Studies have shown that the poor farmers face difficulty to continue reproduction of production and their own consumption requirements and were in continuous debt burden (Griffen, 1974). Study of Harriss (1982), found the crucial role of merchant capital in the reproduction of the petty commodity production. The period is also associated with tightening of labour market (Athreya, 1991) increase in the wage rates, neglect of crops grown in the rain-fed regions which also means neglect of the policy beneficial to the farmers in the rain-fed regions and such a historic discrimination against rain-fed region is still evident in the persistent difference in the economic condition of farmers in the rain-fed regions against the irrigated-region.

Some sociologist consider green revolution model of agriculture as the major cause behind the emergence of present crisis in agriculture (Vasavi, 2010; Jodkha, 2005). There are other set of researchers who contribute to the liberalisation policy changes in agriculture as the major cause behind such a situation, due to fluctuations in the price of output, decline in the productivity of soil due to consistent application of chemical fertiliser, huge investment on deepening the wells etc (Sen 2001; Vakulbharanam; 2005). Some studies consider that fast spread in commercial agriculture has led to decline in the various customary form of support which the poor peasant
households use to enjoy within the framework of caste-based jajmani relationship (Jodhka, 2012; Harriss, 2010). But, there are mixed opinion about the impact of such decline in the customary relationships with the rising trend of employment opportunities for the rural poor, pro-poor government programmes providing subsidised food, shelter, employment and other opportunities. In such a context, when labourers are free from any debt relationship, which has improved their bargaining power in the wage market and often act adversely in terms of rise in the cost of cultivation for the farmer households (Harriss, 2010; Ramaswamy, 2007). Thus, fluctuating price, rise in the cost of cultivation, increase in the input cost all are considered as the crucial factor behind the rise in the cost of cultivation for farmers and increasing indebtedness. Increasing indebtedness of farmers led to the entry of traders and middlemen who by participating in both the input and output markets appropriate surplus. Studies also have shown that there is increase in “individualisation among farmers” due to increased commoditisation and reduced dependence on customary relationship of farmers and this has decreased the capacity of the households to meet any risk or distress situation and contributes to rise in distress (Vasavi, 2010; Jodhka, 2005). Moreover, distortions in the domestic market in the absence of safety net programmes led farmers into critical situation (Deshpande and Prabhu, 2005).

2.3.4 Surplus Appropriation

Tenancy, attached labour and usury were considered as the prime means of surplus appropriation, without using the direct labour. Over the period tenancy as an institution has also undergone significant change. Studies have brought out clearly that there is a significant decline in the share tenancy and a considerable rise in the tenancy under fixed produce and fixed rent (Ramachandran, et.al. 2010; Sharma, 2007). With the landed gentry in rural areas migrated to cities, dwindling farm income there has been a decline in interest in agriculture therefore in tenancy. Hence, the way tenancy was used as an instrument for surplus appropriation is not widely prevalent. Coming to the attached labour, there is a decline in the use of attached labour, various studies have indicated a clear decline in the caste based jajmani relationship. Due to reduced dependence for debt, customary benefits in the form of food, clothing etc., this also seized to be a mode of surplus appropriation how it was earlier. Most importantly, studies from nineties have shown a rise in the system of “contract labour” rather than individual labour, which improves the bargaining capacity of the labourer as a group (Athreya, 1991; Athreya, 2011; Som, 2005; Harriss, 2010) or in contrary a high wage burden on farmers who employ them to work in field. Interestingly, among the three, usury still remains one of the crucial sources of surplus appropriation through charging high interest rates. There is no denial that now usury has increasingly paved the way through interlinked markets to appropriate surplus in
various other markets. Many studies have shown high rates of interest charged by the informal lenders, sometimes it ranges between 20 to 300 per cent (Dreze et al., 1997). With the increasing commercialisation and fluctuations in price of output, it is not only the poor farmers who are in the grip of indebtedness but also the small and middle farmers.

The section clearly reflects upon the change in the way surplus is appropriated. We get the clue that shift in the share tenancy to fixed produce or rent, freedom from the traditional attached system of labour, implies a increased burden of wage, added to it usury also increased the economic burden on the farmers households and all are crucial in rising the total cost of cultivation. All these clearly reveals that though there is not much improvement in the economic and social conditions of the agrarian poor i.e., landless labourers and marginal farmers, yet due to increased commoditisation, farmers the cash component in the total cultivation expenditure has increased considerably and pinching when the price of output is not remunerative. It clearly indicates the high debt burden of farmers in the recent decade.

2. 4: AGRARIAN STRUCTURE

Historical land tenure system and post independence land reform measures were crucial in shaping the existing agrarian structure. In this section we have tried to capture the impact of land reform measures in reducing the extent of inequality in agrarian structure, agrarian social structure, and the changes it has undergone during the neo-liberal regime etc.

At the time of independence, India inherited three types of land revenue systems from British the zamindari, ryotwari, and mahalwari. These three systems not only established obligations of taxation but more broadly defined the relationships among the layers of land rights and control exercised by (or imposed upon) the state, landowners, landlords, tenants, and laborers (Appu, 1996). The Zamindari system was prevalent in most of the eastern and northern part of India and the tax collector (Zamindars) had permanent rights to and control of the land in exchange for collecting tax from peasants and tenant farmers. While, in some parts of the country largely in Punjab and West Uttar Pradesh mahalwari system was prevalent, were the cultivating section of the village community was given direct land rights and intermediary tenure did not exist. But, the land tenure system in South India was different, ryotwari system of land tenure was prevalent during British period and not more than a quarter of land area was under zamindari system. The significant part of this land tenure was the absence of intermediaries between the ryot and the state. The ryot was free to sub let his land and had full rights regarding the sale, transfer and leasing of land and enjoyed permanent settlement, that is he could not be evicted from the land as long as he paid the land revenue. Such kinds of rights
were not given to the cultivators under the zamindari system. Hence, the ryotwari system was considered as the one which gave much freedom to cultivate, and less exploitative than the zamindari system. On the contrary, some of the literature have brought the fact that over the period the ryotwari system of land tenure also engulfed the similar kind of problems intrinsic to zamindari system, such as high payment of rent, usury and exorbitant tax all have made the life of poor peasants miserable (Damle, 1997). Thus de-peasantisation and large scale eviction of tenants was a common feature in ryotwari system of land tenure.

After India got independence, land-reform was used as a policy measure to reduce wide spread inequality in the agrarian structure and to improve the productivity of small holdings. The major tools used to achieve the objective of land reform measures were Zamindari abolition, tenancy reform, land ceilings, and consolidation of holdings. Among these, the latter measure received the least attention in the policy front. As land reform was a state subject, the enactment and implementation was depend on the political will of state governments (Bandyopadhyay, 1986; Radhakrishnan, 1990; Appu, 1996). Therefore, except in a few states like West Bengal, Kerala and Karnataka, land-reform did not make any noteworthy change in altering the persisting inequality in the agrarian structure.10

In India, studies on land issues have given sufficient evidence that the land reform failed to reduce the inequality in agrarian structure in any meaningful manner. According to Patnaik (2010), conservative path of Prussian Kunker-style landlord-capitalism has been promoted in the half a century of agrarian reforms in the country. While curbing the excesses of absentee ownership and illegal exactions, effective land monopoly has been preserved, by allowing the ex-intermediaries to retain very large areas as their home farms or khudakash, or by permitting tenant evictions on the plea of direct cultivation through hired labour. Land ceiling laws provided sufficient loopholes to maintain large holdings intact, According to Harriss (2010), “millions of acres of surplus land were neither taken over, nor distributed to the agricultural workers and poor peasants”. Ambivalence in the formulation of policy and numerous loopholes allowed the bulk of landowners to avoid expropriation by distributing surplus land to relations, friends and dependents (Appu, 1996; Mearns, 1998). Only, a few studies, accept that the abolition of intermediaries achieved a limited and variable success both in redistributing land towards the poor and increasing the security of smallholders (Wadley and Derr, 1990). Critics of land reform measures in the country stated that besides land other economic factors did not receive the needed attention such as credit which plays crucial role in agrarian relations, irrigation, quality of land etc.
There is broad agreement among a section of scholars who worked on the issues pertaining to agrarian structure change that the land reform led to the emergence of capitalist and rich class of farmers. Despite land reform’s partial success, the land reform have had the effect of redistributing some land within the top deciles, at most the top five quintiles of owners ranked by area, while augmenting through eviction, the class of rural labourers (Patnaik, 1986). She recollects the word of Thorner that land reform results into the formation of two classes, namely the “rural capitalist and rural proletariat”. In the words of Harriss (2010) “after independence, instead of abolishing landlordism, the Congress rulers adopted agrarian policies to transform the semi-feudal landlords into capitalist landlords and develop a stratum of rich peasants”.

Studies also have provided sufficient evidence that land reform failed to correct the structural inequality in agriculture based on caste. Now literature have well placed the fact the caste and class position in rural settings is almost synonymous despite more than five decades of implementation of land reform measures. Large landowners invariably belong to the upper castes. The cultivators belong to the middle castes and the agricultural workers largely to the scheduled castes and tribes (Beteille 1972, Sankaran 1996). Thorat (1996) based upon the analysis of secondary data identified that the states with high proportion of SCs population in the rural areas show smaller portion of cultivators belonging to SC and higher proportion of agricultural labour (Thorat, 1996). Mohanty’s (2001) study based on secondary data analysis on the impact of land reform on scheduled groups across states found that there has been no substantial improvement in their land-holding position over the years. Timothy Besley et.al., (2011) in a recent study based on field in four southern states found there is a decrease in the proportion of total land held by upper castes and a corresponding increase in the proportion held by OBC households, with no significant change in total land held by SC/ST households in the post-reform period. The study also found the net impact of tenancy reform on the welfare of the SC/ST group to be negative when measured by assets owned.

As known Karnataka state was formed from parts of Hyderabad, Bombay, Madras Presidency and Coorg region and came into existence since 1956. Thus, the biggest challenge in front of the newly formed state was to formulate a uniform law that would accommodate local problems and variations to the greatest degree possible (Sudhir, 1997). But researchers like Pani’s (1989; 1999) contested that the state has overlooked the difference in the agrarian structure of different regions with different history. And, he asserts that a common law implemented across such diverse societies would necessarily produce diverse results and a major cause behind the different rate of success of land reform measures in parts of the state. Karnataka also observed several loopholes in the implementation of the land reform measures
since 1950s similar to the rest of India. There was a huge difference between the land actually declared surplus and what was actually involved in the total declaration. Apparently, it appears that the bulk of the remaining land was released to the landowners. Release of such a large extent raises questions regarding the genuineness of the grounds of the release. Similarly, land ceiling aspect of the law also did not achieve a significant success in the state. Total abolition of tenancy with a few exceptions in the state failed to give justice to tenants. And, concealed tenancy remains in practice (Iyer, 1997) in most parts of the state. Alternative notion on the adverse impact of tenancy abolition was raised by Rajan (1997), he found in his study that tenancy abolition lead to near disaster for a large number of tenants operating small extent of leased in land.

Aziz, (1997) tried to assess the impact of land reform by assessing the impact on agrarian structure at the macro level with the use of 1960-61, 1971-72 and 1981-82 operational holding data derived from NSS for Karnataka. He found that there is a gradual decline in the number of large holdings and a rise in the number of small holdings. But he is cautious in interpreting the trend and agrees that such a trend could not be solely contributed to land reform legislation alone. In part, it could also be contributed due to division of family land holdings on account of inheritance, land sales, and so on. And, he agrees that the share of capitalist farmers remain intact with less than 4 percent of large holders operate as large as 24 percent of the total area. Similarly, Thimmaiah (1997) also found in his study, the decline in the number and proportion of medium and small holdings and attribute it partly to the implementation of the land ceiling legislation. Thus, the existing studies clearly brought the fact that to some extent the land reform measures have reduced inequality in agrarian structure in Karnataka.

There are contradictory findings on the benefits of land reform measures in improving the economic and social condition of agricultural labourers and tenants, the lowest rung of agrarian population. Damle (1989), in his work found that agricultural labourers were given a low priority by government within the land reform measures. Rajan (1997) reviewed the performance of land reform in Karnataka for over two decades in the five districts, and found that the number of people received allotment from surplus land can be expected to be hardly 3

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11 The macro data at the State level shows that the total declarations filed in the State until 9 October 1992 was 1,42,374 involving 73,78,668 acres, of which only 2,75,298 acres were eventually declared surplus, constituting only 3.7 percent of the total land involved initially in the total declarations (Iyer, 997).

12 A total of 1.41 lakh declarations were filed covering a total extent of 72.29 lakh acres which amounts to approximately 29 percent of the total net sown area of the state. It is interesting to note that the land actually declared surplus was only 2.75 lakh acres amounting to just about 3.80 per cent of the land scrutinised and 1.10 percent of the States net sown area (Damle, 1989).
percent of the agricultural labour population in the state as a whole. He asserts that the benefits have not been commensurate with the immensity of administrative exercise. Similarly, Patil (1987) found that the land granted to the allotee was dry and was less than 2 hectares in extent, and was not viable. A few studies found a positive impact of land redistribution to agricultural labourers and tenants in the state. Aziz (1997), with the use of secondary data concluded that a good part of the land redistribution was that the landless and marginal farmers on an average obtained above 3 acres of land each. Similarly, George (1981), covered beneficiaries and non-beneficiaries in Bijapur and Dharwad districts of Karnataka, found that the land allotted to tenants and agricultural labourers have substantially improved their livelihood. A few researcher have criticised severely that within the land redistribution measure a greater emphasis was given for ownership holdings, while sufficient attention was not given to the quality of land, finance to improve the land, irrigation development, access to inputs and market etc was neglected (Pani 1999). And, studies based on field data shows that even if the allottees gained any financial benefit for land improvement, there was delay in receiving the amount, the amount was insufficient considering the actual cost of land development, and in most cases money was diverted for some other use (Government of Karnataka, 1987).

There is a diverse opinion about the benefit of land reform across social groups, Damle et.al. (1997) collected data from four villages of Dakshina Kannada, found that the concentration of land-ownership was primarily in the hands of upper castes. Firstly, he found a large scale eviction of tenants had many buyers from upper castes and secondly, village level land transactions largely took place among the upper castes. Thimmaiah (1997) also found that the land reform legislation were unable to correct the social inequality originating from unequal ownership of land. But Aziz (1997) in his study concluded that the SCs and STs received a fair share in the land distribution.

To assess the impact of land reform measures in Tamil Nadu we have reviewed major studies. Studies have come to the conclusion that land reform programme introduced in the state during fifties and afterwards has not substantially changed the pattern of inequalities in the agrarian structure (Kosalram, 1973; Mencher, 1975). Swaminathan (1988), in her field study of Gokilapuram village in Madurai districts for two periods 1977 and 1985, found extreme disparity in the ownership of wealth in both the years. Most strikingly, she found inequalities in the wealth have worsened over the eight year and the major factor contributing is due to increasing concentration in the ownership of land. In the words of Kosalram (1973) : land reform strikingly failed to abolish pre-capitalist agrarian relations, rack-renting, usurious rates of interest, payments derived from extra-economic pressures and the various other forms of exploitation to which the peasants were subjected. There is a wide consent among the
researchers on land reform issues that the land reform in Tamil Nadu has encouraged the landlordism and was beneficial to the well to do peasantry. Various incidences of loopholes in implementing the land reform, benami transfers, and using force to remove the tenants from their allotted lands are well documented in the literature (Somanathan, 2003). The study of Mencher (1975), in 10 villages in the fertile tract of Chenglputtu district did not find single households which have gained through the introduction of ceilings. They found only a few landless households that gained from the distribution of some government poromboke land.

A vast tract of land under the control of institutional holdings like temples, trusts and matths are still prevalent in the state and enjoying monopoly in the land holding. Studies have shown that such holdings helped to preserve landlordism. Kosalaram (1973) in his study village of Thiruvarur district (part of earlier east Thanjavur) found the domination of land by a single temple in the village. Nearly 16 trusts were operating under the control of temple, which covered more than 500 acres of good paddy land. Apart from this the landlord who controlled the trust had nearly 300 acres of land under ‘personal cultivation’. It was after long struggle by the agricultural labourers along with the political party leaders a considerable amount of land was later transferred to the actual tiller of the soil. Much later, study of Sivaprakasam in Thanjavur district found a huge share of land under the control of religious institutions such as temples, matths, and charitable trusts. The researcher also found instances where the landlords have leased in large area of temple/ matths/trust lands in the names of non-existent tenants.

As far distribution of land across social groups to reduce inequality Tamil Nadu does not seem to be successful, according to the Report on land reform an unfinished task (GOI, 2006) states that Tamil Nadu among a few other states did not fulfill the criteria of alloting 50 percent of the land to the socially deprived sections, and the state reveals a bias in favour of non-scheduled groups. But the study of Singh (2003) in 21 villages found 27.09 percent of the land allotted went to SCs, against 60.06 percent to OBCs. And, the larger share of land was irrigated. Hence, Tamil Nadu presents a case of poor achievements as far the land reform measures are concerned with few incidences of success.

Land reform as an integral part of the five year plan remains to be a direct measure to reduce the structural inequality in agrarian structure. Albeit, since late seventies the land reform measure got set back in the policy circle and became near non-existent in the liberalised period (Basu, 2008). Liberalisation policy has liberalised the land laws in order to promote large scale corporate farming which was against the motive of land reform policy. Thus with the rise in population pressure, and sub-division and fragmentation of land holdings, it considerably weak
the case for further lowering the land ceilings (GOI, 2006). Interestingly, in the liberalised period the policy changes were not in favour to reduced inequality in land holdings but were towards bringing policy measures in order to favour the requirements of liberalised economy. There are dichotomous opinion on the impact of land reform measures, one group still emphasise on using land reform as a key tool to reduce structural inequality, poverty, positive impact on the associated benefits due to possession of land. But the other group, while considering the failures of land reform as a policy measure, visualise any further land reform measure to come with associated negative impacts such as fragmentation of holdings lead to de-peasantisation, not beneficial to reduce structural inequality, hindrance to avail market benefits such as credit etc.

Some recent studies show the decline in the power of landlords in rural area (Harriss, 2010). Basu, (2009) “big peasants” share is halved over the last five decades and today they own only about 12 percent of the total land. On the other hand, the land owned by medium-to-small landholding families has increased to over 65 percent. Hence, it is interesting to notice the direction of change. Apart from the land reforms, even the seed-water-fertiliser technology package proved beneficial to the better of section of the society and not the rural populace who were deprived, and actually widen the economic differentiation among these sections.

2.5: CREDIT MARKET OPERATIONS

Structural change with a tilt towards marginal holdings and rapid rate of commercialisation of agriculture are the key agrarian reality. Thus, for a major farm population shrink in production base co-exists with substantial increase in the cost of cultivation (Nadkarni, 1988) due to high expenditure on purchased inputs, capital, use of machineries etc. The situation is further aggravated by fluctuating prices and lack of safety nets. All these leads to shrink in the net income of farm households significantly (Sen and Bhatia, 2004).

Agriculture is associated with a few peculiar features and these enhance the dependence on credit: a) Seasonality of income generation (two to three times in a year) associated with consistent expenditure to meet the agriculture and household needs; b) Risk element is high due to cyclical nature of flood, drought, and excess/paucity of rain etc; c) Price market is volatile, particularly, a large chunk of farmers sell their produce soon after harvest therefore receive low price than expected; d) farmers are price takers and plays negligible role in allotting price; and e) less diversified income source. As a result, largest share of the cultivators from the small and marginal categories not only depend on the credit market for cash requirements but due to the existence of unfavorable market conditions and low productivity are unable to repay the
borrowed funds. In this backdrop, it is necessary to critically review the impact on farmers who borrow from different sources of credit, viz. Institutional and non-institutional under the changing agrarian conditions and policy measures etc.

2.5.1. Informal Credit Market

Informal credit was often the mechanism through which different markets, like the labour and the product markets were linked together. This interlinked system of market then facilitated extraction of surplus through unequal exchange. The debate on interlinked credit market began in seventies and largely discussed in the literature on agrarian issues dealing with commercialisation, backward agriculture and informal credit market.

In earlier studies the discussion on interlinked credit markets were largely confined with the interlinkage of credit with factor markets primarily labour and share-tenancy. A few researchers considered operation of interlinked credit markets as a feature of semi-feudal mode of production due to the element of extra-economic coercion, where the landlord extract surplus through paying low wages to the labourer than he is actually intended or by obtaining long hours of work from the share tenants. While, another set of studies have refuted the presence of such elements of exploitation within the operation of interlinked markets (Rudra, 1980). Interlinked markets also were considered as an element, which encourages inefficiency in the operation of share-tenancy because any rise in the share of output would be taken away by the landlord thus acts as a disincentive for the tenant to use improved technology or quality seeds and other inputs. Although, the operation of interlinked markets were understood to be rigid but a few researchers have reflected on the ‘limited liability contract’ which in brief refer that in the incidence of crop-failure due to bad weather, drought etc., the tenant was not obliged to pay any rent. Thus, shed light on the flexibility in the operation of such markets.

In view of rise in the farmers suicide due to high indebtedness in parts of the country, a few researchers have freshly bring back the debate on interlinked credit markets (Gill, 1996; Gill 2003; Mishra; 2003) and tried to analyse the nature, extent and cause of interlinkages. In the field study done by Gill (2003) in the agriculturally prosperous state of Punjab in two districts of Patiala and Amritsar she chose two set of villages one representing agriculturally advanced and the other backward. She came with the finding that with rise in Commercialisation there is a rise in the participation of farmers in the interlinked credit markets. The input and output linked interlinkage has emerged as the dominant kind of interlinkage in the region. The share of interlinkage is found to be high in the developed districts against the backward. Study of Mishra (2003) in the advanced and backward villages of Orissa, came with the similar findings.
that there is a rise in the share of interlinkages but he found different types of interelinkages are emerging in the advanced village against the backward. He found the labour-credit interlinkage as the dominant kind of interlinkage in the backward village against the output-credit interlinkage in the advanced village. Thus the study reflects upon the crucial role of agrarian conditions in determining the kind of interlinkage(s). He also found a considerable high incidence of tenancy in the backward village against the advanced.

Generally entry in the interlinked credit market is considered to be a compulsory phenomenon. Difficulty to obtain credit due to lack of collateral a feature emerging from the high inequality in the land holding pattern., but the study of Reddy (1992) in the two villages of Andhra Pradesh, found two types of Inter-linkage transaction: coercive and voluntary. The former is prevalent in the backward regions and the latter one in the advanced regions. Still, there is paucity of studies to shed light on the cause for voluntary inter-linkage. There is scarcity of studies which have reflected on the difference in the interest rates when farmers enter in the interlinked markets in the advanced regions against backward, among the farmers who are economically well-off against the poor? The major agent who play within the interlinked credit markets are merchants, for whom charging very high interest rate is not a major concern until there is a proper flow of output. Thus, recent studies have shown a decline in the Merchant capital rather than usurers’ capital is gaining relevance.

2.5.2 Formal Credit Market

Rural credit, in particular agricultural credit need is met by two sources- institutional and non-institutional. But, the terms of lending such as interest rate, period of repayment, quantity of loan sanctioned, purpose of lending etc, within the institutional sources are structured to suit farming profession and could increase their welfare. Most importantly, it lacks the coercive elements, which are peculiar to informal borrowings and historically a means of farmers’ exploitation in the hands of informal lenders such as moneylenders, landlords, traders etc. Several studies have well documented the positive impact of the expansion in the formal credit market on agricultural production, employment growth, growth in non-farm sector and reduction in rural poverty (Aghion and Bolton 1997; Burgess and Pande, 2005, Sreeram, 2007), there is a trickle-down effect of agricultural growth on the agrarian economy. Hence, formal credit plays a crucial role in transforming the agriculture in the countryside.

To understand the impact of credit flow on agrarian change over time, it is necessary to analyse the distributional aspect of formal credit, largely influenced by policy change. Two time periods
could be considered as a benchmark; late sixties till late eighties, and early nineties till recently. We have critically analysed the behaviour of formal credit in the two time period.

 Expansion of Formal Credit Market (Early Sixties till Eighties)

This phase witnessed two major shifts due to government intervention. First, the concern for food security and the need for building up buffer stocks, which guided the Green Revolution, created both enhanced and diversified type of credit requirements for agricultural production. The second shift deals with nationalisation of major banks in India, a “supply-leading approach” to the institutional development for agriculture credit has been followed (Mohan, 2004). During 1969 to 1990, bank branches were opened in over 30,000 rural locations, which had no prior presence of commercial banks (called un-banked locations). Alongside, the share of bank credit and savings, which was accounted for by rural branches, raised from 1.5 and 3 percent respectively to 15 percent each (Burgess and Pande, 2005). This branch expansion was an integral part of India’s social banking experiment, which sought to improve the access of the rural poor to cheap formal credit. The key to the rural branch expansion endeavor was the imposition of the 1:4 license rules in 1977. This rule stated that a bank could open a branch in a location with one or more branches (now on, a banked location) only if it opened four in unbanked locations. This rule was abandoned in 1990. States with lower initial financial development (as measured by the number of bank branches per capita in 1961) had a higher incidence of unbanked locations.

Till late seventies, the performance of formal credit supply to agriculture was noteworthy. Yet in this phase too, the beneficiaries of the formal credit were large farmers and those growing paddy and wheat. Hence, the overall impact on enhancement of investment capacity, income etc, have sidelined the backward region and poor farmers.

 Structural Reform and Credit Flow (Nineties till Present)

By early nineties, with the opening of the Indian economy and abiding the terms and conditions of the new policy regime, banks underwent huge change in its modus operandi, visible in the decline in the supply of rural credit through institutional sources. Slowly, in a period of two decades, banks role increasingly confined to cater the needs of large farmers, corporate etc, while credit flow to the rural poor-marginal and small farmers, landless labourers remained low and insufficient.

Agriculture credit is given either directly or indirectly to the farmers. Direct agricultural credit has a significantly impact on agricultural output and its effect is immediate (Das, et.al, 2004).
The growth of direct finance to agriculture and allied activities witnessed a decline in the 1990s (12 per cent) as compared to the 1980s (14 per cent) and 1970s (around 16 per cent). The average share of long-term credit in the total direct finance has not only been much lower but has also decelerated (from over 38 per cent to around 36 per cent), which could weak the agricultural investment (Kumar et al, 2010) and reduce the farm income.

A couple of studies highlight that there is an increase in the supply of credit to agriculture after 2000s onwards (Ministry of Finance 2007; NABARD, 2006 and 2009). But, while Ramkumar et al. (2007) critically examining the claim using secondary data on banking and revealed that the flow of agricultural credit has started showing sign of increase from late nineties. Their study come up with many useful findings like: a) the extent of revival of credit flow to agriculture in the 2000s was attributed to the sharp growth in the indirect finance to agriculture, almost one-third of the increase in credit flow to agriculture between 2000 and 2006; b) the sharp growth in the indirect finance did not favours the traditional components of direct finance, such as loans for the inputs, power and credit to agriculture. As a result of series of definitional changes effected since the second half of the 1990s and such a definitional change brought new forms of financing commercial, export-oriented and capital-intensive agriculture c.) the entire growth of indirect finance to agriculture in the 2000s originated from a major expansion of loans with a credit limit of more than Rs 10 crore and later on upgraded to Rs.50 crore, and, much of these large-sized advances were made towards large agribusiness-oriented enterprises; d) Further, most of beneficiaries of direct advances were the big cultivators; e) the benefits of the revival of agricultural credit has by-passed the small and marginal farmers. Nineties have also observed decline in the rural bank branches. Desai et. al. (1988) have found density of rural financial institutions and overall amount of credit per hectare to be positively correlated with degree of agricultural progress.

In the supply front, bank lends on the basis of asset ownership to avoid adverse selection and risk aversion of borrowers, because of the fixed nature of transaction costs thus banks are showing preference for large loans, therefore, credit market imperfections disproportionately affect the poor in rural areas (Singh and Sagar 2004, Mishra, 2006). Thus, banks, restrain the access for small owners and owner’s cum-tenants to long-term finance (Golait 2007). A couple of studies have pointed out the impact of education, family size, caste, gender, occupation of household, etc on the access to formal credit (Sarap, 1990; Kumar et al, 2010). Thus, clearly signifies that the poor largely comprised of SC, ST, BC are less inclusive in the formal credit market and it favours the large farmers who are already well off. Hence, formal institutions in a way is biased towards the rich farmers and to a large extent responsible in reiterating the power position in the hands of a few, enhance their investment capacity and income-on the contrary a
large mass remain in the trap of vicious cycle of low investment, low-income and indebtedness. A number of studies have well documented that small and marginal farmers lagged in the adoption of technology due to inadequate flow of institutional credit (Muthiah 1972; Parthasarathy and Prasad 1978; Golait, 2007). Few more factors such lack of skills, ignorance of economic opportunities and their ability to comply with procedural requirements prevents the poor farmers to borrow credit from institutional sources (Singh and Sagar, 2004).

It is clear that a large mass of rural poor are financially excluded, and did not receive credit from the institutional sources. Therefore, there is a relatively higher participation of the poor and the marginalized sections of peasantry in the informal credit market (Mishra, 2006). Dev (2006) used farmer’s indebtedness as a proxy for financial inclusion based on the 59th round survey of NSSO (report no /498), found that 51 per cent of the farmer households are financially excluded, and among the financially included 49 per cent the share of formal versus informal credit borrowing was not given. Similarly, by analyzing the NSSO (59th round) data, (Deshpande, 2006) found unprivileged households are less indebted than the rest, indicates that these households do not have sufficient access to the credit market, hence, does not support this section in private capital formation. Rao and Jayasree (2007) stated that financial inclusion will be successful, only if the productivity of the small and marginal farmers, rural non-farm enterprises and other vulnerable groups is sustained with viable economic activities. Similarly, Sreeram (2007) emphasised that financial inclusion cannot be achieved by the banking system alone but measures like public investment in irrigation, research and extension, infrastructure in rural areas, proper seeds and fertilizers, a good marketing system for better price, plays important role in achieving it. Moreover, credit delivery to the agriculture sector continues to be inadequate (Golait, 2007).

2. 6: SUMMARY

The debate on the transition in agrarian structure over the last six decades in India largely pertains to the broader phases of agricultural growth, distinct with factors underlying. In the first phase, scholars in this subject largely focused on the ‘mode of production’ and the credit market operations appeared only incidental in the debate. This was followed by the phase of technological interventions for productivity growth and credit market was called for supporting technological dissemination through provision of additional credit to farm sector. The third phase was dominated by the bank nationalisation and intensification of agricultural markets. These two simultaneous institutional interventions changed substantially the credit market operations and turned these to adjust with the changing agrarian structure. Finally, the market centric approach forced through liberalisation introduced significant changes in the credit
market. These critical debates, the major focus of the discussion largely remain to changing agrarian structure but issues of credit market received separate attention. Even in the recent debate on farm sector distress, indebtedness is reflected to the point of declaring it as a major culprit in the making of agrarian crisis without locating it in the historical specificities of overall agrarian change.