

Block

# 2

## **INDIAN AGRICULTURE : INSTITUTIONAL PERSPECTIVES**

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## **BLOCK INTRODUCTION**

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Institutions play a very important role in promoting development. They refer to rules and arrangements (for carrying out various transactions) in which either a certain provision is guaranteed by customs/traditions or law. For instance, legislative provision for ensuring the payment of minimum wages is an institutional arrangement. Again, in the case of agriculture, institutions meant for promoting the marketing and credit services are specific arrangements meant to promote the development of agricultural sector. In the absence of such institutions, one would not know where to go and how to seek these services. However, the mere establishment of institutions would not suffice. Their monitoring is also important. Thus, regulatory/monitory bodies also form important component of institutions. In this block, we take a look at the kind of institutional arrangements which existed during the pre- and the post-independence period which together established the agricultural sector's foundation in India. We also study about a major amendment made in our constitution which was aimed at instituting decentralised governance for the overall development of rural areas in general and agricultural development in particular.

The Block comprises of three units.

**Unit 4** provides an account of the 'land and agrarian relations' that existed in the pre-independence period. Under this, we will specifically study about the concept of village community, impact of British rule on Indian agriculture, nature of agrarian structure and tenancy, etc.

**Unit 5** deals with the same theme as unit 4, but looks at the changes that were introduced in the years after attaining independence. The efforts made to address the issues of agricultural sector under the different Five Year Plans, the issue of land reforms and experience in its implementation, etc. are dealt with in this unit.

**Unit 6** deals with the subject of 'Panchayati Raj and Local Self Government'. After nearly four decades of planning, in the beginning of 1990s, a major step to empower local self governments to take the reins of their development by means of elected 'panchayats' was taken. In what way this was sought to make a major difference? What has been the experience in this regard after nearly two decades of this initiative? These issues are discussed in this unit.

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## **UNIT 4 LAND AND AGRARIAN RELATIONS DURING THE PRE-INDEPENDENCE PERIOD**

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### **Structure**

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- 4.2 Ownership of Land During the Pre-British Period
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  - 4.2.2 Intermediaries and Land Rights
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### **4.0 OBJECTIVES**

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After reading this unit, you will be able to:

- outline the system of ownership of land as it prevailed during the Pre-British period;
- discuss the changes in the land revenue system, distinguishing them for inter-regional differences, as they prevailed during the period of British rule in India;
- explain the concept of ‘commercialisation of agriculture’ and the factors that contributed to its erosion during the period of 1900s; and
- describe the inter-relationship that existed between the agrarian and land-tenure structures with its consequences on agricultural growth in India during the British period.

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## 4.1 INTRODUCTION

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Technological factors such as fertilizers, new varieties of seeds, controlled irrigation and scientific implements play an important role in agricultural development. But 'institutional factors' such as owner or tenant cultivation, absentee landlordism, burden of land revenue, indebtedness of the cultivators, etc. also play a significant role in stimulating or obstructing agricultural growth. In fact, application of technology in agriculture itself substantially depends upon the kind of institutions which exist in a particular region. Further, the more successful forms of peasant agriculture have emerged where owner-cultivation was dominant. Also, since the existing land and agrarian structure is the result of gradual process of evolution (influenced by social, political and economic factors), it is essential to get a historical perspective on the evolution of tenurial structure in India. It is in this perspective that the present unit is included in the beginning of second block so as to help appreciate the contents of the subsequent unit on the corresponding developments in the post-independence period.

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## 4.2 OWNERSHIP OF LAND DURING THE PRE-BRITISH PERIOD

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An important question discussed by the economic historians is on who owned the land in the earlier times: is it the peasant, or some intermediaries or the king? Most scholars today agree with the view that the king was not the owner. Numerous *mughal* government documents refer to private persons (called *maliks*) as owners. But the crux of the matter is whether in substance, i.e. not merely in name, the peasant's right was such as to deserve the application of the term 'proprietary' in its strict juridical sense. In fact, there was general recognition of the peasant's title to permanent and hereditary occupancy of the land he tilled. In cases where the peasant holding the title to the land was found incapable of cultivating land (or had abandoned it altogether), then the land was given to another peasant for cultivation. But if at any time, the original owner recovered his ability to cultivate it (or came back), the land was to be restored to him. On the other hand, there was no question of real free alienation (i.e. the peasant had no right to sell the land), which is an essential feature of modern proprietary right. The readiness with which authorities recognized the peasant's right of occupancy and the anxiety they showed to prevent him from leaving the land were both natural in an age when land was abundant and peasants scarce. Sale of land was also not so much an issue because there was no scarcity of land. In fact, the rights which in essence constitute ownership, were not as a rule vested in one person, but were distributed among the various parties (like tenant, land owner, share cropper, etc.) connected with the land.

### 4.2.1 Land Revenue System

During the *mughal* period, the land revenue system mainly depended on the crops grown and its assessed value in quantified terms. The value of the production of each crop was estimated based on the 'yield per unit of land at the current harvest' multiplied by the 'quantity of area under that crop'. Land revenue was then calculated on the basis of a proportion fixed for the purpose. Since this method left some discretion with the officials, the system was modified to a method of notifying a standard schedule for different crops. As the major aim of the

*Mughal* administration was to take away the bulk of the peasant's surplus, the methods evolved were such as to ensure not only the highest revenue but also the binding loyalty of the peasant to the king.

#### 4.2.2 Intermediaries and Land Rights

While theoretically, the king was the sole claimant to the land revenue, in practice, the assessment and collection of the revenue was made by the members of a small ruling class. These were intermediaries who were of two types viz. the *jagirdars* and the *zamindars*.

##### The Jagirdars

The *jagirdars* were the king's officers enjoying land-gifts. They held certain ranks (called *mansabs*) granted by the emperor. Each rank entitled its holder (*i.e.* *mansabdar*) to a particular amount of pay. The pay was to be realised by collecting the revenue from a certain amount of land given by the king (*as Jagir*). The land so given had an estimated value based on its potential to grow/yield agricultural crops. It was the responsibility of the *jagirdars* to collect the revenue from the peasants from out of the crops grown on the land. The surplus, over and above the amount of pay fixed by the king to the *jagirdars*, was to be turned over to the state i.e. the king. The ranks given to the *jagirdars* were not inheritable though in normal practice the kins of higher rank-holders were allowed to continue with their titles. The temporary character of *Jagir* strengthened the control of the emperor over the *jagirdars*.

##### The Zamindars

The *zamindar* is a Persian term which means holder of land (*zamin*). The basic right of *zamindar* was his claim to impose certain levies on the peasants over and above the land-revenue assessment like house tax, forest produce tax, water tax, etc. These were specified in the sale deeds among the rights transferred to the *zamindars*. The *zamindars*, like the *jagirdars*, were supposed to collect the tax from the primary cultivators, in return for an allowance of one-tenth of the collections, given either in cash or by way of allotment of revenue-free land. The *zamindari* right was like a property inherited according to the laws and customs governing the inheritance of other properties.

Thus, during the *mughal* period two groups of revenue extractors viz. *jagirdars* and *zamindars*, whose involvement in direct agricultural production was almost nil, were of enormous importance. While what the producer was supposed to pay was fixed in law, what was actually taken depended on the powers and inclinations of *jagirdars* and *zamindars*. During the declining days of the *Mughal* empire, this system became quite oppressive.

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### 4.3 THE VILLAGE COMMUNITY

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A notable feature of village life in pre-British period was the combination of agricultural work with manufacturing. Production was mainly for direct use and the surplus after payment of revenue was marketed. Relationship of the village with town was largely one way i.e. it hardly received anything in return (except salt and kerosene) and provided for almost all of its needs from within the village. Normally, the peasants of the village claimed the same ancestry and so belonged to the same

brotherhood (*bhaichara*). This fraternity feeling, deep rooted to the social system of the village by blood- ties, bound the peasants in unity in a far stronger manner than could be expected from mere neighbours. Authority in the village was exercised by a group of elders, traditionally a council of five persons, called the *panchayat*.

Contrary to the view that peasants had common ownership in land, many scholars have opined that the individual families had their separate holdings and only the forest and grazing grounds were commonly held. Views also differ over the homogeneous nature of peasantry as economic differentiation within the peasantry had reportedly emerged during the *mughal* period. It is pointed out that in northern India, as also in other parts of the *mughal* empire, there were some large cultivators raising crops for the market and there were many small peasants who could barely produce food-grains for their own subsistence. Also, beyond this differentiation among the peasantry, there were sharper divisions on the basis of upper and lower castes. Depending on their resources in seed, cattle and money, peasants could cultivate larger or smaller plots. Larger land holdings were linked to, and often resulted from, superior position or status secured either as headmen or as members belonging to dominant elements of the village.

**Check Your Progress 1** (Answer in 50 words in the space given below)

- 1) Do you think that, during the pre-British period, the peasants who were actually tilling the land enjoyed the ‘ownership rights’ in the strict juridical sense?

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- 2) How was the value of production of crops estimated during the pre-British period?

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- 3) Name the two types of intermediaries who collected the land revenue during the pre-British period? What was the major difference between the two?

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- 4) What were the major factors that kept ‘the village community’ unified as one ‘single self-contained entity’ during the pre-British period in India?

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## 4.4 ADVENT AND IMPACT OF BRITISH RULE

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As we noted above, before the Britisher’s invaded India, the village community was a self-contained place with a mix of agriculture and manufacturing activities. During the British rule there was widespread destruction of village industries leading to shifting of artisans to agriculture mostly to work as agricultural labourers. Some of its immediate consequences were: (i) formation of land market, (ii) rising rents, (iii) indebtedness, (iv) formation of layers of intermediaries, (v) frequent famines, (vi) impoverishment of a section of the population, etc. We shall, in this section, take a look at the major impact of British rule on some selected areas of economic importance to the agricultural development of India.

### 4.4.1 Land Revenue System

A number of modifications were introduced in the land revenue system during the British Period. For instance, the East India Company took over the financial rights of Bengal, Bihar and parts of Orissa in the year 1765. The company’s sole interest was to collect maximum revenue to: (i) finance its trade and commerce, and (ii) maintain the army for strengthening and expansion of its rule in the country. To realize higher land revenue, the *zamindaris* were auctioned to the highest bidders. This policy greatly altered the composition of landed society as many old *zamindars* could not compete in the new system. The highest bidders at the auction were invariably people having association with the new administration through participation in trade and commerce. The peasants were thus kept totally out of this change and were also literally robbed by the unscrupulous *zamindars*. This reckless process, which continued till the *permanent settlement in 1793*, resulted in frequent famines and loss of human life. Large areas of land were rendered waste.

### 4.4.2 Eastern India: Permanent Settlement of 1793

The Permanent Settlement of 1793 in Bengal and Bihar declared the *zamindars* ‘proprietors of the land’ and fixed their dues to the state. This move was considered to ensure not only the security of revenue but also the prosperity of the company’s commerce. The time period coincided with the time of Industrial Revolution in Britain for which a thriving commerce from India, with agriculture in particular providing a variety of goods for export, was considered important. The creation of private property in land was expected to establish the right conditions for investment in agriculture by the rich natives with ownership of large stretches of land. An associated objective was the creation of a class of loyal supporters (i.e. *zamindars*) to provide greater stability to the British rule.

However, the expectations were only partially fulfilled. As far as the creation of a class of loyal supporters was concerned, the British substantially succeeded. But



the *zamindars*, new (i.e. those who became *zamindars* to get the benefit of British patronage) as well as old (i.e. who were already functioning as such and continued to do so), failed to become agrarian capitalists but turned into feudal landlords. Thus, capital was invested not for agricultural development but for purchasing land. Further, in course of time a long chain of intermediaries came into existence between the state and the tiller. The *zamindars* were expected to pay a fixed sum as revenue (i.e. the permanent settlement) to the government which in 1793 amounted to 90 percent of the revenue collected by the *zamindars*. With increase in prices, the value of the income of *zamindars* got further eroded. The state also lost as its revenues in money terms were fixed. As rents were not regulated, the peasants were the worst hit and any increased value of agricultural produce was appropriated by the *zamindars*. The Bengal model was, therefore, not replicated in Orissa and Assam as the British realized that freezing the land revenue by a permanent settlement affects them the most with revenue from land being the most important of all its sources of income. In view of this, in Orissa and Assam settlements, the revenue demand from land was not kept fixed but increased from time to time.

#### 4.4.3 Northern and Central India: Zamindari/Mahalwari Systems

The revenue system followed in Northern India was a mix of both the *zamindari* and *mahalwari* systems. While the basic unit for revenue assessment in the *zamindari* system was the 'primary cultivator', in the *mahalwari* system the unit of revenue assessment was the 'village'. Initially, the Bengal type of permanent settlement was followed in the Northern region. After 1811, considerations of enhancement of revenue led to the abandonment of fixed revenue system. However, the *mahalwari* system was experimented in some parts of Punjab and 'united provinces' making the payment of revenue the joint responsibility of both the individual cultivator and the village proprietary body (i.e. the *gram sabha*). In the central parts of India, in the early decades of British rule, a policy of 'excessive assessment' was adopted. Under this, the lands were assessed so high that payment of revenue became impossible. This rendered many people impoverished. Following strong protests and condemnation, in 1834, a longer settlement for twenty years was made which continued till the early 1860s. Later, under a new settlement in 1864 in the Central Provinces, revenue-payers were recognized as the proprietors of the land with a right to sell or mortgage their property. Tenancy rights were also conferred on the cultivators. Further, a system of land revenue, limited to one-half of the rental of estates in principle, was implemented. However, in practice, it was rarely adhered to at the time of assessment/collection.

#### 4.4.4 Western and Southern India: Ryotwari System

The system of revenue collection adopted in the western province was the '*ryotwari system*'. Under this, the settlement was normally for a fixed period of 30 years. Under the *ryotwari* settlement, the '*ryoti cultivator*' was recognized as proprietor and the land revenue was fixed permanently based on the estimated value of the gross produce. The cultivator was allowed to sub-let, mortgage or transfer the land either by gift or by sale deed. Further, a '*ryot*' (i.e. the tiller-cultivator) could not be evicted as long as she/he paid the revenue. Likewise, even in the Madras Presidency (excluding coastal Andhra where permanent *zamindari* system was

introduced) the *ryotwari* system was instituted. All uncultivated lands were deemed to be under the control of the state which could let them out to be cultivated at freshly assessed rates. Though the system favoured peasant proprietorship, it also accommodated large land owners, as was the case in the Malabar region of Kerala.

**Check Your Progress 2** (Answer in about 50 words in the space given below)

- 1) What were the immediate consequences on ‘the village community’s’ cohesive character on account of the Britisher’s policy on village industries?

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- 2) What were the two basic motives behind the collection of land revenue from the agricultural class by the British? What was the approach adopted for the realisation of these objectives?

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- 3) Why was the Bengal model of ‘permanent settlement’ for revenue collection not followed in Orissa and Assam?

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- 4) What were the basic units of revenue assessment under the *zamindari* and the *mahalwari* systems? As compared to these two systems, under the *ryotwari* system, what were the basic rights conferred on the ‘*ryot-tiller*’?

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- 5) What were the two expectations of the British behind the creation of ‘private property’ in land? To what extent was this realised and why?

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## 4.5 COMMERCIALISATION OF AGRICULTURE

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Commercialisation (see Key Words) of agriculture during the British rule was rendered possible with the coming of railways. Peasants were allowed to produce both for sale in distant markets and export. The period was also marked for major changes of both qualitative and quantitative dimensions. Qualitative changes (besides the introduction of railways) included: (i) removal of constraints such as market imperfections in the form of multiplicity of weights and measures; (ii) improving the obsolete/risky transportation systems; and (iii) minimizing the extensive use of barter as a method of trade. These measures enabled closer integration of global, regional and local markets. India thus began specializing in agricultural exports. Quantitative changes, on the other hand, included: (i) increase in value of exports by nearly 500 percent between 1870 and 1914; (ii) non-manufactured goods accounting for 70-80 per cent of total exports from India; (iii) increase in the area cropped in most regions during the period 1870-1920; (iv) growth in marketable crops like wheat, cotton, oilseeds, sugarcane, and tobacco; etc. As a result of these, not only the agricultural prices rose but even the rent, both in nominal and real terms, increased. Thus, commercialization of agriculture not only led to increase in the scale of land transfers and land prices, it also increased the number of credit transactions.

The benefits of commercialisation of agriculture once again reached only to some influential segments of the society. In the process, it created a wider gulf between the poor peasants and the rich landlords. For instance, commercial expansion of agriculture during the later years of 20<sup>th</sup> century gave way to new crops, new transport networks and increased market activity. Developments in these required access to resources like credit, power, storage/transport facilities and markets. Owing to the protection that the *colonial government* gave to influential class of agriculturists and landlords, the control over these resources could be dominated by these groups enabling them to reap maximum benefits/profits. Tenancy legislation, such as the Bengal Tenancy Act of 1885, which gave occupancy rights to those who had held tenancies for twelve or more years, with the right to sublet, strengthened the position of this important stratum of rural society. Economic success thus became a privilege of those who could use their position in society to secure favoured access to credit, markets and infrastructure.

### 4.5.1 Impact of the Great Depression of 1930s

The benefits of commercialisation in agriculture began its decline during the period of Great Depression. Export prices fell more sharply than import prices turning the terms of trade against agriculture. This led to increased export of privately owned gold, most it as distress selling, to meet the demands for rent and land revenue. It was also influenced by the bankruptcy of traders and indigenous bankers whose business had suffered due to liquidity crisis. This led to a rise in the real cost of capital with even the rich farmers forced to cut down on capital intensive methods/practices. Labour cost also increased forcing the families having large land holdings to cut down on hired labour. Due to similar conditions elsewhere, employment opportunities outside agriculture also was lacking. Depression, thus strengthened the power of rich landlords even more. Thus, propertied class could gain from the consequences of depression whereas the poor peasants suffered badly.

### 4.5.2 Indebtedness and Land Transfers

Rural indebtedness was by itself also generally widespread under the British rule. Commercialisation increased the need for credit because of higher investment requirements. Other factors which contributed to increased indebtedness varied for different classes of people. These included: (i) buying food before harvests (particularly by the peasants growing non-food crops); (ii) paying rent and revenue in cash; (iii) meeting the marketing requirements of cash crops; (iv) financing the higher input costs of commercial crops like sugarcane, cotton and tobacco; etc. Amidst these developments, there were crop failures leading to cultivators, and sometimes even *zamindars*, finding themselves unable to repay loans. These led to distress sale of land holdings. Such sales increased in number over the years. Indebtedness thus forced the conversion of many peasants to become poor agricultural labourers.

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## 4.6 AGRARIAN STRUCTURE AND TENANCY

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Land ownership and tenurial structure underwent important changes during the British period. Agrarian structure in different regions displayed considerable diversity. In Eastern India, landlords owned the bulk of land. In *Ryotwari* areas of Madras and Bombay presidencies, considerable peasant proprietorship existed. Elsewhere, conditions ranged between these two types of situations. The thrust of the British revenue settlements had often been to consolidate middlemen's claims into landlordship. Commercialisation reinforced this impulse. As agricultural prices rose, landlords and moneylenders bought peasant held lands. The peasants who thus lost land were not, necessarily, driven out of land. The old peasants cultivated their sold plots as tenants on a crop sharing basis.

During the later half of the nineteenth century, in South India, the area under cultivation increased faster than the population. Large irrigation works were completed on the *Godavari* and the *Krishna*. The cultivation of cash crops like cotton, groundnut and oilseeds increased. Between 1881-82 and 1915-16, prices of agricultural commodities increased faster than other prices and the terms of trade moved in favour of agriculture. The burden of land revenue fell. The cultivator was able to invest in land. Progress was rapid in some regions, notably in the *Krishna-Godavari* delta. This led to tremendous increase in prices of land. The rich peasants widened the sphere of their activities and invested in rice mills, mica and other industries. They extended their money lending business and went into banking.

In Western India, during the late 19th and early 20th centuries, there was rise of the rich peasantry leading to increased stratification of the peasantry class. Here also, the cultivation of cash crops such as sugarcane, tobacco, groundnut and cotton expanded. The small section of the cultivators who had a surplus to market sale, made large profits and invested them back in agriculture. The investments were made in irrigation, buying carts and seeking better markets for their grains outside their local area. These rich farmers, who had been able to seize the new market opportunities, often replaced the traditional moneylenders as sources of credit in the village. They also purchased the land of small cultivators who were often in heavy debt.

In Eastern India, the *zamindars* committed such excesses that the government

was forced at times to intervene to stop a possible revolt. Two major tenancy acts were enacted in Bengal after the Permanent Settlement: the Rent Act of 1859 and the Bengal Tenancy Act of 1885. Under the tenancy Act, occupancy rights were conferred on those *ryots* who had been in possession of any land for twelve consecutive years. Such '*occupancy ryots*' did not necessarily cultivate their holdings on their own and many of them, especially some big *ryots*, further leased out their lands on share-cropping basis. This was mainly motivated by the difference in the rents paid by the occupancy-tenants and share-cropping tenants which yielded a huge profit to the former. This was possible as there was no legal protection against increase of rent by the non-occupancy tenants. The situation was so bad that in 1948, the *Zamindari Abolition Committee Report* stated that in the North-Western provinces greater part of land (i.e. more than half of total) was held by such a small group of large landholders amounting to just 1.3 percent of the total population.

#### 4.6.1 Agricultural Labourers

Contrary to the view that in the traditional village economy of pre-British India, there was a much smaller segment of persons working solely as agricultural labourers on the lands of others, the census data suggested a significant increase in the proportion of 'wage labourers' in the agriculture. Two factors identified to have contributed to this were: (i) de-industrialisation; and (ii) dispossession of peasantry. Further, the landless labourers mostly came from the lower castes. Despite the increase in the number of agricultural labourers, the agricultural wages remained stable. Factors which contributed to this included: (i) increased area brought under market crops; (ii) work on railway construction/expansion; and (iii) canal excavation works. All these factors also contributed to an improvement in the social status of the depressed castes to which most of the agricultural labourers belonged. The element of compulsion and force in their employment became weaker and various forms of social oppression (such as enforced dress codes and codes of conduct with respect to upper castes) became weaker too. Migration within and outside agriculture (e.g. plantations, mines, urban services, public works, etc.) increased. The situation of agricultural labourers thus improved to a great extent.

#### 4.6.2 Agricultural Growth

The network of relationships among the various groups of persons depending for their livelihood from land was such that it was not providing incentives to invest in land. Substantial proportion of agricultural production was reserved for the parasitic right holders who received income without participation in agricultural work. No surplus/incentive was left with actual cultivator for investment. The cultivators also avoided risk and resisted change due to their poor economic status and lack of incentives. This complex network of legal, economic and social relations served to produce an effect, which Daniel Thorner termed as '*Built-in-Depressor*'.

The net result was that agricultural growth varied from low growth to near stagnation. During the period of 1891 to 1947, agricultural output rose by just 0.37 percent per annum significantly lower than the population growth rate of 0.67 percent per annum. In particular, growth rate of food grains output was a mere 0.11 percent. After 1921, population growth accelerated to over 1 percent per annum but food grains output could not grow fast enough. As a result, the per capita output fell markedly. Commercial crop output, however, increased rapidly - nearly doubling

its output over the period.

In general, the output growth was higher in *ryotwari* and *mahalwari* areas. Greater Bengal was the area where land tenure structure was most retrogressive. There were layers of parasitic intermediaries living on rental incomes. Though in Punjab also area under tenancy was quite high, tenants were mostly small owners who leased land from landowners and lived in the village supervising their cultivation. Tenancy in Punjab was basically a method of labour mobilisation by those owners whose holdings were bigger than what could be cultivated with family labour. An important source of agricultural growth in Punjab was the expansion of irrigation works and total area under agriculture. Though in India as a whole the British were neglecting irrigation works, yet in Punjab there was a tremendous investment in irrigation. More specifically, the area irrigated by government canals during 1901-02 to 1939-40 in Punjab increased from about 4.5 million acres to 12.5 million acres and the area in agriculture from 23 million acres to 31 million acres during this period.

In areas where agricultural growth was stagnant, two factors are identified as responsible for it. These are: (a) the structure of rights to land; and (b) resource endowments. In the *zamindari* areas, the benefits of commercialization weighed more heavily in favour of renters who did not cultivate land directly. In the *ryotwari* settlements, a section of the peasantry tended to benefit more. Thus, an adverse combination of superior rights and non-agricultural background was responsible for lower investment and lower increase in land productivity. The **resources** - water, land, and people - were unequally distributed across space, owing to both natural and manmade factors. The rice-growing regions like Bengal, Bihar, and eastern UP were having high population densities whereas southern rice regions like *Cauvery* delta and the *Godavari-Krishna* delta did well commercially. Both these areas of south shared two points of distinction viz. (a) good irrigation which made it possible to combine rice with dry-season crops, and (b) lower population densities.

Millet-growing dry regions had land in plenty. When canal irrigation made lands cultivable (as in Punjab and Western UP), the dry areas were better placed in terms of average land per peasant. These conditions enabled diversification into cash crops, such as wheat and cotton, in areas hitherto specialized in millets. Such manmade conditions of progress, however, became available only on a limited scale.

**Check Your Progress 3** (answer in about 50 words in the space given)

- 1) What were the major qualitative changes that came to be introduced in the direction of 'commercialisation of agriculture' during the British period?

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2) What were the four major quantitative changes that was evidenced on account of policies to increase ‘commercialisation of Indian agriculture’?

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3) Which factors contributed to a decline in the progress of ‘commercialisation of agriculture’? How were the poor peasants affected by these?

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4) Which parts of India prospered least in agricultural development during the British period? What were the factors that contributed towards this?

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5) What major change in the demographic structure was noticed during the years of 1900s? Did this have any adverse effect on the average wage level? Why?

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6) What did Daniel Thorner mean when he termed the prevailing agrarian situation during the last years of British period as ‘built-in-depressor’? What was the net effect on the growth of Indian agriculture during the years of 1900-1940?

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### 4.7 LET US SUM UP

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The unit began with a brief overview of the situation that prevailed on the land ownership and tenancy structures during the *mughal* period. It subsequently dealt

with the issues and circumstances which shaped the Indian agriculture during the period of British rule. The contents bring forth the fact that development of agricultural sector was more directed to suit the interests of the imperial government and in its process created and left behind deep social divisions in the Indian polity. A significant evidence of this self-serving motive of the British is seen in the deliberate destroying of industries that co-existed in the pre-British times making the traditional village economy of those times a self-supported holistic economic entity. However, conferring the proprietary rights to the tiller-peasants, expansion of the non-farm sector like railways, marketing networks, etc. to make the agricultural sector commercially develop, supportive investment in irrigation made in some provinces, etc. are examples of positive steps taken to promote agricultural development in the pre-independent years. Nonetheless, poor peasants have had to endure suffering to the point of impoverishment, mainly due to the patronage extended to the rich landlords by the British, despite the significant profits generated from the agricultural sector. The *ryotwari* system, as an institutional alternative, have fared better than the *zamindari* system with the *mahalwari* system also appearing to have done reasonably well. Bengal as a region or province has had a relatively less progressive status which has been termed by some writers as retrogressive. The unit has served to provide the background needed to understand the nature of inheritance in respect of the large agricultural economy by the post-independence policy makers in the country.

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## 4.8 KEY WORDS

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- Mahalwari system** : A system of revenue assessment/collection in which the unit of assessment was 'village'. Under this system, the payment of revenue was the joint responsibility of the primary cultivator and the village heads i.e. *gram sabha*.
- Ryotwari system** : This is a system in which the 'ryot' i.e. the cultivator is recognised as the proprietor of land. In this system, the land revenue was fixed permanently based on the estimated value of the gross produce. Though the system favoured peasant-proprietorship, it also accommodated large land owners.
- Jagirdars/Zamindars** : Two class of intermediaries who collected land revenue to the *mughal* kings by the cultivators.
- Commercialisation** : The word has acquired different meanings at different times and has evolved in response to different stimuli. Earlier, growing of cash crops like cotton, sugarcane, jute, tobacco, etc. (that were grown exclusively for the market i.e. outside of self-consumption) had been considered synonymous with commercialisation. Over time, even food grains were produced for the market due to cash needs of the farmers. This transition has been hastened by the green revolution which increased the marketable surplus. Favourable price policy for food grains has also contributed to this transition.



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## 4.9 SUGGESTED REFERENCES FOR FURTHER READING

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- 1) Dharma Kumar and Meghand Desai (eds.) (1982), *The Cambridge Economic History of India*, Cambridge University Press, Chapter 2.
- 2) Irfan Habib (2006), *Indian Economy: 1858-1914*, Tulika Books, New Delhi, Chapter 3.
- 3) Tirthankar Roy (2006), *The Economic History of India 1857-1947*, Oxford University Press, New Delhi, Chapter 4.
- 4) Tomlinson, B. R. (1993), *The Economy of Modern India 1860-1970*, Cambridge University Press, New Delhi, Chapter 2.

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## 4.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

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### Check Your Progress 1

- 1) See section 4.2, 1<sup>st</sup> para and answer.
- 2) See section 4.2.1 [yield per unit of land × area under that crop].
- 3) See section 4.3 and answer.
- 4) See section 4.4 [same ancestry, brotherhood, fraternity feelings, blood-ties, etc.].

### Check Your Progress 2

- 1) See section 4.4, 1<sup>st</sup> para (i) to (vi) and answer.
- 2) See section 4.4.1 and answer.
- 3) See section 4.4.2 and answer [because with price increase, the fixed settlement yielded less revenue from land].
- 4) See section 4.4.3 [primary cultivator and village]
- 5) See section 4.4.2 and answer [establish the right conditions for investment in agriculture by the rich natives and creation of a class of loyal supporters].
- 6) See section 4.4.4 and answer [sub-letting/mortgaging/transferring by gift/sale deed].

### Check Your Progress 3

- 1) See section 4.5, 1<sup>st</sup> para, and answer.
- 2) See section 4.5, 1<sup>st</sup> para, and answer.
- 3) See section 4.5.1 and 4.5.2 and answer.
- 4) See section 4.4.3 [primary cultivator and village].
- 5) See section 4.5, last para and answer.
- 6) See section 4.6.2 and answer.

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## **UNIT 5 LAND AND AGRARIAN RELATIONS DURING THE POST- INDEPENDENCE PERIOD**

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### **Structure**

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Agrarian Structure at the Time of Independence
- 5.3 Efforts Made Through the Plans
- 5.4 Land Reforms and Agricultural Development
  - 5.4.1 Concept, Nature and Significance of Land Reforms
  - 5.4.2 Conditions Necessary for the Success of Land Reforms
  - 5.4.3 Tenancy Reforms and Ceiling on Land Holdings
  - 5.4.4 Consolidation of Smaller Land Holdings
  - 5.4.5 Impact of Land Reforms on Poverty and Productivity
- 5.5 Current Debate and Future Perspective
- 5.6 Let Us Sum Up
- 5.7 Key Words
- 5.8 Selected References for Reading
- 5.9 Answers/Hints to Check Your Progress Exercises

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### **5.0 OBJECTIVES**

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After reading this unit, you will be able to:

- outline the agrarian structure which India inherited at the time of independence;
- indicate the various initiatives taken in our Five Year Plans on improving the land and agrarian relations in particular, and agricultural development in general;
- explain the concept of land reforms;
- identify the conditions necessary for the success of land reform policy;
- examine the performance of ‘tenancy reforms’ over the period 1951-1991;
- review the trends which suggest the results of implementation of land reform measures in the post-1990s;
- state the reasons why ‘ceiling on land holdings’ has not succeeded in India;
- assess the impact of land reforms on poverty and productivity; and
- suggest the new directions in which the policy perspective need to be reoriented.

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## 5.1 INTRODUCTION

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In unit 4, we noted that the British government exploited the agrarian base of the Indian economy to serve its imperial interests. The first Indian government which was formed immediately after independence, therefore, had to pay special attention on strengthening the agrarian base of the economy. The primary task was to take measures to restructure the institutional mechanisms of Indian agriculture which had become weak due to the feudalistic roots that had set into the system. Towards this end, in one of its first steps in this direction, the government in 1949 made a Constitutional provision to institute 'land and tenancy reforms'. Since these reforms had to be designed taking into account the regional sensitivities, the central government left the task of adoption and implementation of these reforms to the respective state governments. In the years following, the successive Five Year Plans provided consistent policy guidelines and financial support to the state governments to implement the land reform policies at the grass root level. This resulted in varying levels of achievement limited by the regional socio-political constraints and initiatives taken by the state governments. What is the extent of achievement that could be accomplished till the beginning of 1990s when a major policy shift on liberalising the economy was ushered in? As we moved on, for close to two decades now on this new economic policy path, how has the restructuring of the agrarian base progressed in the country? And in view of the continued importance of the agricultural sector to the Indian economy even at this juncture, with close to 52 percent of total population continuing to be dependent on it for their sustenance, in what direction should the policy focus be reoriented to strengthen the agricultural base of the economy? These are the issues to which we shall address in this unit.

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## 5.2 AGRARIAN STRUCTURE AT THE TIME OF INDEPENDENCE

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At the time of independence, India faced a major challenge of setting right the disturbed agrarian relations as promised during the independence struggle. The agrarian structure inherited from the British period varied from peasant-proprietorship in a small proportion of total cultivated land to landlord-owned domains in a relatively large area of land. The land distribution at the time of independence was so skewed that while just 7 percent of land owners held 53 percent of total land, 28 percent of small and marginal farmers (defined as owning less than 2.5 hectares or 1 acre of land) owned just 6 percent of total land. The tenurial (i.e. the period and the conditions under which a land is leased out to a tenant to cultivate on a share-cropping basis) and administrative practices varied significantly throughout the country. Broadly, however, as noted in the previous unit, the system that prevailed could be classified under two heads viz. (i) the *zamindari*; and (ii) the *ryotwari* systems. While the *zamindari* system was characterised by many intermediaries (i.e. between the state and the actual land tiller), the *ryotwari* system was, at least in its design, marked for peasant-proprietorship. Nonetheless, the system not only reduced the holdings to such uneconomic proportion, but it also killed any incentive for investing resources to yield higher returns.

Against this background, establishing the twin objectives of achieving *social equity* and ensuring *economic growth* were the priority for the new Indian government. The agrarian structure at the time of independence could thus be summarised to

have been characterised by: (i) large number of parasitic, rent-seeking intermediaries; (ii) different land revenue/ownership systems prevailing across states; (iii) small number of land lords holding a large share of land, leasing out land on exploitative share-cropping basis; and (iv) a large number of actual tenant cultivators working under insecure tenancy conditions with exploitative production relations. The policy makers had, therefore, to contend with the two critical issues of: (i) eliminating the intermediaries by effecting new tenancy contracts that would motivate the farmers to adopt better production methods/practices; and (ii) re-establish the land records which were in extremely bad shape giving rise to a mass of litigation.

To set right the distorted situation, the Indian constitution under *Article 39* provisioned that '*the ownership and control of the material resources of the country (primarily land) should be re-distributed so as to serve the common good*'. With this as the goal, a national 'Planning Commission' was established to lay down policy guidelines through a series of Five Year Plans. Instituting a new 'land policy' was to be one of the important components to be incorporated in all its plans. The plans prepared and implemented, therefore, broadly aimed at: (i) reducing disparities in income and wealth; (ii) eliminating exploitation by providing security to tenants; and thereby (iii) achieve social transformation through equality of status by providing opportunities for different sections of the population to participate in development initiatives.

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### 5.3 EFFORTS MADE THROUGH THE PLANS

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It is possible to identify India's 'land policy' to have gone through four distinct phases since independence. These are: (i) the *first phase* over the years 1951-74 focused primarily on 'land reforms'; (ii) a *second phase* over the period 1974-85 in which the attention was shifted to increasing the cultivated land (by bringing the uncultivated land into its hold); (iii) a *third phase* (1985-97) with the focus shifted towards 'water and soil conservation'; and (iv) the *fourth and the current phase* (i.e. 1997 onwards) centred on debates about the necessity to continue with land legislation. The latest phase is driven by an introspection on the inadequate achievement of the desired re-distribution of land resource over more than *four* decades of implementation by legislative measures. The lack of progress is contrasted with the effectiveness of 'demographic and economic forces' in bringing about an improvement in the conditions of small and marginal farmers. In the foregoing paras, we shall briefly review the specific initiatives taken in the Five Year plans by way of specific issues focused upon and policy prescriptions adopted to tackle them.

#### **First Phase (First Plan to Fourth Plan: 1951-1974)**

The major issue in the first plan (1951-56) was to increase the area under cultivation. For this, vast uncultivated lands, locked under large size-holdings, were aimed to be brought under cultivation. Village commons were to be brought under '*community development (CD)*' networks. In order to achieve these, the land reform thrust was to: (i) abolish intermediaries; (ii) restore land rights to tenant cultivators; and (iii) increase land use efficiency. In the second plan (1956-61), the concern was to reduce dependency on rain-fed irrigation by an increased thrust on irrigation-agriculture and also focus on increasing low land productivity. In the third plan (1961-66), the focus was on 'food security'. For this, bringing the

cultivable waste land under cultivation and backward regions into mainstream were emphasised. With continued emphasis on food security, in the fourth plan (1969-74) also, incentives were created for diverting land towards food crops. The policy thrust from the second to the fourth plan were, therefore, to: (i) expand training and extension services through CD; (ii) develop irrigation facilities through minor and major irrigation projects; (iii) integrate land policy approach by 'area development' and 'soil conservation'; and (iv) implement 'land ceiling' Acts to consolidate land holdings.

### **Second Phase (Fifth and Sixth Plan: 1974-1985)**

In the second phase, during the fifth plan period (1974-79) the focus was on tackling the issue of 'degraded land management'. Under this, the policy thrust centred around implementing drought-prone and desert area development programmes. During the sixth plan (1980-85), in addition to continuing the focus on development of under-utilized land resources, attention was also on extending the beneficial reach of '*green revolution*' to areas which were lagging behind in picking up the demonstrated benefits from it. The policy thrust was on implementing 'land and water management programmes'.

### **Third Phase (Seventh and Eighth Plan: 1985-1997)**

During the seventh plan period (1985-90), the focus was on managing 'soil erosion' and combating 'land degradation'. The policy thrust was on taking a long-term view of land management in addition to wasteland development. In the eighth plan (1992-97), the major issue focused was on development of 'dry land and rain fed areas'. A special effort was made on 'peoples participation in land management' at village level. The policy emphasis was, therefore, on implementation of watershed development programmes with an 'agro-climatic regional planning' thrust.

### **Fourth Phase (Ninth Plan Onwards)**

During the ninth plan period (1997-2002), a re-thinking on the utilisation of land reforms set in. Agricultural growth had reached a phase of sluggishness and the fact that the 'green revolution' had failed to spread beyond a handful of states had received wider acknowledgement. There was criticism that not only the land ceiling and tenancy laws had not served its intended purpose but had rather proved counter-productive serving only to kill the land market. Nevertheless, the policy focus continued on bringing the underutilised land under cultivation. A decentralised land management system with the empowerment of '*panchayati raj institutions*' to manage the village lands was emphasised.

The above brief review suggests that even after 50 years of independence, the core issue continues to revolve around a just distribution of land resources. The land policy, however, has changed its emphasis to a fresh debate on the need for a new phase of land reforms. The central issue throughout the Five Year Plans has been on 'land policy' focused both on its 're-distribution' and 'optimum utilisation'. It is not that the efforts of five decades were entirely unsuccessful. But its success remained area-specific with a wide gap between potentials and actual yields. To understand this, we must now turn for an assessment of the specific efforts made under land reforms.

**Check Your Progress 1** (answer in about 50 words using the space given)

- 1) Mention the two twin objectives of the first Indian government for establishing a sound agrarian structure? State the two critical issues with which the government had to deal with in this respect?

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- 2) What were the three aims/objectives of the newly constituted 'planning commission' for bringing about the desired change in the agrarian structure in India?

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- 3) Identify the four broadly demarcated phases/periods of India's 'land policy'? Is there a 'drift' in this thrust of late? Why?

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- 4) Mention the four distinct areas of policy thrust during the course of first four five year plans?

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## **5.4 LAND REFORMS AND AGRICULTURAL DEVELOPMENT**

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Within the limits of five year plans' objectives/focus, and the specific policy thrust given to achieve them in terms of programmes/schemes, in very brief, we have in the previous section outlined the basic thrust of the plans on land re-distribution and management. In doing this, we have used the terms 'land policy' and 'land reforms' interchangeably. This is because the former is so much inexplicably intertwined with the latter that the two have almost been treated synonymously in the context of India's land policy planning and implementation. We shall, however, deal more specifically with 'land reforms' now beginning with an elaboration on

its meaning and definition. Subsequently, we shall deal with its other dimensions like: nature and significance, arguments for and against in terms of two hypotheses that have been put forward (called farm-size hypotheses), progress made in India, ceiling laws on land holdings, etc.

#### 5.4.1 Concept, Nature and Significance of Land Reforms

Conceptually, the term 'land reform' is concerned with changing the institutional structure governing man's relationship with land. The institutional structure refers to changing of laws, regulations or customs on land ownership. Note that in using the word 'customs', even the non-formal methods of influencing the changes were also considered as long as they could bring about the changes in the desired direction. In more simple terms, land reforms basically refers to re-distribution of land for agricultural purposes from the rich to the poor. In the context of agricultural development in India, it has mainly been advocated and implemented as a major instrument of government mediated policy for bringing about a more rational agrarian structure in the country.

The economic *rationale* for land reforms has been extended on two grounds viz. (i) as a means of production for the large landless poor for whom a piece of land on a stable ownership means providing the basic economic resource needed for producing the food needed for his and his family's sustenance; and (ii) the motivation to produce a surplus for earning income through sale/profit (from the land on which the investment of 'human efforts' is made) should be assured to accrue to the individual actually toiling on it. At another level, it needs to be recognised that it is a deeply involved political process for the success of which the willing cooperation of all major political parties is very much essential. This is in view of the fact that a redistribution of land rights would alter the relationships within and between communities in a region impacting on the socio-political influence vis-à-vis electoral outcomes. This fact also, therefore, explains why the earliest constitutional provision soon after independence, considered it prudent to leave its implementation to the initiatives of the respective state governments who are better able to cope with the caste and social sensitivities of the issue. The economic significance of land reforms can, therefore, be reduced to its two critical dimensions viz. (i) *equity* by which land as a basic resource is used to tackle poverty of poor unskilled rural labour; and (ii) *efficiency* by which intangible factors like motivation or incentive to produce more is also taken care of by conferring ownership rights on land tilled by a poor farmer. We will explain the efficiency argument more in terms of the two farm-size/productivity hypotheses below.

#### 5.4.2 Conditions Necessary for the Success of Land Reforms

The two hypotheses called 'farm-size hypothesis' and 'tenant-efficiency hypothesis' are based on certain empirical observations. The first, called the *farm-size hypothesis*, is based on the observation that 'smaller farms yield larger output' i.e. the farm-size is inversely related to output (see also 'key word'). Implicit in this observation is the fact that on smaller farms family labour would suffice, or even if some outside labour is hired there would be effective supervision, whereas in larger farms, hiring of outside labour would be a necessity. The second hypothesis, called the *tenant-efficiency hypothesis*, rests on the two empirical observations that: (i) landlords owning larger farms would generally not do self-cultivation but

lease out their land to tenant farmers on a share-cropping arrangement; and (ii) the sharecropping arrangement is generally exploitative in nature killing the tenants motivation to put in sincere labour. Therefore, a tenant-owner (i.e. a tenant given the ownership rights to a small farm which he can self-cultivate) has the *incentive* to contribute more than when he is working on a sharecropping arrangement.

Note that associated with both the *incentive* to produce more in the tenant-efficiency hypothesis or the *higher output* yield associated with the farm-size hypothesis, there is the common issue of maximising the output. Given that the implementation of land reforms needs the state to act as regulator, the two hypothesis (also called as *stylized facts*) raises the question of ‘whether the policies (or the incentive structures) can be so framed/designed that the market forces can generate the stimulus required for producing maximum output or alternatively minimise the productivity losses’? Alternatively, although the ‘rent-extraction’ (i.e. exploitative character of share-cropping arrangement) and the ‘incentive trade-off’ (i.e. if the tenant is offered the incentive to produce surplus by ownership rights to his land) explanations provide a rationale for the above two hypotheses, is there any further explanation available for the effectiveness of ‘tenancy rights’ in ‘smaller holdings’? The answer to this question lies in the underlying assumptions that govern the two stylized facts. For instance, the quality of land is not homogeneous and the farmer’s ability vis-à-vis their skills are also not homogeneous. This means, under the condition of homogeneity assumption the two hypotheses may ensure higher returns or output. But since such assumptions rarely prevail in reality, the higher output realisation is often violated. Thus, under conditions of homogeneity the case for ‘land reforms’ would be upheld but to the extent that heterogeneity of factors invariably prevail, land reform measures will be less effective. The policy challenge is, therefore, to establish suitable incentives by appropriate institutional mechanisms so that the conditions necessary for higher productivity is generated in the market.

In the above context, it is relevant to note the argument made by the Peruvian economist Hernando de Soto. In his publication ‘The Mystery of Capital’ published in the year 2000, Soto advanced the view that with the ensuring of ‘property rights’ to a poor farmer’s land by the state, the farmer’s ability to access institutional credit is increased. With this, the poor farmers are better empowered to ensure their own welfare, contributing in the process to both alleviation of poverty and promotion of economic growth. In other words, establishment of suitable institutions would ensure the twin concerns of *equity* and *efficiency*. However, since tenancy/land reforms cannot succeed without the political support, it is necessary to simultaneously work on ‘political reforms’ along side the ‘institutional reforms’. The two together would then ensure the conditions necessary for the success of ‘land reforms’.

The two conditions of political and institutional reforms, for the establishment of a good political and institutional structure, identified as essential for the success of ‘land reforms’ are applicable to any country/context in general. Related to these two broad factors, in the Indian context, some specific factors which have contributed to the poor performance of land reform measures can be identified. These factors, as can be seen, are subsumed in the above two broad factors but their explicit mention provides a clear picture of the position that has obtained in India. The first is the ‘absence of pressure from below’. This refers to the



unorganised and therefore passive/inarticulate voice of the poor peasants which is also a pre-requisite for the effective implementation of land reforms. This is mainly due to the crippling social and economic condition of the poor which can be improved only by concerted efforts over a long time period. The second is the ‘administrative apathy’. There has been a general neglect of efforts needed to forge a suitable administrative organisation equipped by systematic in-service training and periodic orientation courses that is essential for the successful implementation of land reforms. There has been an utter lack of conscious effort to post able and dedicated men with faith in land reform to key positions in the administrative set-up. And in very few cases where some actions were taken by some officials, they have been hastily transferred which is but a substantiation of administrative inaction/failure. The third factor has been the ‘absence of correct and up-dated land records’. This is compounded by the deficiencies in the reporting system which is weak and irregular. Fourth, there is a lack of attention paid to a comprehensive concurrent evaluation in the absence of which it has not been possible to identify obstacles and take timely remedial measures. It can be clearly seen that all these factors are but a part of political and institutional weakness to remove which reforms on these two major fronts is the only answer for an effective implementation of land reforms.

**Check Your Progress 2** (answer in about 50 words within the space provided)

- 1) What does the term ‘land reforms’ basically connote?  
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- 2) State the two grounds on which the economic rationale for ‘land reform’ measures rest?  
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- 3) What are the two arguments on which the two hypotheses for the efficiency of land reform measures are made? What is the basic assumption underlying these arguments under which the two hypotheses can be expected to hold?  
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- 4) What would you say is the answer to both the concerns of ‘equity’ and ‘efficiency’ in a situation where heterogeneity of factors is an unavoidable reality?

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- 5) State four specific factors which have hindered the successful implementation of land reforms in India.

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### 5.4.3 Tenancy Reforms and Ceiling on Land Holdings

The land reform legislation in India consisted of four major planks: (i) abolition of intermediaries; (ii) tenancy regulation aimed at improving the contractual terms (including crop shares); (iii) ceiling on land holdings with a view to redistributing the surplus land to the poor; and (iv) consolidation of numerous small uneconomic landholdings. Of these, abolition of intermediaries, which had been completed by 1960, is generally agreed to be the more successful component of the land reform process in India. In other respects, the progress made varies across states. *Raj Krishna (1961)* groups the land reform measures into four classes viz. (i) liberative; (ii) distributive; (iii) organizational; and (iv) developmental. While the abolition of intermediaries comes under the ‘liberative’ class, tenancy reforms and ceiling on land holding come under the ‘liberative and distributive’ measures. Application of ‘technological advance’ and spread of ‘extension services’ to make them accessible on a wider scale come under organizational and developmental classes respectively.

The major planks of tenancy reform were five: (i) security of tenure; (ii) termination of tenancy (salvation from old and freedom to recall the new) ; (iii) allowing for resumption for personal cultivation by the landlord; (iv) regulation of rent; and (v) confirmation of ownership rights. Various state laws were enacted between 1960 and 1972. However, due to diverse and complicated nature of agrarian structure in different states, no uniform guidelines could be formulated. The consensus on the policy of tenancy reforms in fact favoured neither complete expropriation of landlordism nor absolutely favoured the interests of the tenants. The national guidelines (post-1972), however, included the following measures for adoption by the states:

- security of tenancy to be conferred on the actual tiller-cultivator;
- for share cropping, fair rent to be fixed in the range of 20 to 25 percent of gross produce;
- land-owners to be permitted to cultivate land for personal use with due safeguards taken for discouraging ‘*absentee landlordism*’;

- surrendering of tenancy rights to be permitted with mutual consent;
- in respect of some specified areas, the landlord-tenant relationship to be ended and the tenant cultivator to be brought directly under the state;
- disabled persons, defence personnel, etc. to be exempted from leasing their land;
- the term ‘personal cultivation’ to be unambiguously defined wherever landlords are allowed to remove tenants to resume self-cultivation; and
- *oral tenancies* to be abolished and tenancy records to be duly maintained.

### Debate on Complete or Near-Complete Ban on Tenancy

The issue of ‘complete or near-complete ban of tenancy’ (as was sought to be done in some states) has been the most controversial of all the issues in India. The main issue is preventing landlords from leasing out their land under conditions that are unfavourable or exploitative to tenants. In light of this, it is argued that even if tenancy is technically allowed, provisions giving long-term and protected rights to tenants would have the same impact as a ban on tenancy. In view of this, it was pointed out that permitting termination of tenancy under some circumstances like: (i) tenant has failed to pay rent for a year within the time stipulated in the law; (ii) the tenant has been proved to be using land for purposes other than agriculture; (iii) the land has been rendered/made unfit for cultivation; (iv) the tenant is not personally cultivating the land; and (v) term of the lease period has either elapsed or the landlord has sought to personally cultivate; should be allowed. In recognition of the merits of this argument, some states have made provisions for termination of tenancy under specified circumstances. The *National Commission on Agriculture (1976)* also asserted that given India’s ratio of agricultural land per capita, tenancy cannot and should not be totally banned. There are also studies which have revealed that a total ban on tenancy adversely impacts the poor. Empirical data shows that the total area under tenancy did not vary much between 1962 and 1971 (it remained around 10.6 percent) but declined sharply by 1981 to 7.2 percent (Table 5.1). Although there is an increase in the ‘area under tenancy’ over the period 1981-91 (from 7.2 percent in 1981 to 8.3 percent in 1991), going by the trends in the ‘number of holdings’ there is evidence of decreased tenancy holdings over the period 1971-91.

**Table 5.1: Changes in Leasing of Land in India (percent)**

Class of Farmers	1961-62		1970-71		1980-81		1990-91	
	No.	Area	No.	Area	No.	Area	No.	Area
Small	25.1	14.0	27.8	14.6	17.9	8.5	14.9	8.5
Marginal	24.1	16.6	27.0	18.9	14.4	9.7	9.3	8.7
Medium	20.5	9.6	20.9	8.7	14.5	6.6	13.1	6.9
Large	19.5	8.3	15.9	5.9	11.5	5.3	16.7	19.4
<b>All sizes</b>	<b>23.5</b>	<b>10.7</b>	<b>25.7</b>	<b>10.6</b>	<b>15.2</b>	<b>7.2</b>	<b>11.0</b>	<b>8.3</b>

Source: NSSO, Report No. 407, 48<sup>th</sup> Round.

Note: Percentages are to total land. No. refer to ‘number of holdings’.

## **Ceiling on Land Holdings**

Legislation on ‘ceiling on land holdings’ was implemented in two phases: 1955-72 and 1973 to present. Policy on ceiling on landholdings were guided by three economic compulsions viz. (i) there was evidence for inverse size-productivity relationship i.e. larger the size of land holding smaller will be the productivity; (ii) there was also evidence for large land holders to leave some area fallow leading to uneconomic land use; and (iii) large proportion of poor being dependent only on land for their survival, available surplus land should be judiciously distributed to ensure the concerns of social justice and equity. In view of this, the first Five Year Plan suggested the concept of ‘economically viable holding’ defining it as about ‘2 acres for self-cultivation’. As noted in unit 2, ‘small and marginal farmers’ in India are defined as farmers owning ‘1 to 2 hectares of land’ and ‘less than 1 hectare of land’ respectively. Since 1 hectare is equal to 2.5 acres, the definition of economically viable holding provided by the first Five Year Plan means that a farmer must be at least a ‘marginal farmer’. Data on ‘distribution of operational holdings by size of land’ shows that the proportion of marginal farmers in India has risen from 56.4 percent in 1980-81 to 61.6 percent in 1995-96 and 63.0 percent in 2000-01 (Table 5.2). The corresponding position for small farmers, although increasing, is less steep as compared to the marginal farmers. Going by the corresponding declining trends for the medium, large and very large classes of holdings, the trends for ‘marginal farmers’ are possibly indicative of the effect of implementation of ‘ownership rights’ in the post-1980s/1990s.

**Table 5.2: Size Distribution of Operational Holdings (percent)**

<b>Class of Farmers/Holdings</b>	<b>1980-81</b>	<b>1995-96</b>	<b>2000-01</b>
Marginal (less than 1 hectare)	56.4	61.6	63.0
Small (1 to 2 hectare)	18.1	18.7	18.9
Medium (2 to 4 hectare)	8.0	7.0	6.6
Large (4 to 10 hectare)	9.1	6.1	5.4
Very large (above 10 hectare)	2.4	1.2	1.0

**Source:** Ministry of Agriculture, 1994-95 and Agricultural Statistics at a Glance, 2007.

The implementation of this part of land reforms has suffered due to loopholes or ambiguity in definitions of terms like: (i) retrospective transfers; (ii) large number of exemptions; (iii) basis of fixing land limits; etc. Acquiring surplus land was thus ineffective and hence the redistribution insignificant. Among the major factors which led to this poor state of implementation is the ‘village level politicization of the issue’. Many critics are of the view that the entire exercise of land ceilings has only served to distort the land market. They, therefore, argue that it is essential to allow full play of market forces through either an outright abolition or gradual phasing out of the ceiling and tenancy laws. Despite the limited success in the redistribution of surplus agricultural land, ceiling laws have succeeded in keeping a check on concentration of land in the hands of a few.

### **5.4.4 Consolidation of Smaller Land Holdings**

Of all the components of land reforms, consolidation of smaller land holdings has received least attention. During the earlier 1970s, a NSS report had observed that ‘many landowners had held several fragmented parcels of land scattered across the villages’. In view of this, the exercise of consolidation of smaller land holdings

was under debate. Although legislation on consolidation of smaller land holdings was adopted by as many as 15 states, the implementation of these laws failed mainly on account of ‘lack of political will and administrative difficulties’. Three states in which consolidation laws were reasonably better implemented are: Punjab, Haryana and U. P. It is pointed out that demographic and economic pressures naturally cause fragmentation of land causing increased marginalisation of holdings. Due to this reason, it is reported that the number of holding smaller than 1 hectare, and especially smaller than 0.5 hectares, have been increasing over the years. While this process is causing serious concern, there are some stray instances (in Karnataka and Maharashtra) where a few groups of small and marginal farmers have recently come together to cultivate crops like strawberries, tomatoes, rose onions, etc. on ‘contract basis’ with a price for the produce agreed in advance with the contractor. This approach is, therefore, suggestive of a way out to overcome the viability threshold to cultivate such investment-intensive crops. This experiment provides an institutional alternative to consolidation of holdings.

### **5.4.5 Impact of Land Reforms on Poverty and Productivity**

Holding political factors as more determining of the success of implementation of land reform measures, many studies by independent researchers have revealed that in the left-wing led governments of West Bengal and Kerala there is a stronger evidence of favourable impact of land reform measures on poverty and productivity. The results of these studies also reveal that a strong political will for implementation in the left-ruled states have marked for a positive impact of land reforms. There are many other studies which have reported that due to ‘reduced public investment in agricultural infrastructure’ in the post-1991 years, there is an adverse impact on agricultural productivity/development. These results reinforce the need for strengthening of institutions (including political institutions) and renewed public investment for the successful implementation of land reform policies.

#### **Check Your Progress 3** (answer in about 50 words in the space provided)

- 1) Mention the four major planks of land reform legislation in India.

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- 2) What are the five major planks of tenancy reform?

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- 3) State the five circumstances under which permitting of 'termination of tenancy' was sought to be allowed.

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- 4) Mention the three factors which have contributed to a poor performance of the implementation of ceiling on 'land holding laws'.

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- 5) Which two determinants have been identified as positively influencing the implementation of land reform efforts by the empirical evidence of independent researchers in India?

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## 5.5 CURRENT DEBATE AND FUTURE PERSPECTIVE

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Proper land records continue to be a major problem even after many decades of land reform implementation. Efforts made towards computerization of land records have proved partially helpful. There is a general consensus for liberalising the land market. There is also a debate on increasing the 'land ceiling limits' owing to the consideration that large farms would attract greater investment. This is considered vital in the current situation where effective participation in the world market has become the need. For this, pooling the small holdings of small/marginal farmers to form formal/informal groups of producers, on the lines of some experiments conducted in Karnataka and Maharashtra with 'contract farming' arrangement so as to ensure marketing of produce, risk coverage, etc. is pointed out as needed.

Given the paradox between the fear of landlords on losing their titles to tenants in one-one-one contracts and the continued state of 'tenurial insecurity' of poor lessees due to severe constraints on land leasing, an alternative by way of public land banks (PLBs) has been suggested by a Working Group on Disadvantaged Farmers for the consideration of the government in the Twelfth Plan. Under this, the PLBs would take 'deposits' of land parcels from owners wanting to lease out their land, with full freedom to withdraw their deposit after a fixed period. The deposits of land to the PLBs would be entirely voluntary with the owners not wanting to deposit being free to lease out their land directly. Under a small payment as incentive to be paid to the depositors (the rate of payment to be

derived based on a percentage of prevailing average land rents in the panchayats), the PLBs would lease out land under its command to designated categories of farmers such as marginal farmers, women, dalits, tribals, etc. Other incentives suggested to attract deposits include: (i) minimum return even for fallow land; (ii) an additional rent for land that gets leased out; (iii) development of the land deposited by soil conservation works to be undertaken under MGNAREGA or other means; etc. For those leasing in land, PLBs would provide benefits such as: (i) a guaranteed lease for a defined period; (ii) a calibration of rent with land quality; (iii) lower transaction cost and uncertainty than currently faced by small farmers in negotiating leases, etc. The PLBs, thus, would help match the land supply and demand. On the supply side, it would address the concerns of landowners and bring under-used or fallow land into farming. On the demand side, it would provide small/marginal farmers access to land for which they cannot compete in the open market by themselves. The proposal, if implemented, amounts to the filling up of a glaring gap that presently exists in ‘the way forward to break the dead lock in the area of land reforms and agricultural development’.

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## 5.6 LET US SUM UP

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The unit began with a brief review of the state of agricultural sector inherited at the time of independence and in its light the major challenges that confronted the new Indian government in rejuvenating the agrarian foundations of the economy immediately after independence. The various initiatives taken by the government, through its planning exercise, was briefly reviewed. The specific efforts made in restructuring the agrarian relations through tenancy/ceiling laws over the five decade period of its implementation and the current thinking on what needs to be done to reorient the policy thrust was subsequently assessed. The key areas for present policy action identified as required include: legalising the land/tenancy market, contract farming, , etc. As such interventions involve serious implementation issues relating to political and institutional aspects, for any significant success on the agrarian restructuring, it is necessary to undertake measures for both ‘political and institutional reforms’ in a mutually complementary manner.

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## 5.7 KEY WORDS

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- Land Reform** : Refers to changing of laws, regulations and customs on land ownership. It modifies or replaces the existing institutional arrangements governing possession and use of land. It is a deeply political process due to which, for its success, both ‘political reforms’ and ‘institutional reforms’ are simultaneously required.
- Tenancy Reform** : This is a component of land reforms in which aspects of tenancy relationship is regulated. This is advocated on account of a stylized fact called ‘tenant-efficiency’ hypothesis which says that under conditions of secured tenancy the efficiency of farmer and productivity of land will both improve.

**Farm-size Hypothesis** : The hypothesis states that the farm-size is inversely related to productivity i.e. as the farm size increases the output from the farm would decrease. The hypothesis is based on two significant findings about farming in India i.e. crop yield per unit area declines with increase in the size of the holdings and that gross returns from farm production remain constant over different size ranges when all input factors, including land, are taken into account. It, thus, follows that small farms are more efficient production units from the point of view of yield, employment and overall output. It is, however, necessary that farms do not get reduced beyond a certain level, making it difficult for the operators to find full time employment for themselves and their family and for securing minimum consumption needs. (NCA, 1976, p-67).

**Institutional Reform** : Refers to a broad set of rules and regulations which govern the socio-economic transactions. Under well structured and established institutional arrangements, the cumulative functioning of economic transactions is expected to yield optimum results or outcomes.

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## 5.8 SUGGESTED REFERENCES FOR READING

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## 5.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

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### Check Your Progress 1

- 1) See section 5.2 first para and answer.
- 2) See section 5.2 third para and answer.



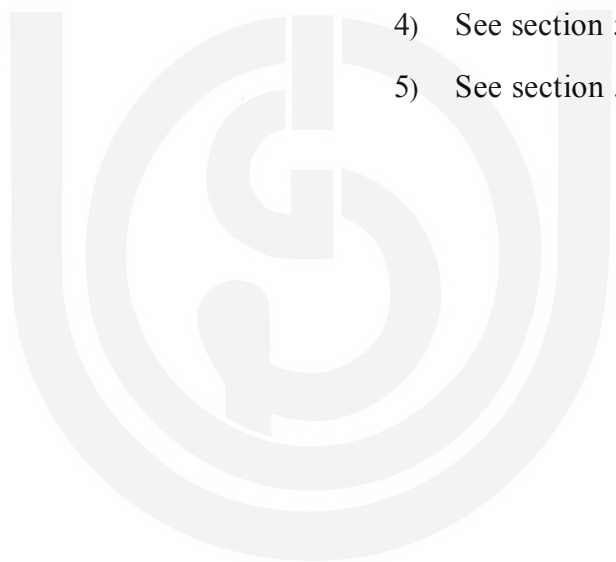
- 3) See section 5.3 first para and answer.
- 4) See section 5.3 first para and answer.

**Check Your Progress 2**

- 1) See section 5.4.1 first para and answer.
- 2) See section 5.4.1 second para and answer.
- 3) See section 5.4.2 first and second paras and answer.
- 4) See section 5.4.2 third para and answer.
- 5) See section 5.4.2 last para and answer.

**Check Your Progress 3**

- 1) See section 5.4.3 first para and answer.
- 2) See section 5.4.3 second para and answer.
- 3) See section 5.4.3 third para and answer.
- 4) See section 5.4.3 fifth para and answer.
- 5) See section 5.4.5 and answer.



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## UNIT 6 PANCHAYATI RAJ AND LOCAL SELF GOVERNMENT

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### Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Conceptual Outline
- 6.3 Evolution of Panchayati Raj Institutions (PRIs)
- 6.4 The Constitution Amendment Act: 1992 (CAA, 1992)
- 6.5 Role of PRIs in Agricultural Development
  - 6.5.1 Crop Development
  - 6.5.2 Credit and Cooperation
  - 6.5.3 Crop Insurance
- 6.6 Review of PRIs Progress in Post-2000 Years
- 6.7 PRIs and Land Acquisition
- 6.8 Let Us Sum Up
- 6.9 Key Words
- 6.10 Selected References for Further Reading
- 6.11 Answers/Hints to Check Your Progress Exercises

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### 6.0 OBJECTIVES

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After reading this unit, you will be able to:

- relate the concepts of ‘institutional economics’ with the developmental issues in general and agricultural development in particular;
- present a historical perspective of the evolution of the Panchayati Raj Institutions (PRIs) in India;
- outline the major provisions of the 73<sup>rd</sup> Constitutional Amendment Act, 1992 (CAA, 1992);
- enumerate the main recommendations of ‘institutional significance’ made in the Task Force Report on PRIs in 2001;
- review the PRIs functioning in the post-2001 years; and
- explain the issue of ‘land acquisition’ discussing its main features in the proposed Land Acquisition Act.

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### 6.1 INTRODUCTION

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In the previous unit, we noted that for a successful implementation of land reform measures, it is necessary to institute simultaneous reforms on the ‘political’ and

‘institutional’ fronts. We also noted that in the agrarian structure of the Indian economy there is a predominance of small and marginal farmers. Due to the vulnerability of such large number of poor farmers to volatile market behaviour, the market oriented policies of the government being pursued since 1991 has affected the agricultural sector in a manner that it has attracted the concerns of policy planners and researchers alike. In realization of this, the government has reoriented its developmental strategy to make it more ‘inclusive’ in its character. However, in the debate on market versus state, the role of the government is stressed more for establishing conditions that enable markets to function efficiently. Against this background, in the present unit we will study about an important measure taken by the Indian government by way of a Constitutional Amendment Act, 1992 [CAA, 1992]. Aimed at empowering the grass root level unit (i.e. village) by the creation of *Panchayati Raj Institutions (PRIs)* for decentralized development by local self-governance, the Act marks a major step in democratising the system of governance in India. We will also study about the major recommendations of a Task Force (constituted in 2001 for reviewing the functioning of the PRIs after close to a decade of the enactment of CAA in 1992) on the need to institute specific mechanisms to enable the PRIs to contribute in making the agricultural sector more resilient. Finally, we will make a brief reference to the ongoing debate on ‘land acquisition’ indicating how the PRIs can play an effective role in this regard. We shall, however, precede the study of these three major aspects by taking first a brief look into the conceptual framework provided by ‘institutional economics’ linked to the issues of economic/institutional development followed by an overview of the evolution of PRIs in India.

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## 6.2 CONCEPTUAL OUTLINE

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**Institution:** Institutions refer to mechanisms established to curtail the opportunistic behaviour of people in their day to day transactions in the society. Broadly, institutions are of two types: internal institutions and external institutions. Internal institutions evolve out of experience gained over time. Such experiences, which have served as solutions to complex issues in the past are, over time, incorporated to serve as customs, ethical norms, conventions in matters of trade, etc. They, thus, serve the community as ‘accepted norms’ for conduct of social and business transactions. Violations of internal institutions are normally dealt with informally e.g. social exclusion. External institutions, on the other hand, are formal sanctions imposed/enforced through political and administrative machinery (e.g. laws enacted through legislations). ‘Institutions’ in general are, thus, rules of human interaction which constrain opportunistic and erratic individual behaviour making transactions predictable. The exploitative behaviour by landlord against the poor tenant is thus an example of the absence of an effective institutional norm (either social or legal).

**Panchayati Raj:** The term ‘panchayat’ literally means an assembly of ‘five wise respected elders’ whose opinions and views are accepted and binds the individuals in a community to settle disputes and transact business. In the traditional sense of ‘panchayati raj’, as advocated by Mahatma Gandhi and construed by him in the sense of ‘*gram swaraj*’, it referred to a decentralised form of government in which each village was not only responsible for its own affairs but also served as an institutional system enabling villages to function as autonomous (i.e. self-dependent) administrative units. In the modern sense of the term, panchayati raj refers to a system of governance in which ‘gram panchayats’ at the village level

constitutes the basic unit of administration in a system having three levels viz. village, block and district.

**Transaction Costs:** A relevant question is: why should there be institutions or what happens if there are no institutions? The fundamental objective of an individual is to make profits and that of a state is to increase its 'wealth' (i.e. national income). In the absence of institutions, social or legal, disputes between parties or economic agents would prolong and conduct of businesses suffer. The objective of an institutional system is, therefore, to establish rules of law whereby disputes are first controlled and when they arise settle them in a manner that the losses to the individual/economy are minimum. Viewed in this light, institutions serve to reduce the 'transaction costs' in the economy by instituting a set of rules aimed at constraining the behaviour of individuals in the interest of maximising the nation's wealth or the individual's profits. It is in this light, that the renowned institutional economist Ronald Coase postulated that: 'in the absence of transaction costs, any allocation of property (i.e. property ownership rights in which property could be of any kind i.e. physical, intellectual, social, etc.) would be equally efficient' (Coase theorem). Since such an ideal situation cannot exist in reality, the aim of institutions are to ensure a system in which the allocation would be optimal i.e. the solutions are maximising-minimising in nature (maximising profits, minimising losses or constraints).

**Information Asymmetry:** The transaction costs for parties involved in a business or settlement of contract/dispute will directly vary with the information possessed by the parties to the contract. This is, however, basically dissimilar in its characteristic i.e. it is not absolutely similar for all parties engaged in a transaction or dispute. The objective of an institutional mechanism is to reduce this information asymmetry. For instance, an illiterate farmer would not know the actual terms of his contract with the landlord who can manipulate the same to inflict loss to the poor tenant-labour. On the other hand, an educated farmer can be vigilant and protect his own interests. The state's objective in such a situation must be to expand educational and informational services through institutions and campaigns thereby empowering the less advantaged.

**Property Rights:** We already know from unit 5 that clear title for properties empower the land holder to access institutional credit. However, the granting of such clear property rights would not be favoured by political parties who thrive on the incentives that exist in capitalising on the situation accruing out of class divisions/interests. Political reforms are, therefore, the bridge that paves the way for cleaner political goals/objectives based on a respect for individual's right to freedom and occupation/income. Institutional reforms and political reforms taken together, therefore, serve to minimise the 'information asymmetries' and 'transaction costs' in a society/economy. The joint effect of both these minimisations, is the creation of a propensity for the state to establish a clearer structure of property rights. Alternatively, while a system of prevailing property rights is an index of the quality of existing political structure/system, maturity of political system is 'both a necessary and sufficient condition for the development of sound property rights in an economy'.

**Local Governance:** Local governance is broadly defined as encompassing the direct and indirect roles of formal institutions as well as the roles of informal norms, networks, community organisations, etc. in pursuing collective action for

providing an efficient government system. It includes the diverse objectives of vibrant living, working and environmentally preserved self-governing communities. Briefly, it is about enriching the quality of life of the people.

**Institutional Development and Economic Development:** Informal constraints like norms of behaviour, conventions, code of conduct, etc. can work well for a set of situations governed by static levels of technological and demographic changes. However in the modern times, both the technological and demographic changes are dynamic in nature. In light of this, internal institutions (i.e. norms and customs) are necessary but not sufficient conditions for economic development. The central issue of institutional development is the creation of an economic environment that induces productivity. This requires efficient evolution of both political and economic institutions. Viewed from this perspective, economic development can be equated with institutional development.

**Check Your Progress 1** (answer in about 50 words within the space provided)

- 1) Distinguish between the system of ‘panchayat raj’ government as visualised by Mahatma Gandhi with that of its ‘modern’ connotation.

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- 2) How did Ronald Coase postulate his theorem on ‘institutions’? In reality, how is a compromise struck in this respect?

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- 3) How does ‘information asymmetry’ affect in agriculture? Briefly indicate with an example.

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- 4) How does the ‘establishment of a clearer structure of property rights’ influenced by a joint effect of the minimisation of ‘information asymmetry’ and ‘transaction costs’?

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- 5) Do you agree with the assertion that ‘institutional development means economic development’?
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### 6.3 EVOLUTION OF PANCHAYATI RAJ INSTITUTIONS (PRIs)

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The institution of village *panchayat* has been in existence for a long time in India. Until eighteenth century, the *panchayats* discharged most of the functions influencing the village community to function as effective units of local administration. During the British rule, various provinces passed the village *panchayat* Act. However, the *panchayats* formed under these acts were not democratically elected bodies but were formed by the nomination of members by the government. Even the new Indian government which adopted its Constitution in 1950 (and made detailed provisions for democratically elected members to constitute governments at the union and state levels) left the establishment of local governments without making it a clear cut constitutional obligation. However, it recognised the importance of democratic institutions at the grass-roots level and laid down (under Article 40 of Directive Principles of State Policy) that ‘the states would take steps to organise village *panchayats* endowing them with the required powers and authority to enable them to function as units of local self-government’. The PRIs, thus, became a state subject under the constitution.

In the community development programmes (CDPs) started in 1952, the PRIs were assigned the political task of mobilising the people’s participation. Five years later, in 1957, a committee (*Balwant Rai Mehta Committee*) was constituted to assess the extent of popular participation in the CDPs and recommend measures by which the people’s participation can be increased. The committee recommended the constitution of statutorily elected local bodies, devolved with necessary resources/power/authority, in order that a decentralised administrative system can work under the local bodies. It also recommended that the basic unit of democratic decentralisation should be the ‘*block*’. The committee also envisaged directly elected *panchayats* for a village (or group of villages) with an executive body called *Panchayat Samiti* for each block. This was the genesis of the ‘*Panchayati Raj System*’ in India. While affirming the objective of democratic decentralisation, Pandit Jawaharlal Nehru described the move as ‘the most revolutionary and historical step in the context of New India’.

Subsequent to the above, almost all state governments (barring Tripura and Arunachal Pradesh) took various initiatives with the result that the progress made in block-centred development varied across states. The next major review was made in 1978 (*Ashok Mehta Committee*) which recommended ‘institutionalising’ the very design of Panchayati Raj. The recommendation was made following the

realisation on the extent of ‘developmental thrust and technical expertise’ perceived essential for effective implementation of rural developmental programmes by the panchayat bodies. Different working groups had been formed for making specific suggestions and recommendations. One such, a group constituted under the Chairmanship of *M. L. Dantwala* (1977) and later another under the Chairmanship of *C. H. Hanumantha Rao* (1982) made far reaching recommendations on restructuring the panchayat bodies. Both the groups were unanimous in recommending that the basic decentralised planning function must be at the district level. Two other major recommendations made by them are:

- for decentralised planning to make headway, institutional mechanisms had to be more broad-based. Such institutions (through *panchayati raj institutions*: PRIs) should play a leading role in the district planning process;
- for the above, there should be active involvement of local representatives. The PRIs should be endowed with a greater degree of autonomy in local decision making.

The mid-1980s saw the emergence of a more influential movement to revitalize the local self-government structures in India linking them with agricultural and rural development programmes. There were two reasons for this. The first was the firm belief of the government in that: (i) India is too large a country to be ruled/planned from a central place; and (ii) the responsibility for many functions should, therefore, be at the local level which would lead to greater accountability in the long run. Although the government feared that resources allocated could possibly be misused (i.e. ill-spent owing to proliferation of administrative authorities, etc. on which a later study had estimated that out of every rupee spent on development only 17 paise actually goes to the ultimate beneficiary i.e. so much is the effect of leakage due to proliferation of authorities involved in implementation of developmental schemes), it was believed that in the long run democratic policies would take care of such abuse. To check this, as an institutional measure political and economic enfranchisement of poorer groups like SCs, STs and women was advocated. The second major reason was that India’s initial agricultural planning systems were linear in nature (i.e. they emphasised more on canal/tube-well irrigation and HYVs) which led to the favoured-region/favoured-crop strategy. As this strategy came to be heavily questioned, the emphasis was reoriented on *agro-climatic planning*. Once again, the issue of local participation and involvement of voluntary organisations gained prominence. The associated issues of ‘resource allocation’ and ‘decision making’ along with integration of ‘special programmes for employment and rural development’ with those of ‘agricultural development’ also were prominently focused upon. These concerns coupled with many other assessment and review studies made the government to record in its *Seventh Plan Document* thus: “it is noticed that wherever PRIs have been actively involved, the implementation of rural development programmes have been better and the selection of beneficiaries and designing of schemes have been more satisfactory. Therefore, in order to make the development programmes more meaningful it is necessary to associate people’s representatives and for this there is no better instrument to design/formulate/ implement the various employment and anti-poverty programmes than by the involvement of the PRIs”.

It is therefore as a sequel to the above sequence of initiatives and efforts that the original Panchayati Raj Bill (1989) had aimed not only at decentralising power but

also politically enfranchise the poorer sections like SCs, STs and women who form a large part of the landless labourer and artisan population. Further, out of the total number of seats reserved for such poorer sections, thirty percent of seats were meant to be reserved for women members of SC/ST community. The legislatures of the states were also advised to endow the *panchayats* with such powers and authority as are required to enable them to function as *institutions of self-government*. However, the process was delayed and many of the original provisions got watered down owing to many discretionary powers given to the states. Nonetheless, many of the central features like: (i) compulsory election; (ii) reservation for socially disadvantaged groups; (iii) devolution of resources and powers; and most important of all (iv) the allocation of resources at the village level to the nationwide employment scheme viz. Jawahar Rozghar Yojna (JRY) remained in the legislations enacted by the state governments. To ensure greater accountability and participation, the annual action plans for each village were required to be discussed at the '*village panchayat*' taking care to ensure that top priority was given to works benefiting the weaker sections of the community. Thus, although as a result of all these efforts the *panchayats* were substantially involved in the implementation of programmes like JRY, etc., their actual performance were still not as effective as was intended. In other words, the dominant role played by government bureaucracies in the implementation process was still a matter of reality mainly due to the lack of integration of the PRIs into the planning and implementation stages of developmental work. To remove such inherent weaknesses in the functioning of the PRIs, the government in 1991 managed to mobilize the required political support to bring the entire issue of *panchayat* system to the centre stage and have a Constitution (72<sup>nd</sup> amendment) bill introduced in 1991. The bill was subsequently enacted as 73<sup>rd</sup> Constitution Amendment Act in 1992.

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## 6.4 THE CONSTITUTION AMENDMENT ACT, 1992 (CAA, 1992)

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The Act defines '*panchayat*' as an '*institution*' of *self-government* constituted under article 243 B of the Indian constitution. The Act provides for the constitution of *panchayats* at the *village*, *block* (if the population of the state exceeded 20 lakh) and the *district* levels (and are distinctly nomenclated as *gram sabha*, *block panchayat* and *zilla parishads* respectively). The major thrust of the CAA, 1992 are in respect of: (i) according a constitutional status to the 'gram sabhas'; (ii) making the *panchayats* a three-tier administrative structure in which the 'village' was accorded the status of basic unit of administration - the other two levels being the blocks and districts; (iii) endowing the *panchayats* with the devolution of power of both administrative and financial nature; (iv) enjoining the state governments to require the state finance commissions to review the financial position of the *panchayats* every once in five years; (v) bestowing the state election commissions with the responsibility of conducting '*panchayat* elections' every once in five years; (vi) provisioning the reservation of seats in the elected *panchayats* to the socially under-privileged sections like SCs/STs in proportion to their population; and (vii) providing for a further reservation of not less than 33 percent of total seats for women both in the reserved and unreserved categories. The Act provides for the disqualification of a member of a *panchayat* if he/she is so disqualified by any other law.



The Act requires the members of the *panchayats* to be elected by ‘direct election’ from the territorial constituencies in the *panchayat* area every once in five years. The powers, authority and responsibilities of the ‘*panchayats*’ and its members are to be prescribed by the states in such a manner that it enables them to function as ‘institutions of self-governance’. The areas of their function would cover the preparation and implementation of plans and schemes for overall economic development with a focus on ensuring social justice. In particular, the Act specifies 29 subjects (under Article 243 G) of which the first seven relates to agricultural (and allied) development. These are: (i) agriculture including agricultural extension; (ii) land improvement, implementation of land reforms, land consolidation and soil conservation; (iii) minor irrigation, water management and watershed development; (iv) animal husbandry, dairying and poultry; (v) fishery; (vi) social forestry and farm forestry; and (vii) minor forest produce. The other 22 subjects relate to ‘industry’ and ‘services’ sectors.

Resources for PRIs: The Act, besides providing for grants-in-aid to the *panchayats* from the ‘consolidated fund’ of the state, also authorises a *panchayat* to levy, collect and appropriate taxes, duties, tolls and fees in accordance with procedures and limits laid down.

**Check Your Progress 2** (answer in about 50 words within the space provided)

1) What was the status accorded to the decentralised governance by the PRIs in the Indian constitution in 1950?

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2) What would you identify as the ‘genesis of *panchayati raj institution*’ in India?

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3) In which plan, for the first time, there was an acknowledgement of better economic performance in the PRI-administered areas? What was an immediate sequel of a major importance to this recognition?

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- 4) What were the four central features of the original panchayat bill that was retained in the subsequent forms in which it was passed by the different state government in late 1980s?

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- 5) Does the CAA, 1992 confer any reservation of seats in the *panchayats* for disadvantaged sections of population? Mention the specific areas of relevance to 'agricultural and allied development' that the CAA, 1992 include?

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## 6.5 ROLE OF PRIs IN AGRICULTURAL DEVELOPMENT

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As said above, and to repeat once again, the CAA, 1992 specifies 29 subjects of which the following seven relates to agricultural (and allied) development: (i) agriculture including agricultural extension; (ii) land improvement, implementation of land reforms, land consolidation and soil conservation; (iii) minor irrigation, water management and watershed development; (iv) animal husbandry, dairying and poultry; (v) fishery; (vi) social forestry and farm forestry; and (vii) minor forest produce. After close to a decade of the implementation of the CAA, 1992, it was found that the process of empowering the PRIs has not only followed a varied pattern across states but the process of integrating the PRIs in the planning and implementation of programmes was yet to establish in many states. In order to facilitate this process of integration, the Planning Commission in 2001 set up a Task Force (TF) with two specific objectives. These were: (i) formulate operational guidelines for the involvement of PRIs in schemes of central ministries and departments; and (ii) suggest norms for the interface of PRIs with the non-governmental organisations (NGOs). The latter was considered crucial as the involvement of NGOs was being increasingly recognised as important for a harmonious implementation of schemes/programmes. In this section, we will briefly discuss the specific role recommended for the PRIs by the TF for the implementation of plans/schemes applicable to the three main areas of agricultural development viz. (i) crop development; (ii) credit and cooperation; and (iii) crop insurance. The recommendations included in this section are those relating to: (i) identifying the specific activities relating to agricultural works; and (ii) specifying the role to be played by PRIs in coordinating the works.

### 6.5.1 Crop Development

The implementation machinery consisting of officials of the agriculture extension and research organisations should plan and implement their programmes under the

direct supervision and control of the PRIs. Five phase of activities are identified in this regard.

- The first phase of activities involves the identification of the technology in respect of a crop sought to be extended in a specific area. The PRIs at appropriate level would provide the farmers' perception to the research and technical heads of the organisations involved.
- The second phase would involve the identification of area where demonstration programmes have to be conducted. The PRIs would play a decisive role in identifying areas where the new technology is sought to be experimented in the area of their purview. '*Block panchayats*' would decide on the selection of sites in various *panchayats*, while the identification of the beneficiaries would be the prerogative of the *village panchayats*.
- The third phase of events would involve the arrangement of inputs. This would be done in close consultation with the PRIs at the district/block level in order that transparency and accountability in terms of effective supply and distribution can be ensured/monitored.
- The fourth phase would involve the actual demonstration by the technical functionaries. At this stage, the PRIs at the local level would publicize the demonstration widely in order to ensure participation of farmers from nearby areas. The involvement of PRI bodies at the block/district levels would develop linkages with other programmes so that larger participation of farmers and effective interface with technical functionaries can be realised. The PRIs can also provide feedback of the demonstration to the technical functionaries which would help in incorporating corrective intervention in the subsequent phase of the demonstration activity.
- The final phase of the sequence of activities would involve the actual distribution of inputs which would be in the form of certified seeds, mini-kits, farm implements, machinery, sprinkler sets, micro-nutrients, etc. The involvement of PRIs at this phase of distribution is crucial both for ensuring considerations of transparency/accountability/equity, as also to ensure the satisfaction of beneficiaries in terms of inputs received. This would also help the PRIs to monitor the activity in the later stages of actual implementation.

### 6.5.2 Credit and Cooperation

Major activities under this sub-sector includes: (i) distribution of credit to farmers through primary cooperative societies; (ii) assistance to cooperative institutions for development of projects by way of working capital; and (iii) infrastructure development assistance. Village panchayats involvement should be in: (i) the selection of beneficiaries as per laid down norms; (ii) preparation of credit plan by the primary credit societies; and (iii) in ensuring that the credit is made available to the beneficiaries in time. They should also be involved in: (i) expanding the membership of primary credit societies; (ii) impressing upon the credit takers to repay their loans in time; and (iii) in extremely genuine cases where the creditors are not able to repay their loans in endorsing their difficulties to the credit institutions. It should also mobilise action against wilful defaulters. Block level panchayats role would be in overseeing the disbursement of credit, developing linkage with programmes providing other inputs, mobilising creditors to returning their loans and where due to adverse situation repayment is delayed to help in rescheduling the repayment

plan. Additionally, block level panchayats role would be to: (i) identify institutions which need credit assistance for carrying out projects; (ii) help them to prepare project proposals/reports; and (iii) with the help of zilla parishads ensure the timely dispersal of credits from the credit institutions. They should also monitor the activities of such institutions to ensure that the assistance received is properly utilised.

### 6.5.3 Crop Insurance

The activities under this would include: (i) identification of beneficiaries; (ii) preparation of claims; (iii) assisting in the expeditious disposal of the claims; and (iv) ensuring that the beneficiaries receive timely payment of compensation amount. The village panchayats should be involved in the identification of beneficiaries and helping in the preparation of the claims after duly vetting the details. The block level and district level panchayats could play a role in ensuring the expeditious disposal and settlement of the claims. The village level panchayat could then ensure the right beneficiaries receive the claim payment without hassles. Further, they can also help the farmers whose crops have been destroyed/lost in preparing them for the next cultivation. All these are activities in which there is scope for a proactive role to be played by the panchayats aimed at gaining the confidence of farmers so that they can seek their intermediation in matters of insurance proposals/claims. Over a period of time, the procedure/practice should get streamlined so that no farmer, or a group of farmers, would undertake cropping work without duly covering themselves against loss/risks.

The above account conveys that till the year 2001, i.e. after close to a decade of the enactment of CAA, 1992, such specific role for PRIs was yet to be identified. The report of the TF delineates similar role for PRIs to four other areas of agriculture viz. land and water resource development, production of inputs, irrigation and relief against natural calamities. In the next section, we will briefly review on how far the required process of integration of PRIs into their expected role of grass roots level functioning has taken place in the post-2001 years.

## 6.6 REVIEW OF PRIs PROGRESS IN POST- 2000 YEARS

One method of assessing the PRIs progress is to see the ‘size and significance of local self government (LSG)’ in terms of empirical indicators like: (i) relative share of LSG’s expenditure vis-a-vis the overall public sector expenditure; and (ii) the share of LSG’s expenditure in the total GDP of the country. The progress made in this respect by India can also be further understood if we take a comparative picture of the same vis-a-vis other countries which have already instituted similar decentralised governance structures. A comparative profile of the combined share of local governments (which includes the share of PRIs and urban local bodies (ULBs); see ‘key words’) for the early years of post-2000 years reveal that the share of India was far lower than that of OECD countries and Brazil (Table 6.1). As a proportion of GDP, the total expenditure of local governments was even less for India at just 1.7 percent as compared to the 6.5 percent for Brazil and 13.8 percent for the OECD countries. While this is the picture that obtains in an international comparative perspective, within the country in the post-2002 years, there is an indication of improvement in the per capita expenditure (PCE) of the

**Table 6.1: Size and Significance of Local Governments**

Countries	Percentage of Local Government Expenditure to Total Public Sector Expenditure	Percentage of Local Government Expenditure to GDP
OECD	20-35	13.8
Brazil	15	6.5
India	5.1	1.7

**Source:** Oommen, 2010; **Notes:** (i) OECD: organisation for economic cooperation and development; (ii) data relates to around years 2002-03.

PRIs from an all-state average of Rs. 356 in the year 2002-03 to Rs. 779 in 2007-08. The divergence in the inter-state position in this respect is also coming down. For instance, in 2002-03, the minimum-maximum ratio was 75.7 (the PCE for Bihar was lowest at Rs. 18 and highest in Maharashtra at Rs. 1,364). This minimum-maximum ratio slid down to 61.8 in 2007-08 with the PCE for Bihar being once again the lowest at Rs. 48 and for Karnataka Rs. 2,967. Incidentally, the comparative profile reveals that the CAA, 1992 has had least impact in Bihar with the situation for other states like Rajasthan, Punjab and U. P. also being no better. In this context, it is important to note that the thirteenth union finance commission has made the observation that ‘while it is for the union and state government/finance commissions to help the process of decentralised planning and governance with funds, functionaries and technical support, what is witnessed during the last 15 years is a manifold growth of parallel agencies that transgress the functional domain entrusted to local governments and distort their role in the federal structure of India’. The observation and the indicators available, therefore, suggest that India has a long way to go in effectively strengthening the constitutionally guaranteed role of the PRIs (and ULBs).

## **6.7 PRIs AND LAND ACQUISITION**

As we have studied in unit 1, structural change in the labour force distribution of an economy, particularly in an agrarian economy, takes place over time with the low productive agricultural sector giving way to the more productive non-agricultural sector. In such a situation, in addition to the labour force, the land required for the expansion of the non-agricultural sector also comes forth from the agricultural sector. As we now know, the land to a substantial measure is held in fragments by a number of small/marginal farmers who are either dependent on their land for a living or in other cases they are simply held by absentee landlords. The issue of land acquisition in such a situation carries an important social dimension particularly for the poor small land holders. In light of this, the government has been placing in the public domain for debate a draft ‘Land Acquisition and Resettlement and Rehabilitation (RandR)’ bill (2011) for comments and exchange. The major point of relevance to include the salient features of this bill in this unit is that the proposed bill makes it mandatory that ‘gram sabhas’ be consulted and a R and R package be executed before the proposed land is acquired/transferred. In view of this, we shall briefly refer here to the salient features of this bill which are as follows.

- 1) The R and R package would necessarily have to be executed for land acquisitions which are in excess of 100 acres.
- 2) The law prohibits the purchasing of multi-cropped irrigated land.
- 3) The state government would not have any role in acquisition of land normally; however, the government would do so only if the intervention benefits the general public.
- 4) To safeguard against indiscriminate acquisition, the bill requires the setting up of a committee by the states. The committee would examine the clause of 'public purpose' from a 'social impact assessment' point of view.
- 5) If the land acquired is not put to use for the purpose for which it was initially approved within five years of its acquisition, the land would be returned to the original owners.
- 6) The consultation process with the 'gram sabha' is made also with a view to establishing conformity with other laws like Pachayat Extension to the Scheduled Areas (PESA) Act, 1996, the 'Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006, etc.
- 7) The bill, whenever made into an Act, shall have primacy over 18 other laws, all pertaining to 'land acquisition'. Its provision will, therefore, be in addition to and not in derogation of the safeguards provisioned in the other laws in place.
- 8) Both the land owners and livelihood losers will be compensated. Every affected family would be entitled to one job or a cash compensation of Rs. 2 lakh. Those who lose their house in the land acquisition process would be provided a constructed house of specified dimension/area.

The bill is under debate with the critics arguing that the original provisions which were favouring the affected people are being diluted. The Eleventh Five Year Plan notes that the present arrangements of resettlement and rehabilitation (R&R) are detrimental and prejudicial to the interest of the tribals. This is because the 'corpus of tribal land' is declining rapidly under the new economic dispensation. The issue of 'land acquisition' has thus become a major controversy in which the debate on R and R measures are the only humane dimension for which the social activists are strongly fighting for. From the point of view of agricultural development, it will have a serious impact on the land utilisation profiles.

**Check Your Progress 3** (answer in about 50 words within the space provided)

- 1) In what respects the involvement of 'village panchayats' are identified as useful in the matter of 'crop insurance'?

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2) Which two empirical indicators tell us about the extent of PRI integration into its assigned role from an international perspective? What empirical indication suggests that there is an improvement in the functioning of PRIs in India in the post-2001 years?

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3) Under what situation, the proposed legislation on ‘land acquisition’ has provided for a provision for the state government’s intervention? In what manner the process of ‘land acquisition’ likely to impact agricultural development in India?

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## 6.8 LET US SUM UP

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The unit underscored the importance of institutional development for advancing the goals of economic development in general. In this, the importance attached for the establishment of PRIs-centred growth of rural development policy thrust has been a particularly major development of the ‘inclusive growth’ concerns shown by the government in recent years. Notwithstanding this side of political and institutional advancement, there is also an open acknowledgement of the growing alienation of the already marginalised sections like the scheduled tribe communities. Integrating such socially and economically disadvantaged sections of people into the mainstream of economic process, by suitable compensatory and R and R clauses introduced in Acts like that on ‘land acquisition’, has been an important policy focus of recent times. These developments would impact seriously on the nature of land utilisation pattern and agricultural development in India. However, despite the constitutional status accorded to the PRIs in 1992, even after more than 10 years of the Act being passed, there is very little indication of any achievement on the part of PRIs by way of assuming their due role in the manner in which the Act had envisaged. But towards the middle of the decade of 2001-10, some empirical evidence on increased per capita expenditure (PCE) of PRIs has become available. More importantly, the difference between the best performing and the least performing states, in terms of PCEs, has started declining. It is also important to note that the *gram sabhas* have been given a prime of place in deciding about the creation of assets in the various activities under the MGNAREGA in rural areas (see unit 25 for more details). As a consequence, the PRIs have a vital role to ensure the generation of employment opportunities for the poor and the marginalised in villages. In view of all these things, if the institutional foundations of PRIs gains roots in the coming years, there is a good scope for the development of rural India in general and its agricultural sector in particular.

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## 6.9 KEY WORDS

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- Panchayati Raj** : Refers to a system of governance in which 'gram panchayats' at the village level constitutes the basic unit of administration in a system having three levels viz. village, block and district.
- Property Rights** : Refers to the level of institutional advancement in a society/economy. It is said that the system of prevailing property rights is often an index of the quality of existing political structure/system. Maturity of political system is 'both a necessary and sufficient condition for the development of sound property rights in an economy'.
- CAA, 1992** : Marks a major legislative landmark in according a constitutional status for the PRIs to steer the issues of local development by a direct involvement of people in a democratic manner.
- Land Acquisition** : Is presently a major issue in the context of land required for expanding the base of non-agricultural sector in the country. The process is expected to make a serious impact on the land utilisation profile vis-à-vis the share of land available for agricultural purpose.
- Urban Local Bodies(ULBs)** : This is a parallel decentralised administrative system for municipal governance just like the PRIs are expected to provide the same for the villages. Like the 73<sup>rd</sup> amendment gave the constitutional status for the PRIs, the 74<sup>th</sup> CAA provided the ULBs with a similar status for decentralised administration of urban areas.

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## 6.10 SELECTED REFERENCES FOR FURTHER READING

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- 1) Alagh, Yoginder, K., '*Panchayati Raj and Planning in India: Participatory Institutions and Rural Roads*', Asian Institute of Transport Development, New Delhi.
- 2) Planning Commission (2001), Report of the Task Force on Panchayati Raj Institutions (PRIs), New Delhi. December, 2001.
- 3) Oommen, M. A. (2010), Have the State Finance Commissions Fulfilled Their Constitutional Mandates (EPW, July 24, 2010) and The 13<sup>th</sup> Finance Commission and the Third Tier (EPW, November 27, 2010).



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## 6.11 ANSWERS/HINTS TO CYP EXERCISES

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### Check Your Progress 1

- 1) See section 6.2 and answer.
- 2) See section 6.2 and answer.
- 3) See section 6.2 and answer.
- 4) See section 6.2 and answer.
- 5) See section 6.2 and answer.

### Check Your Progress 2

- 1) See section 6.3 and answer.
- 2) See section 6.3 and answer.
- 3) See section 6.3 and answer.
- 4) See section 6.4 and answer.
- 5) See section 6.4 and answer.

### Check Your Progress 3

- 1) See section 6.5.3 and answer.
- 2) See section 6.6 and answer.
- 3) See section 6.7 and answer.