CHAPTER-I

INTRODUCTION
1.1 The crucial role played by agriculture, as a source of surplus food, man-power, raw materials, savings and foreign exchange, in the process of economic transformation of underdeveloped economies has been widely accepted in the theoretical as well as empirical literature on the subject. However, notwithstanding the unprecedented scale of technological transformation and the consequent rise in productivity levels in different parts of the world over the last century, there have been crucial bottlenecks in the agricultural sector in many developing economies, which have not only acted as barriers to growth within the sector itself, but have also been instrumental in creating macro-level, structural rigidities and imbalances constraining the overall growth prospects of these economies. Given the unevenness in the processes of agrarian change and the concentration of the malnourished, food-insecure and poor populations in these economies characterized by low-productive, slow-growing agriculture, the ‘agrarian question’ has assumed a renewed significance in today’s world.

With the increasing economic integration of national economies, the discernible shift towards a market-led, or at least a market-friendly framework of economic policy making in many developing countries alongwith the gradual reduction of state interventions both in the domestic as well as in international spheres, have undoubtedly posed new challenges before world agriculture in general and third world agriculture in particular. Agriculture today is not isolated and immune from global economic fluctuations. There have been apprehensions that given the institutional barriers and technological backwardness in the developing countries’ agriculture, such global economic restructuring would create further marginalization, or even liquidation of the peasantry in the Third World. On the other hand, it has been pointed out that with the opening-up of markets in the developed countries for agro-based products from the developing countries as well as removal of restrictions in the domestic economies, the scopes for higher profitability, higher investment and greater value addition will help agriculture in

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1 The agrarian question as formulated by T.J. Byres refers to ‘the continuing existence in the countryside of poor countries of substantive obstacles to an unleashing of the forces capable of generating economic development, both inside and outside agriculture’ (Byres, 1995).
the developing countries to break the vicious circle of low-productivity and poverty. The outcome of the ongoing economic restructuring, to a great extent, would depend upon the efficacy of the price mechanism. As decisions on resource allocation are being gradually left to the market forces, the actual functioning of markets, particularly in developing countries, needs careful investigation to understand the still-unfolding implications of globalization and domestic deregulation policies.

While the absence, under-formation and imperfections of markets have long been recognized as key features of backward agriculture, the recent surge of interest in institutional economics has further facilitated the growth of a substantial literature, largely at a theoretical level, on the institutional frameworks within which transactions in agrarian economies take place.

Institutions play a significant role in influencing the outcome of economic transactions. Development theorists, in particular, have been emphasizing, in varying form and content, the primacy of institutional reforms in creating conditions for broad-based and sustained economic development. With the mainstreaming of the institutionalist arguments in the framework of the New Institutional Economics, the fundamental importance of institutions in facilitating economic development, particularly at the micro-level, has been well recognized. Even in the context of a market-led strategy for development, the necessity for appropriate market-enabling institutional structures can hardly be overstressed. The recognition that ‘institutions matter’, however, is not sufficient for effective policy-design, unless the origin, role and implications of specific institutional arrangements in their specific historical, social and spatial contexts are known.

The functioning of rural, agrarian markets has received a great deal of attention in the theoretical as well as empirical research on institutions. Over the years, it has been realized that agrarian transformation is a complex, multi-dimensional and, more often than not, gradual process. The functioning of markets in backward agriculture, given the limited applicability of the conventional demand-supply framework, necessitates an understanding of the adjustment mechanisms, institutional specificities as well as the role of non-economic factors. The socially embedded nature of economic transactions in such contexts has long been noticed by anthropologists, but the difficulties in investigating and analyzing economic transactions in such a wider framework are formidable, primarily
because of the heterogeneity of institutional arrangements as well as difficulties in objectively assessing their influences.

The present study is focused on only one specific form of institutional arrangement noticed in developing countries' agriculture i.e., the interlinking of agrarian markets. The emphasis upon interlinkage in Bhaduri's model of semi-feudalism was followed by a few early empirical studies on interlocking of factor markets. But in recent years, there has been an expanding theoretical literature on the role of interlinkage as an equilibrating mechanism aiming at efficiency, particularly within the overall framework of NIE. The empirical literature on interlinked transactions, notwithstanding a few recent contributions, has been relatively scanty. The study attempts to analyse interlinkage in agrarian markets with explicit reference to production relations and to compare the variations in such institutional arrangements, if any, between an agriculturally developed and an underdeveloped region.

1.2. Scope and Methodology

Sharp differences exist among economists regarding the proper methodological framework for studying the rural economy. Schultz (1964, 1993) argues, for example, that given the constraints of knowledge and unrewarding investment opportunities, the participants in the village economy follow the standard optimization behavior and make efficient allocation of resources. The markets, which form the basis of these decisions, are, by and large, competitive. In other words, the standard neo-classical model holds good.

It has also been noticed by scholars, from diverse methodological standpoints, that the standard neo-classical conceptualization of the market as an operationalized atomistic realm of impersonal economic exchange of homogeneous goods and services, carried out by voluntary transactions, may not capture the complexities and specificities of transactions in the rural, agrarian contexts (Harriss-White, 1996: 22). Studies have shown that both market and non-

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2 Parikh's description of Indian agriculture, for example, rests on similar assumptions: 'Unlike industries, agriculture functions in a competitive environment. There are no monopolists who need to be disciplined by the competition that liberal trade can provide. The gains from trade liberalization are generally found to be quite small in most analyses using general equilibrium models... The grain trade is highly competitive... all scope for arbitrage across space and time is exhausted' (Parikh, 1993 quoted in Harris's-White, 1996).
market exchanges play a variety of functions in such partially commoditized economies (Baboo, 1992).

Attempts have been made by a few scholars to understand the agrarian markets in general, and tenancy and associated interlinked transactions in particular, from the New Institutional Economics perspective. The role of formal rules, regulations and informal constraints like norms, culturally patterned behaviour etc. in determining the nature and implications of economic transactions have been duly stressed in such a literature. Although there have been very few empirical studies in this framework, it has been noticed that the methodological limitations of the framework wrenches institutions from their contexts of property distribution and power. 

The political economy perspective, which, ideally, views agrarian conditions as a historically determined and changing whole, takes into account production relations and their dynamic connection with the productive forces in the context of the interconnectedness between agriculture and the economy as a whole (Pandian, 1990:11). Given that the usual inequalities in assets, information, organizational capacities and opportunities are rooted in the ownership of means of production, a political economy approach may provide better insights into the transactions in agrarian markets, more often than not, characterized by unequal power relations among economic agents. It is, however, problematic to conceptualize power relations and more so, to operationalize its various attributes in a micro-study. An attempt is made here to analyze transactions in agrarian markets with reference to the explicit resource-endowment positions of the households, because the concentration of economic assets, particularly that of land in the agrarian context, invariably influences the capacity to bear risk, hold stock, control decisions, differentials in fall-back positions and hence bargaining strength, and also access to state (Bardhan, 1989).

The present study follows an interdisciplinary approach to the study of agrarian relations and the interlinking of markets. Although we have followed the broad political economy approach, in the sense that differential asset-ownership positions have been explicitly brought into the analysis of market transactions, yet,

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3 According to Desai, the essence of these models seems to be that ‘while the notion of power conveys compulsion, all its results are derived assuming voluntary optimizing behaviour on parts of the agents’ (Desai, 1984).
pressed by the limitations of time and space, we have not ventured into the historical analysis of the dynamics of agrarian change in the area under study. Nonetheless, historical insights have been brought in wherever it has been felt necessary to illuminate the understanding of the pattern of socio-economic development. The social context of economic exchanges has been incorporated into the analysis by focusing upon the caste-specific nature of participation in or exclusion from economic transactions. The treatment, however, does not cover the entire gamut of the complexities of the caste-related aspects of the agrarian economy. Only four broad categories have been covered in the analysis, viz., the Scheduled Castes (SCs), Scheduled Tribes (STs), Other Backward Castes (OBCs) and General Castes (which largely consists of upper caste people). In dealing with the specificities of interlinked transactions, the insights from the New Institutional Economics School have been used to enrich analytical understanding in the study.

1.3 Objectives

The main objectives of the study are to analyze agrarian relations and market interlinkages in the context of diverse and changing conditions of production. More pointedly, the objectives of the study are:

i) To find out the similarities and differences, if any, between the agrarian structures in a developed, irrigated belt and an underdeveloped, dry agricultural region;

ii) To find out the nature, form and extent of tenancy prevalent in the study area. More precisely, we want to find out who is leasing-in and who is leasing-out land? What are the nature and forms of tenurial arrangements? In what way, the tenurial relations in the backward agricultural belt differ from that of the developed, irrigated region? The study seeks to address these questions with respect to the relative resource strength and the social status of the stakeholders involved;

iii) With respect to interlinking of agrarian markets, the study seeks to address some of the theoretical issues raised in the literature. For example, what is the extent of interlinkages prevailing in the two regions? What types of interlinkages prevail more pronouncedly in backward agriculture against those that exist in areas under progressive farming technology?
iv) What types of households have a greater probability of entering into interlinked transactions? Do the prices paid or received by linked households differ from those paid or received by the non-linked households?

1.4 Hypotheses
The following hypotheses would be tested in the study.

i) The incidence of tenancy is lower in the developed, irrigated region compared to the dry-land, underdeveloped region.

With improved infrastructure and adoption of improved technology, income from agriculture increases, which provides an incentive for self-cultivation. As profitability of agriculture increases, tenancy declines.

ii) With agricultural modernization, the form of tenancy changes in favour of fixed-cash or fixed-produce tenancy; share-crop tenancy declines.

With increasing adoption of capital-intensive technology, the increase in the cost of production and the increase in risk make the decision-making process crucial in agriculture. Either the problem is approached through a shift to fixed-cash or fixed-produce tenancy, where the decision-making largely lies with the tenant, or the share-cropping arrangements are modified in such a way that landlords share a portion of the cost and take an active part in monitoring.

iii) The incidence of interlinked contracts will be higher in developed, irrigated agriculture.

Interlinkage of agrarian markets is expected to be more pronounced in high-cost, irrigated agriculture, where inputs are costlier and are required at more crucial stages in production cycles. Given the greater demand for credit and the proverbial inadequacy of its supply from institutional sources as well as the greater uncertainty that characterizes various agrarian markets, interlinkage is likely to be more widely prevalent in the developed, irrigated region.
The scheduled caste, scheduled tribe and backward caste households have significant disadvantages in a hierarchically structured society. They are perceived to be more deeply involved in interlinked transactions as a result of weak bargaining power and limited portfolio of assets. The status of the person, in the rural, agrarian context, in general, and land lease market in particular, is also influenced by the two other variables: access to education and urban/non-agricultural income, which have great bearing on access to information, alternative sources of borrowing as well as social power.

Interlinked transactions will be necessarily exploitative for the weaker partners in such arrangements.

The interest rates are expected to be comparatively high, wages as well as selling prices of products to be low and freedom in terms of feasible choices to be low for households with no or small land base of their own, operating within interlinked markets.

1.5 Data Base and Sampling Design

The basic design of the study is to investigate the functioning of agrarian markets under two distinct production conditions, viz. irrigated, developed agriculture and dry, backward agriculture. Although both primary and secondary data have been utilized, the study is mainly based on primary data.

Of the different districts of Orissa, in the first stage, two were selected: Sambalpur, representing the agriculturally advanced region and Kalahandi, representing backward, dry-land agriculture. Both the districts belong to north-western Orissa, a relatively under-developed region within Orissa. However, the two districts represent two different trajectories of development in the region. Unlike the coastal region, the districts of interior Orissa were under small feudatory states during the colonial rule. Sambalpur, however, was under the direct rule of the British. In the post-independence period, primarily because of the construction of a large multi-purpose dam at Hirakud on river Mahanadi, the
agrarian economy of Sambalpur district has developed substantially. In fact, it is one now recognised as one of the agriculturally developed district of Orissa and eastern India.

Kalahandi, the other district under study, is characterized by low agricultural productivity, recurring droughts and mass poverty. In the past, the district had been in the news for widespread hunger, malnutrition, starvation deaths and forced distress migration (Mishra and Rao, 1992). Thus, the two districts provide two different conditions of agricultural production in the backdrop of comparatively similar socio-cultural conditions.

After selection of the districts, three villages were selected – two from Sambalpur district and one from Kalahandi district. One of the villages in Sambalpur district, Kainshir represents the infrastructurally well-developed irrigated village situated at the upper-end of the canal. It is around ten kilometers away from Sambalpur, the district headquarters and the major trading centre of the region. Mahada, at the tail-end of the canal is a partially irrigated village, located at a distance of around hundred kilometers from the district headquarters. The difference in the connectivity status of the two selected villages lies in their differential access to input, credit and output markets. While cultivators in Kainshir have access to the fairly well developed market in the nearby township area, as well as the large number of rice-mills, which purchase paddy from the farmers, villagers in Mahada depend upon the nearest relatively small township of Barpali for selling their output or purchasing their inputs. The third village, Amlapali, selected from amongst the villages of Kalahandi, represents a typical backward, poverty-stricken village with poor infrastructural facilities and a low productive, dry land agriculture. After selection of villages all the households were interviewed and information was collected on various aspects of agricultural operations on the basis of structured questionnaires. To supplement this, information was also collected through focused group discussion. Information on various markets was collected through personal interviews with local traders, grain-market agents, fertilizer-dealers, input-suppliers, other shopkeepers, local government officials and bankers. The interviews were conducted during 2000-01 and data refer to the production year 1999-00.

Along with the primary data, secondary data from various sources have also been collected and utilized in the study. These include the NSSO Reports, the
reports of the Census of India, the Agricultural Statistics of Orissa, Reports on Agricultural Census of Orissa, Economic Survey of Orissa, and reports of various departments of Government of Orissa as well as some information published by local NGOs.

1.6 Chapterisation

The study is organized as follows. After a discussion on the relevance, scope, methodology, sampling design, data base, objectives and hypotheses in the introductory chapter, a synoptic review of the past theoretical and empirical studies has been presented in the second chapter. The objective of this chapter is to bring out the major conclusions of the past studies with reference to varying methodological stand-points. It ends with a discussion on the approach followed in the present study to understand the interlinked markets. The third chapter, largely relying upon secondary information, attempts to present the main features of the agrarian economy of Orissa, with an emphasis upon the contrasting features of the two districts under study. The fourth chapter discusses the agrarian structure and institutional arrangements in the labour market in the study villages. In the fifth chapter, various features of the credit market in the study villages have been discussed. The degree, nature and implications of interlinkage have been reported in chapter six, in such a manner that, differences in its form and content between the developed and backward agricultural belts are brought out in bold relief. Concluding observations, major findings and a few policy recommendations are given in the final chapter.