Chapter III

THE QUESTION OF OWNED LAND AND CAPITAL
While discussing the foodgrain price policy in India, M. Krishnaji introduced a new concept of cost, viz., 'Cost-D', which excludes from the official 'Cost-C' the imputed values in respect of rent on owned land and interest on owned fixed capital. Later, Ashok Mitra used Krishnaji's 'Cost-D' in the context of explaining the 'class bias affecting Indian agricultural policy' and wrote about the official cost estimates as follows:

"The cost of cultivation in these estimates (FNS and CS) includes cash and kind expenditure on items such as human labour, bullock labour, seeds, manure, fertilizers, land revenue and cess, irrigation charges, interest on crop loans, rent paid for leased-in land, rental value of owned land, interest on owned fixed capital and imputed value of family labour. On a strict interpretation, the cost of cultivation should not include the rental value of owned land and interest on owned fixed capital". Neither Krishnaji nor Ashok Mitra gave any explicit

reason why rental value of owned land and interest on owned fixed capital should be excluded from the cost estimates. However, the objection to the inclusion of these two components in cost estimates raises, in our view, certain basic issues for consideration. We will attempt to bring out these issues briefly in this chapter.

1. The Origin and Development of Land Rent

1.1 Pre-Capitalist Rent and Capitalist Rent:

To begin with, it has to be remembered that, after removing the rental value of owned land and interest on owned fixed capital, Krishnaji's 'Cost-D' still contains an element of rent which is allowed for the payment actually made by the farmer for the use of leased-in land for cultivation. The land is generally taken on lease both by petty producers and well-to-do peasants. The petty producers lease-in small patches of land from the landlords with a view to meeting their subsistence needs. They cultivate such lands with their own and family labour
as well as non-land means of production available with them, expecting that the output obtained from their efforts would be sufficient enough to pay the rent contracted with the landlord, after meeting their outlay on production and family consumption.

The mode of payment of rent by the petty producers may vary from place to place. A peasant who leases-in a small plot of land may agree with the landlord to work on the latter's estate during a portion of the day or the week, as a 'reward' for the leased land. In this case the peasant is compelled to divide the labour-time available with himself and his family in such a way that the time spent on the land leased-in is just sufficient to produce their minimum subsistence and the remaining 'surplus' time is given away for work on the landlord's estate. Some other peasants, instead of placing their surplus labour as such at the disposal of the landlord (i.e., instead of paying rent in terms of labour itself) may lease-in lands on the condition that they would give a portion of the output produced on the land as rent to the landlord. As against these two forms of rent, that is,
the rent in terms of labour (labour-rent) and the rent in terms of output (kind-rent) the peasants may agree to pay a certain amount of money as rent for the leased-in land. These three forms of petty producer's rent, namely, the labour-rent (corvee), the kind rent and the money-rent (quit rent) are the three well-known forms of the pre-capitalist rent that came into being, in almost all agrarian economies, along with the historical process of land relations, involving feudal land on the one side and family labour and non-land means of production on the other side. These are the three pre-capitalist modes of exploitation. In order to have a clear understanding of what constitute the pre-capitalist rent, we have to convert the petty-producers' output into 'exchange value' which consists of three principal components, viz., outlay on materials used for production, the petty-producers' family consumption and the contractual rent. Theoretically, the latter, that is, the rent agreed upon

between the landlord and the peasant, would consist of the whole surplus product, i.e., the total precapitalist output net of the 'necessary product'. However, if there is prevalence of large surplus labour in agriculture, as in the case of India, arising from 'land hunger', chronic unemployment and underemployment, the pre-capitalist rent may be still higher, in which case the petty producer would suppress the level of his subsistence and meet the rent. Sometimes the pre-capitalist rent may be so high that the actual surplus product plus the extent of subsistence that can be foregone by the peasant and his family may not be sufficient enough to meet the payment, in which case the tenanted peasant becomes indebted and 'bonded' to the landlord.

As against the petty producer's rent which arises from the direct pre-capitalist relationship between the landlord and the peasant, and which, under normal circumstances, would include the whole surplus product of the petty producer, the rent paid by the well-to-do peasants arises from the relationship of three classes in agriculture, viz., the capital owning well-to-do peasants,
the landed proprietors, and the agricultural labourers.\footnote{G.A. Koslov, \textit{Political Economy : Capitalism}, (Moscow: Progress Publishers,1977).} Here, it is the capital that brings land and labour together. The capitalist tenant (i.e., the well-to-do peasant) already owns relatively large area of land under him. He leases land from the landed proprietor with a view to investing the excess capital available with him, over and above what is needed to be invested in his own land, and cultivates it with hired labour for extracting surplus labour in the form of profit. What is paid by him as rent to the landlord is only the surplus accruing in the surplus labour in excess of his profit.

To clarify this point further, we may quote Marx, who writes in this context, as follows: "When the capitalist tenant farmer steps in between landlord and actual tiller of the soil, all relations which arose out of the rural mode of production are torn asunder. The farmer becomes the actual commander of these agricultural labourers and the actual exploiter of their surplus labour, whereas the landlord maintains a direct relationship, and indeed
simply a money and contractual relationship, solely with this capitalist tenant. Thus, the nature of rent is also transferred..... From the normal form of surplus value and surplus labour, it descends to a mere excess of this surplus labour over that portion of it appropriated by the exploiting capitalist in the form of profit; just as the total surplus labour, profit and excess profit is extracted directly by him, collected in the surplus product, and turned into cash. It is only the excess portion of the surplus value which is extracted by him from the agricultural labourer by direct exploitation, by means of his capital, which he turns over to the landlord as rent."

From what is quoted above, it is clear that, if the capitalist tenants have to continue leased-in cultivation, the output value that they obtain from cultivation should cover their outlay on material inputs, wages paid for hired labour, average profit and rent to be paid to the landlord. The rent in this case,

i.e., the capitalist rent, is a surplus profit above the average profit. In an agrarian economy like India where there is 'land hunger' on the one hand and excess man-power with the petty producers on the other, the latter complete with one another for leasing of land, with the result that the pre-capitalist rent is rather very high — quite often 50 per cent of the produce obtained on leased-in-land, and sometimes even higher than 50 per cent. In this condition, if the capitalist tenants have to obtain land on lease, they have to also pay the same high level of rent that the pre-capitalist tenants are prepared to pay. The capitalist tenants will lease-in land, on condition to pay such high level of rent, only if they are confident that the output obtained from cultivation would bring about a 'surplus' that is sufficient enough to cover the profit for investment plus the high level of rent that has to be paid to the landlord. That is why, some authors have argued that high levels of pre-capitalist ground rent constitute a formidable barrier to the emergence and development of capitalist production.8

For the purpose of the problem that we are discussing in this chapter, we have to slightly extend the argument that we developed in the above paragraph. To repeat, where the pre-capitalist rent is very high, the capitalist tenants also will have to pay the same high level of rent, if they have to obtain land from the lease market. And, the latter will lease-in land for cultivation, provided they are confident that the value of the output from such cultivation would cover the outlay on material inputs, wages paid for hired labour, arrange profit for investment of capital and the rent to be paid to the landlord. It follows from this that, if the price prevailing in the market for a given agricultural product covers the variable costs (outlay on materials and wages), average profit and rent, then, that price will give a 'rent' not only to the landlord that price will give a 'rent' not only to the landlord who leases out land but also to the cultivator who cultivates land owned by him. The implication of this point to our problem will be clear if we look into the theoretical distinction between differential rent and absolute rent and the conditions under which these two types of rent would exist.
1.2 Differential Rent and Absolute Rent:

As it is well-known, Ricardo considered that rent arose in agriculture from the way in which the price of agricultural produce is determined by taking into consideration the price of production (i.e., the value of stock, or constant capital and wages, plus average profit) of the worst soil, or under the most unfavourable conditions of production. Thus, according to Ricardo, rent would arise under the following three conditions: Firstly, when two equal amounts of capital and labour are applied on two equal plots of land, having unequal types of soil, owing mainly to the difference in the chemical composition of soil or the levels of technological development, the produce obtained from both the plots of land will also be different. This difference in the produce accrues as rent to the plot of land that cultivated it. Secondly,

9. Ricardo explains this as follows: "Thus suppose land—No.1, 2, 3—to yield, with an equal employment of capital and labour, a net produce of 100, 90 and 80 quarters of corn. In a new country where there is an abundance of fertile land compared with population, and where therefore it is only necessary to cultivate No.1, the whole net produce will belong to the cultivator, and will be the profit of the stock which he advances. As soon as population had so far increased as to make it
when two equal amounts of capital and labour are applied on two equal plots of land, having equally fertile soil, but situated in different localities — say, one in close proximity to the market and the other far away from the market—the outputs obtained from both the plots of land would be equal, and these outputs would also be sold in the market at the same unit price. But the output of the plot of land situated away from the market can be brought necessary to cultivate No.2, from which 90 quarters only can be obtained after supporting the labourers, rent would commence on No.1; for either there must be two rates of profit on agricultural capital, or ten quarters, or the value of ten quarters must be withdrawn from the produce of No.1 for some other purpose. When the proprietor of the land, or any other person, cultivated No.1, these ten quarters would equally constitute rent; for the cultivator of No.2 would get the same result with his capital whether he cultivated No.1, paying ten quarters for rent, or continued to cultivate No.2, paying no rent. In the same manner it might be shown that when No.3 is brought into cultivation, the rent of No.2 must be ten quarters, on the value of ten quarters; whilst the rent of No.1 would rise to twenty quarters; for the cultivator No.3, would have the same profits whether he paid twenty quarters for the rent No.1, ten quarters for the rent No.2, or cultivated No.3 free of all rent". See, David Ricardo, The Principles of Political Economy and Taxation, (Everyman's Library, 1969), Chapter-II.
for sale on payment of a transport charge which the other plot of land does not incur. The amount which is thus saved from spending on transportation by the land closer to the market is in the nature of rent to that land.\textsuperscript{10}

Thirdly, instead of going in for extensive cultivation from better to worse and no-rent land, as in the case of the two aforesaid conditions, it is also possible for the application of more and more capital and labour on the same plot of land and obtain higher outputs than would have been yielded from its investment on a no-rent plot. In such cases, when additional quantities of capital and labour are applied on the same plot of land there can have difference in outputs between the first dose of investment and the subsequent doses which arises as rent.\textsuperscript{11}

\textsuperscript{10} This is what Ricardo means when he writes: "The most fertile and the most favourably situated land will be cultivated first. If all lands are equally fertile, rent will not arise unless a particular land enjoys the advantage of situation," Ricardo, \textit{op.cit.}

\textsuperscript{11} In continuation of what we quoted at Note No. 9 above, Ricardo clarifies this point as follows: "It often, and, indeed, commonly happens, that before No. 2, 3, 4, or 5, or the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found that by doubling the original capital employed on No. 1, though the produce will not be doubled, will not be increased by 100 quarters, it may be increased by 85 quarters, and that this quantity exceeds what could be obtained by employing the same capital on land No. 3.

"In such case, capital will be preferably employed on the old land, and will equally create a rent; for
In short, Ricardo maintained that differences in respect of soil fertility, proximity to market, productivity of additional capital investment etc. helps individual capital to produce at lower price of production so that there will be a difference between the price at which the worst land must sell its output to cover the expenses of production and the price at which the best land can sell its output. This difference between the individual price of production and the socially necessary price of production i.e., the price of production on the marginal (waste) land, is called differential rent. As pointed out by Marx, Ricardo's theory of value could not accommodate any other form of rent than the differential rent because he assumed, by taking in view the North American Colonies where there existed vast areas of cultivable land, so that there was no monopoly of land ownership.

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rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour". Ricardo, op. cit.

12. See, Marx's letters to Engels, dated January 7, 1851, August 2, 1864, and August 9, 1864 in Marx and Engels: Correspondence 1846-1895 — A Selection with Commentary and Notes, (Calcutta: National Book Agency); Capital, vol.III, chapter-xlv; and "Theories of Surplus Value", Capital, vol.IV of part-ii.
On the other hand, Marx propounded his theory of absolute ground rent, by taking into consideration an agrarian condition like the one which prevailed in England, where there was landed proprietorship in the hands of a class of landlords on the one hand, and the capital owning well-to-do peasants, acting as tenants of the landlords, who cultivated land by employing hired labour on the other. Under such a condition, argued Marx, there would exist rent not only on better of lands but also on the worst land or the marginal land, on which according to Ricardo there can not have rent. Marx maintained that while differential rent arises from difference in soil fertility etc., absolute rent arises from the monopoly of land ownership, and is exacted by the landlord class from the capitalist class, out of the surplus value appropriated by the latter from the working class. The fact that the organic composition of capital in agriculture is lower than that in industry, on account of the former's larger proportion of variable capital to constant capital, the individual value of agricultural product remains above the average value and generates higher surplus value on a given total capital, as compared to those non-agricultural
branches of production with higher organic composition of capital. This higher level of surplus value in agriculture provides a 'super-profit', above the average level of profit available for a given amount of capital investment. It is this 'super-profit' above the level of 'average profit' that constitutes absolute ground rent.  

13. The well-known formulation for absolute ground rent which Marx had put forward originally in his letters to Engels, op. cit., can be written as follows: Let $c_1$, $v_1$, and $s$ be the usual terms for constant capital, variable capital and rate of exploitation. Suppose, there are two branches of production, viz., industry I and industry II, and that the composition of capital in industry I is represented by $c_1$ and $v_1$, whereas in industry II the constant capital, as compared to industry I, is less by $k$, so that the composition of capital becomes $c_1-k$ and $v_1+k$. Since the rate of exploitation is assumed to be 's in both the units, the value of production in industry I, say $P_1$, and the value of production in industry II, say $P_2$, can be written as:

$$P_1 = c_1 + v_1 + s \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdots \cdOTS}
To put it differently, the owners of capital employ wage-labour for cultivation of land and appropriate surplus labour in the form of surplus value. From this surplus value, the excess over average profit is passed on to the landlords from whom they have leased-in land.

Thus, absolute ground rent pre-supposes monopoly of landed property, as against differential rent which pre-supposes differences in land fertility, location of land in regard to market, productivity of additional investment of capital in land etc. Absolute ground rent, above its value, while industry II will be selling its output at below its value. But, suppose \( C \) and \( v_1 \) of industry I stand for the average composition of capital in non-agricultural sector, and \( (C-k) \) and \( (v_2-k) \) of industry II stand for the average composition of capital in the agricultural sector. Then the price of production will not be determined as given at equation (3) and (4), but will be determined as given at equation (1) and (2), so that the output of agriculture will be sold at \( P_2 \) which is higher than \( P_1 \). However, since the average profit in agriculture would depend upon the average profit available for capitalist elsewhere, the excess profit contained in \( (v_2-k) \) is in the nature of rent, which becomes payable to the landlord from whom the land is leased in for cultivation.
in other words, arises independently of differential rent and is possible, as we stated already, even on Ricardian 'worst land' on which a differential rent is impossible. While the latter would continue to exist, whether the land is under private ownership or under nationalisation (so far as there are better and worse land), the former can be abolished by a Government, if it so wished, by nationalisation of land, i.e., by the abolition of the monopoly of land ownership.

2. The Objections Examined

Having come across the theoretical distinction between different forms of rent and the conditions under which the land rents exist, we may now examine the specific objections which are generally raised against the inclusion of imputed rental value of owned land and interest on owned fixed capital in the estimates of costs of cultivation of agricultural products. As we stated in the beginning, even though Krishnaji and Ashok Mitra did not give any explicit reasons for not including the imputed values of rent and interest in cost, there are certain specific criticisms against the inclusion of these elements in the estimated
unit cost of production which is used for the fixation of procurement prices.

One such criticism relates to what is called an error of double counting of profits that may occur in the process of fixing procurement price on the basis of the cost of cultivation estimate which includes in it the payment for owned land and capital. This can be better understood if we take into consideration the practical difficulty in the identification of different components of rent in price of an agricultural produce. In spite of the usual theoretical differences assigned to various forms of rent, such as, differential rent and absolute rent etc., it is difficult to distinguish them while they are in operation. This is explained by Karl Kautsky in his work, 'The Agrarian Question,' in the following words: "In practice ground rent does not present itself to us divided in parts, it is impossible to say which part is differential rent and which part is absolute rent. Moreover, it is usually mixed with interest on capital expended by the land owner. Where the land owner is also the farmer, ground rent appears as a part of agricultural profit."

It is this last aspect of what is quoted above that is relevant to us in the argument relating to the error of
double counting of profits. The rent on owned land and interest on owned fixed capital are included in the cost of cultivation estimates as a return to the owner-operator for his investment in land and capital. While fixing the procurement price if a profit margin is allowed after taking into account the total cost-C (which, as we know, already include a return for owned land and capital), then the average profit margin per unit of output becomes double counted. This is perhaps what Krishnaji keeps in mind when he shows that in the early seventies when Cost-D (i.e., Cost-C minus rental value of owned land and interest on owned fixed capital) was in the neighbourhood of Rs.30 per quintal for both wheat and paddy, it provided a profit margin of Rs.25 per quintal in paddy procurement.

14. APC in its Report on Price Policy for Kharif Cereals for 1974-75 season has also expressed the same view, when it stated that, "the estimates of total costs are inclusive of imputed value of inputs owned by the farmers such as the rental value of owned land and interest on owned fixed capital. In assessing the margin between the procurement price and the total cost so computed, therefore, it needs to be borne in mind that the latter already contains a return on the investments in fixed capital and land; any attempt to build this return again in the margin of procurement price over and above the total cost would be quitly of double counting".
price and Rs.6 per quintal in wheat procurement price.

Had the imputed values for owned land and capital been removed from Cost-C and a uniform rate of profit fixed in the unit price of each cereal, the excessive return over cost, which on an average worked out to about 80 per cent for paddy and 150 per cent for wheat during the early seventies, would not have occurred. If this is the reason why rental value of owned land and interest on owned fixed capital have to be eliminated from Cost-C, the argument cannot be ruled out. However, this obviously is a different argument and it does not dispute the fact that the owner operator should be given a return for his investment in land and capital. The argument only seeks to correct a distortion that appears to be present in the method of procurement price fixation.

Another objection to the inclusion of imputed rental value of owned land could be seen in one of the earlier reports of APC, which we quote in full here: "In the context of fixation of procurement prices, there would seem a case for distinguishing the rental of land from other elements of cost of cultivation. Anything which increases the demand for land, be it the higher prices of
agricultural produce or advances in farm technology, has the effect of enhancing this rental and the value of land. If capital gains outside agriculture are an object of taxation, it is legitimate to suggest that they should be so in agriculture too. And the fact that such gains in agriculture are currently outside the net of taxation is no reason why procurement prices should be so adjusted as to leave these gains undisturbed. In fact, if market prices for agricultural produce tend to fall, *ceteris paribus*, the rentals of land and the land values too should be expected to behave likewise. Thus, in so far as procurement operations help to maintain market prices higher than they would be otherwise, it would be odder still to argue that the procurement prices should be such as to accommodate the existing rentals and keep them in tact.\(^{15}\)

The objection contained in the above argument again, in our view, seeks to correct a distortion that is inherent in the existing fiscal policy, just as the 'double counting of profit' argument seeks to correct a distortion in the method of price fixing. However, the objection that APC

once had to the inclusion of the imputed rental value of owned land may perhaps be implying the following: As we will come to know from the next chapter, wherever the system of leasing of land is not in existence, as in the case of Haryana where Sheila Bhalla's recent survey\textsuperscript{16} showed that during the decade 1962 to 1972, 'the cultivators neither leased out land nor sold it', the rental value of owned land is estimated for inclusion in the cost of cultivation from the capitalised value of land. The inclusion of this amount would enhance the level of unit cost and, therefore, the level of procurement price. When the produce of land fetches a relatively higher price, the value of that land would also go up. It has thus a chain reaction, the rental of land enhances the level of procurement price, which enhances the land value, necessitating a further increase in the rental and, therefore, a further increase in the procurement price, and so on. The inflationary impact of this chain reaction, initially on the agricultural sector and, then,

on the entire economy, is obvious. In an agrarian economy like India where poor peasants and agricultural labourers predominate, any und\textsuperscript{2} increase in procurement price would only help the numerical minority of rich peasants and landlords, and not the poor peasants and agricultural labourers who have to depend upon the market for a sizeable portion of the cereals required for home consumption.

2.1 Land Rent and Cost Determined

Procurement Price:

The above objections to the inclusion of imputed rental value of owned land in the estimates of costs may appear to be valid at the first sight. However, these objections have to be examined in the context of the determination of procurement prices on the basis of the estimates of costs derived from an agrarian economy such as India's, characterised by a variety of production relations ranging from pre-capitalist to capitalist production. To clarify this point further, let us take two identical plots of land, say, plot-A and plot-B. Assume that both the plots of land cultivate the same product, say, wheat, under similar technical conditions
of production, but plot-A is taken fully on lease and plot-B is fully owned by their respective operators. Now we have to estimate the average cost of production of plots A and B, for the purpose of fixing a uniform procurement price of wheat to the cultivators of plot-A and plot-B.

If we go by the official concept of Cost-C, the unit cost of production of any out of these plots of land will be the average cost of production of plot-A and plot-B, as we have assumed identical technical conditions of production for plot-B. On the other hand, if we adopt Krishnaji's Cost-D, then, the estimation of costs in respect of plot-A will include (i) expenses on material inputs and other payments like artisan's charges, land revenue, cesses, taxes, etc; (ii) wages for hired labour; (iii) imputed wages for family labour, and (iv) rent to be paid to the landlord from whom the plot-A is leased-in. The estimation of costs in respect of plot-B will include the items mentioned at (i) to (iii) but not at (iv), because plot-B is an owner-operated plot. Instead of
item (iv), we will also not include rental value of owned land in the estimation of costs in respect of plot-B, as Krishnaji's Cost-D does not permit it. (We have excluded interest on owned fixed capital too from the estimates for plot-A and plot-B).

Now, if we average these figures, we obtain the the unit cost of production of wheat in respect of plot-A and plot-B according to Krishnaji's concept of Cost-D. This figure is obviously less than the official Cost-C, because we have not taken into consideration the imputed rent for plot-B, while we included rent to be paid for leasing-in plot-A. However, Krishnaji's purpose of disallowing the imputed rental value to the owner-operator is not fully served by removing that component from the cost estimate because, by virtue of the inclusion of the rent paid for leased-in land, the owner-operator gets the benefit of land rent through the process of averaging the costs of plot-A and plot-B. To put it differently, in an agrarian economy like that of India which is characterised by the existence of pre-capitalist and capitalist modes of production
side by side with one another, the exclusion of the rental value of owned land (while computing the average cost), as Krishnaji did in his estimate of Cost-D, would not be a solution to whatever problem that it is expected to solve—be it the double-counting of profit in the procurement price offered to the cultivator on the basis of this cost, or the distortion involved in the fiscal policy of the Government.

Rather than solving such problems, the elimination of this component from the estimates of cost may create more problems than would it solve. To clarify this point further, let us again look at our hypothetical plot-A, which is rented, and plot-B, which is owner-operated. For brevity, we may reduce the components of cost relevant to these farms as (i) material cost; (ii) wage cost, and (iii) rent. Since the technical conditions of production of plot-A and plot-B are assumed to be identical, let us imaginarily assign the per hectare costs for both the plots as follows (i) the material cost = Rs. 1000/-; (ii) the wage cost = Rs. 1200/-; and (iii) the rent = Rs. 800/-. Out of these three
components, the rent = Rs. 800, is actually paid by plot-A, which is taken on lease, but is only a payable rental value to plot-B. If the latter is also taken into consideration, as in the case of official Cost-C, then the total cost of cultivation of plot-A and the total cost of cultivation of plot-B will be Rs. 1000 + Rs. 1200 + Rs. 800 = Rs. 3000/- per hectare. This will also be the average cost of production of plot-B and plot-B. But, if the rental value of owned land (i.e., rent payable to plot-B) is not taken into consideration, then the total cost of cultivation of plot-A will be Rs. 3000/- per hectare, whereas that of plot-B will be Rs. 1000 + Rs. 1200 = Rs. 2200/- per hectare. The average cost of cultivation of plot-A and plot-B will now become Rs. 3000 + Rs. 2200 $\div$ 2 = Rs. 2600/- per hectare. This average cost leaves uncovered an amount of Rs. 400/- per hectare actually incurred by plot-A, which is a leased-in land. At the same time, the owner-operated plot-B receives an additional benefit of Rs. 400/- per hectare in his cost. That is why we stated that Krishnaji's Cost-D, which removes the rental value of owned land and interest on owned fixed capital, would not serve
the purpose it is intended for, but would create more problem than would it solve. In fact, when we are dealing with an agrarian economy, the production conditions of which are characterised by the existence of landed property, pre-capitalist petty production, capitalist production by the owner-operators and the tenant operators, together with the prevalence of a fiscal policy that is unwilling to take away the excess income from the agrarian sector by way of taxation, there is difficulty in suggesting either to add the imputed rental value, or to remove it from the estimates of agricultural costs: the removal of imputed rent does not deprive the big farmers of the land rent, whereas it deprives the pre-capitalist petty-producer of a portion of the actual cost incurred by him.

Nevertheless, taking the overall aspects of the existing agrarian conditions in India into consideration, it appears that there is difficulty in eliminating the absolute ground rent altogether. Even if the feudal land system is abolished and the excess land available with the feudal landlords is distributed among the landless,
the absolute ground rent will not disappear; in order to abolish absolute ground rent, the only way out is, as we noted earlier, the nationalisation of land. Take for example the land reform policy that is incorporated in India's Five Year Plans, which aims at, apart from other things, the abolition of feudalism, fixation of ceiling on land holdings, and redistribution of land among the actual tillers of soil. This policy, when implemented, was expected to bring about, as stated in Third Plan document, a 'socialist pattern of society' in rural sector, by eliminating "all elements of exploitation and social injustice within the agrarian system". But, while the fixation of ceiling and redistribution of surplus land, wherever implemented, have led to the creation of free ownership of small holdings (through the abolition of labour rent, i.e., Corve's labour and bondage) it has also helped to bring about all productive forces into operation.


18. Ibid.
In this respect, it would be useful to recall Kautsky's elaboration of the concepts of land, as demanded by the advocates of land reform in Germany, as also Lenin's criticism of the agrarian programme propounded by the Narodnik economists of Russia and the agrarian laws promulgated by tsarist government, according to which the Russian peasants were given the right to take possession of the lands allotted to them as their private property.

2.2 The Kautsky-Lenin View:

Let us start with the Russian case. The Narodnik economists of Russia argued that the only way to overcome the oppression of the mass of the peasantry in Russia by the 'feudal latifundia' (owners of large landed estates) was to break away the latter's hold over the vast areas of land and to distribute such lands on the principle of 'equal right to land' and with 'fullest freedom of peasant farming'. This demand was more or less materialised


when the tsarist government introduced in 1906 what was known as 'Stolypin's agrarian reform', under which the peasants could draw loans from the Peasant Bank to take possession of their allotment holdings as their private property. Lenin argued that the programme for the abolition of feudal latifundia and creation of free ownership of land "cannot in any way affect the domination of the market over the producer and, consequently, the domination also of commodity production, since redistribution of land cannot alter the relations of production in the farming of this land". This, according to Lenin, is due to the fact that, when ceilings are fixed and surplus lands redistributed, capitalism begins on a more or less equalized ownership. We know that capitalist farming presupposes wage labour and wage labour creates surplus value; that portion of surplus value which is available after the average profit is allocated for the investment of capital arises as absolute ground rent.

Further, Lenin argued that, since absolute ground rent arises from the preservation of private ownership of land and capitalist mode of production, abolition of
absolute ground rent is possible only by abolishing private ownership of land and capitalist mode of production, i.e., by the nationalisation of land. At the same time, if land is nationalised just as a "partial reform within the limits of capitalism", like the one which was demanded by the protagonists of municipalisation of land in Russia, then again, stated Lenin, the absolute ground rent would not disappear. The protagonists of the municipalisation of land demanded that all the landed property available in Russia should be confiscated by the state and kept under the control of local governments or municipalities. Under this arrangement, the peasants and petty producers would become wage workers in the state farms, while landlords and capitalist farmers, who are incapable of rendering labour service, as they were not used to it earlier, would become entrepreneurs of the state farms. They may also contribute capital for the production of land, in which case the profit from output goes to them. The peasants and petty producers who work as labourers receive wage, and the portion of surplus value that is left after the payment of profit to
the investment of capital, goes to the state as absolute ground rent. In this municipalisation scheme, while the land ownership is taken away from private individuals, capitalist production and wage labour are still preserved, and hence absolute ground rent does not disappear.

What is required for the abolition of absolute ground rent is the abolition of private ownership of landed property through nationalisation of land and thereby the abolition of capitalist production and wage labour. To substantiate this point, Lenin quotes the comparison of differential rent and absolute ground rent as elaborated by Karl Kautsky in his work *The Agrarian Question*: "Differential rent arises from the capitalist character of production and not from the private ownership of land .... That rent would continue to exist even under nationalisation of land, as demanded (in Germany) by the advocates of land reform, who would nevertheless preserve the capitalist mode of agriculture. In that case rent would no longer accrue to private persons, but to the
state.... Absolute rent arises out of the private ownership of land, out of the antagonism of interest between the land owner and the rest of the society. The nationalisation of land would make possible the abolition of that rent and the reduction of the price of agricultural produce by an amount equal to that rent."21

To be precise, had the land been nationalised, only the differential rent would have remained, and that rent would have gone to the state rather than to the private individuals; while the absolute ground rent would have disappeared. So far as land is not nationalised, as in the case of India where it is in the hands of private individuals and there exists a variety of production relations ranging from pre-capitalist to capitalist production, we cannot repudiate absolute ground rent.

The conclusions arising from what we have discussed in this chapter are: Theoretically there is a case for including rental value of owned land in the

21. Ibid., pp.78-79.
estimates of cost. And, even if it is not included, the
owner-operator's cost will cover the land rent, because
the average cost of production estimated from a
randomly selected sample of cultivating households
belonging to different size-levels of holdings, would
already include the rent paid for leased-in land. By
denying the benefit of rental value of owned land in
the average cost, as has been done in Krishnaji's Cost-D,
perhaps what is expected is that it will cut down the
profit margin of the relatively big owner-operators.
While the average cost of cultivation, estimated without
taking the rental value of owned land into consideration,
would certainly cut down the profit margin of the
relatively big farmers, the latter is not; in effect,
going to lose anything by this; but, by doing so, the
relatively small farmers who cultivate on rented land
would be denied a portion of the actual cost they have
incurred on cultivation.

However, it cannot be denied that the inclusion
of these elements in the estimates of cost would push
up the level of costs and the margin of profit of especially
the bigger farmers. Such higher levels of profit margin
built into the administered price offered by the government is known to enhance the withholding capacity of those farmers, which in turn pushes up the open market prices. Even though the higher level of procurement price offered, on the basis of the higher level of unit cost of production derived by the inclusion of rental value of owned land and interest on owned fixed capital, may help not only the relatively big farmers but also the small farmers in obtaining a higher level of price for the quantity that they may sell in the market, the latter are known to depend mostly on the market in the later part of the season for their requirement. The higher level of profit margin that is built into the procurement price, by the inclusion of rental value of owned land and interest on owned fixed capital, thus, becomes detrimental to the interests of the relatively small farmers.

This problem, however, has to be solved by other means such as a flexible fiscal policy that would take away the additional income accrued to a section of the cultivating households through the introduction of a
progressive system of taxation of agricultural holdings.

The foodgrain price policy that is sought to be introduced through APC itself contains sufficient flexibility to overcome this problem. For example, some of the State Governments had experimented from the mid-sixties (when APC entered the market for foodgrains) almost up to the mid-seventies, with a scheme of compulsory procurement levy on producers at varying rates applicable to households belonging to different size-groups of cultivated areas.22 This scheme exempted from levy, the small holdings up to certain size-levels, and then progressively increased the rate of levy when the holdings increased by operational size and status of irrigation.23

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22. The compulsory procurement levy on the producer-households was experimented in different states, especially Kerala, West Bengal, Andhra Pradesh, Karnataka, Maharashtra etc.

The studies conducted on these schemes, especially in Kerala and Andhra Pradesh, had shown that the compulsory procurement in terms of graded levy had a reasonable 'income distribution effect' on the cultivating households, though these schemes had also been criticised for 'procurement evasion' by the cultivators, on account of which it had been discontinued altogether. The 'procurement evasion', in our view, is however an administrative problem which should be corrected at its own level. A meaningful scheme of state intervention in the market for agricultural products should incorporate in itself a system of taxation on the larger farmers.

be it a scheme of compulsory procurement levy or any other form of taxation, because as we saw in this chapter, the procurement price that is determined on the basis of the estimated unit cost of cultivation, cannot, under the existing conditions of production, exclude the rental value of owned land and interest on owned fixed capital.