THE POLITICAL UNIVERSE OF ECONOMIC POLICY:
RISENG PEASANTRY, THE STATE AND FOOD POLICY IN INDIA

by

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Submitted to the Department of Political Science
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ABSTRACT

In the political and economic literature on the role played by the rural sector in the process of modernization or industrialization, rural power is conspicuous by its absence. A powerless and disappearing peasantry is either held to be a condition for the rise of a modern society or is shown to be its consequence. One qualification needs to be entered, however. Once the process of industrialization reaches a point matching that of the currently developed world, an empowerment of the rural sector takes place. The historical trajectory of rural power, therefore, has been paradoxical in nature. In the early phases of development, when rural dwellers constitute a majority of a country’s population, they have historically been the weakest. As the process of industrialization makes a society overwhelmingly or predominantly urban, the power of the rural sector increases.

India defies this historically derived proposition. It is a low income country with 65 per cent of the population still dependent on agriculture. Yet the rural sector has acquired considerable power in the polity. By now, about 40 per cent of India’s parliament has a rural background as opposed to about 20 per cent in the 1950s. Rural mobilization on prices, subsidies and loans has come to dominate non-party politics over the last decade. All political parties support the rural demand for more “remunerative” agricultural prices and for higher investment of public resources in the countryside. And finally, some of the key bureaucratic bodies involved in policy-making are by now substantially rural in social origins, though for rural politicians that may still not be adequate.

What explains the progressive empowerment of the rural sector in India? Unlike the currently advanced countries where universal franchise was introduced much after the industrial revolution, independent India was born agrarian as well as democratic. This conjunction, this thesis argues, has led to the empowerment of the rural sector in the polity.

If democracy has empowered the peasantry, doesn’t the fact that India remains a poor economy put some constraints on rural power? The demand for higher crop prices, for lower farm input prices, for waiver of agricultural loans, and for higher rural investment is routed through the state since the state in India makes the decisions on input and crop prices and on public investment. The economic pursuit of rural power, thus, inevitably gets entangled with the evolution of economic policy. How has the Indian state responded to rural pressures? Unlike the advanced industrial economies, where agriculture constitutes a small proportion of the GDP, subsidization of the large agricultural sector in India is inherently problematic. Moreover, compulsions of economic development call for reserving substantial resources for industrial investment. These economic constraints act as a countervailing force on the political pressures generated by a democratic polity.

These two tendencies -- one political, the other economic -- are increasing at odds. Some proposals are made, in the end, suggesting how this clash might be resolved in the future.

Thesis Committee Chair: Myron Weiner
Title: Ford International Professor
To my old parents

for never losing faith in me
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It is easy to overstate the pleasures and pains of thesis writing. For most academics, the doctoral dissertation is the first serious engagement with ideas, arguments, evidence and writing. So it was for me. The product in the end does make me happy. The process of getting to the end, however, has been a long one and I have accumulated many debts.

My thesis committee has been a source of much learning and stimulation. Having two political scientists and two economists on the committee can be a matter of some difficulty. Typically, these two disciplines employ very different modes of reasoning. I nonetheless took the risk of straddling, for I couldn't see how a thesis in political economy could avoid this fate! It turned out to be a good decision in the end. Through numerous acts of wise counselling and commentary, the two political scientists -- Myron Weiner and Suzanne Berger -- kept my feet firmly planted in my discipline. And the two economists -- Lance Taylor and Peter Timmer -- ensured that I didn't ignore the economics involved. Without such a diversity in supervision, this thesis would probably have taken less time, but I would also have learned less. The four advisors also proved that meticulous intellectual supervision was only one of the tasks of advising. Thesis writing has its moments of utter fatigue: a certain loss of vigor sometimes sets in. Even in such listless moments, I received unceasing encouragement. My grateful thanks to all of them.

Presenting the main argument of the thesis at job seminars during 1988-89 was helpful. Comments from some of my current colleagues at Harvard, especially Robert Keohane and Gary King, and from those at MIT, particularly Jonathan Fox and Uday Mehta, and a longish criticism by Ashwini Saith at the Institute of Social Studies in the Hague helped me tighten the argument. Mick Moore's painstaking epistolary commentary on several chapters was yet another source of
Grants from the Ford Foundation, Institute for the Study of World Politics and the American Institute of Indian Studies enabled me to conduct research in India and subsequently write the thesis. The contributions of these three institutions are highly appreciated.

MIT has been an exemplary institution. The Political Science department was not simply a place of learning but also one of great collegiality. Sometimes, I wonder if I could have written this thesis elsewhere.

It is customary at this point in the preface to move beyond the professional associations and acknowledge personal debts. Book length manuscripts -- I gather from those who have written many -- are rarely written without incurring such debts. My uncle and aunt in Washington were always ready to invite me whenever I needed to get away. Culinary delights of the Indian cuisine can be highly therapeutic! And human warmth even more so. But most of all, I owe the profoundest personal debt to my old parents. In their old age, they have often wondered whether my involvement with research was not too self-indulgent or excessive. They never lost their faith in me, however. From more than 10 thousand miles away, they have kept their affection and love alive, and have been a great source of strength. I dedicate this thesis to them.

November 1989

Ashutosh Varshney

Cambridge, Massachusetts
CHAPTER ONE

INDIA’S RURAL SECTOR IN A COMPARATIVE CONTEXT

Introduction

I.1 Decline of the Rural Sector in the Process of Modernization
   I.1.1 Economic Reasons
   I.1.2 Political Reasons

I.2 The Study
I.3 The Argument
CHAPTER I
INDIA'S RURAL SECTOR IN COMPARATIVE PERSPECTIVE

"Just what does modernization mean for the peasantry beyond the simple but brutal truth that sooner or later they are its victims?"

"A new specter of peasant power is likely to haunt India in coming years."

In the political and economic literature on the role played by the rural sector in the process of modernization or industrialization, rural power is conspicuous by its absence. A powerless and disappearing peasantry is either held to be a condition for the rise of a modern society or is shown to be its consequence. One qualification needs to be entered, however. Once the process of industrialization reaches a point matching that of the currently developed world, an empowerment of the rural sector takes place.¹ The historical trajectory of rural power, therefore, has been

¹ The terms "rural sector", "peasantry" and "farmers" are used interchangeably in this thesis, despite a tradition of controversy on this point. It has often been argued that a distinction needs to be drawn between "peasants" and "farmers", the former defined as those producing for home consumption, the latter for the market. While this duality may be perfectly legitimate for historical cases drawn from Europe, advances in agricultural technology are making this distinction increasingly anachronistic. In terms of economic motivations and participation in market exchange, the upper and middle peasantry, and even the lower peasantry, do not any more appear to be fundamentally different from the class of farmers. Social distinctions within the rural sector exist, but they have to be construed differently, not in terms of "peasants" and "farmers". Another, less substantive, objection to using these two terms interchangeably is that in the West, the term "peasant" is used pejoratively. Otherwise famous for iconoclastically celebrating the downtrodden, Marx's invective against the French peasantry, cited later, did not break the Western prejudice against the peasantry either. There is no special reason one should feed into this prejudice by accepting the distinction. After the scientific advances of the last three decades, the so-called peasantry in many parts of the third world has used the new technology in a rational manner, thereby aiding the process of modernization rather than halting it. One major objection to using the term "rural sector" remains, however. In the third world, increases or decreases in rural power and welfare may not affect the class of agricultural laborers. Therefore, the term rural sector, whenever used in this thesis, makes no assumptions about the directionality in the welfare or power of agricultural laborers. For a greater discussion of the awkward position of the class of agricultural laborers in the rural sector, see Chapter 5 (Section V.3).
paradoxical in nature. In the early phases of development, when rural dwellers constitute a
majority of a country's population, they have historically been the weakest. As the process of
industrialization makes a society overwhelmingly or predominantly urban, the power of the rural
sector increases.

Consider some standard figures. In 1980, low income countries (per capita income of less than
$400) had, on an average, 70 per cent of their populations dependent on agriculture; the average
percentage for the lower middle income countries (per capita income between $400-1600) was 55
per cent and for the upper middle income countries (per capita income between $1600-7000) 29
per cent; the high income countries (per capita income upwards of $7000) had an average of 7 per
cent of their populations in agriculture. In the last group, Italy (12 per cent), Japan (11 per cent),
New Zealand (11 per cent) and France (9 per cent) occupied the upper end of the distribution;
Canada (5 percent), the United States (4 per cent) and the United Kingdom (3 per cent) were at the
lower end.

Despite such dwindling percentages of agricultural population in the advanced industrial
countries, it is widely recognized that farmers exercise substantial political power in these
countries, reflected, among other things, in the high protection granted to agriculture in Western
Europe, Japan and the United States. The explanations for why this is so are both political and

These and other statistics below are taken from the World Bank, The World Development

The best account of the extent of protection accorded to agriculture in industrial societies is
Kym Anderson and Yujiro Hayami, 1986, The Political Economy of Agricultural Protection. Sydney:
Allen and Unwin. For the European and Japanese cases, also see I.R. Bowler, 1985, Agriculture
Under the Common Agricultural Policy. Manchester: Manchester University Press; and Michael
Policy Making in Contemporary Japan. Ithaca: Cornell University Press. The situation with regard
to politics and agricultural subsidies in these countries is updated in "OECD Farmers and
Agricultural Policies: The Costs of Over-Supply", The OECD Observer, No. 147, August-September
1987, pp. 5-7; in "Japan's Farm Lobby Fighting Reforms by Exploiting National Distrust of US", The
Wall Street Journal, July 7, 1988; and in Robert Paarlberg, 1989, "The Political Economy of
economic. Mancur Olson's argument about the organizational advantage of small groups is normally used to account for the high level of rural organization. Compared to the third world, the size of the farming community in the first world is smaller, making it easier for the rural sector to organize for political action. The economic argument, on the other hand, is that being small relative to other sectors in the economy, the farm sector can be subsidized by the government with less difficulty than if the farm sector were large. Engels' law ensures that an increasingly smaller proportion of the rising per capita incomes is spent on food: making it possible for governments in the developed world to raise farm prices without hurting consumers much. Food in a typical household budget of the developed world does not constitute a large expense. 

The historical paradox of rural power can thus be stated as follows: while in the process of economic development the populous countryside loses power, the combination of a democratic polity and an industrialized economy later seems to empower the rural sector. India defies this

American Agricultural Policy: Three Approaches*, a paper presented at the 1989 annual meetings of the American Agricultural Economics Association, Baton Rouge, Louisiana. With respect to the French peasantry, however, Suzanne Berger had argued in 1972 that peasants in France had remained relatively powerless until the late 1960s (Cf. Peasants Against Politics: Rural Organization in Brittany 1911-1967, Cambridge, Ma: Harvard University Press, 1972). Obviously, the question of power is relative. Judged against the political clout of the capitalist class (or, for that matter, of labor unions until the mid-1970s), the European peasantry or the rural sector may have been less powerful. But compared to the power of the rural sector in developing countries, farmers may wield much greater power in the polities of developed economies.


It is important to stress the combination of democracy and an industrialized society for this observation. In the alternative combination -- Communism and industrialism -- the rural sector does not seem to have made comparable gains. Rural population in GDR, Czechoslovakia and Soviet Union had dropped to 11, 13 and 20 per cent of the total population by 1980. To my knowledge, beyond clarifying what happened during the initial stages of Soviet industrialization, no good political studies of the role of the rural sector in the contemporary polity of these countries are available. It is generally believed, however, that the rural population is not an active political actor in these centralized political systems, though the passive resistance of the rural folk to state-legislated activities, particularly to collectivization, has frustrated many an objective of the state. The emergence of a peasant party and its significant role during Poland's recent political liberalization, it should be emphasized, was a result of limited political pluralism being allowed by
historically derived proposition. It is a low income country with 65 per cent of the population still dependent on agriculture. Yet, as this thesis argues, the rural sector has acquired considerable power in the polity. By now, about 40 per cent of India’s parliament has a rural background as opposed to about 20 per cent in the 1950s. Rural mobilization on prices, subsidies and loans has come to dominate non-party politics over the last decade. All political parties -- regardless of whether they are urban- or rural- based, left or right -- support the rural demand for more “remunerative” agricultural prices and for higher investment of public resources in the countryside. And finally, some of the key bureaucratic bodies involved in policy-making in Delhi -- not simply bureaucracies of state governments -- are by now substantially rural in social origins, though for rural politicians that may still not be adequate.

Two questions follow. What explains the progressive empowerment of India’s rural sector? Is it that the introduction of universal franchise in an early stage of development has led to such an exceptional outcome? As is well known, universal franchise in the currently advanced countries was introduced much after the industrial revolution; not so in India. Independent India was born agrarian as well as democratic. This conjunction, this thesis seeks to demonstrate, has led to the empowerment of the rural sector in the polity.7

But if democracy has indeed empowered the peasantry, doesn’t the fact that India remains a poor economy put some constraints on rural power? The demand for higher crop prices, for lower farm input prices, for waiver of agricultural loans, and for higher rural investment is routed through the state since, like state intervention in agricultural markets all over the world, the state in India

7 While a historical evolution of this linkage (the “how” side of the question) is developed in detail in the thesis, the theoretical essence of the linkage (“why” must it be true) is summed up in the concluding Chapter 7.
makes the decisions on input and crop prices and on public investment. The logic of this involvement can be summed up as follows. If the state responds to the democratically-induced rural pressures by increasing crop prices, lowering input prices and waiving off loans from India's nationalized banking system, it must either raise consumer prices, or bear a burden of subsidy. With incomes as low as they are in India and food being the largest item in the typical household budget, increasing food prices for consumers has a limit in that higher prices will only lead to lower food intake -- by the poor in particular. Increasing producer prices and passing the increase on to consumers thus runs into the an almost inevitable outcome -- accumulating food surpluses in a poor country. Indeed, in contrast to the bleak production scenario of the mid-1960s, India in the 1980s does suffer from the embarrassment of food surpluses co-existing with widespread hunger.

For the state, one of the ways to deal with this situation is to increase producer prices (to appease the farmers), not increase consumer prices but subsidize the difference. How plausible is this scenario? Agriculture being the largest sector in a poor economy, and agricultural products, particularly food, being the largest item in the typical household budget in a low income country, the scale of subsidy required is potentially very large. Unlike the advanced industrial economies, where agriculture constitutes a small proportion of the GDP, subsidization of the large agricultural sectors in the third world is inherently problematic for public finance.

How have these two forces -- one political, the other economic -- played themselves out in India? More than anything else, the interplay of these two institutional impulsions forms the theoretical crux of this dissertation -- a formal, political tendency deriving from a parliamentary democracy, and an informal, economic one arising out of the aggregate poverty of the country. 

* In recent literature, the term "institutions" has come to be used in two distinct ways: as a formal organizational arrangement, or as a set of structural properties, however informal. Both "prescribe behavioral roles, constrain activity and shape expectations". For a succinct account in a slightly different context, see Robert Keohane, "International Institutions: Two Approaches", in Idem., 1989, *International Institutions and State Power*, Boulder: Westview Press. The brief citation above is from p. 163.
This thesis argues that the two impulses are increasingly at odds. Rural empowerment in India is in a large measure a consequence of its democratic polity; the poverty of its masses, and the compulsions of economic development are, however, leading to an economic tendency that puts a check on the political, rural tide.

The economic constraint notwithstanding, an empowered rural sector at an early stage of development is a relatively exceptional occurrence. Rather than rural empowerment, a deep-rooted "urban bias" in the power structure and in economic policy is normally viewed as the typical characteristic of the industrializing third world. In order to appreciate the distinctiveness of the Indian case, it is necessary to recall why a majority of the population is typically powerless as the development process gets underway. Drawn historically from Western Europe, the Soviet Union

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* The most characteristic description To the extent that rural empowerment is attributed to a democratic polity in this thesis, one should expect that in other democracies in the third world, a similar tendency would obtain. Stable third world democracies have been few and far between. The link has been briefly noticed though not yet systematically developed. For Zimbabwe during its ten years of democratic politics (1980-89), see Michael Bruton, 1987, "The Comrades and the Countryside: The Politics of Agricultural Policy in Zimbabwe", World Politics, Vol. 36, No. 2, January; and Jeffrey Herbst, 1988, "Societal Demands and Government Choices: Agricultural Producer Price Policy in Zimbabwe", Comparative Politics, Vol. 20, No. 1, April. For Sri Lanka, Mick Moore notes that ethnic identities overwhelmed farm identities in Sri Lankan democracy as a result of which the Sri Lanka's rural sector did not acquire the same power as India's rural sector did. Cf. Mick Moore, 1985, The State and the Peasant in Sri Lanka, Cambridge: Cambridge University Press. Ronald Herring points out that the rural folk in Sri Lanka had no special reason to organize as economic (as opposed to ethnic) political groups since the economic policy of Sri Lankan government was already substantially pro-rural (Cf. Review of Mick Moore, Economic Development and Cultural Change, Vol. 36, No. 3, April 1988). While arguing a case for Kenya's rural exceptionalism in Africa, Bates notes how the pursuit of power got interlinked with a nurturing of the rural constituency in Kenyan politics and how electoral competition, though more limited than in Asian democracies but keener than in most African polities, produced a tendency towards pro-rural economic policies in Kenya. Cf. Robert Bates, 1989, Beyond the Miracle of the Market: The Political Economy of Agrarian Development in Kenya, Cambridge: Cambridge University Press. It would be interesting to see whether other democracies in the third world -- Costa Rica, Botswana, Trinidad and Tobago, Jamaica, Venezuela since 1959 and Chile between 1932-1972 support the proposed link between democracy and rural power in the third world.

and Japan as well as from contemporary third world, a theoretical and comparative overview presented below will clarify the mechanisms through which the rural sector relates to the industrialization process.

SECTION I.1

DECLINE OF THE RURAL SECTOR IN THE PROCESS OF INDUSTRIALIZATION

As one would expect, the literature on development or modernization is of two types, economic and political. The economic literature deals with the role of agriculture in industrialization; the political literature examines what conflicts and coalitions arise in the process of economic modernization, and how the various roads to industrial transformation define the institutional properties of a modern polity and society. All roads, however, are shown to lead to a unique outcome -- the disappearance or displacement of the peasantry. The economic literature is reviewed first, the political literature subsequently.

1.1.1 Economic Reasons

The economic literature has traditionally been pessimistic about agriculture. The "classical pessimism" of the 18th and 19th century (mainly Adam Smith and David Ricardo) stemmed from the belief that, in contrast to industry, agriculture suffered from decreasing returns to scale. This fact itself led to as well as called for a transfer of resources to industry. Later, marginalists, particularly Marshall, believed that technical progress was inevitably slower in agriculture -- hence, the inevitability and desirability of transferring resources from agriculture, given the critical role of
technology in economic development."

On agriculture-industry linkages, the economic classics of the 20th century are the Soviet industrialization debate and W. Arthur Lewis's work on economic development. In this century, the issue of agriculture-industry linkages was confronted in a much more elaborate and dramatic manner more than ever before. The reason was simple. The late developers of the world were unwilling to industrialize in the manner of England and France. Economic processes that took two to three centuries in England and France were now to be telescoped into a few decades. The late developers' desire to industrialize quickly required clarity on the agriculture-industry relationships in the process of industrialization.

The role of the rural sector is intimately tied up with the question of how to raise resources for industrialization. Particular significance is attached to three kinds of resources: i) food for the increasing urban population, ii) labor to man the expanding industrial work force, and iii) savings to finance industrial investment. Because of these linkages, the rural sector can be the object of industrializers/planners' search for resources, though the planners, for a variety of reasons, may not succeed in their objectives. Part of the reason may simply be that resource i) -- i.e., food -- and resource iii) -- i.e., savings -- may not be simultaneously forthcoming. Worse, maximizing one may minimize the other. How this becomes a particularly obdurate problem will become clearer below.

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" Discussed in greater detail in Chapter 2, Section II.3.2.
For discussions of third world industrialization, the Soviet debate of the 1920s continues to be a paradigmatic case. For the first Communist country in the world, whether or not a Communist country could modernize its economy faster than its capitalist predecessors was clearly a matter of historic proportions. How to finance industrialization was the key issue. Supported by Trotsky, Preobrazhensky advocated a ruthless turning of the terms of trade against agriculture so that resources for industrialization could be extracted. Preobrazhensky was convinced that the burden of such an extraction would be borne by the kulaks, not by the small peasantry. Along with Lenin and (early) Stalin, Bukharin argued in favor of "equilibrium prices", not "non-equivalent exchange" for agriculture. Bukharin's reason was strategic. The assumption was not that an abundant potential for voluntary modernization existed in the peasantry or in the kulaks. Rather, given the adverse international situation, the revolution had to be saved. Moreover, economically, food was necessary for industrialization. A temporary truce with the rural sector, still in private hands and dominated by the kulaks, was, therefore, a political and economic Imperative. Cooperation of the kulaks and peasants was required in the interim. As for the long run, Bukharin thought that, prodded by the state, the obvious economic advantages of collectivization would in the end be voluntarily embraced by the kulaks and peasants. Under the spell of economic rationality, both classes would liquidate themselves. State-directed market forces would ultimately establish socialism in the countryside.

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13 Reviewed in greater detail in Chapter 2, Section II.3.2.

14 To date, one of the best reviews of the debate is Ashok Mitra, 1977, Terms of Trade and Class Relations, London: Frank Cass,, and Delhi: Rupa and Co., 1979, Ch. 4, pp. 44-68. The page numbers are from the Indian edition.

15 For an interesting linkage between Preobrazhensky and Rosa Luxemburg on "non-equivalent" exchange, see Mitra, ibid., Ch. 3, pp. 25-43. Luxemburg thought that industrialization typically turned the terms of trade against agriculture; Preobrazhensky called that normatively desirable.
Meanwhile, the kulaks did not bless Bukharin’s theoretical model with increasing food supplies. Making the argument that parallel lines never met (the parallel lines being the socialist urban sector and an unyielding, uncollectivized rural sector), Stalin finally changed sides. He took Preobrazhensky’s model and solved its intrinsic economic problem -- that of a scissors crisis between the prices of agricultural and industrial sectors -- by physically liquidating the kulaks and also eliminating a mass of peasants resisting collectivization. Stalin’s reasoning was that if the state liquidated those that did not provide food for socialist industrialization at reasonable prices, it would end up getting food from the agricultural sector as well as savings (that is, food at low prices). If both savings and food from agriculture were required, violence, in Stalin’s reasoning, was absolutely necessary. It turns out that, due to unanticipated economic reasons understood later by economists (see below), Stalin was wrong. So was Preobrazhensky.  

Writing in the middle of the 20th century and a beneficiary of the earlier debates, W. Arthur Lewis  realized that a price-squeeze on a stagnant agriculture (a la Stalin) would only choke off food supplies and ultimately lead to reckless inflation, thereby hurting industrialization (dependent as it was on increasing food supplies and low wages). Therefore, he argued that "industrial and agricultural revolutions always go together" and "economies in which agriculture is stagnant do not show industrial development". At one level, this position is a re-statement of Bukharin. Lewis, however, did not stop there. Bukharin’s end was somewhat loose, in that Bukharin could not discover a profound dilemma inherent in his prescription. If the agriculture sector becomes more

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14 For the economic problems that arose as a result, mainly inflation, see Michael Ellman, 1975, "Did the Agricultural Surplus Provide the Resources for the Increase in Investment in the USSR During the First Five Year Plan?", Economic Journal, December, pp. 844-864. A brief discussion appears in Chapter 2, Section II.3.2. Another version appears later in this section.

17 "Economic Development With Unlimited Supplies of Labor", Manchester School of Social and Economic Studies, Vol. 22, No. 2, 1954, pp. 139-91. The Nobel Prize Lewis won was heavily based on this essay and his subsequent work on economic development.

productive, "we escape", argued Lewis, "the Scylla of adverse terms of trade" but "we may be caught by the Charybdis of real wages rising because the subsistence sector is more productive".\textsuperscript{19}

Thus, both a stagnating and prospering agriculture are a problem for, and can hurt, industrialization.

How does one, then, solve the problem? Taxing \textit{prospering} farmers was Lewis' solution: "the capitalists' next best move is to prevent the farmer from getting all his extra production. In Japan this was achieved by raising rents against the farmers, and by taxing them more heavily, so that a large part of the rapid increase in productivity which occurred (between 1880 and 1910...) was taken away from the farmers and used for capital formation; at the same time the holding down of the farmers' income itself held down wages, to the advantage of profits in the capitalist sector."\textsuperscript{20}

The abiding value of Lewis' model remains precisely in forcefully stating the dilemma, showing the mechanisms through which it manifests itself, and proposing a solution that seemed to correspond with a historical case (the Japanese one).

Starting with Theodore Schultz in 1964,\textsuperscript{21} a \textit{micro}economic orientation, focused more on peasant behavior and agriculture \textit{per se} than on agricultural sector as an instrument of industrial development (equated normally with the earlier, \textit{macro} view), ultimately came to dominate the economic thinking about agriculture in developing economies. Like Lewis, Schultz argued that for an agricultural revolution to take place, technological investments in agriculture were essential. Unlike Lewis, however, he also argued for price incentives for farmers.

\textsuperscript{19} Ibid.

\textsuperscript{20} Ibid, pp. 433-34.

Politically speaking, a microeconomic view is perhaps the most favorable to the countryside. But a purely microeconomic view leaves a serious economic problem unresolved: how should one raise resources for industrialization? Even in the hands of Arthur Lewis, the most insightful macro theorist on the subject, "preventing the farmer from getting all his extra production" was a minimum necessity. Schultz did not provide an answer.

In principle, a non-agricultural source of savings does exist. Foreign aid (or loans) can step in to provide resources. However, aid can rarely provide all the resources needed. Only in exceptional cases does foreign aid make up the shortfall between a 15 percent investment rate and a 5 per cent savings rate -- something typical in the early stages of late development. The gap between savings and investment can be as large as 10 per cent of GDP for the first few years of independence. A slow pace of industrialization, if chosen, may, of course, reduce the burden on agriculture, but very few poor countries choose to be slow industrializers. It is not surprising, therefore, that a reconstructed microeconomics, aware of Schultz's contribution but also his limitation, recasts the micro position, by linking it with the macro problem of resources for Industrialization. In this reconstructed vein, Peter Timmer has recently argued that a Schultz-induced productivity in agriculture "creates a surplus, which....can be (then) tapped directly through taxation...., or indirectly, through government intervention into the urban-rural term of trade." This position is a marriage of Lewis and Schultz.

Research done over the last 15 years has thrown further light on how the resources are generated and transferred in the process of industrialization. It turns out that the extent of agricultural contribution has generally been overestimated, though agriculture does provide resources -- in some cases a very large part. Even in the extreme Stalinist case, unintended but, in

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retrospect, predictable consequences took place. Michael Ellman's work shows that as Stalin forced the price scissors on agriculture, food production declined (food surpluses reached the cities, leaving the countryside with drastically reduced food supplies) while the level of aggregate demand in the system increased.\textsuperscript{23} Inflation was the result, which led to a fall in urban wages. Both the savings thus forced on the urban sector (fall in real wages) and an agrarian surplus, therefore, financed Soviet industrialization under the First Plan (1928-32).

Advancing this insight from the recent Soviet scholarship to the third world, Quisumbing and Taylor show that a combination of urban, agricultural and foreign savings have tended to fund industrialization in the third world.\textsuperscript{24} The contribution of agricultural sector has been overwhelmingly large typically in countries with a large export agriculture sector, which makes it easier for the government to tap agricultural resources. This, new argument does not amount to saying that the third world leaders have not tried to force the price scissors on the countryside; rather, even when they have done so, the objective economic consequences of their actions have led to inflation financing part of the investment through a fall in urban wages. Only in the presence of cheap food imports in adequate quantities could this result -- squeezing of food sector without the inflationary consequences -- be avoided. An export-oriented agricultural sector is typically more readily exploitable. In much of Africa and also Southeast Asia, therefore, (non-food) agricultural sector may have contributed heavily to the modernization of economies.

How does this literature illuminate the Indian case? First of all, Lewis, Ellman, Quisumbing and Taylor, and Timmer help us categorize the various ways in which agriculture has intertwined with

\textsuperscript{23} Ellman, "Did Agricultural Surplus...?", op. cit.

the process of industrialization. Late developers seem to have followed one of the following three paths to industrialization:

i) squeeze agriculture (a la Stalin);

ii) extract a surplus from the export agriculture sector but do not squeeze the entire agricultural sector;

iii) make agriculture productive (via technological investments) but transfer resources through taxation or terms of trade.

By now, it is clear that route i) is self-defeating. Option ii) is not available to all countries since not all of them have large export agriculture sectors. Option iii) remains the best option for the low income countries still in the early industrializing phases.\(^26\)

India’s case seems to fall either in the third category or constitutes a possible fourth -- namely, making agriculture productive via price incentives and technology but finding it impossible to impose a tax on the countryside or manipulate the terms of trade due to political pressures emanating from the countryside. A study by Raj Krishna, in fact, did show that a net transfer of resources into agriculture took place (since agricultural investment exceeded agricultural savings).\(^28\) Moreover, it may also partly explain India’s relatively slow industrial growth rate until the late 1970s.\(^27\) Greater econometric work, not the purpose of this dissertation, is required to confirm or disconfirm this result, but if it is true, it should mean that the resources for Indian industrialization have primarily emerged from the urban sector, supplemented by foreign aid. Agriculture may not

\(^{26}\) It would be revealing to plot the empirical experiences of various third world countries along the three paths to judge how many have followed which option and why. Information beyond what Quidimbling and Taylor have put together is not available.


\(^{27}\) The debate on industrial growth has virtually ignored this issue.
have contributed a significant amount of savings to the industrial sector.

1.1.2

Peasantry and the Divergent Political Patterns During Economic Transformation

The political scholarship, too, presents a rural sector whose power declines with the process of modernization. In order for a modern society to emerge and stabilize, the rural sector, we are told, must turn into a class of commercial farmers, or must be organized into collectives. That is, both the landed aristocracy and peasantry must disappear as economic classes. Economic theories may suggest the obvious truth that agriculture declines in the process of modernization. The political tangles, however, remain. Why should the rural sector accept a plummeting fate? After all, what helps the society at large may not benefit the peasantry. At any rate, the social benefit at time T, which may improve the lot of the rural folk in the end, may not help the peasantry at time T-1. Shouldn't the peasantry fight the march of history? If not, why not? If yes, why doesn't it succeed?

In The Eighteenth Brumaire of Napoléon Bonaparte, Karl Marx provided the initial formulation on why the peasantry is powerless when confronted with the larger forces of history:

*The smallholding peasants form a vast mass, the members of which live in similar conditions but without entering into manifold relations with one another.... A few score of these make up a village, and a few score of villages makes up a Department. In this way, the great mass of the French nation is formed by simple additions of homologous magnitudes, much as potatoes in a sack form a sack of potatoes.... In so far as there is merely a local interconnection among these smallholding peasants, and the identity of their interests begets no community, no national bond and no political organization among them, they do not form a class. They are consequently incapable of enforcing their class interest in their own name, whether through a parliament, or through a convention.*

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Barrington Moore’s well-known classic carried the argument further. Moore identified three political routes to a modern (i.e. industrial) society: democratic (England, U.S.A., France), fascist (Germany and Japan) and communist (Russia and China). In all cases, the peasantry is sooner or later subdued. Moore also pointed to the correlation that "by and large, the elimination of the peasant question through the transformation of the peasantry into some other kind of social formation appears to augur best for democracy." Emergence of the first democracies was premised upon a liquidation of the peasantry, not a physical liquidation but one as a class. Over a period of two centuries, enclosures in England swept aside the peasantry, turning it into an urban proletariat. Alongside, seized by a commercial impulse presented by the rise of wool as the basis of a proliferating textile industry, even the landed aristocracy, the dominant class in the countryside, went through a process of embourgeoisement, making the aristocracy in the end hardly distinguishable from the bourgeoisie. Of the two other early democratic cases, the USA never had a peasantry, only a commercial farmer class. And as for France, while the landed aristocracy was eliminated by the French Revolution, "the instability of French democracy during the 19th and 20th centuries is partly due to (the) fact" that the Revolution did not "eliminate the peasant question".

Moore is more explicit about why industrialization is preceded by, or leads to, a taming of the peasantry, but not so clear on why democracy requires the elimination of the peasant. His argument about the former linkage is the same as in economic literature. Industrialization requires agricultural production for the city: that is, production for self-consumption simply would not do.

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29 Ibid. p. 422.

31 Ibid, p. 426. Even, "in smaller client democracies od Scandinavia and Switzerland, the peasants have become part of democratic systems by taking up fairly specialized forms of commercial farming, mainly dairy products, for the town markets." (Ibid, p. 422)
As stated earlier, central to this argument is the distinction between two different rural classes: farmers and peasants. The former class produces for the market and can co-exist with a democracy; the latter produces for home-consumption and is an obstacle to democracy. Why should the latter be true? The less clearly articulated reasons may be inferred from Moore’s discussion of fascism, the second route to modernization. Though Moore shows clear signs of empathy for the condition of the peasant, something entirely missing in Marx, his reasoning for why peasants formed a strong base for fascism comes very close to Marx who, in The Eighteenth Brumaire of Louis Bonaparte, had argued that the peasants “can not represent themselves, they must be represented. Their representative must at the same time appear as their master, as an authority over them, as an unlimited governmental power that protects them against the other classes and sends them rain and sunshine from above. The political influence of the smallholding peasants, therefore, finds its final expression in the executive power subordinating society to itself.”

Peasant revolutions of the 20th century were the only cases, according to Moore, when peasants were not an object but a subject of history. The Chinese Revolution of 1949, and more controversially, the Russian Revolution of 1917, says Moore, are cases in point. But a peasant-based revolution, he added, did not lead to a consolidation of peasant power after the revolutions. “Twentieth century peasant revolutions have had their mass support among the peasants, who have then been the principal victims of modernization put through by communist governments.”

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52 Marx’s view of peasants, as is well-known, is downright nasty. Calling it a “class that represents barbarism within civilization”, his epithets were unrelenting: “clumsily cunning, knavishly naive, doltishly sublime, a calculated superstition, a pathetic burlesque, a cleverly stupid anachronism, a world-historic piece of buffoonery”. Marx in T. Shanin, op. cit, p. 329.


54 Moore, op. cit, p. 428.
The first line of reasoning led to some later works, prominently by Scott and Popkin, both of whom investigated conditions under which peasants would revolt. By the late 1970s, the revolutionary capacities of peasants had become an article of faith.

In the 1980s, the theme of the relative powerlessness of the peasantry has returned. James Scott explains why:

"It is only too apparent that the inordinate attention accorded to large-scale peasant insurrection was, in North America at least, stimulated by the Vietnam War and something of a left-wing academic romance with wars of national liberation... .

The fact is that, for all their importance when they do occur, peasant rebellions, let alone peasant "revolutions", are few and far between. Not only are the circumstances that favor large-scale peasant uprisings comparatively rare, but when they do appear the revolts that develop are nearly always crushed unceremoniously. ....... It is worth recalling as well that even at those extraordinary moments when a peasant-backed revolution actually succeeds in taking power, the results are, at the very best, a mixed blessing for the peasantry. .... All too often the peasantry finds itself in the ironic position of having helped to power a ruling group whose plans for industrialization, taxation, and collectivization are very much at odds with the goals for which peasants had imagined they were fighting."\(^5\)

Having thus abandoned the earlier romanticism, Scott moves from Mao to Brecht:

"... (T)he emphasis on peasant rebellion was misplaced. Instead, it seemed far more important to understand what we might call everyday forms of resistance -- the prosaic but constant struggle between the peasantry and those who seek to extract labor, food, taxes, rents, and interest from them. Most of the forms this struggle takes stop well short of collective outright defiance. Here I have in mind the ordinary weapons of relatively powerless groups: foot dragging, dissimulation, false compliance, pilfering, feigned ignorance, slander, arson, sabotage, and so forth. These Brechtian forms of class struggle have certain features in common. They require little or no coordination or planning; they often represent a form of individual self-help; and they typically avoid any direct symbolic confrontation with authority or with elite norms. To understand these commonplace forms of resistance is to understand what much of the peasantry does "between revolts" to defend its interests as best as it can."\(^5\)


\(^5\) Ibid. Scott's recent book not only sets the record straight but, along with Bates (see below) is also undoubtedly the most influential book to have come out on third world rural politics in the 1980s. The impact of both books, written in very different intellectual traditions, has been tremendous. A detailed engagement with the implications of Scott's work appears in Forrest Colburn, ed., \textit{Everyday Forms of Peasant Resistance}, Princeton: Princeton University Press, forthcoming. Studies from 18th century Poland, Indian Himalayas, Egypt, Colombia, China, Nicaragua and Zimbabwe have been put together to test the general validity of Scott's argument.
Written in a different tradition, Robert Bates' *Markets and States in Tropical Africa,* \(^{37}\) gives an
account of the powerlessness of African peasantry, which is then connected with Africa's
agricultural stagnation. Bates' argument moves in three steps. First, to extract resources for the
treasury, the city and industry, African states run anti-rural, exploitatively low pricing policies that
hurt the countryside. Second, by selectively distributing state largesse (subsidies and projects),
African states divide up the countryside into supporters that benefit from state action and
opponents who are deprived of state generosity, and are frequently punished. Such policy-
induced divisions help the state run anti-agriculture price policies, which, in principle, could have
led to a united rural front. Third, independently of the divisive tactics of the state, rural collective
action is difficult because a) the agriculture sector is very large with each peasant having a small
share of the product, and b) it is dispersed, making communication difficult. The customary free-
riding problem in such situations impedes collective action. Industry, on the other hand, is small
and concentrated in the city, and the share of each producer in the market is large, making it
worthwhile for each producer to organize.

How does this dissertation relate to the scholarship summarized above? The first point is a
general one, applicable not only to India but to other third world countries as well. The standard
argument -- made by Marx, the Soviet antagonists, Lewis, and Moore (as well as Chayanov, Shanin
and Eric Wolf) -- that a peasant, by definition, produces for home consumption, not for the market,
is becoming increasingly irrelevant. Due to enhancements in productivity brought about by the
green revolution, most peasants now participate in market exchanges. \(^{38}\) While the distinction
between farmers and peasants is thus disappearing, the peasantry as a class is not. A combination
of factors -- technology, crop choices, farm size and agrarian infrastructure (water, extension,


\(^{38}\) Even when Moore was writing, the distinction between the peasantry and farmer class had
begun to wear thin. An example is W.O. Jones, 1960, "The Economic Man in Africa", *Food
Research Institute Studies*, May. As suggested before, the distinction may be perfectly relevant to
the historical cases.
inputs) -- is turning some peasants into smaller surplus producers, making others self-sufficient, while still others, buying new inputs but unable to reap their full benefits, may well have hopelessly drifted into deficit and debt.\(^3\)

But the more distinctive aspect of this dissertation is the claim that, with the exception of its agricultural laborers, the power of India's rural sector has significantly risen over time. This claim is distinctive in two respects. First, low income countries, industrializing but still with large agricultural populations, typically exhibit the characteristics depicted by Marx, Moore, Scott and Bates. Their peasantry is powerless and their states overwhelmingly powerful, though this statement needs to be qualified. The awesome power of the state vis-a-vis the peasants has not enabled it to realize all its objectives in the countryside. The peasant may not have been able instantly to change the state policies, but, via accumulations of acts such as foot dragging so evocatively sketched by Scott, he has often weakened state-sponsored cooperatives, projects, and production programs. India's peasantry has acted very differently -- certainly, of late. Instead of relying primarily on such relatively passive acts of resistance, it has graduated into more active exertions of power. It has penetrated political parties, state institutions and has sustained rural mobilization on an impressive scale.

To those familiar with the rural landscape of India, still generally ridden with poverty and backwardness, the claim about an empowered rural sector may sound like a paradox, or as a statement that contradicts their visual impressions. It needs to be clarified what the nature of this claim is. Whether or not an empowerment of the rural sector has taken place is basically a comparative issue. Comparative judgments about India's rural sector can be of three kinds: i) comparisons with respect to other countries at a similar level of development, or what would be

\(^3\) Some of these scenarios were more fully explored in Chapter 5.
functionally equivalent, those with respect to the early stages of the industrialization process in general; ii) comparisons with respect to an earlier time in India's history; and iii) comparisons with respect to the potential power of the countryside, sketched on the basis of some normative criteria. Considerations i) and ii) make India's rural sector indeed powerful. Consideration iii) is normally invoked by rural politicians on the ground that rural India, still the home of 65 percent Indians, must be invested with greater power and economic resources. This, however, is a statement about how rural partisans would like the political and economic world to be, not about how it has historically been. The claim of this thesis about rural power in India is primarily based on the more empirically and historically grounded considerations i) and ii).

Secondly, in its depiction of the rich peasant-poor peasant interaction in the countryside also, this thesis differs from Scott. Instead of class action dominating the mobilized countryside (poor peasants resisting rich peasants and landlords in Brechtian terms), mobilization across peasant differentiations and against the state seems to mark the emerging and stabilizing pattern of rural politics. The term "mobilized" should be emphasized. The entire length and breadth of rural India is not yet covered by the interclass rural mobilization, but an increasing segment is. It is in this sense that the new agrarianism of prices, subsidies and loans is becoming the hegemonic form of rural politics, replacing the earlier political mobilization on land distribution and tenurial reforms. In other words, the claim here refers to a political tendency that is rising in the countryside, and, given that agriculture is going to get more commercialized, not less, it can be called a structural tendency of the system.

It should be emphasized that an absence of class motivations is neither assumed nor suggested in this study. Agricultural laborers, in particular, have been left out of the rural mobilization and may well embody all the Scottian expressions of collective and individual weakness. Nor for that matter have the various peasant classes -- upper, middle and lower --
completely united on all issues. Substantial differences remain, but on the specific issues that have redefined rural mobilization in the last decade, considerable consensus is visible. Differences outside these issues -- caste and factional cleavages, ethnic divergences, party affiliations -- remain and are unlikely to disappear. How the social differences and an emerging economic unity are going to play themselves out; whether the economic identities will be able to subsume other identities; if not, what limits will be put on rural power based upon mobilization on economic issues -- these are some of the interesting puzzles for the future that only time will resolve.

SECTION I.3

THE STUDY

The research that has led to the general arguments above is based on a study of the food policy in India since 1947. Wheat and rice are the two major food crops in India, constituting 65-75 per cent of the total foodgrain produced and, by now, 90-95 per cent of the volume of foodgrain procured by the state. The two crops were studied separately.

Discovering the relationship between political and economic variables is clearly the raison d'être of a political economy study. With respect to any given economic policy, this is easier said than done. Joseph Stiglitz has remarked that "in any analysis of agricultural policies, the hardest part is to incorporate political economy considerations - to decide what are to be taken as political constraints".40 Identifying political constraints is perhaps not the "hardest part"; figuring exactly how they constrain policy to generate the outcome we observe is harder, not the least because the political variables tend to be quite general and the economic variables rather precise. Which groups are powerful in the political structure, what their interests are and what happens to the

group weightages and interests over time constitute the political variables, variables not especially
difficult to discern and map. Precisely how this map and changes therein affect food economy is
more difficult. The range of questions one has to investigate is quite large: how do the interested
and powerful groups act in pursuit of their objectives? Through what institutions, if any? With what
strategies? If they act through the state, how do they manage to wean the state away from its
"general good" function? How does, in other words, sectional rationality prevail over social
rationality? Don't other groups have strategies, and allies to counter the strategies of the dominant
groups? Moreover, doesn't the pursuit of sectional ends create problems for the state?

The panoply of the issues involved should indicate that we not only want to ask how interest
groups or classes behave but also how the state behaves, indeed how the state chooses between
economics and politics in its pursuit of providing something as basic as food to their populations.
With the partial exception of Robert Bates' work on Africa, the other prominent political economy
works on the food sector -- works by Michael Lipton, Theodore Schultz, Alain de Janvry, and Ashok
Mitra -- have basically analyzed the food economy, and then "read off" politics from the economic
analysis." In their analytical schema, politics emerges both as a powerful empirical determinant
and an analytical residual. How exactly politics correlates with the economic outcomes observed
is something on which little is said with empirical thoroughness.

This study, inter alia, seeks to fill this gap. It does so by getting inside the state, identifying
groups involved in the struggle, examining their locations in the power structure and their

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"Bates, Lipton, and Mitra as above. Theodore Schultz as in Transforming Traditional
Agriculture, op. cit., and Schultz, ed, Distortion of Agricultural Incentives, Bloomington, In: Indiana
University Press, 1978. For an introspective on Schultz's ideas, see his "Tensions Between Politics
and Economics in Dealing with Agriculture" in Gerald Meier, ed, 1987, Pioneers In Development,
Second Series, New York: Oxford University Press. de Janvry's main work is The Agrarian Question
and Reformism In Latin America, Baltimore: The Johns Hopkins University Press, 1971. For work
on India, de Janvry has teamed up with K. Subbarao, 1987, Agricultural Price Policy and Income
Distribution In India, Delhi: Oxford University Press.
arguments, noticing how the battles over food policy often got intertwined with the overall economic policy of the country, sorting out how and why the battles were resolved the way they were. In other words, this study places the political economy of food policy in the context of power struggles within the state. The behavior of the state is not inferred from its actions; rather why it behaved the way it did is dissected by going inside the state.

The emphasis is on political battles over food policy since 1965. In 1965, India's food policy went through a dramatic transformation -- from a policy based on land reforms and cooperatives aimed at an institutional reorganization of agriculture to a policy relying on price incentives to producers and investments in the green revolution technology. This policy change, it is widely recognized, was responsible for India's agricultural turn-around from a country perpetually food-deficit to one having substantial food surpluses now. The detailed analysis of the post-1965 period is placed against the background of the earlier, Nehruvian phase (1947-65).

SECTION I.3

THE ARGUMENT

The argument of this thesis has two analytically separable sides -- political and economic. The political facts are unambiguously clear. In the three segments of the political structure -- party politics, non-party politics, and administrative -- the strength of agricultural interests has significantly increased. As far as party politics is concerned, agrarian representation in the elected, lower house of parliament has increased from about 20 per cent in the early 1950s to roughly 40 per cent now (with consistent increases in between). Moreover, all political parties - whether principally urban or rural based, left or right, ruling or non-ruling - have over time come to support the demand for "remunerative" agricultural prices and for higher government investment in agriculture. In non-party politics, agitations over agricultural prices (and increasingly over loans)
launched in five states in the 1970s have become a movement by now. The principal slogan for this mobilization has been Bharat versus India (i.e. rural versus urban India), the argument being that the city has dominated the development process and has been its main beneficiary at the cost of the villages. The administrative structure, too, has undergone significant alterations, partly as a result of these pressures. The personnel policy of the state institution that sets producer prices -- the Agricultural Prices Commission (now called the Commission for Agricultural Costs and Prices, CACP) -- has been changed. Initially envisioned as a purely technical body, an executive decision in the mid-1970s gave it a "farmers' representative" appointed from among the politicians and another decision in 1984 split the Commission into three technical members and three farmers representatives. These decisions were made in response to the constant criticism made in political circles, including by members of the ruling party, that decision makers in the Agricultural Prices Commission might have academic or bureaucratic knowledge of agriculture but not being agriculturists themselves, they had little understanding of the complexities of agriculture. Theirs was an essentially urban technocratic view of agriculture; farmers representatives must dominate agricultural decision-making for only they understood agriculture. Finally, the pattern of interaction between the central and state governments on food price decision-making has also changed. Until the mid-1970s, the food deficit states used to demand "low" prices and surplus states "high" prices for fairly obvious economic reasons. Pressured by rural agitation over the last decade and a half, however, this difference has disappeared with all states demanding increases in producer prices.

There is, thus, no doubt that the power of agrarian groups has increased in Indian politics over the last two decades, a fact much noted but never systematically documented. The economic outcomes have, however, been quite mixed. Statewise cost-price-yield data, reported at length later in this study, show that despite a constant increase in support prices, returns from farming have both gone up and down, depending on what crop one grows and where. For example, in Punjab, India's leading green revolution state, wheat returns (per acre) since 1971 show no trend,
whereas rice returns (per acre) have significantly gone up since the mid-1970s. In Uttar Pradesh, another green revolution state, wheat returns have declined in the Western part of the state, and in Andhra Pradesh, a primarily rice-growing green revolution state, rice returns have mildly increased since the mid-1970s.

If the political logic were neatly to translate into economic outcomes, returns from both crops should have increased: the agriculturists, first, have pressed for these crops; they constitute, second, the main source of income for the largest part of the farming community; and the government, third, sets the prices of these crops. Why this has not happened must therefore take us beyond a model driven purely by political determination.

The first clue to solving the puzzle comes from data on technical change, represented in the figures on yield. While prices for both crops have increased, growth of yields in wheat, after climbing rapidly during the first flush of green revolution in the late 1960s, decelerated in the period thereafter. In contrast, rice yields, after a slow start, have gone through a remarkable growth during the second flush of green revolution. Returns per acre, it should be clear, positively correlate with producer prices (how much the producer gets per units of output) but that is only aspect of the problem. Alongside, returns also negatively correlate with costs (how much it costs to produce that unit) and positively correlate with yields (how many units can be produced on the same acre of land). Technical change reduces per unit costs (as opposed to per acre costs) and it also increases yields. Constructing a simple return index based on this principle, it is argued in Chapter 6 that the relatively weak offsetting effect of yield increases in wheat since the early seventies has led to declining or stagnant returns from wheat farming, whereas a significant growth in rice yields in major surplus states since the mid-seventies has accounted for a rising returns in those states.

The political logic, thus, has met with a counteracting force in technical change. This can,
however, only be a proximate explanation, necessary but not sufficient. It still needs to be explained why the government did not, or could not, increase wheat prices to an extent that would offset the slowing down of growth in yields, despite political pressures in favor of such an increase.

A lack of purchasing power in the economy (or a demand constraint) constitutes the first major hurdle. Simply stated, those who need food do not have the income to buy it, and those who have incomes do not need more food than they already consume. As a result, government foodgrain stocks have risen since the onset of the 1980s, far above the requirements of the public distribution system and the buffer, and even beyond the available storage capacity. India, the "basket case" of the 1960s, runs a food surplus now, but it is a pseudo-surplus for large masses of people remain half-fed and do not have the purchasing power to buy the accumulating government surpluses at the price at which they are offered. If the government were to further increase consumer prices of food as a way of increasing prices for wheat producers, it would end up with even larger accumulations of foodgrain stocks which can neither be stored properly, nor exported easily for the international (wheat) prices have been lower than Indian domestic prices.

One alternative is to expand the public distribution system, which, as of now, is primarily confined to urban areas. This alternative runs into another constraint -- that of public finance. Agricultural subsidies have been consistently rising as per cent of GDP since the early 1970s. Moreover, the two main agricultural subsidies, food and fertilizer, by now constitute a very large -- in some years, the largest -- proportion of the Central Government's annual budget. A larger increase in wheat prices, or an expansion of public distribution system, will simply translate into a still higher burden on the public exchequer. The logic of political process, thus, also runs into the counteracting power of public finance.

In sum, a complex amalgam of the political, the economic and the technological has thus come
to mark food policy in India. Rising political power of the peasantry has run into three countervailing forces: differential rhythms of technical change, fiscal realities and a lack of purchasing power in the economy (stemming from the income distribution in society).

But are these countervailing forces binding? Or are they politically manipulable? Why can't the state increase the burden on the exchequer, or alternatively, while keeping the aggregate burden constant, cut other budgetary expenses (e.g., defence) so that greater benefits to the empowered peasantry provided? Answering this question leads the way to understanding the deeper paradox of rural power.

Though, in the short and medium run, rising rural power is counteracted by the three proximate forces outlined above, these forces have not been overcome precisely that rural power has not increased more. If rural pressure were to increase more in the polity, other budgetary expenses would be cut and higher agricultural subsidies would be borne, or the government would simply increase budgetary deficits. In other words, while rural power has increased, it has not increased enough to drastically alter the budgetary profile of the Indian state beyond a point. Why has it not?

The answer is two-fold: a) that rural power may have made remarkable gains outside the state institutions but, within the state, the institutions penetrated by rural ideologues are much less powerful than the ones opposed to a partisan rural view, and b) that the rising rural power is also self-limiting. The interbureaucratic balance of forces within the state quietly counters the power and visibility of rural groups in party and non-party politics as well as their penetration of some state institutions. Rural power is self-limiting due to the cross-cutting nature of identities in the countryside. Farm agitations express economic demands and meet the eye, but rural votes represent several other identities that diffuse the economic definition of rural interests, thus limiting the pressure that can be exercised on the economic functioning of the state. Agrarian pressure,
though increasing in the polity, is unable to realize its full potential due these cross-cutting cleavages.

It is at this, latter level that the rural sector meets its biggest obstacle. Can farmers primarily vote as farmers, not as members of caste, ethnic and other communities? Can their economic identities triumph over their non-economic identities in political mobilization? Short of a resolution of the problem of cross-cutting cleavages, only an independent shift in the economic preferences of the decision-makers can bring about the changes desired by rural partisans. Meanwhile, a political zig-zag over economic policy will continue.

The argument made above is developed over six chapters in the thesis. Chapter 2 summarizes the background of Nehru years (1947-64). It investigates why an institutional reorganization of agriculture was preferred over other solutions of the agrarian question. Chapter 3 explains why (and how) a shift to a policy of producer price incentives and higher investments in new technology took place in the mid-1960s. Chapter 4 registers the rise of agrarian power in the political system in the 1970s, and traces its impact on economic policy. Chapter 5 analyzes the rise of peasant mobilization on the issue of prices, subsidies and loans in the 1980s. The puzzles raised by this mobilization are investigated. Chapter 6 aggregates the previous discussion and examines the overall economic impact of the rise of rural political power. Why economic outcomes for the countryside do not match the political gains made by the countryside in any one-to-one, direct sense is explained. The concluding Chapter (7) returns to the theoretical issues with which this introduction started. The Conclusion sets out to explain why India’s democratic polity has led to the rise in rural power. It, then, goes on to ask how far rural power will go, and imagines what will happen, should rural power overcome its basic internal obstacle, the cross-cutting cleavages in rural identities. A scenario that can bridge the urban-rural divide is suggested at the end.
CHAPTER TWO
NEHRU'S AGRICULTURAL POLICY
(1947-64)

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"Agricultural production is a most vital thing because it provides...food and raw material for industry. If you don't have enough food, you have to import it and all your resources go into it. We must not only have food, but also surplus food. That would require not only machinery and fertilizers and the like, it would also mean dragging a few million farmers out of their old ruts. People seem to imagine that it is merely a question of providing fertilizers. You have to change the men who grow food..."

-Jawaharlal Nehru, speech in New Delhi, September 22, 1963.

"Nehru's career would seem...to underline the melancholy truths that in public service, sincerity, decency and high-mindedness are not enough, and that nobility without force, statesmanship without strength, are invitations to disaster."

- Sarvepalli Gopal, Nehru's official biographer, reflecting on the failure of Nehru's Agricultural Strategy.

Introduction: Indian Agriculture at Independence

At the time of India's independence, the agricultural situation was rather bleak.¹ During the four decades preceding 1946-47, India's foodgrain output grew by a mere 12 per cent whereas her population increased by over 40 per cent,² resulting in a decline in the per capita availability of foodgrains. Foodgrain yields also remained constant over this period and yields for rice, India's main crop accounting for close to one-half of her foodgrain output, in fact, dropped.³ In 1947, only about 15 per cent of the cultivated land was under irrigation; the rest was dependent on the

¹ George Blyn's Agricultural Trends in India, 1891-1947 (Philadelphia: University of Pennsylvania Press, 1966) remains a classic for this period. The figures that follow are taken from his work.
² ibid., p.96.
³ ibid., pp. 219-224.
proverbial vagaries of the monsoon. The net acreage sown had hardly increased over the previous four decades, even though substantial potential for bringing fallow lands under cultivation and adding new acreage through land reclamation existed. Moreover, agriculture in many underdeveloped parts of Asia had moved ahead. Java, through labor-intensive methods, had managed to increase food output to match its population growth* and paddy yields in China were twice as high as average yields in India. The task of transforming agriculture, thus, was both daunting and urgent. As if a reminder of what could happen, one of the century’s worst famines had already taken place in Bengal a few years back - in 1943.

What strategy should India adopt for transforming her agriculture? And what would such a transformation consist in? Faced with these questions, political leaders of independent India went through a long and intense debate. There was no disagreement on the production objectives. A substantial increase in food production was essential, new areas had to be brought under cultivation, and yields had to go up. The question of strategy, however, was contentious since it involved a series of fundamental political and economic questions: what place agriculture should have in the larger development strategy, what the resource allocation between Industry and agriculture should be, what role the government had to play in agriculture, what means were appropriate if government involvement was essential, and whether landownership patterns - the agrarian relations - had to be changed in order for agriculture to grow. At stake was not only what the leadership should do here and now; decisions were likely to have an abiding impact on the future as well.

*Clifford Geertz, *Agricultural Involution, the Processes of Ecological Change in Indonesia* (Berkeley and Los Angeles, University of California Press, 1963), pp. 28-38 and 77-82.
To understand why this was so, it is necessary to outline India's agrarian structure in the initial years of her independence. An acute land scarcity coexisted with profound inequalities in landownership. The land-man ratio in rural India was .92 acre (per capita), considered very low by comparative standards. About 22 per cent of rural households were landless. Another 25 per cent owned less than one acre. Slightly above this mass of the landless or the near landless stood those who owned between 1 to 2.5 acres (one hectare or less). Their numbers constituted 14 per cent of the rural households. 61 per cent of rural India, thus, owned no land at all or owned holdings below 2.5 acres. Moreover, taken together, the "subalterns" owned less than 8 per cent of the total cultivable land. In contrast, those owning holdings of more than 10 acres constituted 13 per cent of the total rural households and accounted for 64 per cent of the area. Of these, 5 per cent (of the total) owned 20 acres or more and had 41 per cent of the (total) area. Less than one per cent of the rural households had holdings over 50 acres. Moreover, in all size groups, holdings were further subdivided into uncontiguous plots, some spread over villages. Inequalities were thus overlaid with irrational subdivisions.

Tenancy further complicated the picture. Different parts of India had different tenurial patterns. It would be an awesome task to describe all the available patterns. For our purposes here, description of some modal characteristics would suffice. In the northeast, an elite class - the

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6 Detailed data on landholdings in India were first collected in 1954-55, later published in National Sample Survey, Number 10, First Report on Landholdings, Rural Sector, (Delhi, 1958). Given that the land reform legislation had already come into effect in many states, this data in all probability reflects underreporting of large holdings to escape ceiling laws. In other words, inequalities were perhaps even worse than these statistics show.

6 This also means that about 26 per cent households owning between 2.5 and 10 acres were "middle peasants". They accounted for 28 per cent of the area. In the terminology used in later years, the size categories came to be known as follows: less than 2.5 acres ("marginal"), between 2.5 and 5 acres ("small"), 5 to 10 acres ("middle") and the rest "upper" (with various further subdivisions).

7 A survey of the variety can be found in P.C. Joshi, 1975, Land Reforms in India: Trends and Perspectives, Bombay: Allied.

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zamindars (roughly "absentee landowners") - created by the British to collect land revenue for the government, hardly tilled the land. The zamindars were from high castes, they mostly lived in the cities and leased out their lands to tenants, and leases were, not infrequently, oral. Moreover, some of the larger tenants - the "substantial tenants" - leased these out further. Small landowners leased in most of this land. The whole system thus had complex layers of ownership, lease and tilling. In the northwest, the elite zamindar class did not exist and the incidence of owner cultivation was higher. In the south, west and central India too, there were variations - regional and, in some places, even subregional. Generally speaking, the incidence of tenancy was higher in the rice growing areas and owner cultivation marked the wheat belt.

How should production be increased in this variegated agrarian structure? Moreover, given the profound inequalities, should equity be considered an objective? Is it possible to join the two objectives of production and equity? Is it necessary to change the landowning and tenurial patterns or are there other indirect methods for achieving the same objectives? What are the respective costs and benefits - both political and economic - of the various strategies? India's political leaders had to answer these questions and formulate a strategy.

The answers given at various points of the debate and the strategies suggested fall into two separate packages. Those who favored reforms in the agrarian structure as a way of increasing production and reducing inequalities asked for what can be called an institutional strategy. Those who thought agrarian reforms could at best reduce inequalities but would not solve the problem of production were more in favor of what can be called a technocratic strategy, a short hand term for a price and technology based strategy. The first group won the political battle in the beginning, leading to the adoption of an institutional strategy. By the mid-sixties, this strategy was in crisis. The second group, then, managed to change India's agricultural strategy. Their policy design continues to this day.
This chapter deals with the institutional strategy and the next chapter with the technocratic strategy. We begin with an exposition of the basic thrusts of the two approaches. What are their central claims and why are those claims made? The "ideal types" set the stage for the subsequent discussion of the Indian variant: the logic and elements of India’s institutional strategy are analysed first; why this strategy excluded price incentives and what its implications for technology in agriculture were are discussed next; and finally, the failure of the institutional strategy is taken up. It will be shown that ideas derived from theories and ideologies intermeshed with the politics of interests and struggle for power in complex ways, both at the level of policy making and policy implementation.

II.1 THE TWO VIEWS IN THEIR PRISTINE FORM

That agrarian structure is central to agricultural productivity is the core of the institutional view. Agrarian structure is basically defined as consisting of two critical elements - size distribution of landownership and tenancy patterns.

The relationship of size with productivity is based on the perceived inefficiency of large holdings in traditional agriculture. Chayanov has provided a well known rationale for why small farms are more productive, measured as output per hectare. Labor is more intensively used on

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small farms and since labor is the main input in traditional agriculture, it follows that every additional unit of land transferred from large to small farms will lead to a rise in aggregate production. Farms should not, however, be too small: there is an optimal size - tending towards small rather than large - and if agriculture is organized around this optimally small size, aggregate gains will be the largest. Should the land/...t ratio, however, make such optimal organizing very difficult - that is, should the land released from transfer above an optimal ceiling make for suboptimally small plots due to population pressure - cooperatives or collectives could be formed to approximate the optimal size.

Tenancy is an inefficient institution, too. Economic critiques of share tenancy go as far back as Adam Smith but the first systematic treatment of the problem is Alfred Marshall's.\textsuperscript{10} The argument is basically about the microeconomic superiority of owner cultivation over share tenancy and the aggregate outcomes of this micro superiority. In order for the tenant to obtain the maximum output that his land can yield, he must apply sufficient working capital and labor. But the tenant does not have the incentive to do this because he receives only a share of the output, not the entire output: work and investment are entirely his whereas their beneficial outcomes are shared. Moreover, the tenant may also not have the capacity to invest. The landlord has the resources that constitute this capacity but he does not have the incentive to undertake the investments required - once again, because the results of such investment are shared. If every tenant produces less than the potential of the land permits, the aggregate outcome will be inefficient. Reforming tenancy patterns - through abolishing tenancy altogether ("land to the tiller") or, less radically, by providing security of tenure to the tenant or statutory fixing a reduced rent ("share of the crop") - will pull up aggregate

production.

According to the institutional model, then, institutional reforms in agriculture are defensible on grounds of both equity and productivity. In the alternative model, prices and technology are considered a more rational and powerful way of increasing agricultural production and while they might lead to inequitarian consequences - particularly in the short run - the problem is considered remediable by evolving and utilizing supplementary policy instruments.¹¹

The technological component of the model implies that labor inputs alone (or primarily) can at best have limited impact on agricultural productivity. Combined with technology embodied in new capital and biochemical inputs, however, the same inputs of labor will lead to higher returns. Technology might increase the total costs of agricultural operations (costs per acre) but by increasing yields per acre, it reduces the unit costs (costs per ton). This is a net social gain, not simply that of the individual farmer using technology. Agriculture production, as a result, will be both larger and cheaper.

Prices, on the other hand, affect production since they determine relative profitability and economic incentives. If the price at which the output can be sold is attractive ("remunerative") and a profit can be made, or the relationship between output prices and input costs becomes favorable, a farmer will have the incentive to produce more. Production is affected in another way. Price

¹¹ Bad distributive consequences result in the short run because, if prices are raised to encourage production, the rural and urban poor suffer. Since over 70 per cent of their incomes in the third world are spent on food, their real incomes decline with food price increases. In the long run, however, the employment effect of growth in food production might overpower the income effect. See Timmer, Getting Prices, op cit, chapter 5. The policy instruments typically suggested to make up for this short run decline are public food distribution programs at a subsidised price and/or food for work programs. Scholars such as Michael Lipton however disagree. They believe that the rural poor also benefit from food price increases since their wages go up. See Michael Lipton, 1977, Why Poor People Stay Poor, Cambridge: Harvard University Press, Chapter 13.
relationships influence the way a farmer allocates his resources; more resources will be allocated to crops that yield greater return. This, however, does not mean that only the farmer will benefit. The larger society also will.

How society also benefits through the price mechanism is an argument central to welfare economics but, as Arrow and Hahn put it, "It is important to understand how surprising this claim must be to anyone not exposed to the (economic) tradition." In political philosophy, for example, there is a strong tradition, though by no means the only one, originating from Thomas Hobbes that argues precisely the opposite: if individuals are left free to pursue their self interest, life will be "nasty, poor, brutish and short". The economic tradition extending from Adam Smith to neoclassical economics, however, argues differently. Their logic is two fold: 1) the interest of each person is best known by the person himself or herself and 2) since the same resource - labor or capital - can be used in alternative ways, the best use of each unit of resources available is to employ it where it yields the best result. Put the first and second elements together and aggregate gain follows as a syllogism: Given that all the units of resources available for agriculture are utilised best in a price-Induced scenario (since a farmer will try to maximize his gain), the larger outcome will be superior to the one that obtains when resources are either not allocated to their best uses or are not as well utilised. The alternative disposition - administrative allocation of resources - will lead to less than optimal utilization of resources. Administrators can not possibly have all the information that is required to decide what is best for whom - millions of farmers make production decisions - and in the absence of that information, administrative methods amount to the requirement that farmers produce according to a social plan, not according to what is best for them. There will be incentive problems and resources will not be fully utilised. The "benevolence" of the farmer or forcing him to be benevolent, to rephrase Adam Smith, will not produce as much

food as the farmer's "regard for his own interest". Thus, the incentive effect and the allocative function of prices, by ensuring optimal utilization of the resources in the agricultural sector, will make for a net social gain.

A price policy aimed at production - also called a positive price policy - can, therefore, serve two functions: i) it will accelerate the growth of agricultural output; ii) it will increase the marketed surplus. A third function can also be served: by influencing price relationships between crops, it can accelerate the growth of certain crops, decelerate others, making it possible to direct the pattern as well as the volume of output. 19

Once we move beyond this conceptual core and bring in other factors, the neat logic of both approaches yields to complex formulations or partially erodes. Arrival of technology in agriculture makes the size advantage of small farms questionable: 20 tractors can not be fully utilised on small farms and fertilizers, along with tubewells and other farm machinery, require resources that small farmers do not normally possess or have difficulty raising. Modern treatments of the problem of incentives and suboptimal results in share tenancy have taken the understanding of share tenancy beyond its pristine Marshallian lines 21: if the landlord shares the cost of investments and changes his share of the crop, there is an incentive for him to modernise. Prices are found to be a reasonably powerful mechanism for increasing output of individual crops but substantially less


powerful for increasing aggregate production (all crops taken together). Technology can be (partially) decoupled from price and it can be shown that even if the prices of agricultural output decline, output can go up provided technological dynamism is generated in agriculture.\textsuperscript{16}

These theoretical complications were not present in the 1950s when Indian policy makers were formulating an agricultural strategy, nor were some of them available at the time of its change in 1965. Only mentioned here, they will be dealt with at length in their appropriate empirical settings in this thesis. At different political moments, strategies and policies took their birth in the seductive simplicity of alternative theories. The setting, rationale and consequences of the institutional strategy are examined below.

II.2 INDIA'S INSTITUTIONAL STRATEGY: LOGIC AND ELEMENTS

At the center of India's post-independence institutional strategy stands the towering political presence of Jawaharlal Nehru, India's Prime Minister from 1947 to 1964 and the country's most commanding policy protagonist ever. Possessing a rather formidable combination of a sharp intellect, persuasive manner and popularity with the electorate, and fortified by the technical force of Intellectuals in the Planning Commission - a body asked to economically transform India and a body especially invested with political status and power for that reason - Nehru's economic policy positions, generally speaking, became the positions of the ruling Congress party. Though there was considerable opposition to his economic worldview, those who proposed alternative policies could never quite match up to Nehru's political stature, charisma and intellectual strength. An

important result of this jigsaw was that, during his lifetime, his opponents lost the battle at the level of policy making but won the battle at the level of policy implementation, though, as the treatment below would make it clear, that was not the only reason for Nehru's failure. There were serious problems in the very assumptions made by Nehru and his planners about the foundations of economic behaviour in India's villages.

There are two ways of analysing the Nehruvian agrarian model. One is simply to look at what the model included and how its various elements cohered. The other is to look at what the model excluded and ask why that was so. This would, among other things, bring the larger context of Nehru's development strategy in and make some of its seemingly unrealistic claims intelligible. 17 Nehru's agrarian strategy can not be fully understood without placing it in the context of his industrial strategy. The discussion below is separated along these two lines - agricultural policy in its own terms and, later, in terms of the industrial strategy.

II.2.1 NEHRU'S AGRARIAN MODEL

The core of Nehru's model had three constitutive elements. India's agriculture could be transformed, he thought, with a) land reforms, b) farm and service cooperatives, and c) local self

17 Nehru's arguments are laid out in his many books, ranging from Indian civilization to world history, his speeches (five volumes of which are already available), and his fortnightly letters to state chief ministers, two volumes of which have been published and seven will be published soon. In reconstructing his model, I have drawn freely upon his writings, speeches, biographies and the many treatises on the Nehru period: Discovery of India, New York: John Day 1946; Jawaharlal Nehru's Speeches, Vol 1 to Vol 5, Delhi: Publications Division, Ministry of Information and Broadcasting, Government of India, published between 1963 and 1968; S. Gopal, Jawaharlal Nehru: A Biography, Vol 1 to 3, Cambridge, MA: Harvard University Press, 1977, 1979 and 1984; Michael Brecher, Nehru: A Political Biography, London, 1959; R.K. Karanjia, The Mind of Mr. Nehru: An Interview, London, 1960; Nehru, Fortnightly Letters to Chief Ministers, 1947-63, Delhi: Nehru Memorial Museum and Library. For evidence from the last source, I have depended on two secondary sources for these letters, until their publication started last year, were available only to S. Gopal, Nehru's official biographer, and Francine Frankel, India's Political Economy: 1947-77, (Princeton, NJ: Princeton University Press).
government at the village level. Land reforms - by making it impossible to own holdings too large (ceiling reform), by securing tenancy rights (tenancy reforms), or by restoring land to the tiller (abolishing tenancy) - would provide incentives to the actual tiller to produce more. Cooperatives would bring economies of scale; service cooperatives would do this for inputs such as credit, seeds, water, manures and mechanical implements, and by joining together small plots of land, some distributed via land reforms, farm cooperatives would facilitate rational land use. Local self government - the Panchayati Raj - was a new element introduced by Nehru in the ideal typical institutional model. Local self government was necessary to ensure that land reforms were implemented and cooperatives were run according to the collective interests of the village, not according to those of the privileged few. Given the local power structure, complicity between the erstwhile landed oligarchy and the local bureaucracy, some of which actually came from the upper landed classes, was easily conceivable. Bureaucracy alone therefore could not be entrusted with the implementation of the strategy. Principles of universal suffrage and majority vote would enable

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18 I have abstracted from details and sought to capture the main thrust. Conceptually, all three elements of the model - land reforms, cooperatives and local self-government - existed right since the mid-1940s. See, for example, Nehru's autobiography, Discovery of India, p. 533-35. As actual policy matters, however, they were chronologically separated. Land reforms came first, cooperatives and local self government (panchayats) later. It is not clear why Nehru did not go for all three simultaneously. The only plausible reason seems to be that, given the opposition to some of his views in an important faction of the Congress party, his commitment to the democratic principle and the complexities of building institutions in a newly Independent country, he wished to push his vision gradually, starting with what was less controversial first. Land reforms in the late forties were less controversial than today. The other two elements were fervently pushed by Nehru in the mid-fifties when he realised that progress at the grass roots towards structural transformation was unsatisfactory due to the power exercised by landed elite and the biases and sloth of the local bureaucracy. See S. Gopal, Jawaharlal Nehru, vol 3, chapter 1.

19 In policy terms, the Community Development Program, a variant of local governance, chronologically preceded the Panchayati Raj but by the mid-fifties, it was no longer working. In 1957, the Balwant Rai Mehta Committee, appointed by Nehru, identified excessive bureaucratization and lack of popular Initiative as its main failing. Nehru then returned to his earlier insistence on panchayats. These were, however, simply different means of achieving the same purpose - raising agricultural productivity through a complete institutional transformation of the countryside, which Nehru first sought through involving peasants in the Community Development Program. For an appraisal, see S.C. Dube, "Community Development: A Critical Review", reproduced in A.R. Desal, 1969, Rural Sociology in India, Bombay: Popular Prakashan. For details of change in strategy, see S. Gopal, Nehru, vol 3, pp. 167-169 and also, pp. 15-16.
the poor to translate their numerical strength into political power, thus "empowering" them to ensure that their rights were respected, and measures intended to benefit them were implemented.

The model had two supplementary elements, too. These were i) introducing scientific practices in India’s traditional agriculture (which would increase production directly) and ii) incorporating villages into a modern education system (which would do it indirectly).²⁰ Added to the institutional thrust, these two elements, Nehru thought, would help India achieve the full potential of its countryside, its people and its lands. Nehru’s model was thus a synthetic one. Agricultural productivity was not simply an economic matter; it depended on a political, economic, and social transformation of India’s rural life.

But why did Nehru think that it was important to transform the agrarian structure? Were there no solutions within the existing structure? Did Ideology overwhelm rationality in Nehru’s Agrarian Model?

II.2.2 Ideology and Rationality in Nehru’s Model

It is often claimed that Nehru’s unwillingness to seek a solution within the existing agrarian structure was due to his ideological commitment to equality and socialism³¹. There is a ring of truth

²⁰ These are supplementary elements for, Nehru’s commitment to science notwithstanding, his willingness to push science and technology in agriculture, as discussed later in section II.3.32, was not full-hearted as in industry and education as a separate element was added consciously only as late as 1959 when it became clear to him that his institutional model would not function effectively unless the poor were educated and developed sharper consciousness of their rights. A famous speech was made at the 1959 Congress session in Nagpur, called “Three Basic Institutions”, Nehru’s Speeches, vol 4, p.129. The three institutions were the cooperative, the panchayat and the village school.

³¹ An important split within the Congress party actually took place on this ground. C. Rajgopalachari, a distinguished Indian politician, broke away from Congress and formed the Swatantra Party in the mid-fifties. Curiously enough, an earlier split in the party took place because Nehru was not considered socialist enough. The Praja Socialist Party (PSP) formed in the early fifties was a breakaway party from
in this assessment but left to itself, this explanation does not capture the essentially multiple logic of Nehru's model.

It would be helpful to recall that in the intellectual climate of the 1950s, socialists were not the only defenders of land reforms. Those on the right and at the center defended land reforms on grounds of production gains and political stability, those on the left for production and equity gains.\(^2^2\) Nehru explicitly denied that his commitment to socialism was the sole basis for his insistence on land reforms and explained the relationship between the two in the following way:

"We have said that our objective is a socialist pattern of society. I do not propose to define precisely what socialism means in this context because we wish to avoid any rigid or doctrinaire thinking. Even in my life I have seen the world change so much that I do not want to confine my mind to any rigid dogma. But, broadly speaking, what do we mean when we say "socialist pattern of life"? We mean a society in which there is equality of opportunity and the possibility for everyone to live a good life. Obviously, this can not be attained unless we produce the wherewithal to have the standards that a good life implies. We have, therefore, to lay stress on equality, on removal of disparities, (but) It has to be remembered always that socialism is not the spreading out of poverty. The essential thing is that there must be wealth and production.

There is good deal of talk these days about (land) ceilings, and one naturally tends to agree with it because one wants to remove disparities. But one has always to remember that the primary function of a growing society is to produce more wealth; otherwise it will not grow, and one will have nothing to distribute. If in the process of fixation of ceilings or in any other method of producing some kind of equality, you stop this process of wealth accumulation, then you fail in your objective. Therefore, whether it is in Industry or agriculture, the one and the primary test is whether you are adding to the wealth of the country by increasing production....\(^2^3\)

A similar logic applied to cooperatives in agriculture, which as a matter of fact were being tried out not only in a socialist country like China but also in Israel in the 1950s. It is often said that

\(\text{\footnotesize\textsuperscript{22}}\) Wolf Ladejinsky is the best known liberal to have spent almost all of his professional life studying and pressing for land reforms. See his *Agrarian Reforms as Unfinished Business*, London, 1977. For a comprehensive review of all the existing views -both from the left and right - on land reforms, see Ronald Herring, op cit, chapters 2, 8 and 9.

Nehru was very struck by cooperatives in China. It has been hardly noticed that he, in fact, also sent a team of experts to Israel to study the working of cooperatives so that India could learn from the Israeli experience. 

In an effort to explain the rationale for cooperatives, Nehru explicitly refuted the charge that ideology, not production considerations, underlay his notion of cooperatives:

"For some odd reason the word "cooperative" rather frightens some people......It has been said that this leads to something terrible - communism....Communism has nothing to do with this. Whether communism is good or bad, you can argue. But to bring in this kind of thinking and confuse the issue seems to me quite amusing."

Nehru explained the rationale:

"By forming cooperatives the peasants pool their resources for providing credit and getting their supplies of seeds, implements, fertilizers etc and can organize the sale of their produce. The cooperative removes the moneylender and the middleman. That is why all over the world farmers have formed themselves into service cooperatives."

Farm cooperatives, too, had a production logic:

"What is the future of our peasantry? A great number of them have barely one or two acres of land to cultivate. It is possible and necessary to increase the yield of this little patch of land and thus to better somewhat the condition of the peasant. But there is a limit to this - the limit laid down by the smallness of that holding.

......How will the peasant function with his small patch of land? It is not possible for him to take advantage of modern techniques or the facilities offered by new methods unless he works in cooperation with others of his kind. Cooperation is the key to his future growth and the cooperative movement thus must spread all over the country and comprise all the villages and peasants of this vast land."

Production, in fact, had to be a non-negotiable objective for, over and above its normative

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24 S. Gopal, Nehru's biographer, has called attention to this fact. Gopal had access to Nehru's official memoranda to his cabinet colleagues. This is based on Nehru's memorandum to A.P. Jain, Food Minister, May 21 and to S.K. Dey, Minister for Community Development, July 2, 1959. File numbers are quoted in Gopal, Jawaharlal Nehru, Vol 3, op cit, p.117.


26 Speech at Madurai, April 15, 1959, in Nehru's Speeches, vol. 4, p 130.

desirability in a country of low food output, Nehru's ambitious industrialization program required agricultural surpluses. Reasons for this will become clear when we deal with agriculture-industry linkages in Nehru's industrialization strategy later (section II.3.3). It should also be noted that Nehru rejected nationalization or collectivization of land, the more characteristic socialist notions of agriculture, for he was "too much of an individualist and believer in personal freedom to like overmuch regimentation".  

It would seem, therefore, that rather than the ideology of equality sidetracking considerations of production in Nehru's model, maximization of both objectives was built into his strategy -- just as the ideal type predicted (section II.1). In fact, the evidence presented above for the rationale given for both land reforms and cooperatives comes remarkably close to the rationale in the ideal type. One can even argue that Nehru wanted to maximize another objective. The agrarian model had to be such that democracy was maintained; he repudiated collectivization and, instead, chose elected local government as a means through which the numerically preponderant rural poor would be empowered to make the other two elements of the model work. Moreover, membership in the cooperatives was not made compulsory, it was voluntary. Purely on the plane of logic, having three maximands at the same time, rather than a single maximand to the exclusion of others, would seem to be a bigger problem in Nehru's model. Section II.4 deals with how this logical problem surfaced in the real world of implementation.

The discussion so far might explain why Nehru chose the model he did. It does not explain why he excluded price incentives and the profit motive from his model. We also do not yet have his notion of science and technology in agriculture. Were price incentives and investments in technology not good enough for raising production? Or did they make it impossible to maximize

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28 *Discovery of India*, op cit, p.17.
all three objectives that Nehru had in mind? What, in Nehru's view, were their failings or deficiencies? What was the view of Nehru's planners? What were their considerations?

II.3 PRICES AND TECHNOLOGY AND THE INSTITUTIONAL STRATEGY

There are three answers to these questions. The first answer lies in Nehru's normative assessment of what values price incentives and the profit motive represented and whether they cohered with the cultural traits of Indian society. A second answer, underestimated in political discourses, comes from the dominant economic view of peasant behaviour and traditional agriculture in the 1950s, the intellectual milieu within which Nehru himself and his planners were operating. Prices were not considered important for raising agricultural production; therefore, a price policy aimed at increasing agricultural output was irrelevant. Other policy instruments were thought to be more appropriate for this purpose. Food price policy was more a macro issue that linked agriculture with industry, not something that positively affected the micro setting within which peasants made production decisions. A third explanation comes from the logic of Nehru's overall development strategy of which agricultural transformation was but one aspect. There is no doubt that Industrialization was accorded the highest priority by Nehru. For industrialization, thought Nehru as did a generation of leaders and intellectuals, was the keystone of development. Agriculture was simply a subset in this larger purpose and had to be transformed in a way that conformed with the industrialization strategy.

II.3.1 Indian Culture and the Profit Motive

Nehru was convinced that strategies based on price incentives and profit maximization were unsuited to the communitarian Indian character. Much before the post-independence Industrial
strategy was chalked out, he had argued in his autobiography written in 1944:

"It would be absurd to say that the profit motive does not appeal to the average Indian, but it is nevertheless true that there is no such admiration for it in India as there is in the West. The possessor of money may be envied but he is not particularly respected or admired. Respect and admiration still go to the man or woman who is considered good and wise, and especially to those who sacrifice themselves...for the public good. The Indian outlook, even of the masses, has never approved of the spirit of acquisitiveness.

Collectivism involves communal undertakings and cooperative efforts. This...is fully in harmony with old Indian social conceptions, which were all based on the idea of the group. The decay of the group system under British rule, and especially of the self-governing villages, has caused deep injury to the Indian masses, even more psychological than economic......The village, which used to be an organic and vital unit, became progressively a derelict area, just a collection of mud huts and odd individuals. But still the village holds together by some invisible link, and old memories revive. It should be easily possible to take advantage of these age-old traditions and to build up communal and cooperative concerns in the land....."29

This is perhaps the clearest statement of Nehru's position available in his works and speeches about what strategy, in his judgment, was in tune with the Indian character. But it is not clear how far he would have been able to sustain his institutional strategy on the basis of this argument alone, or even primarily on its basis. Those who opposed his strategy had a different view of the Indian countryside. But more importantly, it was not clear why culture had to be the basis for choosing an agricultural strategy. It turns out on closer inspection that Nehru did fluctuate between positing that the profit motive did not have a significant place in Indian society and saying that the profit motive was undesirable - a trespassing from the positive to the normative.30 There had to be other, more compelling reasons for proposing and pushing the institutional strategy and excluding price incentives. These reasons will not become clear until we examine two other aspects: i) the


30 Cf.:"Incentives are necessary; I agree. But there are many types of incentives, some incentives that are good to society and some that are bad.....I do want to encourage acquisitiveness in India beyond a certain measure." Speech in Lok Sabha initiating discussion on the Draft Outline of the Third Five Year Plan, August 22, 1960, In Nehru's Speeches, Vol. 4, op cit, p. 140. Also, see his earlier speech delivered at All-India Congress Committee meeting in January 1957, entitled "Away from Acquisitive Society", in his Speeches, op cit, vol 3, pp.51-53.
economic view dominant in the 1950s about what prices and profits meant to traditional farmers
(would they maximize profits - therefore production\(^\text{\textdollar}\) - even when price incentives were given?) and
ii) Nehru’s industrial strategy and its implications for agriculture.

II.3.2

ECONOMIC THEORY AND AGRICULTURAL PRICES:

THE VIEW OF THE 1950S

By now, agricultural prices have come to occupy a central place in policy and academic
discussions about agricultural production. In the 1950s, however, this was not the case and
agricultural prices were viewed more in a macroeconomic framework: about how they affected
Industrial development and economywide prices. Food production itself was not considered to be
responsive to prices. Though the debate about the price responsiveness of food supply (“supply
elasticity”) continues, an interesting aspect is that both macro and micro views are partially
vindicated by the results of empirical research. The micro view that agricultural production is price
responsive is supported by the statistical estimates of single crop supply responses and the macro
view that agricultural production is not price responsive is supported by the generally low
estimates of aggregate elasticities for the agricultural sector or food sector as a whole (all crops
taken together).\(^\text{\textdollar}\)\(^2\) The micro-macro tussle of the 1970s has serious policy implications and will be

\(^\text{\textdollar}\)\(^1\) Maximization of profits in this case would is integrally linked with maximization of production since we
are not talking about a cartel-like situation in which profits can be maximized without increasing
production. The agricultural scenario, certainly in food, is one of thousands of peasants involved in
production making cartel-like behaviour virtually impossible.

\(^\text{\textdollar}\)\(^2\) The short run single crop supply elasticities are found to be higher for cash crops (sugarcane, cotton)
than for food crops (wheat, rice, corn). Among food crops, rice and wheat elasticities are held to typically
range from 0.4 to 0.6 - that is, a ten per cent increase in the prices of these crops will bring about an
increase of 4 to 6 per cent in the output of these crops. Aggregate elasticities on the other hand are
estimated to range around 0.2 - that is, a 10 per cent increase in agricultural (sectoral) prices will increase
sectoral output by a mere 2 per cent. These results, among other things, demonstrate that farmers might
show allocative rationality by responding to prices, as the ideal type predicted, but the aggregate effects
of this rational allocative efficiency may not be as large as the ideal type predicted (Section II.1). For a

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examined in Chapter 3. The view of the 1950s, which guided the thinking of India’s planners in the 1950s, is our main concern here and it will suffice to note that the emergence of prices as a factor in explaining agricultural production is partly due to the accumulation of empirical knowledge about prices and production in the third world and partly due to a general shift in development economics towards a micro perspective which has been added to the largely macroeconomic concerns of the field in its earlier days.  

II.3.21 TERMS OF TRADE AND DEVELOPMENT: WHERE POLICY IDEAS CAME FROM

At the center of the macro view of the fifties lay the terms of trade issue between agriculture and industry - that is, the role of relative intersectoral prices in development. Terms of trade, historically, have been a critical element in the pace and pattern of industrial development - Indeed development in general - and the importance of agriculture in this process lies in the fact that agriculture is supposed to be a source of many surpluses for the development process: of food, savings, labor and, sometimes, foreign exchange. Food surplus is required because i) urban population increasing under the impact of Industrialization must be fed, ii) given the low base of consumption, rising incomes, resulting from Industrialization, lead to an increase in demand for food, and iii) rise in food prices, that will come about if food is in short supply, must be moderated so that wages could be kept low to facilitate Industrialization. Savings surplus is required because Industrialization must be financed, labor surplus because it is necessary to build an industrial labor force and Industrial wages must be kept low. And, finally, foreign exchange being generally a

summary of empirical studies dealing with supply responses, see Ashutosh Varshney, 1985, "India’s Agricultural Price Policy: the Case of Wheat and Rice since the Mid 1960s", Masters thesis, Department of Political Science, MIT.

bottleneck, agricultural exports could ease that constraint. How relative agricultural prices (agricultural prices relative to industrial prices) affect these various surpluses and how that in turn affects industrialization is basically the terms of trade "problematic" with which every economy on its development path has to contend.

Two famous debates of the 19th and 20th century shaped the economic understanding of the problem. Reviewed below, these debates elucidate the intellectual framework within which Indian planners were operating. Also striking is the similarity of issues in these debates and those in India in the 1950s, indeed in a large number of developing countries as they set off their development paths in the 1950s.

**Ricardo and Malthus.** The first famous terms of trade debate took place between two classical economists, Malthus and Ricardo, concerning the Corn Laws in the early 19th century England. The issue was whether laws limiting grain imports into England should be repealed. If higher imports were allowed, food prices would come down; if they continued to be restricted, food prices would remain high. How would all this affect industrialization in England? Malthus defended the Corn Laws on the following lines. If food imports were increased, terms of trade would turn against agriculture as a result of the lowering of food prices and, faced thus with a drop in real incomes, the landlords would cut spending. This cut would in turn retard industrial growth since agriculture accounted for a large part of the consumption demand. Ricardo favoured repealing the Corn Laws. His disagreed with Malthus on the characterization of the landlord behaviour. Aggregate demand, he argued, was retarded, not stimulated, by landlords' rents. Land rents ought to come down, not increase, and repeal of the Corn Laws, by cheapening food and therefore turning the terms of trade
against agriculture, would facilitate this process.\footnote{Modern treatments of this debate suggest that the answer as to whether aggregate demand will go up or come down as a result of food imports and the consequent lowering of food prices depends essentially on how wage earners spend their incomes between goods produced by the two sectors, following Engels' Law. See Lance Taylor, 1983, \textit{Structuralist Macroeconomics}, New York: Basic Books, Chapter 3, especially pp. 38-48. Also see Desmond McCarthy and Lance Taylor, 1980, "Macro Food Policy Planning: A General Equilibrium Model for Pakistan", \textit{Review of Economics and Statistics}, Vol 62, pp. 107-121. For a brief and lucid review of this debate as well as other terms of trade debates, see Mohan Rao, op cit.}

\textbf{The Soviet Industrialization Debate.} The famous Soviet industrialization debate of the 1920s was even more dramatic.\footnote{There are many accounts available of the Soviet Debate. An interesting review is Ashok Mitra, 1977, \textit{Terms of Exchange and Accumulation: The Soviet Debate}, R.C. Dutt Lectures on Political Economy, Centre for Studies In Social Sciences, Calcutta, published by Orient Longman, Delhi. Another version of this review is available in Mitra, 1977, \textit{Terms of Trade and Class Relations}, London: Frank Cass, Chapter 4.} The issue was how to finance industrialization in the newly born socialist state. The protagonists were Evgeny Preobrazhensky and Nikolai Bukharin and the debate formed the basis of the socialist state policy. Preobrazhensky argued that the state should turn the terms of trade against agriculture by offering lowest possible prices for farm products and selling industrial products to the country at the highest possible price.\footnote{Preobrazhensky's ideas were developed in his book \textit{New Economics}. English translation was published by Clarendon Press, Oxford in 1965.} The surplus thus gained would finance industrialization. The context of this argument is important. The farm economy, despite the revolution, was still in private hands: Stalin's collectivization drive started only in 1929. At the top of the agrarian structure was the upper peasantry, the Kulaks, who had the bulk of the potential agricultural surplus and at the bottom - and dependent on the kulaks in various ways - were millions of small and poor peasants. The industrial economy was, however, already state-owned. Preobrazhensky's economic model therefore had a political appeal. The burden of such a price policy, thought Preobrazhensky, would fall almost completely on the kulaks who were the main producers of agrarian surplus and consumers of industrial goods in the countryside.
Around the same time, however, the famous "scissors crisis" of 1923-24 was taking place. The terms of trade first moved against industry and then, in a dramatic reversal, against agriculture. Showing pragmatic sensitivity to the pitfalls inherent in excessively pushing the terms of trade against any one sector, the second protagonist in the debate, Bukharin, argued that Preobrazhensky's prescriptions were self-defeating for they would drastically cut agrarian supply - both industrial raw materials and food - and therefore would slow down industrial growth as the kulaks responded to unfavorable terms of trade by producing and/or marketing less. Rural demand for industrial output would contract, too, as the kulaks, with incomes falling from lower relative prices, cut their spending. Bukharin asked for encouraging market forces in agriculture along with a state policy that would encourage cooperatives for inputs, credit and farm sales, whose resources and facilities would, however, be especially earmarked for the small peasantry. Cooperatives would reduce unit costs of small peasants and scale economies, so obtained, would make small peasants much more competitive than the kulaks in the market. A state-mediated market mechanism thus would serve the cause of socialism. It would ensure a larger agricultural surplus as well as lead to a slow elimination of the kulaks.

Stalin, after some vacillation, finally chose Preobrazhensky's model in 1929 when a serious food procurement crisis in 1928 created problems for the First Five Year Plan (1928-32). But he sought to close its major gap - the possibility of a scissors effect - by eliminating the source which, Bukharin had argued, would cause the scissors effect in the first place: an offensive against the kulaks was launched in 1929 which led finally to collectivization.

II.3.22 Relevance of Terms of Trade Debates: Planners as Prisoners of Existing Knowledge

Was Stalin able to realize the goal of quick industrialization by turning the terms of trade
against agriculture and forcing a surplus out? The answer to this question is important. Until the late 1960s, it was believed that Stalin and the Preobrazhensky model did succeed. Modern researches into Soviet data from the first plan period, however, have led to a revision of this understanding and a questioning of the economic assumptions of Preobrazhensky, in the process throwing some new light on agriculture-industry linkages and raising interesting implications for economic theory. It turns out that even though the investment rate went up from a mere 14.8 per cent of GDP in 1928 to 44.1 per cent by the end of the plan in 1932, this increase in capital formation was not primarily financed by agricultural surpluses, but a large part was actually financed by "forced savings" on the part of the industrial working class. Collectivisation did not increase the net agricultural surplus, nor did it increase the total agricultural output; only the state procurement of wage goods (food) increased. Even more important, it did not turn the terms of trade in favour of industry. Rather, the food that could not be procured went into the free ("black") market and food prices in the free market shot up so much that the overall terms of trade for agriculture in fact improved during the plan period. Food price inflation was a result of the heavy investment drive that pushed demand against lagging supply. The resultant inflation decreased the real value of the wages paid to the industrial workers. This decrease in the real incomes of workers - their "forced savings" - financed a large bulk of the rise in investment.

Quisumbing and Taylor have examined the implications of this finding for the third world. Their empirical examination of the role of resource transfers from agriculture in 17 countries

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7 See Michael Ellman, 1975, "Did the Agricultural Surplus Provide the Resources for the Increase in Investment in the USSR During the First Five Year Plan?" Economic Journal, December, pp. 844-864. The discussion that follows is based on Ellman's Important contribution.

8 In 1930, 1931 and the first half of 1932, the free market was a black market. The benefits of free market prices accrued to the peasants and regions that had not yet been collectivised (Central Asia in particular). See Ellman, ibid, p. 849.
demonstrates that agricultural surplus as a source of investment was positive but it was neither the only source nor always large. It was uniformly large in countries where there was a large export agricultural sector whose proceeds could be easily extracted.\(^{38}\) Otherwise, the size of investment and the estimated size of resource transfer from agriculture diverged, sometimes greatly.

These latter results were not available in the 1950s when India’s planners were formulating the details of Nehru’s development strategy. However, it is by now well known that the concept of planning, both in India and elsewhere, was heavily influenced by the planning experience of the Soviet Union, though the influence in India essentially extended to the technical and economic aspects, not to the political methods adopted for the realization of planning targets. Mahalanobis, the father of Indian planning, complained that “the accepted theory in the capitalist countries does not help the idea of economic planning” and then added that “It is possible and even desirable to work out on the basis of planning experience in the USSR technical and economic norms, coefficients and balance sheets laying down guiding principles and methods for planning and this might, in general, be useful for all the underdeveloped countries.”\(^{40}\) Consciously or unconsciously, Nehru’s institutional agrarian strategy, in its emphasis on cooperatives, did conceptually veer close to the Bukharin model and took a conscious distance from Preobrazhensky: Nehru both explicitly eschewed Soviet methods and settled for an investment rate in the range of 12-15 per cent, not 30-


40 per cent as the Soviet Plan realized". Such enormous increases in investment required a Preobrazhensky which Nehru's commitment to democracy ruled out. Mahalanobis also rejected Preobrazhensky's theory but his rejection was based on economic grounds. He argued that "any sharp turn in the terms of trade against agriculture would depress the living standards of the large mass of people, jeopardise the increase in agricultural productivity and would curtail demand in general." At the same time, Bukharin's emphasis on "equilibrium prices" between Industry and agriculture was not a factor in India's plans. In that sense, the strategy was different from the Bukharin model, too.

But the more significant relevance of these debates for our purposes here is their impact on the economic thinking of the time. How were India's planners thinking about the agriculture-industry linkages?" Notice that these debates were conducted in a primarily static and macroeconomic framework. The role of technology in agriculture was not known: Would technological change in agriculture release surpluses for industrialization? Can one think about technological change without getting excessively concerned about terms of trade as a means of delivering the agrarian surplus and analysing the relationship between agriculture and industrial development? These issues, absent in the existing modes of thinking in the fifties, would appear later and have a crucial impact on how to think about agriculture.


44 Section II.3.3 deals with how this theoretical backdrop informed the actual formulation and evolution of the development strategy.
Also, as far as prices are concerned, the relevant prices in these debates were intersectoral prices as they might affect industrial development, not intrasectoral (intercrop) prices as they might affect supplies of individual crops. There are two aspects involved here: i) how intersectoral prices affect the micro setting, i.e. production decisions of peasant households, and ii) how intercrop prices affect this micro setting. The first question is important for if there is an aggregate agricultural response, there must be micro-foundations of that macro-outcome: that is, the larger outcome observed must be in some ways a result of how peasants, or different classes in agriculture - landlords, capitalists, small peasants - make production decisions that finally add up to that larger outcome. Why the aggregate picture looks the way it does may not be fully comprehensible without an understanding of these micro-foundations and, in the absence of this understanding, state policy might lead to unexpected results.

The second aspect - intercrop prices - is important for it can lead one into figuring out whether the supply of critical food crops - the wage goods required for industrialization - could be affected without worrying about the entire agricultural sector. Ricardo and Malthus did debate the impact of prices on the behaviour of agricultural producers but only as it might affect demand for industrial products. The issue of how it might affect food supplies was not central since food imports were the source of additional supplies in the debate, not production from within the domestic agricultural sector. Bukharin did have the potential supply response of domestic agriculture in mind when he argued that unfavorable terms of trade would bring down rural supplies to the town but he was also looking primarily at intersectoral prices. The issue of whether production of certain key crops could be affected by relative prices within the agricultural sector i.e. by intrasectoral prices - did not significantly figure in his discourse.

Moreover, can one combine technology with intercrop prices in agriculture in a way that would
bring about the surplus required for industry? Of all the possible policy options, accent on which policy - technology policy, price policy, or a combination of price and technology - would be better at what stage of industrialization? All of these issues were to appear later.

How do these theoretical considerations relate to India’s plans? Were India’s planners influenced by the existing theoretical knowledge? In the light of the above discussion, consider the following formulation of the problem of food prices in India’s plans:

"...given a substantial investment programme, the degree to which prices can be kept relatively steady depends vitally on how far agricultural production, that is, the production of food as well as raw materials can be increased. Industry, mining and transport have to develop rapidly if an adequate rate of growth of the economy is to be achieved. But, all this development must rest on the foundation of a more efficient and progressive agriculture. It follows that since agricultural output is subject to the vagaries of the monsoon, a programme of rapid industrialization can be carried through without creating economic stability only if there are adequate stocks with Government to meet these periodical shortages. Moreover, agricultural prices are subject to large seasonal and regional variations, which are often aggravated by speculative hoarding. These variations have also to be moderated through judicious purchases and sales by Government."  

Food prices were thus primarily viewed in a macro framework - in terms of their impact on industrial production, not in terms of their impact on food production itself. Nehru’s economic planners were operating under the intellectual constraints of the time. Section III.3.2 looks at some specific plan details that flowed from this theoretical understanding.

II.3.23 Was There Any Micro Understanding At All?

Having clarified the primarily macro understanding of agricultural prices, we are still left with a question. Was there any microeconomic understanding of agricultural prices at all?

John Mellor, whose research in Indian and third world agriculture started in the 1950s, has

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looked at this issue. There were no well laid out models but certain modes of economic thinking were important. Mellor provides the details of the standard argument of the time.

In contradistinction to agriculture in the west, price incentives were not supposed to be effective in traditional agriculture because:

"in a traditional agriculture, the principal input which may be affected by price policy is the labor input and the principal substitution is productive work for leisure. Within normal limits, a change in agricultural prices will not influence the rate of flow of labor into nonfarm employment; that is more influenced by the availability of jobs which is in turn a function of the rate of capital formation. More land may be brought into cultivation or withdrawn from cultivation as a result of price changes, but this occurs primarily through the use of more or less labor on improvements in the existing land or in extending the margin of cultivation. In a traditional agriculture purchased inputs such as fertilizer are of little importance; hence, it is unlikely that price changes will in themselves have significant effect on production through utilization of such inputs. But even if the percentage changes in use of such inputs is substantial, the total effect on aggregate production will be small due to the normally small base of consumption and the relatively low response to these inputs in traditional agriculture."\(^4\)

Given all these conditions, what would a supply curve in traditional agriculture look like? Mellor lays out the logic of what came to be known as a "backward bending supply curve": that is, a traditional farmer would respond to higher prices by cutting supply. Why would this happen? Given that consumption patterns in these economies were "tradition bound", farmers would go for a level of income that satisfied the traditional consumption requirements, not for maximization of income. Since income is equal to price times output, higher prices will reduce output. Even if all farmers do not behave in this manner, "at least a segment of the agricultural population", explains Mellor in a somewhat Ricardian manner, "is likely to act perversely in this regard, diluting any positive effect in regard to other sectors of agricultural population."\(^4\)


\(^{46}\) *Ibid.*
In commercialized agriculture, on the other hand, farmers are price-responsive because i) purchased inputs like fertilisers are used heavily which are both more yield-giving and make farmers conscious of output-input price ratios; ii) the flow of labor resources is much higher between farm and nonfarm sectors which makes it possible to allocate labor in response to price changes and iii) return to labor is higher, which encourages inputs of labor at the expense of leisure. Under commercialized agriculture, then, the production response of the farmer will be that of a maximizing economic agent. Recall what a normal, "rational" supply curve looks like in the textbooks of microeconomics. It is upward sloping, not backward bending: that is, the response to higher prices is higher production.

On the basis of his research in India, Mellor found such microeconomic thinking "implicitly guiding" the first two five year plans (1951 to 1961). Further corroboration comes from the writings of prominent economic policy makers in India.

Starting the early sixties, the economic view would start changing. Village level micro studies done by two economic anthropologists - David Hopper who studied economic behaviour in a village in Eastern India while living there for about two years and Sol Tax who did a similar study in a Guatemalan Village - and careful statistical estimates of farm supply response made by Raj

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7 Ibid. pp. 203-4.


I.G. Patel, one of India's most experienced economic bureaucrats and currently Director of the London School of Economics, recalls the dominant microeconomic image of the early years of planning and the backward sloping supply curves in his "On a Policy Framework for Indian Agriculture", Coromandel Lecture, Delhi, December 18, 1980, p. 7.
Krishna for Punjab showed that farmers were indeed price-responsive.\textsuperscript{50} While the coefficients were not found to be very large, they were significantly positive: that is, the upward slope of the supply curve might not be steep but a backward bending supply curve certainly seemed out of place.\textsuperscript{51} But what caused a shift in economic thinking however was not so much these studies as the subsequent argument made on the basis of these studies by Theodore Schultz, a Nobel Laureate in Economics later. In his very influential book, \textit{Transforming Traditional Agriculture}, Schultz argued that farmers in the third world were "poor but efficient".\textsuperscript{52} what constrained their productivity was not price unresponsiveness but the low level of technology in developing agriculture. Government investments in material (technological upgrading) and human (how to use the new technology) capital would transform traditional agriculture.\textsuperscript{53} In other words, changing the attitude of the peasant was not the issue, changing his environment was.

\textbf{A Summary.} Let us sum up the discussion about the intellectual setting of the 1950s, a setting in which India’s planners mapped out the contours of a development strategy under Nehru.

\textsuperscript{50} David Hopper’s PhD thesis "The Economic Organization of a Village in North Central India" (Cornell University, 1955) remains unpublished but a paper based on it was later published. See David Hopper, "Allocation Efficiency in a Traditional Indian Agriculture", \textit{Journal of Farm Economics}, August 1965, pp. 611-25. Sol Tax’s \textit{Penny Capitalism} was originally published in 1953 but remained unnoticed till Schultz popularized it and the University of Chicago Press re-published it in 1963. For Raj Krishna, see his "Farm Supply Response in India-Pakistan: A Case Study of the Punjab Region", \textit{Economic Journal}, September 1963.

\textsuperscript{51} See footnote 32.

\textsuperscript{52} Yale University Press, New Haven and London, 1964, See especially Chapter 3. It should be added that both Hopper and Krishna were associated with Theodore Schultz at the University of Chicago - Hopper as a colleague and Krishna as a student whose thesis was on farm supply response.

\textsuperscript{53} To be sure, not all aspects of Schultz’s argument were acceptable. There was a great debate on whether or not the marginal productivity of labor is zero in traditional agriculture. See the exchange between Amartya Sen and Theodore Schultz in \textit{Economic Journal}, March 1967. Schultz’s thesis led to what came to be known as “price fundamentalism” for Schultz later went on to claim that public investments in agriculture were retarded by low agricultural prices and that if agricultural prices are raised, government investment would automatically follow, raising the technological level of agriculture. A wide range of objections to Schultz are summarized in Mohan Rao, \textit{op cit}, and Lance Taylor, 1987, "Development Macroeconomics I", In Chenery and Srinivasan, \textit{op cit}. 62
Empirical relationships between production and prices in agriculture were poorly understood and in most countries, the immediate historical background was that of price controls during the war. Food prices were considered important for macro reasons: their impact on the general price level in the economy and for how they affected industrial progress. They were not considered important for their microeconomic impact on food production itself - that is, on how farmers allocate their resources, whether markets and prices available to them make a difference to these allocative decisions and whether such allocative changes as there might be have a significant impact on agricultural supply. Indeed, the microeconomic model that implicitly dominated perceptions of peasant behaviour regarded their price-response as "perverse".

II.3.3 Nehru's Industrial Strategy: Agriculture-Industry Linkages and Implications for Prices and Technology in Agriculture

It remains now to examine specifically the implications of Nehru's industrial strategy for agriculture. Set against the theoretical setting of agriculture-industry linkages outlined above, the empirical details of Nehru's strategy will become clear.

Nehru's industrial strategy had three main characteristics: Industrialization had to be rapid; it had to focus on heavy and basic industries; and, while private enterprise would exist in many sectors, the basic and heavy industries - "the strategic points" of the economy - were to be in the public sector. Eventually, the trio of steel, power and machines became the centerpiece of

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*Nehru articulated the logic behind this strategy: "It seems to me obvious that if we want to industrialize India quickly, we have to pay special attention to basic and heavy industries. Unless we have the basic and heavy industries, we remain dependent. If we want to have more steel in India, as we do, we must produce our own steel. What is more, we must produce the plant which makes steel. Then only we lay the foundation of steel industry. This applies to a number of other basic industries." Address to the UN Seminar on Management of Public Industrial Enterprises, Delhi, December 1, 1959, in Nehru's Speeches, op cit, vol 4, p.132. The strategy based on this logic had come in existence with the second five year plan in 1956. See Nehru's speech in ibid, vol 3, pp.90-105.
India’s industrial strategy.  

However, these were industries that required large investments but had long gestation periods. On this ground, the private sector was neither expected to take them up nor was it willing to. Resources had to be found for making these large investments.

India’s second five year plan (1956-61) became the embodiment of this strategy. A target growth rate of 5 per cent per annum was considered desirable for the economy during the plan period. India’s savings rate at that point, however, was a mere 5 per cent. In order to generate an investment rate that would make it possible to achieve the target growth rate of 5 per cent, foreign savings had to be tapped to supplement domestic savings.

Industrialization also required increased food supplies, the wage goods. An increasing labor force in industry (and increasing population) had to be fed. But, given the foreign exchange constraint, it was not possible to import food in large quantities commercially. Domestic production of food had to go up. Heavy public outlays in industry required for steel, power and machines, however, were a serious constraint on how much the government could invest in agriculture. The total outlay for agriculture and irrigation in the second plan dropped from 34.6 per cent in the first plan to 17.5 per cent in the second. Since the second plan was much larger than the first, absolute investment levels in agriculture did not drop. But in this total agricultural outlay, compared to the

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64. Cf. “A number of textile mills in Ahmedabad or Bombay or Kanpur is not industrialization; it is merely playing with it. I do not object to textile mills; we need them; but our idea of industrialization will be limited, cribbed, cabined, and confined by thinking of these ordinary textile mills and calling it industrialization. Industrialization produces machines, it produces steel, it produces power. They are the base. Once you have them, it is easy to build.” Speech in the Lower House of Parliament, August 22, 1960, in Ibid, p.136.

65 In the Bombay Plan conceived in 1944, India’s industrialists had already expressed a preference for state investment in these sectors after independence.
first plan, absolute expenditures on irrigation (and other schemes that increased production directly) did decline: resources had also to be allocated to schemes for scientific research in agriculture, its dissemination through extension service, building of rural roads, community projects etc. The problem of resource mobilization was so serious that even after additional taxation, maximum deficit financing considered “safe” and mobilisation of concessionary foreign savings, the plan was still left with a “resource gap”.

The logic of this development strategy was clear for the agricultural sector. A stable increase in food production was required but an effort had to be made to bring about this increase with small capital investments. Labor intensive methods had to be the mainstay. From the viewpoint of public finance, cooperatives and organizational restructuring of agriculture, thus, seemed to be a rational policy design for increasing production. Providing farm machinery, mechanized irrigation and chemical fertilizer to innumerable peasants required heavy investments - therefore, a capital intensive strategy was unaffordable. Ideally, Nehru and his planners would have liked to invest in both agriculture and industry but faced with a choice between making capital investments in agriculture or in industry, they preferred the latter for a) they believed that labor intensive ways of increasing production were possible in agriculture but not in industry and b) capital investments in industry would bring in greater return.

In addition to the need for surplus food, there was another gap, the resource gap, which, as already mentioned, was to be filled. It required generation of savings. For some time, the idea of nationalizing foodgrains trade was seriously pursued - India’s planners thought this a way of mobilising savings from agriculture. Service cooperatives, already proposed, could be a mechanism for implementing this idea. The nationalization plan, however, had to be ultimately given up when serious opposition from within the Congress Party emerged, pitched on grounds of
the utter impracticability of state trading in foodgrains. That it was impossible to supervise the
market transactions of 60 million peasants was the argument with which the plan was opposed.

The industrialization strategy also had implications for food price policy. Not only were larger
food supplies essential, but the price of food also had to be low. The overall price level in the
economy, acutely sensitive to food prices in a developing country due to the weight of food in the
price index, was not to upset the real value of planned investments. Nehru argued:

"...next to food production, the question of the price of foodgrains is of vital importance.
Indeed, the two are intimately connected. If the price of foodgrains goes up, then the whole
fabric of our planning suffers irretrievably. How can we keep the price of foodgrains at
reasonable levels? The only course appears to be to have a large stock of foodgrains at every
time...It is not possible to maintain large stocks if the Government has to buy them in open
market. It is well known that the moment the Government goes into the open market, prices
shoot up. The only other course, therefore, is for Government purchases of foodgrains to take
place compulsorily at fixed and reasonable prices...I see no way out except this way."88

To sum up, price controls rather than price incentives - "negative" as opposed to a "positive"
price policy - marked Nehru's agricultural strategy.89 The normative and the positive came
together. Price incentives and the profit motive were undesirable, thought Nehru, in the Indian
cultural setting; economic theory ruled them out for his planners; and the development strategy
chosen rendered them impossible to implement in agriculture because using prices to raise

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87 Ultimately, foreign savings and additional deficit financing filled the resource gap. For how the
problem of resource gap was being viewed, see the discussion by the author of India's second five
year plan, P.C. Mahalanobis, "Extracts from the Second Five Year Plan", Chapter Three, reproduced in his The
Approach of Operational Research to Planning in India, New York: Asia Publishing House, 1963, pp. 134-
142. Mahalanobis comments that "If additional Government profits are to be raised, it might be necessary
for the State to enter into the field of trading or production of consumer goods" (p. 130). Later he clarified
that the foodgrain trading was one possible source for such resource raising. For the struggle over state
takeover of foodgrains trading, see Frankel, op cit., Chapters 4 and 5.

88 Fortnightly Letters to Chief Ministers, dated August 1, 1957, quoted in Frankel, op cit., p. 154 and
Myron Weiner, op cit, p. 178.

89 It should be added that a survey by the Food and Agricultural Organization of the United Nations found
negative price policies operating all over the developing world in the late 1950s and early 1960s. Cf Raj
production would "irretrievably" upset the plan. Instead, the microeconomic setting within which Nehru visualised maximising behaviour was that of a peasant liberated from his earlier socio-economic bondage of tenancy and having his own plot of land, a peasant who therefore had an incentive to produce more for he could keep the output of his labor or keep more of it than before, a peasant who would join others in forming service cooperatives since that would bring down costs of inputs and would ensure that proceeds from the sale of output came to him in full and were not appropriated by middlemen, a peasant who finally would, or could be persuaded to, join his plot of land with that of others so that scale economies could be exploited and the full productive potential of agriculture realized.

II.3.31 Implications for Technology in Agriculture

Imperatives of Nehru's development strategy also make his view of the role of science and technology in agriculture intelligible. Nehru did not see prices and technology as an inseparable policy package as protagonists of the post-Nehru strategy did. They could be decoupled. Not only were price incentives made difficult by his strategy; as we have seen, he also disapproved of them for other reasons. Nehru, however, never disapproved of science and technology: "If I have to say in one word what is wrong with agriculture, I would say it is the complete lack of anything that might be called scientific agriculture." The first plan (1951-56) had a clear bias in favor of major irrigation projects. Four major river valley projects were undertaken and the large dams and canals, in a famous speech, were called "temples of the new age".

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60 Quoted by S. Gopal, Nehru, vol 3, op cit, p. 19.

It would be helpful to unpack the notion of science and technology in agriculture. Modern agricultural technology in the third world has come to be known as the seed-water-fertiliser technology, a shorthand formula that captures the biochemical core of the green revolution. There are two more sides to the science involved in agriculture - a) mechanical inputs represented by farm machines such as tractors and threshers, and b) research and extension that account for innovations, their adaptation to specific environments and the transmission of this knowledge to farmers.

These various sets were accepted by Nehru in varying degrees. Research and extension were enthusiastically welcomed. His collaboration with American agricultural science started as early as 1951. This included setting up institutions of agricultural science that were entrusted with soil surveys, seed development, field demonstration of technologies being tested or evolved, and training of cadres for extension work so that the farmer could be brought closer to science. It should be added, however, that a large part of the expenses for research and extension was borne by aid givers, particularly the US foundations. This contribution enhanced the degrees of freedom Nehru had with domestic resources. Without the external funds, it is unclear how far Nehru would have gone with his commitment to science.

Mechanical and biochemical inputs were more problematic: they were highly capital intensive and in the case of chemical fertilisers in particular, foreign exchange was required. Of the three elements of the biochemical set, the high yielding variety of seeds had of course not been discovered at that point - science produced them only in the early sixties. And seed development under existing scientific parameters was part of Nehru’s science policy. Nehru, however, was

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ambivalent towards the other two elements of this set - water and fertiliser - and this ambivalence becomes intelligible only in the context of his Industrial strategy. Nehru and his planners went for "major irrigation" (large dams and canals) but not for chemical fertilisers. Notice that both of these require heavy outlays of investment which were however made for dams but not for chemical fertilisers. The reason was that dams were also important to the industrial strategy since they could create hydroelectric power, which, along with thermal power, was the main source of electric power in India.\textsuperscript{63} Power was one of the pillars of Nehru's strategy. Expensive river valley projects - the temples of modern age - were undertaken. Fertilisers were, however, both capital and foreign exchange intensive and had little use beyond agriculture - therefore, unacceptable. Even worse, fertiliser plants were themselves power-intensive: due to the nature of the production process, they used large quantities of electricity.

Thus, while American collaboration in science went along, the concern of the US Agency of International Development about the very low fertiliser usage in India went unheeded\textsuperscript{64}. So was the suggestion often made in domestic circles that fertiliser use be stepped up, quantities imported and investments made in domestic capacity. Nehru criticised the agriculture ministers of various states for arguing that "additional increase in agricultural production cannot be had unless additional funds are available"\textsuperscript{65} and later wrote to the state chief ministers:

"We know it for a fact that some other countries have rapidly increased their food production in the last few years without any tremendous use of fertilisers. How has China done it? Chinese resources in this respect are not bigger than ours. China is at the same time laying far greater stress on industrial development and heavy industry than we are. Yet, they are succeeding increasing their agricultural production at a faster pace than we are. Surely, it should not be

\textsuperscript{63} By 1954, hydroelectric power accounted for about a third of the energy produced in India with the remaining two-thirds coming from thermal stations. Figures taken from P.C. Mahalanobis, \textit{op cit}, p. 13.


\textsuperscript{65} Quoted in Frankel, \textit{op cit}, p. 141.
beyond our powers to do something that China can do."^{65}

To sum up, a general commitment to science and technology notwithstanding, Nehru's concept of science and technology for agriculture was circumscribed by the parameters of his industrialization strategy and by the implied labor intensive approach to agriculture. Capital intensity in agricultural technology was acceptable only if it served industrial purposes as well. A more rational organization of the agrarian structure coupled with affordable science, Nehru thought, was sufficient for agricultural transformation.

II.4

FAILURE OF NEHRU'S INSTITUTIONAL STRATEGY

By the early sixties, Nehru's agricultural strategy was in terrible disarray. After the first round of land reforms which essentially removed the revenue collecting landlords (zamindars), no further progress could be made either on ceiling or tenurial reforms. Cooperatives could not expand on the scale envisaged by Nehru. And, instead of the poor capturing local governments by virtue of their numbers, Panchayats became yet another source through which the local "notables" exercised power. This was precisely the class that, in the design of the model, was to be dislodged from power.^{67}

Moreover, and this is critical, India's food production remained more or less stagnant in 1960-61 and 1961-62 and then declined in the next two years (see Figure II.1). In 1956-57, the planners had expected an increase of about 30 per cent in food production over the second plan period. An increase of this magnitude was considered essential for the country's food needs. By that

^{65} Ibid.

^{67} For details of failure on each element, see Frankel, op. cit., Chapter 5, in particular pp. 183-200.
Figure II.1
yardstick, output should have been about 90 million tons by 1961-62 (see the planned trajectory in the graph). At 82 million tons, the food output, however, was far behind and it stagnated there for the next two years. Worse still, the output increase over the entire period since 1949-50 was not primarily due to yield increases but due to acreage expansion, as more land came under cultivation after the stagnant acreage of the four decades before independence.  

In a country of low inflation tolerance, wholesale price increases of over 6 per cent annually, led of course by food price increases, also concerned planners. Reliance on food imports from the US increased and even that was unable to moderate sufficiently the uptrend in food prices in some years. Of particular concern was the increase of more than 9 per cent in food prices within six months in 1962. Additionally, there was pressure on the balance of payments and resources to finance the third plan were not coming through. A final coup de grace was delivered by China’s attack on India in 1962. Despite claiming that his agrarian strategy was very rational and was followed by many new countries, Nehru was especially fond of quoting Chinese successes of the mid-1950s as an example of how to run agriculture the labor intensive way. India’s humiliating defeat in the war with China virtually decimated Nehru’s strategy.

Nehru’s speeches about his agricultural strategy in the last year of his life, 1963-64, are marked by a mixture of irritation, profound helplessness and a sense of failure. Showing signs of cognitive dissonance characteristic of a policy maker who had a commanding political stature, who tried very hard but failed in the end, he fluctuated between blaming the failure on his strategy and blaming it on the unchanging Indian peasant. "I am of course naturally disappointed", he told

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Nehru had spent such a large proportion of public resources on development that Indian defence was ill-prepared. Now, among other things, additional resources for defence had to be found.
Parliament, "at many things, more especially our performance in agriculture." And then he went on to reflect: "You may of course apportion blame between the Planning Commission, the Government of India, myself and the State Governments. It is not because of the blame that I am saying this, but ultimately the solution depends upon the farmer, the actual cultivator."\(^{70}\)

Earlier he had explained what he meant by this: "...the basic problem facing India is that of the peasant. How do we change his mental outlook,...... and get him out of the rut in which he has been living since past ages?"\(^{71}\) Still later, Nehru was not blaming the peasant but the government strategy: "Though we all know that agriculture is essential and basic, it has been rather neglected. I say neglected in the sense that people hoped that crops will grow by themselves and not by much effort on our part."\(^{72}\) At various places and times, he admitted that all the elements of the strategy - land reforms, cooperatives, panchayats - had failed.

Why did the institutional strategy fail? Many answers can be given. I shall concentrate on two aspects that seem central to me: the factional struggle at the top levels of the Congress Party, a struggle that was indexed to competing conceptions of how to transform agriculture; and the contradiction between the policy logic pushed from above and the quotidian reality at the grass roots.

ii.4.1 Fractional Struggle over Agriculture in the Congress Party


\(^{71}\) Speech on the No-Confidence Motion against the Government, Lower House, August 22, 1963, in ibid, p.83.

\(^{72}\) Speech in New Delhi at the Conference of Ministers of Irrigation and Power, January 3, 1964, in ibid, p. 138.
Only brief references have been made so far to the struggle within the Congress party over agricultural strategy. We deal with the nature and intensity of the struggle now. Having led the national movement by unifying the various streams of resistance (except the Far Left) against the British, the Congress party as it emerged after independence was an umbrella party. It represented many political tendencies and they had powerful protagonists though none as powerful and charismatic as Nehru after Gandhi’s death. On agricultural strategy, the struggle started as early as 1950 when the first plan was being formulated. There were two main arguments. Nehru and the left of the center group with him put forth the argument discussed so far. The other group - mainly center and right of the center - was lukewarm to land reforms and hostile to cooperatives. This group was more sympathetic to a technocratic strategy, called for greater outlays on agriculture, particularly for chemical fertilisers, and, at various times, pushed for price incentives. These groups had their institutional counterparts, too. The Planning Commission was a particular object of struggle. Nehru wanted the Planning Commission to have a privileged place in the economic decision making of the country; the group opposed to Nehru would resist the Commission.

At the time of the formulation of India’s first plan, this group favored tenancy reforms but resisted ceiling reforms, arguing that production would fall due to smaller holdings. They emphasized irrigation and chemical fertilisers but argued against spreading them too thin over the entire country. Instead, the state effort ought to be concentrated on areas “where, on account of irrigation facilities or assured rainfall, additional effort is likely to produce the more substantial results.”

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79 Quoted from the Draft First Plan in Frankel, op cit, p. 88. Frankel’s is the most insightful account of factional struggles over policy. The final plan document, it should be added, was very different from the Draft Outline. The change was a result of Nehru’s victory over the other faction.
But the stronger attack came later when the second plan was being formulated and the implications of the industrialization strategy for agriculture became clear. In a remarkable speech to parliament that went along the lines that would emerge in economic theory several years later, India’s food minister, A.P. Jain, expressed public disagreement with the agricultural strategy under the new plan, attacked the existing economic theory and its proponents in the Planning Commission:

"There is also a school of thought in this country consisting of economists and persons confined to their rooms. They think that you can finance the Plan by depressing the agricultural prices. Some of them go to the length of saying: 'fix the price of wheat (at a very low level) and the price of rice and other agricultural commodities compulsorily in the market and that will solve the problem of prices. Wages will not go up and the Plan will progress smoothly.' These people seem to forget that there is some such thing as agricultural sector in our economy and that it all forms part of the Plan....If we adopt any policy of low prices for agriculture, it is a regressive policy. If our policy does not give any incentive to the farmer, he is not going to produce and if the Plan fails it will wreck on the policy of depressing agricultural prices."\*4

Over serious differences on agricultural policy, Jain had to resign eventually but his successor took a similar, if not such a well articulated, position: "Whether it was Russia, America or India, experience has shown that any increases in agricultural production could be brought about only through incentives to the individual."\*5 From 1955 until his death in 1964, Nehru’s food ministers kept disagreeing with him, and in a continued intra-bureaucratic struggle, kept attacking the Planning Commission.

The fate of the agricultural policy battle, thus, got intertwined with the power struggle within the ruling Congress party. Two types of power were involved: power issuing from a hold over the electorate, crucial in democracies, and power as it came from a hold over the party, also critical in a democracy. If the same bloc held preponderant power in both senses, a stable equilibrium for pursuing policies would have resulted but a divergence between the two led to an unstable

\*4 Lok Sabha Debates, July 30, 1957, quoted in Frankel, op cit, p. 144.

equilibrium characterised by much pushing, pulling and compromising. Nehru was the supreme leader of the masses but his authority within the party was challenged by many who controlled the state level organizations of the Congress Party. This group differed with Nehru on economic policy (as well as some other policies). Nehru, however, needed these "state bosses". He understood that a vast continent-sized federal polity could not be run by a centralized party” - these "state bosses" had independent political bases in their states, knew the local political configurations and were organizational stalwarts. In short, they effectively managed the states they came from, and thus contributed to the national stature of the party. Nehru, therefore, had to accommodate this faction in the power map in Delhi. Typically, the "state bosses" would get ministries that had routine dealing with the states. Agriculture mostly went to them: planning, Industry, and finance did not. The "state bosses", however, in and of themselves, could not win national elections. They, in turn, required Nehru’s national stature and supreme popularity. The only national level, charismatic leader who shared the beliefs of the "state bosses", and could have conceivably replaced Nehru, Sardar Patel, had already died in 1950.

Unable therefore to displace Nehru, the "state bosses" went for the second best strategy. They would try first to get Nehru or the Planning Commission to water down their proposals through various mechanisms, particularly by throwing their weight in debates within the Congress party. If that did not happen (or even if proposals were finally watered down), they would then dilute or subvert the implementation of unwelcome proposals by using their alliances at the state level. Both groups, thus, could hang on to power and both groups tried to defeat one another through a mixture of debates and exercise of power. Intended policy results in the process did not come through. Nehru essentially won the battle for policy formulation; he lost the battle for policy

76 Also, political researchers of the period believe that he thought such dissension was part of democratic functioning, so even normatively acceptable. Cf Rajni Kothari, 1970, *Politics in India*, Boston: Little Brown, and Delhi: Allied Publishers.
Political analysts, prominently Samuel Huntington, have remarked that in order for proposals for structural change such as land reforms to succeed without a revolutionary transformation of society, it is necessary that "concentrated power" from above be applied.⁷⁷ Nehru’s official biographer, Sarvepalli Gopal, made a similar observation when he attributed Nehru’s failures in agriculture to "nobility without force, statesmanship without strength", arguing that "it would have been far better if Nehru, in the earlier years full power and influence" had pushed ahead with "drastic measures".⁷⁸ Power that came from above in Nehru’s policy implementation system was, however, emasculated, not concentrated.

II.4.2 The Policy Logic Above and the Quotidian Logic Below

The world from below, too, is worth considering. Concentrated power might have been lacking but what were the power relationships at the local level and how were they supposed to change in the model? Once addressed this way, it will become clear that not only were the economic microfoundations of the model weak, as we have discussed, the model lacked political microfoundations, too.

The everyday world of the tenant and the poor peasant had a particular structure. This was defined by the tenant’s dependence on the landlord not only for cultivation contracts (tenancy, given a large pool of potential tenants, could always be rotated), but also for consumption loans


⁷⁸ In Nehru, Vol 3, op cit, p. 301 and 295.
(given the lack of rural credit markets, the landlord was the main source of credit). The landlord, additionally, performed the role of the peasant’s link to the world outside - to government bureaucracy and to the town. Finally, the landlords came from higher castes in India’s hierarchical social structure, whereas the peasants were mostly from lower castes.

The problem was both "moral" and "rational". It was moral because this nexus did form a patron-client regime marked by reciprocal norms of conduct as social anthropologists and political sociologists have often pointed out. Land reforms and cooperatives, however, assumed that the tenant would revolt against this normative world. It was also rational because if the peasant behaved as the model assumed and did revolt, local power was on the landlord’s side. The state in Delhi might not have been a preserve of landlord power, but the state machinery as it existed at the local level had few mediations between the landlord and the state. The local police and village level bureaucracy often came from the high castes, shared the biases of a hierarchical social structure, and tilted in favor of the high castes and against the lowly peasants. There was, to use Ronald Herring's phrase, rationality in peasant quiescence.79

Studies of land reforms in South Asia remind us that in order for land reforms to succeed in this structure, there has to be significant political mobilisation by the ruling party in favor of the intended beneficiaries of the strategy at the local level -- so that power countervailing that of the landlord could be made available and the tenant could feel secure in the event of a showdown.80


80 Another micro manipulation aided the tenant in the South Indian state of Kerala. Instead of the law requiring the tenant to prove in the court that the land he tilled had been under his cultivation for a given number of years which would qualify him for entitlement or security and better terms of tenure, the landlord was required to prove that he had actually been cultivating, failing which the tenant would automatically get the benefits of legislation. This hit directly at the constraints of the peasant's microsetting and was added to political mobilization in Kerala. (See Herring, op cit, Chapter 2 and 5.) After Nehru's death, land reforms were successfully implemented there in a democratic framework, not by Congress but by a Communist (though a social democratically inclined) party which was elected to power. With the exception
Both concentrated pressure from above (policy) and pressure from below (mobilisation) are required.

Nehru was aware of the necessity of exerting pressure from below. Panchayats, the third pillar of his model, were supposed to do this. Instead, however, local governments were captured by the local “notables”.

How this happened is explained by the imperatives of “party building in a new nation”. The lower wings of the Congress party - the district and taluka (sub-district) levels - came under the control of landlords and substantial landowners. These groups saw the advantages of entering the party in power. And Nehru could not displace them for, being higher castes, educated and wealthy, they were the local “influentials” - the “vote banks” - to begin with. Contrariwise, due to their educational, social and economic backwardness, the intended beneficiaries of the institutional strategy had few leaders from their own castes and communities. If the Congress party had to reach far and wide, into the Indian countryside, the local leaders and locally powerful groups had to be used, at least in the short run. But if Nehru’s economic model had to succeed, precisely these groups had to be defeated. After its emasculation from above, this contradiction between Nehru’s political and economic imperatives destroyed whatever local force the Institutional agrarian strategy might have had.

As to whether the strategy itself would have succeeded in reaching its objectives, had it been implemented, is an interesting counterfactual question that can not be conclusively answered - it is of West Bengal which had more or less similar political constellation in the 1970s, this was the only case of successful land reforms in India.

a counterfactual after all. Chinese successes of the mid-1950s suggest a positive answer but
Chinese reverses subsequently - in the late 1950s and early sixties - also suggest that beyond its
first phase of productivity increases, an institutional strategy, in and of itself, might quickly run into
a plateau. The reason for that lies in the inherent limits of productivity increases via labor intensity
alone. Even after organizational restructuring, investments, mostly public, in technological
upgrading, public expenditures for disseminating the new technology and for facilitating its
adoption, through various subsidies, are required. If both can be done, the ideal outcome results
- productivity goes up while equity objectives are satisfied, too. But constraints of resources do not
easily permit pursuing both policy tracks, making a choice necessary. Whatever the fate of Nehru’s
strategy might have been in the event of its implementation - and an argument about the weakness
of its economic microfoundations has been made - the fact remains that its political difficulties
finally turned out to be decisive. The structure finally prevailed upon the efforts to change the
structure.

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82 For an early critique on these lines, see John P. Lewis, 1962, *Quiet Crisis in India*, Washington D.C.: Brookings Institution, Chapter 6, in particular pp. 146-66.

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CHAPTER THREE

POLICY CHANGE IN THE MID-1960s

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CHAPTER THREE

POLICY CHANGE IN THE MID-1960s

"...If I were to tell one of you who is manufacturing, say, a product out of steel, that I will give you only a limited quantity of steel, you will come back and say that with that quantity of steel, only a specified quantity of output is possible. Those who administer the economic laws of our managed economy will not question your judgment but will cock a snook at the poor agriculturist who asks for more fertilisers. To produce more food with less fertiliser is as impossible a task as to produce more steel with less iron ore or more cloth with less cotton, given the current state of technology... . Better seeds for agriculture are as crucial as better machine tools for industry. Plant protection is as important as lubricants for the parts of a machinery. Better water management is as essential as gasoline for your vehicle but nonetheless it is surprising how many levels of authority we have to convince. This is really a problem of attitudes."

-C. Subramaniam, India’s Food and Agriculture Minister after Nehru’s death, in a speech in May 1965.

III.1
INTRODUCTION

Between 1964 and 1967, India’s political system suffered two exogenous shocks. Nehru died in May 1964. And two successive droughts of acute intensity brought food production down to the level of 1956-57, creating near-famine conditions and leading to doomsday predictions about India’s economic future. Two more events were added to these major occurrences. Nehru’s successor, Lal Bahadur Shastri, after a mere 18 months in power, also died in January 1966 and a weak and uncertain Mrs. Gandhi - something that should seem grossly surprising in retrospect - was elected to India’s highest office.
This period in India's post-independence history is variously described: as an era of the "passing of the tall men",¹ because there were no charismatic leaders from the national movement left and none of equal stature had emerged to replace them; as an era of "two foreign aggressions and three bad weathers"²; and, according to at least some in the West, as the beginning of India's long famine, something akin to what one normally hears about the Sub-Saharan Africa these days. Using an analogy from the battlefield, one of the "popular" books of the mid-1960s argued that those wounded in the battlefield were of three types: the slightly wounded who could be cured with small degrees of medical attention, the more seriously wounded who required surgery but could be saved, and those so seriously wounded that they were generally left to die for it was pointless to attend to them.³ India belonged to the third category: "no matter how one may adjust present statistics...It will be beyond the resources of the United States to keep famine out of India during the 1970s".⁴

Between 1967-68 and 1970-71, however, India's food output rose consistently upward. In 1965-66 and 1966-67, India's food output was 72.3 and 74.2 million tons respectively; in 1967-68, food production touched 95 million tons and by 1970-71, it was 108.4 million tons, one and a half times higher than the output achieved in 1965-66. India's public foodgrain reserves, almost wholly dependent upon 10 million tons of American wheat supplied under Public Law 480 in 1965-66, had 8.1 million tons of domestically procured supplies in 1971. In the same year, India unilaterally


² Mohan Lal Sukhadia, Chief Minister of the state of Rajasthan, quoted in A.H. Hanson, 1968, "Power Shifts and Regional Balances" in Michael Lipton and Paul Streeten, eds., The Crisis of Indian Planning, London: Oxford University Press, p. 35. The two wars were with China in 1962 and with Pakistan in 1965. The bad weather years were 1963-64, 65-66 and 65-67.


⁴ Famine 1975!, ibid, p. 217.
terminated the imports of PL 480 wheat from the US.

Still later, by 1986-87, public stocks of foodgrain had soared to 30 million tons. Largely as a result of these stocks, the drought of 1987-88, one of the worst in the century, did not lead to a famine.

Though gaps continue to mar the performance of the food economy, increases in food production over the last two decades and India's ability to feed itself are, on the whole, economic achievements that few had thought possible in the mid-1960s. Of particular note has been the source of output increase. Though, at 2.7 per cent per annum, the trend growth rate of foodgrain production between the mid-sixties and 1985-86 has been the same as between independence and the mid-sixties, yield increases have been the primary source of output increase after the mid-sixties, as opposed to acreage expansion which largely accounted for production gains before that. With the expansion of arable land virtually exhausted by the mid-sixties, production, in the absence of yield increases, would have remained stagnant as it indeed had between 1960/61-1966/67. Since population was growing at 2.3 per cent per annum, stagnation in food production would clearly have caused enormous difficulties for the Indian economy and polity. In some ways, then, the disaster averted has been a bigger achievement than the output increase.

What accounts for India's agricultural turnaround? A decisive shift in public policy - or, put another way, a change in the form of state intervention in the agricultural economy - is by now widely accepted to be the main reason. Over a period of three years between 1964 and 1967, India's agricultural strategy was fundamentally changed, from one that was based on institutional reorganization of agriculture - via land reforms, cooperatives and institutions of local self-

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1 Briefly, they are i) ambivalent performance of the rice economy as opposed to wheat, ii) decline of pulses and oilseeds, iii) problems in distribution despite success in production and iv) the ecological consequences. It should, in particular, be noted that the output of only some crops, though they turned out to be the critical ones, has increased, not that of the entire agricultural sector. This result partially confirms both the macro and micro views of agriculture as discussed in Chapter 2.
government - to one that accepted the existing institutional structure as given but sought to increase production through price incentives and a change in India’s technological base in agriculture.

This chapter analyses the political economy of policy change in the mid-sixties. The central question addressed is: what forces led to the change in state behavior?

My method is as follows. Since, at least formally, the policy originated in the state, I first "get inside" the state institutions and ask: Who made policy, with what institutions, what allies, what ideas and what motivations? Then, I take the next step and ask: What forces outside the state were involved with, or affected by, the decisions of the state? Were those affected also the authors of these decisions? Moreover, did these forces emerge from within India's civil society or from the international system? I use interviews - in the manner of "oral history" - and documentary evidence as building blocks for my argument. In and of themselves, documents of state policy in India can be very confusing. Once supplemented with interviews of policy makers, they begin to make sense.

I begin with the political context of the mid-1960s and the content of the "new agricultural strategy". This is followed by a detailed analysis of the questions listed above.

III.1

THE POLITICAL CONTEXT:

Changing Institutional and Ideological Parameters of Economic Policy

In the previous chapter, the origins and evolution of India’s institutional strategy were analysed in terms of two types of "policy actors" - political leaders, particularly those of the ruling party, and
bureaucrats, particularly those in the Planning Commission. The political leadership provided the design; the planners fashioned the details of the design. Political leaders operated with two sets of considerations - ideologies and interests. Decision makers in the economic bureaucracy operated with the economic theories of the time and, one should also suppose, with a regard for what could preserve or expand their newly created power under Nehru. The dominant economic theory of development in the 1950s - with its emphasis on planning, the industrial "big push" driven by public investment in capital goods, and institutional change in agriculture - meshed well with a socialist - or more precisely, a Fabian socialist - world view of the political leadership, just as the dominant Keynesian economic theory of the 1950s mingled neatly with a social democratic political design in the West.

It was also shown that factional conflict within the ruling party was inter alia over economic designs for the country. Nehru's institutional view, that dominated policy, was resisted by his opponents in the ruling Congress party. Their resistance was not entirely due to an alternative, coherent world view. Some were merely opposed to what they considered a pernicious attempt at ushering in Communism in India through land reforms and cooperatives - an attempt, they thought, Nehru orchestrated with the help of Intellectuals in the Planning Commission. A side-effect of this struggle was that many of Nehru's opponents were resentful of the power given to the Planning Commission over economic policy; the Planning Commission was presided over by the Prime Minister himself and its members, not elected by the people but nominated by the leader, were given ministerial and quasi-ministerial ranks. The conflict inside the state institutions - particularly between the Planning Commission and the Food and Agriculture Ministry - and the conflict within the ruling party - between the left of the center that dominated policy making in New Delhi and the right of the center that had substantial control over the party organization at the state and lower
levels⁶ - is essentially how one can best describe the institutional and Ideological outlines of India's power map in the 1950s and early sixties.

An immediate consequence of Nehru's death was that the institutions and men that made economic policy, and the ideology that underlay their functioning, changed significantly. It was a brief moment of change since Shastri, Nehru's successor in June 1964, himself did not live beyond January 1966 but in a matter of 18 months, decisive shifts in India's economic policy took place.

Why was Shastri chosen by the Congress party to replace Nehru and what policy impact did it have? Shastri's election remains shrouded in ambiguity. Very little empirical research is available on what governed the behavior of the top leaders in the party in 1964; moreover, most of these leaders are no longer alive.⁷ A widely accepted reading of the event - and one that makes logical sense in the political context of the time - is that the potential candidate from the right of the center - Morarji Desai (who eventually became Prime Minister in 1977) - was unacceptable to the left of the center⁸. At the same time, Desai was also considered too independent by other important members of the right of the center faction⁹. Shastri was helped by a paradox. He was chosen

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⁶ The important leaders of this faction and their respective states were: Morarji Desai, Gujarat; Atulya Ghosh, West Bengal; Sanjiv Reddy, Andhra Pradesh; S. Nijalingappa, Mysore; S.K. Patil, Maharashtra; and C.B. Gupta, Uttar Pradesh; and Mohan Lal Sukhadia, Rajasthan. They were powerful in their respective states but, except for Morarji Desai, their national stature was limited. Some of these leaders were opposed to Nehru because they had an alternative world view, (such as Desai and Patil); some because they knew that launching an attack on the landlords made their organizational tasks very difficult; landlords were the "local bosses" and attacking them root and branch was not an act of political pragmatism. One such unideological, real-world pragmatist, K. Kamraj (Tamil Nadu) also became the President of Congress Party under Nehru.


⁸ The left of the center faction itself was left with no "tall" leaders. Those immediately below Nehru, G.L. Nanda and T.T. Krishnamachari, were "short" men.

⁹ Congress President Kamraj, according to journalistic reports, was instrumental behind Desai's final withdrawal from the contest.
because "minimax", as it were, was the dominant strategy of the main actors: compared to Nehru, he was not "tall" but he was known enough in the party to be presented as a head of the government and weak enough to considered malleable by the organizational stalwarts. Moreover, Shastri was uncontroversial enough to be acceptable to both groups.

Once elected, however, this background determined Shastri's political manoeuvres. Two facts stood out: a relatively small political stature and a thin ideological anchorage. The former weakness meant that he had to build his power; the latter fact meant that his key bureaucratic appointments were of an amorphous kind, not driven by considerations of ideological conformity. Nehru's political pluralism notwithstanding, his top bureaucratic personnel, particularly those he appointed to the Planning Commission, shared his Fabian socialistic world view -- personnel such as V.T. Krishnamachari, Professor Mahalanobis, Tarlok Singh and Gulzarilal Nanda.10

In matters of economic policy, these two facts came together in a remarkable but quiet assault Shastri launched on the Planning Commission. He redefined procedures and administrative rules concerning the top economic bureaucracy of the country. First, the tenure of the members of the Planning Commission was made fixed-term; under Nehru, they were supposed to enjoy an indefinite tenure. Second, the office of the Cabinet Secretary -the top bureaucratic office in the country to which secretaries of all the ministries were responsible - was de-linked from the Planning Commission; under Nehru, the Secretary of the Planning Commission also served as the Cabinet Secretary, which gave the Commission a unique position in the bureaucracy. And finally, Shastri created a Prime Minister's Secretariat with its own team of experts on economic policy (as well as

10 Of these, two members have written extensively about their economic philosophies. P.C. Mahalanobis' views are available in his Talks on Planning, New York: Asia Publishing House and Calcutta: Statistical Publishing House, 1961 and Tarlok Singh's views in Towards an Integrated Society, New York: St. Martin's Press and Delhi: Macmillan, 1969. Francine Frankel also observes that "the common thread in Nehru's appointments to the Planning Commission was the political orientation of the members" (op cit, p. 114).
other policies). A Prime Minister’s secretariat had two important political effects: on economic policy, it weakened the supremacy of the Planning Commission; and on policy matters in general, it created an alternative source of policy advice, reducing Shastri’s dependence on the Cabinet where some of the powerful state bosses were present as Ministers. As argued by Frankel, creation of this new institution introduced a quasi-President feature in a parliamentary form of government.” It increased the power of the Prime Minister’s office over all other offices in the country. A strong man like Nehru did not need such bureaucratic strengthening; his charisma and political stature ensured that de facto. A weak man like Shastri, however, had to ensure it de jure.

The ideological amorphis.. of Shastri had significant effects, too. As his Principal Secretary, the head of the P.M.’s Secretariat and, therefore, the top bureaucrat in the country, Shastri appointed L.K. Jha, a senior civil servant and a trained economist who was not known for his sympathy for socialism and was more inclined towards the market mechanism than was customary for economic bureaucrats in India at that time. At the same time, however, Shastri did not fundamentally change the composition at the Planning Commission. Ashok Mehta, appointed the head of the Planning Commission under Nehru in 1963 and a respected socialist thinker, continued to hold his position. However, since the authority of the Planning Commission had been greatly reduced, the view prevailing in the Prime Minister’s office became more decisive in the conduct of economic policy. Shastri provided the amorphous ideological setting and political flux, thus creating an opening for a policy battle that, in the past, was always overwhelmed by Nehru’s ideological certitude and political stature.

Shastri, like his predecessor, might not have been a leader with a powerful ideological vision but he did have instincts and predilections which were an additional and powerful factor in the new

"Frankel, op cit, p. 251.
political and ideological set up. Compared to Nehru, he had greater political experience of party functioning at the state and local levels and moreover, in contrast to Nehru’s urban aristocratic and Oxbridge background, Shastri had rural origins. Shastri, thus, had pro-agriculture instincts and his political experience had also made him sensitive to the operational realities of managing Congress politics, dependent as it was on landlord support at the local levels.\footnote{Very little \textit{direct} evidence for Shastri’s instincts can be provided. Shastri’s positions can be inferred from interviews with his associates and from his actions and cryptic statements. In my interviews, C. Subramaniam, Shastri’s Food Minister, and L.K. Jha, his Principal Secretary, made claims about his rural origins influencing his economic perspective. Details of these interviews figure later in this chapter.} The way this background influenced the policy parameters is interesting. Because of his political stature and ideology, Nehru thought he could change India; Shastri, on the other hand, had to work towards his own political consolidation rather than towards changing India by championing deeply held policy designs but - and this is critical - if the policy struggle was more or less evenly matched, he as Prime Minister could tilt the scales. Shastri’s instincts and predilections, thus, could be decisive in situations of stalemate and near stalemate.\footnote{The political setting of the time is almost an ideal laboratory for a game theorist who might provide further insights into the various interesting policy results that came about. For the political flux and coalition politics after 1967, one such attempt is Bruce Bueno de Mesquita, 1975, \textit{Strategy, Risk and Personality in Coalition Politics, the Case of India}, Cambridge: Cambridge University Press.} As we shall see below (sections III.3 and III.4), this indeed turned out to be the case.

III.3

\textbf{CHANGE IN AGRICULTURAL POLICY}

If Nehru was the inspiration behind India’s institutional strategy, C. Subramaniam, India’s Food and Agriculture Minister between 1964 and 1966, was the architect of policy change. A politician whose formative years were spent in the state politics of Tamilnadu, who had developed a reputation for efficient administration and for emphasizing the role of science and technology in
policy, Subramaniam was brought to New Delhi in 1962 by Nehru himself. His technocratic inclinations were used by Nehru in the Ministry of Steel and Heavy Industries, a Ministry that was central to Nehru's industrial strategy and one that dealt with a policy area where Nehru especially valued technocratically inclined colleagues. Science and technology, after all, lay at the core of the capital and basic industrial goods sector.

Upon Nehru's death, the first personnel decision made by Shastri was to invite Subramaniam to head the Food and Agriculture Ministry. Once in charge of the Food Ministry, however, Subramaniam saw the same connections between science and agricultural production as between science and steel production. He also saw economic production inextricably linked to economic incentives. Building up on these two planks - one scientific, the other economic - Subramaniam provided a powerful rationale for an alternative policy design.

Subramaniam did not, however, singlehandedly bring about the transformation. His task was facilitated by the new political and ideological constellation: the taming of the Planning Commission and the rise of the Prime Minister's Secretariat; the change in the power balances within the Congress party, reflected, most of all, in the rise of the state bosses after Nehru's death; the ideological shifts toward a right of the center view accompanying these changes in the institutional and power balances; and, finally, the pro-rural instincts of the Prime Minister. Earlier Food Ministers, even when they made arguments more or less similar to Subramaniam's, though never with the same tenacity, were unable to overpower Nehru and the Planning Commission.
III.3.1 Subramaniam's Agrarian Model

Subramaniam's agrarian model can be divided up in three components: the economic, the technological and the organizational. The economic component consisted in the view that price incentives would motivate farmers to produce more since it would be profitable to do so. Technology was required since acreage expansion had reached its limits, making production increases dependent on yields per acre. And organizational effort was needed because in order for the first two components to work, institutions had to be created for determining what the level of prices should be and how to implement them. Also required was a research and administrative structure that would generate or adapt appropriate, yield-increasing technologies and transmit them to farmers. Let us look at each element in detail.

Price Incentives. The first paper Subramaniam prepared for the Cabinet was on price policy. Subramaniam explains his understanding of the role of prices in production and how it evolved:

"My move from steel and heavy industries to agriculture was a big change as far as the nature

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14 I have abstracted Subramaniam's model from two books and my own interview with him in Madras, December 14, 1984. The two books I have used have more or less similar titles but they offer different ways of getting inside the world of policy. The first book, A New Strategy in Agriculture: A Collection of the Speeches by C. Subramaniam (New Delhi; Indian Council of Agricultural Research, 1972), is, as the subtitle indicates, a volume that puts together his speeches during his tenure as a Food Minister between 1964 - 1966. The other volume, called The New Strategy in Agriculture (New Delhi: Vikas, 1979), reproduces the lectures Subramaniam later gave at the Australian National University in 1978. In the second book, Subramaniam offers important insights into the political battles over policy whereas the earlier volume, as could be expected, was more a statement of intent. I shall refer to the first book as Speeches and the second as The New Strategy.

15 A methodological note would be in order here. The quotes I shall use in the main text to make the case that these three components constituted Subramaniam's model are not all taken from the year 1964-65, i.e. the year when the seeds of new policy were planted. I have also used speeches from 1965-67. The quotes are chosen on the basis of how well they express the new approach and how forcefully they contrast with Nehru’s approach. I would not claim that Subramaniam saw all the elements of the new approach in utmost clarity right from the start. A new approach is what we do have right from its first year; its details developed as he time went on. I am collapsing three years of time for the sake of logical clarity. In Section III.4, the empirical details of the new policy and its development are taken up.

16 As stated by Subramaniam in The New Strategy, ibid., p. 5.
of the work and job was concerned, but perhaps this in itself was an advantage because I was able to look at agriculture with a completely new perspective. For example, in industry, no industrial unit can progress and succeed unless it is a profitable concern. If it is a losing concern, no industry can prosper. I looked at agriculture from a similar point of view and, after study and analysis, came to the conclusion that Indian agriculture was a losing concern for the farmer. He did not receive a return commensurate with his labour, or with the investment he was prepared to make. This was mainly because of the price policy which had been adopted since independence.

Contrast this with Nehru's position discussed in the last chapter. Nehru also considered food prices important but for reasons of planning and industrial production, not for food production: ".. next to food production, the question of foodgrains is of vital importance... If the price of foodgrains goes up, then the whole fabric of our planning suffers irretrievably."  

Subramaniam was conscious of the need for keeping food prices in check but keeping the consumer price of food in control, according to him, was not equal to keeping the producer price down. The solution for the problem of high food prices, instead, lay in achieving long run increases in food production -- for which price incentives to producers were necessary in the first place. The required cycle, therefore, was first increasing production via raising producer prices, with higher production eventually leading to a lowering of consumer prices.

The economic context of this argument is important. 1964 was a year of food price inflation. After conceding that "we are in the midst of a rising spiral in the prices of foodgrains", and after

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17 Ibid. p.4.

18 See Section III.3.3, Chapter I of this thesis.

19 This happened despite the fact that the 1964 harvest (i.e. for the year 1963-64) was better than the harvest of the last four years. Production went up but market arrivals did not - hence the price increase. Hoarding by traders was widely believed to be the reason for this anomaly.

20 From a speech delivered at the State Chief Ministers' Conference, called "A National Distribution-cum-Price Policy", June 24, 1964, New Delhi, reproduced in the Speeches, op. cit., p. 187.
supporting retail price controls, Subramaniam maintained that price controls could only be a short run response for "in the long run, increased production is the only answer to scarcity" and, therefore, a long term policy had to be evolved which was different from the short run fire-fighting.

Saying that producer incentives had to be the basis of a long-run production policy, however, was not enough. What the incentive levels should be, how they would be implemented and what impact producer incentives would have on consumer welfare was also to be clearly thought through. The most sensible policy, according to Subramaniam, was for the government to intervene in the foodgrain market to ensure incentive prices for producers but the government should do it in a way that stabilized prices at reasonable levels. Stabilization was required because sharp price rises (which would take place in the event of harvest failures) only to be eventually followed by sharp price falls (which would happen in the event of good harvests) would not motivate farmers to invest in farming and produce more. Reasonableness was necessary because, even though the prices would ultimately come down from higher production, the consumers in the mean time should not be expected to pay the cost of maintaining producer incentives. A stable price that lay somewhere between an otherwise natural peak and trough, supported by government intervention in the market and kept affordable for consumers, was the solution:

"The main problem in settling the price policy in a developing country is to keep the consumer interests in mind. An affluent country can afford to keep its consumer prices of foodstuffs relatively high; the average level of incomes is high and individuals spend relatively smaller parts of their incomes on food. But in a poor economy like ours, the consumers spend a substantial part of their incomes on food, and high food price create complications in the economic situation. At the same time, the farmer lives on the very margin of subsistence and he has also to pay high prices for most of his inputs. We have, therefore, to reconcile the dilemma of compensating the farmer adequately and maintaining a reasonable price level for the consumer......."

21 Ibid.

22 From the Inaugural Address, called "Increasing Food Production", delivered at the Seminar on Increasing Food Production in Coimbatore, Tamilnadu, November 28, 1964, in Speeches, ibid, p. 24. A similar rationale was given in the speech to chief ministers quoted above but I have selected a later speech for its clarity and precision. For similar policy intentions, see ibid, p.190.
For this formula to work, however, in addition to food subsidies, two institutions were also needed: one that calculated what prices were reasonable to producers and one that bought up surpluses from producers at those prices. When excessive price increases took place due to production shortfalls, the government would release food stocks to lower prices and when prices came down due to a good harvest, the government would buy up quantities at price levels that protected producers. The Agricultural Prices Commission (APC hereafter) and the Food Corporation of India (FCI hereafter), were thus born as two of the institutional centerpieces of the price strategy, the former to make price recommendations and the latter to buy and sell grains at the recommended price.\(^23\)

**Technology Policy.** Science and technology were the second critical component of the new strategy. Subramaniam first launched a critique of the traditional agricultural practices prevalent in India:

"There is no use in holding on to the view that our farmers know all that is best in farming. Most of the practices as well as tools employed in agriculture have their genesis in the inventive genius of our ancestors dating back to the Vedic age. Our main farm implements, viz. the country plough, the simple hand-hoe and sickle, were developed at that time and it is a measure of our stagnation that they still dominate the rural scene...........If we wish to obtain yields from our crop plants of an order which could not be conceived earlier, we have to radically alter the whole set of agricultural practices which were evolved to suit the conditions of an entirely different production range as well as quantitative food needs. There is nothing derogatory to the prestige of our ancestors or of our present-day farmers if we emphasize the need to discard outdated ideas and outmoded tools in agriculture."\(^44\)

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\(^23\) Subramaniam explained the logic of these institutional requirements: "We have...created the Food Corporation which will function simultaneously as a price support and food procurement agency. By obtaining a commanding position in the total foodgrains trade in the country, it will be in a position to stabilize the fluctuations of food prices over time and space. We are proposing to set up by January 1965, an Agricultural Prices Commission, which will make a detailed study of the cost of various inputs that go into production of agricultural commodities. The price policy should be oriented in such a way that the returns cover the risks in investments and also produce enough resources for the farmer to encourage him to put in more capital into cultivation." (Speech to a Seminar on Increasing Food Production in Coimbatore, November 28, 1964, in *Speeches*, p. 24).

\(^44\) Convocation address delivered at the Indian Agricultural Research Institute, New Delhi, December 28, 1965, in *Speeches*, op cit, p. 141. Subramaniam had expressed similar ideas in one of his first speeches after taking over as the Food Minister: "If we have to make advancement in agriculture, it has to be based on science and technology. No doubt we have a great tradition built up over thousands of years of
Launching a critique of old habits was, however, not enough. He had to lay out what would replace "tradition". Subramaniam stated that the new, biologically developed seeds - "the miracle seeds" - had changed the nature of agriculture in the mid-20th century, introducing a new logic in cropping practices:

"The crux of the new approach is the introduction of intensive cultivation using new high-yielding varieties of seeds backed by more and better plant nutrients - effective plant protection and adequate water supply. Some experts, not geneticists (but other scientists) have expressed doubts as to the feasibility of the high yields which have been obtained by the new varieties. It is strange that these experts should admit that while such high yields can be are possible in other countries they are not possible in ours....What other countries can do we can also do."

Notice the package introduced; hybrid seeds, plant nutrients (chemical fertilisers), plant protection (pesticides) and controlled water (irrigation). The most controversial element in this package was chemical fertilisers - controversial because of its foreign exchange implications. The foreign exchange (and capital) intensity of chemical fertilisers was one of the primary reasons Nehru had found a fertiliser-based agriculture unacceptable. If anything, the foreign exchange situation was even tighter in the mid-sixties, the per acre fertiliser requirement of the new seeds higher, and India's domestic production of fertilisers considerably short of the quantities required. Nevertheless, convinced that without fertilisers required production increases were not possible, Subramaniam called them absolutely indispensable:

"The king-pin of agricultural development in the modern age has been adequate fertilization of the soil. I am aware that there are two schools of thought on this: some people feel that we should resort increasingly to the use of organic manure. I do not disagree that whatever the inputs of fertilizers, we have to use our available organic manure also in the most efficient way possible. It is, however, true that the history of other countries is a standing evidence of the experience in agriculture. But if we have to make progress and keep abreast of the other developed countries in the field of agriculture, despite our traditions, we have to break away from them and adopt new techniques and new methods. That is absolutely necessary." (From a speech delivered at Coimbatore on July 17, 1964, in Speeches, p. 9)


"See Section II.3.31 in Chapter 2."
fact that revolutionary breakthroughs in agricultural productivity have come about mainly by increased use of fertilizers. It is important to note this factor because, taking the country as a whole, India uses today roughly 2 to 3 tons of fertilizers...per thousand hectares of arable land. This compares with the world average of 7.86 tons, Japan’s 124 and our neighbour Ceylon’s 6.25......our position still remains low down in the scale.”

Contrast this view with Nehru’s. Nehru had argued that relying on fertilisers was "a dangerous tendency because it took away the minds of cultivators from the use of...manures...used in other countries" and then, went on to cite the example of China where agricultural production had increased at a faster pace than India "without any tremendous use of fertilisers". Subramaniam, on the contrary, thought it was necessary that the farmer got fertilisers "the same way as a truck operator gets his fuel...or an industrialist gets his raw materials".

Just as implementing the new price policy required the Agricultural Prices Commission (APC) and the Food Corporation of India (FCI), the science and technology policy also had its institutional requirements. Subramaniam placed the highest emphasis on research and extension. If his first cabinet paper was on price policy, his second was on the importance of strengthening scientific research institutions and of giving "financial inducements" to agricultural scientists "so that proper men of quality (are) attracted to these professions." In the event, research institutions were

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29 Cited in Chapter Two of this dissertation, Section II.3.31.


31 As reported by Subramaniam in The New Strategy, p. 12.

reorganized, a new agricultural research service was established, collaboration with international agricultural research institutes was strengthened, and upward revisions in the pay scales of agricultural scientists took place. And, finally, in order to make sure that the results of research reached farmers, the extension service was restructured. Under Nehru, the extension agent, the so-called Village Level Worker, was expected to play multiple roles - inform farmers about education opportunities, teach them health care, plant care, and sanitation, as well as spread new scientific research. Subramaniam de-emphasized the "generalist" role of extension agents, emphasized their technical training in agricultural universities, and increased their numbers so that villages could be adequately covered.

In short, whereas Nehru's agrarian model was institutional and synthetic in the sense that agricultural productivity in that model was a function of a transformation of agrarian relations, of nothing less than a political and social restructuring of India's rural life, Subramaniam's model was essentially technocratic (or "eco-technocratic", if technocratic is held to cover only the technological aspects). Subramaniam was not opposed to institutional change in principle but he was convinced that the institutional strategy was not working and had little chance of success. On land reforms he argued: "Unfortunately one could not wait until the land reform legislation was implemented effectively. We had been trying for this over the last ten years but owing to political and other factors it had not proved possible to implement it properly..." And on cooperatives, the second key component of Nehru's strategy, his argument was: "Where cooperation is not in a

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33 For details, see "Need For a Dynamic Research Programme" (pp. 63-71) and "The Reorganization of Agricultural Research" (pp. 76-84), in Speeches.

34 See, for example, "International Cooperation In Rice Research", in Speeches, pp. 264-271.

35 See "A New Deal for Agricultural Scientists", op cit.


37 In The New Strategy, p. 28.
position to deliver the goods, shall we wait indefinitely for the cooperatives to become effective instruments? Subramaniam believed that in the context of the mid-1960s, the institutional approach amounted to "mere slogan shouting", stressing that a more "pragmatic approach" was needed. The choices were clear: "Would you like to have ...high production and attain self sufficiency within the country.....or would you prefer to continue dependence upon food imports indefinitely?" The institutional approach, he argued, would lead to the latter, his own approach would usher in the former.

The exponents of the institutional approach, however, did not relent. Fierce political battles within the institutions of the Indian state ensued. Those supporting Subramaniam thought he was correcting an anti-agriculture bias in India's development policy. Contrariwise, his political opponents believed that their ideological designs were superior, designs that were being devalued and consigned out of power now. In the end, the structure of post-Nehru power politics and a skillful strategy by Subramaniam, aided by the eventual serendipity of weather, produced a victory for his policy design. By the late sixties, the new agricultural strategy had come irreversibly to stay. The intervening struggles, however, were nothing short of cataclysmic: the main contours are reviewed below.

III.4

BATTLE FOR POLICY CHANGE:

STRUGGLES WITHIN THE STATE INSTITUTIONS

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** The New Strategy, p. 28.
The most intense policy struggle took place between the Food and Agriculture Ministry on the one hand and the Finance Ministry and the Planning Commission on the other. Also involved were the Prime Minister's Secretariat and the Congress party. This struggle cannot be understood in purely political terms. Part of the battle was driven by the "technical" parameters within which these ministries or bureaucracies customarily operate. Food prices and investments in agricultural technologies intersect with the respective concerns of these bureaucracies in significant ways. I set forth below the logical structure of these competing concerns. Having done so, I shall move on to an empirical account of these struggles and how they were resolved.

III.4.1 The Logic of Intrabureaucratic Politics

To the Finance Ministry, the general price level in the economy and macro balances (budget, trade, foreign exchange) are matters of great concern. Food prices are intimately connected with both of these concerns. First, food prices can be highly inflationary for the economy since they have a large weight in the various price indices. Second, they affect budget balances and the level of deficit financing: if raising producer prices for food can not be passed on entirely to consumers, a food subsidy is inevitable; moreover, for inducing farmers to use new technology, if it is necessary first to subsidize fertiliser use or capital investments on the farm, then another level of subsidy is created. Third, if the agricultural strategy is heavily fertiliser-based, then fertiliser imports affect the trade balance, too, and involve foreign exchange outlays. These expenditures

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40 Based on interviews with the various Finance Ministers, Finance Secretaries and Chief Economic Advisers (CEA) since 1965. Those interviewed include Dr. L.K. Jha (Finance Secretary in the fifties; interview in Delhi, December 23, 1986), Dr. Ashok Mitra (CEA, mid-sixties, also Chairman of the Agricultural Prices Commission later; interview in Calcutta, December 25, 1984), Dr. Manmohan Singh (CEA, early seventies; also, Governor of the Reserve Bank of India and Deputy Chairman of the Planning Commission later; interview in Bombay, December 7, 1984), Mr. V.B. Eswaran (Finance Secretary, early eighties; interview in Delhi, November 22, 1984), and Dr. Bimal Jalan (CEA, early eighties; interview in Delhi, December 22, 1984). Also interviewed were two Finance Ministers: Mr. Pranab Mukherjea (1980-84; interview in Delhi, January 21, 1987) and Mr. H.M. Patel (1977-79; interview in Delhi, December 2, 1986).
can presumably be met if revenues can be raised: by imposing an income tax or user levies on those benefitting from the state-subsidized new technology but in order for that to happen, the subsidy must be provided to begin with; by imposing higher income taxes in urban sectors or increasing indirect taxes (excise, sales, customs) which may or may not be difficult; and by increasing exports, which may or may not be difficult. If resources can not be adequately raised but new programs must be run, the requisite levels of deficit financing become necessary; they may, in turn, cause inflation. One can make the connections even more complex but let us stick with our simple model of the customary considerations that drive a Finance Ministry.  

Food prices are of concern to the planners, too. First, due to their effect on the price level in the economy, they determine the real value of the planned investments even when nominal magnitudes stay the same. Second, by affecting the real incomes of the population, food prices determine the effective demand in the economy which, in turn, feeds back into the growth rates of various consumer industries directly and, since consumer industries get their machines from the capital goods industries, they also link up with the capital goods industries indirectly. Third, food prices affect wages, hence profitability in industry. And finally, as explained at length in the last chapter, in the early stages of development, resource transfers from agriculture are expected to finance industrialization but raising food prices and financing new technology in agriculture entail an investment shift away from industry and towards agriculture, including the possibility that a

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41 The simplest way of saying all this is that the Finance Ministry is the ultimate housekeeper; it has to pay the government bills!

42 Interviews with deputy chairman and members of the Planning Commission at various points: Dr. D.T. Lakdawala (Deputy Chairman, 1977-79, Interview in Ahmedabad, December 9, 1984); Professor Raj Krishna (Member, 1977-79, Interview in Delhi, January 23, 1985); Professor Hanumantha Rao (Member. Interview in Delhi, November 23, 1984), Professor Sukhamoy Chakravarty (Member, early seventies; Interview, August 17, 1984).
surplus from other sectors might have to raised to finance agricultural development.\textsuperscript{43}

The Food and Agriculture Ministry has its considerations, too.\textsuperscript{44} If prices and technology are considered critical for increases in food production, as the Food Minister came to think, then, clearly a macro, intersectoral view of food prices, that customarily dominates the perspective of the Finance and Planning Ministries, can not be the perspective of the Food and Agriculture Ministry. In such a situation, it must of necessity be a micro view that links increases in producer prices with increases in food production. Besides, if technological investments are also required in agriculture, then whether these entail a shift away from industry is not the primary concern of the Food and Agriculture Ministry. Its primary task is to increase food production. Thus, whereas the institutional strategy has the merit - at least in principle - of coalescing the Food Ministry with Planning and Finance, an intrabureaucratic struggle is built into the very logic of the price and technology strategy. In terms of economic theory, this is a clash of the micro and macro views of agriculture, with the latter represented in the Finance and Planning Ministries.

Let us, for analytical purposes, freeze this intrabureaucratic frame for a while and consider how such an intrabureaucratic struggle might be resolved.

\textsuperscript{43} Raj Krishna and G.S. Raychowdhry claim that the urban sector has been making a net contribution to capital formation in Indian agriculture since the investment ratio in agriculture is higher than the savings ratio of the countryside. More has been invested in Indian agriculture than it has been able to save. See their "Trends in Rural Savings and Capital Formation in India, 1950-51 to 1973-74, Economic Development and Cultural Change, Vol. 30, no. 2, January 1982. The trend started, according to them, sometime around the late fifties. M.A.R. Qulsimbing and Lance Taylor reach similar conclusions in their "Resource Transfers from Agriculture", Presented at the World Economic Congress, Delhi, December 1986.

\textsuperscript{44} Interviews with Mr. C. Subramaniam, op cit; Mr. Rao Birendra Singh, Food and Agriculture Minister, 1980-86, Delhi, September 18, 1986; Mr. C. Sivaraman, Agriculture Secretary, 1965-67, Madras, December 13, 1984; Mr. G.V.K. Rao, Agriculture Secretary, 1977-79, Delhi, November 6, 1984; Mr. S.P. Mukherjea, Agriculture Secretary, 1982-84, Delhi, December 20, 1984; Mr. B.C. Gangopadhyay, Food Secretary, early to mid eighties, Delhi, December 21, 1984.
Clearly, as to which of these views would prevail can not simply be a "technical" matter. If the political heads of these bureaucracies - that is, the respective ministers - share a particular ideological world view (let us say, the institutional view of agriculture), some moderation of tensions will automatically take place. If that is not the case, the responsibility of resolving these differences, in a parliamentary system of government, rests with the Prime Minister, the head of the government.

Consider the various positions a Prime Minister could take: because of his own world view (however operative - in a well laid out manner or as a set of instincts); because of political calculations; based on financial implications; or a mixture of all these. Consider the ideological side first. If the Prime Minister is inclined towards an institutional position, the Food and Agriculture Ministry will have to accommodate Planning and Finance; if he is convinced of a price and technology vision, the Planning and Finance Ministries will have to accommodate Food and Agriculture; if he does not have a well laid out policy design in mind but has pro-agriculture instincts, he can - and, most probably, will - go with the Food and Agriculture minister. The head of the government might also have some power considerations in mind: he could go with a minister who is more powerful regardless of where his sympathies lie; he could think of how his party would react to the decision; he might also think of how the larger society would react. The decision might also depend on certain political exigencies - how close the elections are and whether the decision would have any electoral impact. And a final set of considerations could be the financial Implications of the decision: Is a price and technology strategy, even if desirable, affordable? If expensive but desirable, what readjustments in the current financial priorities of the government could possibly be made?

What this array of choices indicates is how critical the role of the leadership can be in policy changes. There is no special reason for the Prime Minister to accept what is presented as a
"technical" economic matter by Finance or Planning. He has his own world view, has to contend with the importance of factions if they exist in the party, has also to think of larger social considerations. Moreover, abstracting from these political considerations and speaking purely technically, there are two versions of rationality competing here: macro rationality of Finance and Planning, micro rationality of Food and Agriculture. An agricultural strategy considered ill-suited and expensive, even dangerous, for the rest of the economy by Finance and Planning might be considered necessary by Food and Agriculture. It should be clear that even economic rationality or technical correctness has no uniquely acceptable definition.

How was this abstract logic played out in India? Did an intrabureaucratic clash take place? How was it resolved? With what consequences? Let us look at the empirical picture.

III.4.2

TOWARDS AN EMPIRICAL ACCOUNT

The actual process of agricultural policy change in divided up in three parts: i) the formulation of strategy (1964-65); ii) the battle for resources and political support required to implement the strategy (1965-66); and iii) the implementation (1966-67). Competing technical issues outlined above kept surfacing, their intensity depending upon the ideological vision of the protagonists involved and their power positions.

III.4.2.1 Conception: Putting Ideas and Institutions In Place

The Finance Minister was the first to raise objections when Subramaniam introduced his ideas on price policy: "there was a heated debate in the cabinet...with particular opposition from Finance Minister, T.T. Krishnamachari. He argued the other side; how could we afford to increase food
prices, particularly for industrial labour and for the urban population? It would lead to much discontent..."

Shastri's position helped Subramaniam." Shastri's pro-agriculture instincts manifested themselves in a series of issues. One of his first policy problems - barely a week after taking over as Prime Minister - was to take a decision on the perspective presented by the Planning Commission for the Fourth Plan, originally scheduled for 1966-71. Shastri instructed the Planning Commission to give the highest priority to agriculture, to produce a "common man's plan" and, in the rural sector, to concentrate on minor irrigation, fertilisers and small-scale industry."

Aware of this opening provided by the Prime Minister but conscious at the same time of the opposition of the Finance Ministry, Subramaniam's strategy was to generate larger support for his ideas. On June 24, 1964 - that is, shortly after the Cabinet meeting in which the Food and Finance Ministers clashed - Subramaniam presented his price-oriented analysis of the agricultural problems to the state Chief Ministers." Then, he sought to elicit the support of experts, particularly those that were also holding powerful positions in the economic bureaucracy. He also wanted to get a professional view on what prices to have in the current agricultural year (1964-65)." In a dexterous move, he asked the Prime Minister to appoint a committee with his own Principal Secretary, L.K. Jha, as the chairman to look into foodgrain producer prices for 1964-65 as well as to evolve the

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"As reported by Subramaniam in interview, op cit, and The New Strategy, op cit, p. 5.

"Ibid.

"Cited in Frankel, op cit, p. 250, on the basis of a report in the Times of India, June 24, 1964.


"India's agricultural year runs from June to May, starting with the monsoon (kharif) crop sown in June and harvested three months later. The second main crop is grown in winter (rabi) - sown in November and harvested in March/April. Paddy is the main kharif crop, wheat the main rabi crop. Among other major foodgrains, pulses are kharif crops and gram is grown in winter.
terms of reference for an agency that would look into prices on a continual basis in future. The purpose would be to present the Finance Minister with the recommendations of a high-powered, expert body. Subramaniam knew Jha’s economic views. Jha was more inclined towards a technocratic than an institutional position. Jha was also well-suited and well-placed for Subramaniam’s purposes; he had been a senior officer, a finance secretary and, with his current position as the head of the P.M.’s Secretariat, he could be a bridge between Subramaniam and the Prime Minister, between the Central Government and the state Chief Ministers, and could exercise considerable influence on the economic bureaucracy, too.

The Jha Committee was constituted on August 1, 1964. Its composition reflected the intrabureaucratic dimension of the problem. Chaired by the head of P.M.’s Secretariat, it had high officials from not only the Ministry of Food and Agriculture, but also from Finance and Planning and had a leading agricultural economist from academia. On September 24, the Jha Committee submitted its report to the Prime Minister. It was accepted.

The Committee argued:

"...one of the most important problems facing the national economy is that of augmenting agricultural production in a big way. This could be brought about mainly through the adoption of improved technology and additional investment required for this purpose. To the extent that

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80 Interview, L.K. Jha, op cit.

81 Based on the interview with L.K. Jha, op cit. This is also Francine Frankel’s interpretation; see Frankel, op cit, pp. 257-259.

82 Cooperation of state governments was important because implementation of agricultural policy is, under India's constitution, within the purview of states, not the central government which essentially makes policy. Subramaniam was acutely conscious of this: "...I had to deal with the state governments for unless they fell into line it was no use introducing this strategy." (The New Strategy, p. 25).

83 Other than Jha, the other high ranking members of the committee were T.P. Singh (Secretary, Planning Commission), B.N. Adarkar (Additional Secretary, Ministry of Finance), and S.C. Chaudhri (Economic and Statistical Adviser, Ministry of Food and Agriculture). Professor M.L. Dantwala was the academic economist. Dantwala went on to chair the first Agricultural Prices Commission (APC).
the price policy can assist this process, it should be its major objective to do so.\textsuperscript{54}

Notice that this position, left on its own and seen without its context, is in fact only a partial confirmation of Subramaniam's view; it gave priority to technology and a secondary place to prices while Subramaniam had argued for both but had not prioritized them. The Committee was, as a matter of fact, even more explicit about this prioritization:

"We have been unable to go along with the view that a mere increase in producer prices will serve the objective of maximizing production...upto a point, higher prices can help in encouraging the adoption of better techniques of food production and greater use of inputs provided the facilities in the shape of fertilisers, water, better seeds etc are there and all that the farmer needs is a better price to make full use of them..."\textsuperscript{55}

There are two ways of analysing this major statement, one contextual, the other theoretical. If the policy choices are i) an institutional strategy or ii) a price and technology strategy, then the stated precedence of technology over prices is not a critical rebuttal of Subramaniam's view. If, however, the institutional position has been set aside and the issue is whether prices or technology should be the central pillar of policy - as it has become in the normative discussions of agricultural policy in the 1980s - then this is a critical distinction to make. In fact, one will have to, then, make three distinctions: a purely economic view arguing that "getting prices right" is all that is necessary to step up production and technological development is a function of price relationships; a purely technological view that argues that public investments in science and technology would drive agricultural growth even if relative prices for agricultural fall down; and a view that argues for a mix of prices and technology since new technology will not be adopted if prices are not favorable.\textsuperscript{56}

Such complications arise only once the debate is internal to the price and technology strategy, not between it and the institutional strategy. In the mid-1960s, the latter was the case. The Jha committee appeared to vindicate Subramaniam's view.


\textsuperscript{55} Ibid, p.5.

\textsuperscript{56} In order to distinguish this from the second view, I shall call it an "eco-technocratic" view later.
The immediate recommendation of the Committee about producer prices in the year 1964-65 was even more supportive of Subramaniam. The Committee took the average of the wholesale prices of paddy over the preceding three years, 1961-64, and recommended a minimum support price for producers that exceeded that average by 10 to 20 per cent in most states. Let us consider the significance of such a recommendation. First, the prices looked at were the wholesale prices which are typically higher than the price at which the producer sells his crop. Secondly, annual wholesale prices are an average of year long wholesale prices; immediate post-harvest prices are typically lower than off-season prices. The price that the Jha Committee recommended was for the immediate post-harvest season; however, since it used the annual average as a base for determining this, the Committee offered a price which, in principle, was higher than the post-harvest price. Thirdly, this was the support price; that is, producers were guaranteed that prices would not be allowed to fall below the "floor" of last three years’ average annual wholesale price. The Committee even argued that, if need be, producer prices could be further raised, the only proviso being that such raises should not lead to increases in consumer prices.  

The Committee also recommended that in normal course, the government should compete in the market as a buyer; there should be no compulsory procurement. Finally, the Committee endorsed that a separate governmental agency for determining producer prices every year be created to "provide incentive to the producer for adopting improved technology to the widest possible extent and for maximizing production" without, however, losing sight of the "likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages.

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67 Ibid, p. 23.
69 Ibid.
industrial cost structure etc. Until Nehru’s time, the latter, macro considerations had overwhelmed the former, micro concerns. The Committee stressed both and this was the first time producer incentives were strongly emphasized by experts, not simply by the Food and Agriculture Minister.

Thus, the perception that the Jha Committee had supported Subramaniam was overwhelming. The Prime Minister accepted the recommendations; so did the Cabinet, once the Prime Minister’s acceptance had been given.

Subramaniam brought about some more key bureaucratic changes. He found the economic bureaucracy in the Agriculture Ministry still steeped in old thinking. The agriculture secretary, the bureaucratic head of his Ministry, was a senior civil servant, but he could see agriculture only "in the files". Subramaniam, acting as the political head of the Ministry, replaced him with another civil servant who was known to have specialized in agriculture at the field level and shared Subramaniam’s views on prices and technology. Subramaniam also reorganized the decision making structure of the Indian Council of Agricultural Research (ICAR). Pliued that the highest policy making body in agricultural research was headed by a generalist civil servant whereas the counterpart body in Industrial research - the Council of Scientific and Industrial Research (CSIR) - was headed by a scientist, he appointed a scientist, noted for his work on rust in wheat, as the director general of the ICAR. Finally, upon the acceptance of the Jha Committee report, the Agricultural Prices Commission (APC) and the Food Corporation of India (FCI), the two institutional

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51 The New Strategy, pp. 51-52. Also interviews, Subramaniam and Sivaraman, op cit. C. Sivaraman was appointed secretary. As a career civil servant in Orissa, he had specialized in agricultural programs and problems.

52 The New Strategy, p. 13-14. Dr. B.P. Pal, the director general, was the first scientist to head the ICAR. Subramaniam also mentions that even under the British, a civil servant used to head the Imperial Council of Agricultural Research.
pillars of the price component of the new thrust, also came into being in January 1965.

Thus, by the end of 1964, within seven months of assuming charge, Subramaniam had "set his house in order", received the support of the Prime Minister and his Secretariat, created the institutions required for his policy design, and had the proposal for policy shift accepted in principle in the Cabinet. Policy details, however, were still to be worked out. The response of the Congress party and the financial implications of the new strategy had also to be ascertained.

III.4.2.2 Struggle for Party Support and Financial Resources

Factional struggle within the Congress party once again came to the fore. The party met at Durgapur for its annual session in January 1965. A new agricultural policy had not yet been laid out in detail; only the signs of what was coming were present. The debate was, therefore, pitched at a general level: whether socialist principles were being abandoned, whether the goal of equity was being sacrificed over a concern with production. Seeing clear portents of change, the more

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This section is heavily indebted to, and builds upon, Francine Frankel's *India's Political Economy* (Chapters 7 and 8). The reasons for this reliance should be explained. Between 1963 and 1967, the Fourth Plan outline presented by the Planning Commission went through so many versions and changes -- about the size of the plan, about its sectoral break-up, about how to finance the proposed investment -- that, left on their own, these documents are almost impossibly opaque. Once systematically related to the various stages of the political battle over economic policy, however, the changes begin to make sense. No one has been able to do this better than Frankel; a rather impenetrable period of Indian planning has become comprehensible as a result. While this section relies on, and adds to, her empirical research, I should record two pieces of disagreement. First, I find Frankel's view of Subramaniam's role and positions unacceptable: she believes that he was simply acting under the influence of the Ford and Rockefeller Foundations and had no worthwhile positions of his own. My research shows otherwise (see section III.5.1). What drove the Food and Agriculture Ministry is not as minutely empirically researched by Frankel as the shifts in the positions of the Planning Commission. Secondly, Frankel believes that the change in agricultural policy was bad for the country. My normative judgment is different and will be more fully developed in Chapter 7. Also, Frankel in 1978 was not so much concerned with understanding policy change as with presenting a history of India's economic policy. I shall later try to convert the historical materials into social science theorizing about state-economy relations in India.

radical fringes of the left of the center, now organized as the Congress Forum for Socialist Action, mounted an attack on the new directions in the offing and called for a return to Nehru's ideals. Their vociferousness was, however, met by the power of the party's middle tiers, consisting of state Chief Ministers, the "state bosses". The first signs of change, embodied in the new agricultural proposals, had already been accepted by the state Chief Ministers; they had been consulted extensively by the Jha Committee. Jha had succeeded in being a "bridge between the Central Government and the state Chief Ministers". 66

Moreover, in his address, the President of the Congress Party, Kamaraj, attacked the Planning Commission for its Fourth Plan proposals. 67 A state boss himself, Kamaraj argued that, compared to the resources that could possibly be mobilized by the government, the projected outlays in the public sector were too ambitious indicating, among other things, wrong economic priorities. In the light of the food situation in the country, he argued, some rethinking about investment priorities was essential, and instead of relying on deficit financing or foreign aid for public investment, the planners should think of private investment as a source. 68

Ultimately, a compromise resolution was passed. The party reaffirmed the goal of "progress towards a socialist society" but recognised the need for "quickening the pace of production, both agricultural and industrial". 69 This was convenient political prose for saying that there were sharp

66 And Subramaniam himself presented his views a second time to the state Chief Ministers on January 1, 1965 at a meeting of the Committee on Agricultural Production in the National Development Council. The National Development Council is the political body which approves the plans of the Planning Commission. It consists of the Prime Minister, the Deputy Chairman of the Planning Commission, the Finance Minister, the Food and Agriculture Minister, the Industries Minister and the Chief Ministers of the various states. He had earlier done so in June 1964 (note 23).

68 Frankel, op cit, pp 266-67.


69 Ibid, p. 266.
divisions in the party.

The next few months were spent by the Food and Agriculture Ministry on working out the details of the new agricultural strategy, on countering criticisms and on an effort to create larger support through debates. Meanwhile, Subramaniam also decided that his strategy should be tried on a pilot basis so that the seed-water-fertiliser package could be tested first and some experience could be gained. The concept of a National Demonstration Program was, thus, born with the 1965-66 season as its starting point. A small amount of new seeds - 200 tons - would be imported from Mexico. A thousand plots with good irrigation would be identified. Seeds and fertiliser would be distributed to the farmers owning these plots. No farmer would be asked to sow the entire crop with the new inputs; rather, "in the midst of traditional agriculture,... two hectares (would be) cultivated with the new technology." This way, the risks would not be high and if the farmer made a loss, the government would recompense him.

While, in the end, this way of phasing the strategy turned out to be a clever move, Subramaniam’s short run political problems worsened with the involvement of foreign agencies in the country’s economic policy. Faced with India’s increasing demand for foreign aid to support its investment effort, the World Bank started a six month long expert evaluation of the entire Indian economy in January 1965. The country was also beginning to feel the effects of a monsoon failure (as it turned out, in 1965-66, food production dropped from 89.3 to 72.3 million tons). To meet its food requirement, India’s dependence on American wheat was likely to increase but the four year PL-480 agreement concluded under President Kennedy was to run out in June and President Johnson’s attitude was not very clear. Section III.5.1 will examine the role of external actors during

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77 Ibid, p. 48.
policy change in detail. It will suffice to note here that external involvement, in India's charged political atmosphere, only increased the level of controversy over policy. Subramaniam had begun to be accused of promoting an "American idea."

Subramaniam had strong supporters, as we have seen, but the number of virulent critics also became large.

**Battle for Resources.** Matters came to a head later in the year when the full financial implications of the new strategy were laid on the table. To the battle for party support was added the struggle for financial resources. Two issues became clear. The agricultural proposals implied that a) the agriculture-industry balance of plan allocations would have to change drastically and b) because of the finances required, particularly foreign exchange, India's development strategy would have to be ideologically reformulated. There would have to be greater role for private investment, both domestic and foreign, larger reliance on the world market, and lesser attention given to the short-run equity goals of state policy.

In August 1965, as the last stages in the preparation of a an approach paper to the proposed Fourth Plan (1966-71) drew near, the Food and Agriculture Ministry released its comprehensive outline of the new strategy for agricultural production. To price incentives and new technology was also added a "betting on the strong" approach. The new inputs would not be spread evenly; that would be suboptimal. Rather, "a few areas with assured rainfall and irrigation" would be chosen for a "concentrated application" of the new inputs so that maximum production results could be realized. This was directly against the Nehruvian attempt to develop backward areas especially

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71 For details, see Frankel, op cit, pp. 268-288.

72 Partly because of the political struggles over planning, the Fourth Plan, originally scheduled for 1966-71, could not come into being till 1969. The period 1966-69 continued to be one of unresolved struggles: many outlines of the Fourth Plan were written and debated.

through public investment.

The foreign exchange component\textsuperscript{74} of the new strategy over the five year plan period (1966-71) was projected to be Rs 1,114 crores (i.e. Rs 11.14 billion, which converted to about $2.8 billion at the then official exchange rate). This was a little over six times the total amount allocated to agriculture during the preceding third plan (Rs. 191 crores). The three largest imports were going to be fertilisers, seed and pesticides. The projected consumption of nitrogenous fertiliser was 2,400,000 tons by the end of plan; in 1965-66 India was producing 450,000 tons and by 1971, the domestic production of nitrogen was expected at best to reach 1,800,000 tons. India did not have a modern seed industry; all new seeds, thus, were to be initially imported. And, as against the installed capacity of about 26,000 tons in 1966, the requirement of plant protecting pesticides was expected to be 76,000 tons.\textsuperscript{75}

For such a large allocation to take place, foreign exchange allocations for industry, it was clear, would have to be drastically cut. Further, in order to generate or expand domestic capacity in fertilisers, pesticides and seeds, foreign and domestic private investment seemed to be the only practical source; the state simply did not have enough resources of its own.\textsuperscript{76} Fertilisers were especially troublesome. Until 1965/66, fertilizers were more or less completely a public sector monopoly. At the initiative of Subramaniam, foreign Investors had already been consulted early in the year. Bechtel International, an American company, was prepared to set up five large factories in collaboration with the Government of India, but, given India’s import substitution thrust and the insistence of Bechtel on complete managerial and technical control during construction and

\textsuperscript{74} The financial magnitudes here and in the following paragraphs are taken from Frankel, op cit, pp. 277-78. I shall not repeat this source in the footnote unless a different source is available.

\textsuperscript{75} Imports of tractors, pesticide sprayers, and power tillers were also projected.

\textsuperscript{76} This was not explicitly stated in the agricultural proposals but the connections were abundantly clear.
substantial control over prices, marketing and distribution, India’s Finance Minister had rejected the proposed arrangement. Apart from the investment Bechtel was going to make, it was also expected to put new factories on stream within three years, whereas the gestation period was expected to be six years for India’s public sector companies.

The proposals of the Agriculture Ministry, therefore, required a severe cut in investment in the planned industries and/or an ideological reformulation of the import substitution strategy. A major policy proposal of this kind, under Nehru, would have gone first to the Planning Commission, which was the sole arbiter of economic policy. It was a sign of the times that the Agriculture Minister chose to disregard the Planning Commission and elected to make a policy proposal on his own.

As would be expected, the Planning Commission found the proposal unacceptable. It proposed a cut of 46 per cent in the outlay projected by the Agriculture Ministry - with fertilisers receiving a 58 per cent cut.

The Planning Commission had its reasons, though they appeared increasingly weak. The planners had once again made a plan which ran into the by now customary - and to some, highly irritating - financing problems. After the criticism by the Congress President a year back that the projected investment of Rs 15,620 crores would require inflationary deficit financing, the planners did reduce the projected investment to Rs 14,500 crores. Also, to accommodate the wishes of the political masters that agriculture be given higher priority, investment for agricultural sector had been increased from 21.8 per cent of the total public outlays in the 1964 proposal to 22.8 per cent in the new 1965 proposal and industrial investment was reduced from 21 per cent to 19.8 per cent respectively."

"Frankel, op cit, p. 282."
But the proposed reduction hardly solved the two big constraints: domestic savings and foreign exchange. The planners estimated the resources that could be domestically raised but, the cut in investment outlay notwithstanding, a "savings gap" of Rs 3650 crores was still left. Only a large increase in public savings could fill this gap. Convinced that new urban taxes were not possible any more, the planners demanded that one fourth of the "gap" be filled by taxing the rural sector, which had contributed barely 2.6 per cent in the total tax revenues of the last three plans. This was exactly the opposite of what the Agriculture Ministry was proposing. It was arguing for a larger investment in agriculture, not higher rural taxes.

The foreign exchange constraint was even more serious. Exports for the plan period were expected to touch Rs 5100 crores but maintenance imports (imports to keep the earlier investments going or to meet other current requirements) and debt servicing required Rs 6650 crores - that is, a "foreign exchange gap" of Rs 1550 crores existed, even before the demand of food and agriculture ministry for Rs 1100 crores worth of foreign exchange came. This demand, if accepted, would push the current expenses deficit to Rs 2650 crores. Finally, if the foreign exchange component of investment expenses was also included, external assistance worth Rs 4000 crores was required. Essentially, this meant that foreign aid would have to go up from its third plan level of $1.1 billion per annum to $1.7 billion per annum. Moreover, this also meant that the foreign exchange and savings gap together constituted nearly half of the total financial requirement for the Fourth Plan.

The Planning Commission, therefore, made it clear that the only affordable way to increase food production was to return to Nehru: to "concerted and well-coordinated efforts of the
Community Development organization, Panchayati Raj institutions and cooperatives. Two months before this formulation, the Finance Minister had also expressed a similar viewpoint at a session of the All India Congress Committee.

Both the proposals - of the Agriculture Ministry and the Planning Commission - were presented to the National Development Council where the central government and the state Chief Ministers were to pass their judgment on the plan. The views of the state governments were known to be pro-agriculture. The Prime Minister also supported Subramaniam. He asked the Planning Commission to give another thought to the fourth five year plan but prepare, in the interim, an annual plan for 1966-67. He, repeated that agriculture be given greater attention in the next plan proposal and advised better utilization of existing capacity industry instead of emphasizing new capacity creation.

III.4.2.3 Resolution of the Struggle and Policy Implementation

Three months later, during which Shastri was, among other things, preoccupied with the brief war that broke out between India and Pakistan, he opted to resolve the policy battle via realpolitik. Instead of asking Krishnamachari to resign on policy grounds, Shastri essentially secured his resignation on personal grounds. In a somewhat mysterious way, an old case of suspected corruption against the Finance Minister abruptly surfaced again - and this time, with particular

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79 Frankel, op cit, p. 273.

80 Based on Frankel's perusal of the Summary Record, 22nd Meeting of the National development Council, Ibid, p. 285. Summary Record is a limited circulation document.
virulence. The Prime Minister instituted an Inquiry, upon which Krishnamachari himself submitted his resignation. One of the strongest opponents of a policy shift and the most important proponent of Nehruvian economic policies at the Cabinet level thus made an unceremonious exit from power, not on grounds of ideology and policy but to save himself from further personal ignominy. Within a day of Krishnamachari’s resignation, a “pliable” Finance Minister, Sachindra Chaudhri, was appointed.

Subramaniam’s victory was even more complete later that year. Upon Shastri’s sudden death barely two weeks after Krishnamachari’s resignation, Mrs Gandhi was elected by the Congress party to head the government on January 19, 1966. The details of her election need not detain us here. What is worth noting here is that the logic that accounted for Shastri’s rise to Prime Ministership is also considered to have led Congressmen to elect her: she was known enough to be

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Krishnamachari was accused of misusing his office to grant special favors to a firm managed by his sons. As to how this case became politically important in December 1965 is still not clear. The usual hypothesis is that the timing was politically intended. For details, see Frankel, Ibid, pp. 287-88.

Another complication was added before the final resignation. The World Bank evaluation, headed by the Bell Mission, was released in October. The World Bank supported Subramaniam’s proposed shifts and criticized Nehru’s economic policies with which the finance minister had been personally associated for nearly a decade. The World Bank aid (as well as the US aid) was made conditional on devaluation of the Indian currency and a reordering of economic priorities. Shastri, along with Subramaniam and his own secretariat, was already headed in the direction of reordering priorities. But devaluation was problematic. First of all, there was no clear cut economic case for it - both Finance and Commerce Ministries had rejected the proposal. Secondly, Shastri did not want to claim responsibility for accepting a recommendation, which seemed to hurt national pride. However, since foreign exchange was needed, a way had to be found. The Finance Minister was not even in broad agreement with the World Bank; the Bank had mauld everything he had stood for. He rejected the call for devaluation outright. Details are available in David Denoon, 1986, Devaluation Under Pressure: India, Indonesia and Ghana. Cambridge, MA: MIT Press, Chapter 2. Shastri now also had to find a finance minister who would take the responsibility for devaluation.

Chaudhri was a Member of Parliament from West Bengal. He was considered knowledgeable on company law but had absolutely no experience in public finance. Moreover, he was on the managing board of several private companies. Nothing more than these facts was known about Chaudhri. It was hard to avoid the impression that the Prime Minister wanted to end the recalcitrance of the most important economic ministry in the country; the left of center factor could not defend Krishnamachari due to the uproar over suspected corruption.
presented as a leader but, without a significant base of her own, she was weak enough to be dependent on the party bosses.

Mrs Gandhi did not disturb the Cabinet composition significantly. But one of her first acts facilitated Subramaniam's task. In addition to his current responsibilities as the Agriculture Minister, Subramaniam was also made a member of the Planning Commission. He had "by-passed the Planning Commission till early 1966", which led to controversies and conflicts. Now, he was a member of the Planning Commission. The intrabureaucratic tension was resolved and the results were dramatic. In September 1965, planners had asked for a return to community development, panchayats and cooperatives. A year later in August 1966, with Subramaniam in the Planning Commission, the new draft outline of the Fourth Plan read as follows:

"If our dependence on imported foodgrains has to cease, it is necessary to make far greater use of modern methods of production.... A new strategy or approach is needed if we are to achieve results over a short span of time. During the last four years as a result of the trials conducted in several research centers in India on exotic and hybrid varieties of seeds, a breakthrough has become possible. These varieties are highly responsive to a heavy dosage of chemical fertilisers........... The long term objective is to organise the use of high-yielding seeds together with a high application of fertilisers over extensive areas where irrigation is assured."**

The planners also accepted the price component of the strategy:

"A...factor which contributed to slow growth in agricultural production was the absence of an effective price policy. Price support policy in the past was aimed at eliminating distress. But its did not provide the incentive needed for dynamic agricultural growth...... Since January 1965, an Agricultural Prices Commission has been set up to keep the price situation under constant review and to advise the Government on price policies. Price and marketing policies will assumed added significance during the Fourth Plan period in the context of a massive effort

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** As reported by Subramaniam himself in the New Strategy, op cit, p. 50.

** Planning Commission, Fourth Five Year Plan: A Draft Outline, Delhi: Government of India, p.175. And specifically on chemical fertiliser, the planners' "bête noire, the draft outline read: "The intensive programme for high yielding varieties in particular will require a large supply of fertilisers. Unless special steps are taken, supplies are likely to be a major impediment. It would be essential to make arrangements for the speedy establishment of the requisite number of factories with sufficient capacity to produce as much fertiliser as possible indigenously. Import from abroad would have to be arranged to make good the shortage of indigenous supply." (Ibid, p. 189).
for securing rapid increases in production.*

Mrs Gandhi, moreover, merged the Ministry of Community Development with Food and Agriculture, a measure that, despite its marked contrast with Nehru's approach, remained relatively unnoticed. What was merged into Food and Agriculture was a ministry especially created by Nehru to supervise the institutional restructuring of agriculture. The merger sealed the political defeat of the institutional approach.

Meanwhile, the National Demonstration Program - the two hectares cultivated with new seed-water-fertiliser technology 'in the midst of traditional agriculture' - also started bearing fruit. Though due to a second successive drought in 1966-67, the foodgrain production at 74.2 million tons was barely up from 72.3 million tons in 1965-66, the islands of two hectares were doing exceedingly well: "Farmers used to come there as on a pilgrimage to see this new wonder and finally, when the harvesting was being done, everybody was amazed that this level of productivity could be achieved on their own land".7 For 1966-67, the Food and Agriculture Ministry had planned to import 5000 tons of wheat seed, but "demand picked up so much" that ultimately, India ended up importing 18000 tons of wheat seeds.8

The fertiliser expenses were also met. The changed Finance Minister was only too willing to comply: "I approached the Finance Minister for resources for the import of fertilizers. At the time of the controversy, the Finance Minister had been very much opposed to the use of scarce foreign exchange for the import of fertilisers for these new varieties, but by the time I made my approach another Finance Minister had been appointed who was more open to influence. We thus secured

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88 Foreign exchange for the additional quantities came from Rockefeller Foundation. Cf, ibid, p. 48
the foreign exchange and mounted an import programme for fertilizers." After two years of intra-bureaucratic struggle, Subramaniam had finally triumphed.

1966-67 was the first year of the implementation of new strategy. Out of a total of 130 million hectares under crops, 2.4 million hectares were to come under new seeds in 1966-67. The projection was that by the end of 1970-71, 2.4 million hectares would expand to 13 million hectares. These statistics were estimated on the basis of how much additional foodgrain the country required to achieve self-sufficiency. 25 million tons, added to the average production level of the mid-sixties, were considered good enough for approaching self-sufficiency, an increase from an average of about 80-85 million tons to 105-110 million tons. Assuming an additional output of 2 to 2.5 tons per hectare with the new seeds, 10 to 13 million hectares were sufficient to meet this requirement.

Were these targets met? What were the actual production results? India's foodgrain output rose substantially from 74.2 million tons in 1966-67 to 95 million tons in 1967-68. Two successive droughts have hardly ever been followed by a third bad year in India. In 1967-68, good weather was overdue and the monsoon did return. But even the most unsparing critic of the new strategy could not have attributed a rise of 20 million tons in a year to the weather alone. By 1970-71, India was indeed producing 108.4 million tons. The area under HYV seeds, starting with 1.9 million hectares in 1966-67, had gone up to 15.4 million hectares in 1970-71, which was higher than expected. Clearly, the new technology had caught the fancy of farmers in the irrigated belt. A green revolution had arrived.

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89 Ibid, p. 37.
90 The projected figures in this paragraph are from The New Strategy, p. 45, the actual figures from Fertilizer Statistics, p. II-33 and p. II-107.
III.4.2.4 Epilogue: Another Political Turn

Subramaniam's policy triumph in 1966 notwithstanding, the factional struggle in the Congress party did not end; it merely rose and fell in intensity. An acute power struggle between Mrs Gandhi and the "state bosses" broke out, culminating in Mrs. Gandhi's decision to split the Congress party in 1969. In a series of aggressive political initiatives, she took a leftist plunge, came up with an ideological and policy program that brought the left of the center back in power and since, as a result of the split in the Congress party, she was reduced to a minority, she even struck an alliance with the Communist Party of India (CPI) to shore up a parliamentary majority that enabled her to continue in power until she won an electoral majority of her own.

A remarkable policy outcome of this new political turbulence was that while India's industrial and financial policy took a leftward turn in the late sixties and early seventies, the agricultural policy did not return to its Nehruvian anchorage. Banks and insurance companies were nationalized, and anti-monopoly laws were passed. But, of the three elements of Nehru's model - land reforms, cooperatives and panchayats - only land reforms were brought back in the debate. Land reforms were, however, no longer viewed as a substitute for the new strategy but as an addition. Figure III.1 explains one of the reasons behind the puzzling ambivalence in policy. The growth in foodgrain output after the new strategy stood in such dramatic contrast to its stagnation before that the success of Subramaniam's strategy was transparently obvious.

Also, consider what happened to imports (Figure III.2). Between 1960/61 and 1965/66, food imports, mostly American wheat, rose while domestic procurement lagged far behind. After the policy change, domestic procurement rose to exceed imports and by 1970/71, the equation had completely reversed.
Figure 11.1
Imports and Domestic Procurement

1960-61 to 1970-71

Million tons

Change in Policy

Years


□ Imports  + Domestic Procurement

Figure III.2
Over the first half of the 1970s, the left continued pointing to the inegalitarian effects of the green revolution with some empirical support.81 At the level of public policy, however, concern for distributive effects did not lead to a reversal of strategy. Rather, new supplementary programs were developed to deal with these effects; small farmer support programs, marginal farmer and agricultural labor support programs, drought prone area development programs etc. The conceptual thrust of these programs lay in using the newly acquired monopoly of the Indian state over commercial banks to provide credit to the poorer classes so that they could also participate in the green revolution. The battle against rural poverty would be fought not by changing the strategy but by operating within the parameters of a production-based strategy.

As a final point, it should be added that the new strategy survived even the absence of Subramaniam in the government. Subramaniam lost his parliamentary seat in the 1967 general elections. His electoral defeat, however, coincided with the beginning of a four year stretch of good harvests. It is conceivable that Mrs. Gandhi’s leftward turn would have affected her agricultural policy, too, if the first results of the new strategy had not been so good. In the event, success spoke for itself. Politics and Ideology had to reckon with it.

III.5

**DID THE INDIAN STATE ACT AUTONOMOUSLY?**

An explanation of state policy in terms of struggles within the state is methodologically incomplete. The state after all operates in a context: the civil society and the international system.

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81 Another work by Francine Frankel looked at the bad distributive effects of green revolution at the micro level. See her *India’s Green Revolution: Economic Gains and Political Costs*, Princeton: Princeton University Press, 1971. More recent reviews, however, indicate that the problem might have a time dimension—short run effects were inegalitarian but over the medium and long run, most groups in rural society were benefitting from the green revolution. See George Blyn, 1983, "The Green Revolution Revisited", *Economic Development and Cultural Change*, Vol 31, no. 4, July, pp. 705-726.
Did the forces outside the state influence its actions or did the state act independently? How does one define independent state action? I take up first the more often cited source of India’s policy change, the pressure exerted by the West. Then I move to its domestic correlate, the dominant class in Indian agriculture.

III.5.1 The Role of External Actors

Three external actors were involved in India’s agricultural policy: the World Bank, the United States Government and the private US Foundations. What was the nature of their influence? Did they cause the policy change? Or did they merely facilitate the policy change already under way? Another way of asking the same question is whether the external actors “leaned against an open door” or they opened a door that was closed.68

It is widely believed in the left circles in India that the policy change in the mid-sixties was a result of Western and/or American pressures, exerted directly via the U.S. Government as well as orchestrated via the World Bank and the Ford and Rockefeller Foundations. However, it is a belief not confined to the left only. The external actors themselves have made that claim. Consider the following claim by the World Bank:

*Changes began in 1966. A number of foreign experts working in India for the Rockefeller and Ford Foundations began pressing the Indian government to import high-yielding wheat varieties... The Indian government decided that the potential of the (new) technology far outweighed its risks...IDA (soft loan window of the World Bank) was closely involved with this decision. It had carried out a massive study of Indian agriculture in close collaboration with the government of India... As a result of this study, an Agricultural Prices Commission was established to set prices at which the government would purchase crops from farmers; the favorable mixture of grain and fertilizer prices it set encouraged farmers to produce more. The Food Corporation of India was created to buy up grain in the good years to store for the lean. Largely as a result of this organizational effort India now maintains comfortable stocks of rice

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and wheat.** (emphasis added)**

In order to judge this claim, it is necessary first to disaggregate the sources, examine what their respective recommendations actually were, at what point was the advice given or influence used, as also what levers they had for influencing the state. It is also necessary to juxtapose this with another set of facts: what developments were under way in India’s agricultural policy, and at what points did the break in policy occur in terms of ideas, institutions and actual implementation? The latter facts have already been presented.

III.5.1.1 The World Bank

Let us take the World Bank first. The claim cited above rests on the fact that the Bell Mission of the World Bank which reviewed India’s economic policy in the mid-sixties was responsible for the change in India’s agricultural strategy (along with the Ford and Rockefeller Foundations). But what did the Bell Mission say about agricultural policy and when?

The central thrust of the Bell Mission’s critique of Nehru’s agricultural policies was as follows: *While additional labor does add to production, increased labor alone will not add enough to keep pace with the needs of a growing population....There must be steps to.... provide price incentives, to back incentives with adequate supplies of needed imports and to promote the credit basis for investment by large and small farmers alike.*** The “needed imports” were mainly fertilisers, pesticides and farm machinery.

** The World Bank, 1983, *IDA in Retrospect*, p. 44.

The Bell Mission was particularly severe on India’s price policy. The Mission argued:

i) Producer prices should be "high enough to make investment in increased inputs profitable.... the Government cannot carry consumer interests to the point of offering disincentive to farm production." *

ii) There should be institutions to support this price policy: "While not being a monopoly buyer or seller, (the government) must try to command the market situation at pre-determined low and high points. To eliminate fluctuations by curbing both extremes, it must command stocks and some assured inflows such as imports..." **

These recommendations are clearly about the desirability of having a price and technology policy in place of a labor intensive, cooperatives-based policy. The last recommendation is also about the necessity of having an institution like the Food Corporation of India. In that sense, they are no different from Subramniam’s approach.

But these recommendations were given in October 1965. Even if it is argued that only the formal recommendations were given in October 1965 and the Mission had started its work in January 1965 (therefore its views must have been known), the fact remains that these policies and institutions were already in place before the Bell Mission started its work. Subramaniam’s price policy paper to Indian cabinet was submitted in June 1964; the Jha Committee was appointed on August 1, 1964; Its recommendations were accepted in October 1964 and, on the basis of the Jha Committee and Subramaniam’s views expressed as early as June and July 1964, the Food Corporation of India (and Agricultural Prices Commission) had already come into existence in January 1965.

* Ibid., p. 47.

** Ibid., p. 51.
Moreover, as pointed out in the previous chapter, since 1956, India's Food and Agriculture Ministers had been arguing for price incentives and technological investments in agriculture. What they always ran against was Nehru's institutional position supported by his power position, which, added to a lack of professional support for their view in the economic bureaucracy, turned out to be the cause of their failure at the level of policy making. A more favorable political context, on the other hand, made a critical difference.

Thus, both in terms of ideas and institutions, a causal case in favor of the World Bank can not be made. That "the changes started in 1966", as the World Bank argues, is a claim that an internal political reading of economic policy does not substantiate. They had already started in 1964.

III.5.1.2 The Role of the US: A Brief Chronology and Some Conclusions

The American involvement was of two kinds: of the Government and of private foundations such as the Ford and Rockefeller Foundations. I take up the US Government first. No less a figure than President Lyndon B. Johnson himself claimed that the shift in India's strategy was "the first important direct result of our new policy." What was the "new" American policy and how did it develop? A brief historical reconstruction of facts is necessary.

Figure III.3 shows India's dependence on imports (predominantly American Wheat) for its

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87 It should be added here that new seeds were not available at that point. The external versus internal dimension of this new technological element is taken up below.

public distribution requirements in the 1960s. India and the US had signed the first of their many agreements under Public Law (PL) 480 in 1957. The US undertook to supply wheat to India at concessional terms, including the provision for payment in rupees for part of the shipments. The agreement represented a marriage of convenience. Given India's foreign exchange constraint, full payment in dollars would have been very difficult of India. The foreign exchange thus saved could be used for imports of capital goods. Moreover, compared to Indian wheat, American wheat was very cheap; wheat imports thus provided a means to circumvent the political difficulties associated with procuring food domestically at low procurement prices for public distribution in the cities. For the United States, exports to India, a large country with a large need, offered a way to reduce its accumulating wheat surpluses.

In 1956, the US started with 3.1 million tons of wheat exports. Over the next decade, however, the exports rose to reach a peak of 8, 10 and 8 million tons in 1965, 1966 and 1967 respectively. While imports from the US were never a large proportion of India's overall production - even quantities as high as 8 to 10 million tons constituted only between 12 to 15 per cent of the total output - the public distribution system for the cities by the mid-sixties became almost completely dependent on wheat imports.

Trouble began in 1965. As India's dependence mounted with the first big drought, the US reserves entered a period of decline. In 1961, the American wheat stocks stood at 38.4 million tons; by 1965, they had declined to 22.2 million tons. Moreover, the prediction for the 1966 crop was bad; production was expected to fall sharply.**

Figure III.3
In the autumn of 1965, faced with declining stocks at home and increasing demand from India, President Johnson himself took charge of wheat exports. He put wheat supplies on a "short tether". Wheat under PL 480 would be supplied but shipments would be released on a short run, month-to-month basis. The Government of India would submit its food needs every month and President Johnson's clearance would depend upon a reform in India's agricultural policy: giving price incentives to producers, increasing fertiliser production under private auspices, and bringing more acreage under irrigation. These demands were communicated to the Indian government in the fall of 1965.100 The curious paradox is that Subramaniam had already moved in this direction a year back and the Food and Agriculture Ministry, as pointed out earlier, had already prepared its detailed policy proposal for the consideration of the National Development Council by August 1965.

Another complication was added soon. The outbreak of the Indo-Pak War in October 1965 led to the suspension of US aid and later, resumption of aid was made conditional upon policy reform that went on to include economic policy in general, as opposed to agricultural policy alone. The changes recommended were the same as those suggested by the Bell Mission of the World Bank, which included greater role in the economy for domestic and foreign private capital, and a devaluation of the currency. Two kinds of aid, thus, got entangled: economic aid and food aid. A second year of drought followed, putting both under greater stress.

Robert Paarlberg's research has thrown some new light on the intrabureaucratic politics surrounding food aid in Washington.101 He demonstrates that, by the spring of 1966, the State Department and Agriculture Department were arguing that agricultural policy reforms in India were

100 Paarlberg, ibid., p. 148

101 Ibid, pp. 144-156.
already in place and, moreover, a second crop failure might lead to conditions of famine: therefore, a short tether policy was uncalled for.\textsuperscript{102} Whatever the Presidential response towards economic aid, the short tether on food aid, it was argued, ought to be lifted. The White House, however, remained uninfluenced.\textsuperscript{103} In June 1966, India finally devalued the rupee by 36.5 per cent, a decision that led to countless political difficulties for the fledgling government of Mrs. Gandhi.\textsuperscript{104} Johnson resumed US aid but, still, "kept the short tether on. No one would starve because of our policies. India would receive the grain it needed but on a month-to-month basis rather than a year-to-year basis."\textsuperscript{104} The short tether was not relaxed even after Subramaniam, during his many trips to the US,\textsuperscript{105} declared in November 1966 that without 2 million tons of immediate shipment, the food stocks in India would be completely exhausted by mid-January.\textsuperscript{107} The short tether policy remained intact until the spring of 1967 by which time the crisis resolved itself since it became clear that, with good weather returning, India was going to have a record crop. Dependence on US wheat, thereafter, continued to decline till India unilaterally terminated the PL 480 agreement on

\textsuperscript{102} Ibid. pp. 151-57.

\textsuperscript{103} Cf: "I stood almost alone, with only a few concurring advisors, in this fight to slow the pace of U.S. assistance .....This was one of the most difficult and lonely struggles of my life." Lyndon B. Johnson, The Vantage Point, New York: Holt, Rinehart and Winston, 1971, p. 225.

\textsuperscript{104} Domestic criticism cut across ideological lines. The mildest criticism was that it was neither "sound economics, nor honourable politics". Trenchant criticisms were more characteristic. Devaluation also figured in the 1967 elections and contributed to the unpopularity of the Congress party. For political details, see Frankel, op cit, pp. 296-302.


\textsuperscript{106} This includes a trip, reports Paarlberg, to the LBJ ranch in Texas where Subramaniam was especially summoned to give a report on progress in the food economy. Johnson announced his decision to release the next shipment to India (Ibid, p. 167).

\textsuperscript{107} Food in quantities required by India at concessional rates was not available from other sources. Requests for wheat went to Canada, Australia, France, the Soviet Union, Mexico and Argentina.
December 31, 1971.\footnote{108}

How do we judge the impact of the US policy lasting from 1965 to 1967 on India's agricultural policy? Change can be said to have been caused by external actors only if the preferences of decision makers were different from those of the external agents. One should also distinguish between the change in agricultural policy and currency devaluation. It is clear that Indian leaders did not want to devalue the currency on their own. The two ministries concerned with such a decision, Finance and Commerce, rejected it outright. Devaluation, in other words, took place in the face of counterpreferences of Indian decision-makers. From what we know so far, it was a result of the combined pressure from the US and the World Bank.

But what of agricultural policy? Let us look at Subramaniam's account first:

"...Johnson always had a sense of self-importance. If anything good or important was happening in the world, it should be a Johnson initiative...he thought the...Indian farmer, the Indian minister and the Indian scientist were not adequate, and that he should take a hand in the initiation of this strategy. He reiterated in speeches that India should adopt this new technology, which, as a matter of fact, created problems for me in India. The speeches gave ammunition to those who were attacking me on the grounds that I was following American advice....We had already announced and taken these steps and I had to tell people that President Johnson was telling us nothing new.......The fact that we had to send our requirements of foodgrains to (President Johnson) every month created many difficulties, not only among the communists but amongst people who were sympathetic to America. Unfortunately, it has to be recognised that America gives generously but does not know how to give. I reached the conclusion that they would give and still create a feeling of enmity...... ...."(emphasis added)\footnote{109}

\footnote{108} However, "In a curious turn of events in the spring of 1968, it suddenly became in the US interests to expand food aid shipments; wheat production was up, farm prices were down. Accordingly, the Department of Agriculture and the State Department approached the Indian government to suggest that India take more PL 480 wheat than it had already requested" (Paarlberg, op cit, p. 156).

\footnote{109} C. Subramaniam, The New Strategy in Agriculture, op cit, pp. 53-4. It should be added that by the end of 1966, Subramaniam had become a special object of attack in Parliament and in the press. He looked like an "American puppet". See Frankel, pp. 306-308. He eventually lost the elections in early 1967. It is, however, unclear what the impact of this criticism on his election was: issues of language were very important in Tamilnadu in the 1967 elections.
Readers of this account and of the chronology outlined above might wonder what exactly drove the White House policy during 1965-67. Devaluation took place in June 1966 but the short tether policy continued till a year later. Moreover, other key policy suggestions - including allowing greater private initiative in the fertiliser sector - had also been accepted by mid 1966. While firm conclusions must await a future historian's judgment when more hard evidence is available from both sides, it is hard to escape the inference that reform in agricultural or economic policy was not the sole, or the main, U.S. objective. The short tether policy continued till the spring of 1967, by which time agricultural reforms were already close to three years in existence and had gone through one year of full implementation. Paarlberg documents the case that many objectives got mixed up - agricultural policy, economic policy, foreign policy - and argues that ultimately what kept the policy going was India's stance on the U.S. policy in Vietnam. Indeed, as American pressure increased, the domestic criticism of the Indian government for its subjugation to the US became increasingly virulent, which in turn made it imperative for the Indian government to criticise the US policy in Vietnam even more strongly. Paarlberg comments that "it was in some ways surprising that Johnson did not understand this."10 Chester Bowles, the US ambassador to India, was also convinced that agricultural policy was not the main reason for the continuance of short tether; India's foreign policy was.11

Does this mean, however, that the US played no role in evolution of India's agricultural policy? Another distinction is necessary - between the origins of the new agricultural policy and its implementation. While the origins of the new agricultural policy, as I have shown, were not affected by the US government since it was already in place, its implementation was. The reason simply is that the new agricultural policy was foreign exchange intensive. To recapitulate, according to the

10 Ibid. p. 166. It is also surprising, one should add, that Indian planners did not anticipate some arm-twisting while preparing a plan with a huge savings and foreign exchange gap.
planners, India's export income was expected to go up by Rs 5100 crores between 1966-71 but the foreign exchange required for implementing the plan - even before the Agriculture Ministry's demand for Rs 1110 crores became known - was Rs 8000 crores. If one included the Agriculture Ministry's foreign exchange projection, then, India was to earn dollars worth Rs 5100 crores but spend dollars worth Rs 9100 crores. Thus, in the absence of a resolution of intrabureaucratic differences, the country was expected to live 180 per cent beyond its means.\footnote{This is exclusive of the domestic savings gap of Rs. 3650 crores, making nearly half of the Rs 14500 crore plan dependent on higher domestic taxes and/or deficit finance plus foreign aid.}

It is here that the World Bank and the US stepped in. Without the foreign exchange, the implementation of new agricultural policy would have been much slower. It would not have been impossible for, given the intense struggle in India in the changed political context, it is unlikely that the Planning Commission would have forced the Agriculture Ministry to cut its outlay, without the Commission cutting its own industrial outlays simultaneously. Thus, in the end, the primary role of the US and the World Bank consisted in facilitating the implementation of the new agricultural policy by providing resources for importing fertilisers and other allied inputs upon which depended the success of the new policy.\footnote{Due to a variety of reasons, the actual amount of aid, eventually, fell below the promised level. It did not, however, fall too low to endanger fertiliser imports seriously. India, on its part, did not implement the entire set of economic policies to which it had reluctantly agreed, given the need for aid. The overall result was a further rift in the Indo-US relations. A future historian may well find that the turning point in Indo-US relations was not the Bangladesh War of 1971 but the economic relationship of the mid-1960s. Mrs. Gandhi, with the exception of 1977-80, remained India's Prime Minister from 1966 to 1984. 1971 War could turn out to be a derivative of the perceptions formed by her and others between 1965-68.} They did not cause the change.

III.5.1.3 The Role of Ford and Rockefeller Foundations

It remains now to examine the role of private American Foundations. Since 1954, the Rockefeller Foundation had taken the lead in setting up institutions of agricultural sciences in India.
Supported further by the Ford Foundation, this effort had led to the development of a substantial pool of agricultural scientists and qualified manpower by the mid-sixties.\textsuperscript{114} An important result of such institution building was that a large infrastructure for conducting research and verifying the results of the new HYV seeds was already in place when Subramaniam reorganized the institutions of agricultural sciences in 1964 for the new strategy. Eventually, when the potential of the HYV seeds, particularly those developed by Norman Borlaug of Mexico, was brought to Subramaniam's notice by the personnel of the Rockefeller Foundation in Delhi, his response was quick. He was impressed by the scientific evidence presented by the Rockefeller Foundation from its worldwide network of research institutions. Tests under laboratory conditions in India seemed to confirm these results.\textsuperscript{116} Next, it was a matter of testing the new seeds on actual farms. The institutions and manpower which already existed facilitated the complex scientific and experimental tasks involved in introducing new technology. Rockefeller Foundation also provided the resources to import the new seeds later when Subramaniam was faced with foreign exchange difficulties.\textsuperscript{117}

\textsuperscript{114} For a detailed treatment, see Uma Lele and Arthur Goldsmith, 1987, "Building Agricultural Research Capacity: India's Experience with the Rockefeller Foundation and Its Significance for Africa", Discussion Paper, Development Strategy Division, the World Bank, forthcoming in Economic Development and Cultural Change. Lele and Goldsmith argue that institution-building was by far the most valuable contribution of external actors to Indian agriculture.

\textsuperscript{116} Cf: "When it became known that I was prepared to consider new approaches to agriculture based on the new advances in science and technology, Dr. Ralph Cummings of the Rockefeller Foundation in India came to me one day with the message of the high yielding varieties. The Rockefeller Foundation along with the Ford Foundation had been working towards the introduction of the high yielding varieties programme into India by obtaining small quantities of seeds of high yielding wheat varieties from Mexico. They supplied them to the various laboratories, particularly to the Indian Agricultural Research Institute in Delhi and to Ludhiana Agricultural University and asked them to test their response to the various soil and climatic conditions in India. Dr. Cummings gave me an account of how, on the research farms attached to the research laboratories, these varieties had been found to be quite productive. He told me that up till then these seeds had not been distributed for pilot experiments in the farmers' fields. \ldots \ldots\nOnce I received this message, I decided to proceed with the formulation of a strategy to utilize these new varieties.\ldots\ I established three panels: a scientist panel, a panel of agricultural economists and a panel of agricultural administrators." C. Subramaniam in The New Strategy, op cit, pp. 22-3.

\textsuperscript{117} Cf: "For 1966-67, \ldots with the foreign exchange provided by the Rockefeller Foundation, the team was able to buy 18,000 tons of wheat seeds." Ibld, p. 48.
What conclusions can we draw from this? There is no doubt that hybrid seeds were an entirely new element in the production package in the mid-sixties. However, it should also be stated that without the political context in which Subramaniam worked, this fact itself would have been of little consequence. To repeat, minus the new seeds which were not available before the mid-sixties, India's Agriculture ministers had been asking for a generic strategy based on prices and technology since 1956. They were, however, unable to displace Nehru's institutional view. It is particularly worth mentioning that a Ford Foundation study published in 1959 had supported the view of the Agriculture Ministers.\footnote{17} Yet a change in agricultural policy was not what the Ford Foundation managed to achieve. Instead, the outcome was a small pilot project, known as the Intensive Agriculture District Program (IADP) covering only 13 districts. Moreover, the results of this program were mixed and did not provide an unambiguous support to the idea of concentrating fertilisers and organizational effort on areas with assured irrigation.\footnote{18} The difference in the mid-sixties was that a crusading Agriculture Minister had taken charge, the political context had changed and the agricultural crisis was deeper.

### III.5.2

**RURAL SOCIETY AND PUBLIC POLICY**

This brings us to the role of the groups within India’s countryside. Three issues are involved here and they should be separated: How organized were the social groups in the countryside? What was their relationship to agricultural policy \textit{per se}? And, finally, did they want a price and technology policy as opposed to an institutional one?

\footnote{17} Government of India, 1959, \textit{Report on India’s Food Crisis and Steps to Meet It}, by the Agricultural Production Team of the Ford Foundation, Delhi: Ministry of Food and Agriculture and Ministry of Community Development and Cooperation.

Examining the relationship between agrarian demands and public policy, the first study of
interest groups in Indian polity published in 1962 concluded:

"(Agricultural) Policy is debated - often hotly debated - within the Ministries of Community
Development and Cooperation, and Food and Agriculture, the Planning Commission, and the
Congress Party. Other political parties, intellectuals in general, have heatedly discussed the
relative merits and defects of ceilings on landholdings and most recently, proposals for
cooperative farming. But one could write the history of the postwar agrarian policy in India,
and of the political struggles which have entered into making such policy, with little or no
reference to farmer organizations." 118

This claim by Myron Weiner about what drove agricultural policy in the late fifties and the early
sixties remains uncontested. Later studies provide support to his claim. 120

In his study, Weiner looked at two types of rural groups - big landlords on the one hand and the
small peasantry and the landless on the other. Neither group had any impact on policy
formulation. As for policy implementation, the former groups were unorganized but powerful
enough to defeat full implementation; the latter groups were generally more organized than the
landlords, or at any rate, serious attempts were made to organise them on a large scale, but the
process did not make enough headway to ensure that policies aimed at benefitting them were
indeed faithfully implemented. The poor peasantry, thus, neither affected policy formulation nor
policy implementation. Let us see how this process worked itself out.


120 These would include Francine Frankel, op cit, and Paul Brass, 1984, "Division in the Congress and
the Rise of Agrarian Interests and Issues in Uttar Pradesh Politics" in John R. Wood, ed, State Politics in
Contemporary India, Boulder and London: Westview Press. Brass reviews policy struggles in a major
state, Uttar Pradesh, and shows how struggles there essentially took place inside the state government
in response to happenings in New Delhi.
Landlord influence or pressure, most effective at the local level, progressively eroded as one moved up the hierarchy, from the local setting to the central government in Delhi. At the local level, the effectiveness of influence was not because landlords were "organized". They belonged to many castes and even when, in a given area, they came from a single caste, there were intense internecine conflicts. Moreover, by declaring landlords oppressors, the left nationalist factions at the top echelons of Congress had destroyed the ideological legitimacy of any landlord groups that might have formed to fight the government. In the circumstances, a micro-strategy - i.e. individual and discrete as opposed to group-orchestrated and organised - appears to have become the strategy of most landlords. Rather than fighting the Congress party as an organised interest group or class, they simply infiltrated the party to protect their interests. Their objectives were aided by the fact that the Congress party needed these "men of power and prestige" to reach out to the countryside. The declared oppressors were also the "natural leaders" at the local level. This paradox has by now become a standard academic observation. Nothing supports it better than a remarkable passage discovered recently by Paul Brass from a confidential note written in 1953 by Dr. Sampurnanand, Chief Minister of the key state of Uttar Pradesh in the mid-fifties, to his top party colleagues:

"It comes to this that we have antagonised every class which has so far possessed education, wealth, social status and consequently, influence..... The classes to which I have referred above belong, in general, to the Brahmin, Rajput, Bhumihar, Kayastha and Vaishya communities, namely the "higher castes". The measures which we have adopted and apparently intend soon to adopt, have had the definite tendency of affecting adversely the interests of the higher castes who, it must be remembered have, in general, been the people from whom the Congress has derived the greatest measure of support in the past. They have been culturally affiliated to our leadership and we have come to office literally on their shoulders."  

[121] Brass, "Division of the Congress", op cit. Brass has been able to get access to the personal files of Charan Singh, one of India's most prominent peasant leaders who died in 1987 and whose political career, from the early fifties to the early seventies, included Cabinet posts and Chief Ministership in the state government of Uttar Pradesh. Singh, in the late seventies, went on to hold Cabinet posts in New Delhi including a brief spell as Prime Minister. Singh's personal records from the 1950s have put in sharper relief the gap between the reality in states and Nehru's normative world view decreed from Delhi.
Some landlords, however, were not content with merely providing "shoulders". They actively applied pressure in the state capitals, pressure aimed at shaping land reform legislation in a manner that would permit enough legal loopholes: giving land ceilings an individual as opposed to a family definition, raising in the process the effective land ceiling for a given family.\textsuperscript{122} The mechanism for this was getting elected on a Congress ticket for the state legislative assemblies and manipulating legislation there. The state capitals were, however, the uppermost layer of landlord power. New Delhi was virtually devoid of any significant landlord influence.

Thus, without a political organization of their own, the landlords managed to exercise enough power. Their source of power was structural: their position in the local power hierarchies enabled them to beat back the legislative pressure locally and manipulate it at the state level. Failure of policy implementation was an aggregate effect of a series of such discrete micro-strategies, not of collective action.

What about the small landowners and the landless? Were they organised? What impact did they have on state policy? Many organizations had attempted to organise the peasantry, including some led by the ruling Congress party. The process started with the emergence of many, loosely knit and small Kisan Sabhas (Peasant Associations) in 1926-27.\textsuperscript{123} A confederation of these associations, All-India Kisan Sabha (AIKS), came into existence in 1936/37. By the mid-1950s, however, a massive splinterization had taken place in the peasant movement. The various ideological streams kept splitting the AIKS: first there was a split between Marxists and Gandhian Socialists in 1942; then a split among the Marxists took place in 1944 with a breakaway group led

\textsuperscript{122} See, for example, F. Tomassan Januzzi, 1974, \textit{Agrarian Crisis in India: the Case of Bihar}, Austin: University of Texas Press.

\textsuperscript{123} For a larger description of the peasant movement before 1947, see A.R. Desal, 1968, \textit{Social Background of Indian Nationalism}, Bombay: Popular Prakashan, pp. 188-194.
by Swami Sahajanand Saraswati, a respected peasant leader; and finally, when the Communists started an insurrectionary movement to overthrow the Indian government right after independence, their organization, paradoxically, weakened since they were banned till their strategy changed from violent insurrection to accepting electoral routes as an important means of conducting Marxist politics. By the mid to late fifties, a score of peasant organizations had come into being: a Communist-inclined Kisan Sabha, a Congress-supported Farmers Forum, many Socialist peasant organizations and many other local groups unidentified to political parties. These various bodies had their pockets of influence but there were no effective nationwide peasant organizations. 134 In areas where the peasant organizations were strong, they had some impact on policy implementation (land reforms were better implemented); elsewhere, they had little influence; and in any event, they were not strong enough to have any impact on policy formulation.

As to why the Indian peasantry could not be made, or did not become, more rebellious and have an impact on the Indian state, a la the Vietnamese or Chinese peasantry, is too complex a question to investigate in detail here. Paralleling the rise of peasant studies in the West in the 1970s, a "subaltern studies" group has become important in Indian historical studies. In an attempt to correct the earlier bias of Indian historiography towards the kings, queens and the state, the "crowd in history" has been discovered, claims about peasants being a "subject" as opposed to being an "object" of history have been made but an answer to the question raised above has not yet come forth. 135

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135 See the various volumes of Subaltern Studies, edited by Ranajit Guha and published by the Oxford University Press, Delhi.
It may be that the question is unanswerable. For even generally, scholars who had initially emphasized the insurrectionary capacities of the peasantry and their powerful impact on states and history are currently revising their positions. Upon further reflection and detailed empirical research, James Scott, author of the influential *The Moral Economy of the Peasant*,126 has concluded that "the emphasis on peasant rebellion was misplaced" because:

"The fact is that, for all their importance when they do occur, peasant rebellions, let alone peasant revolutions, are few and far between. Not only are the circumstances which favour large-scale peasant uprisings comparatively rare, but when they do appear, the revolts which develop are nearly always crushed unceremoniously. ........It (seems) far more germane to understand what we might call everyday forms of peasant resistance -..... footdragging, dissimulation, false compliance, pilfering, feigned ignorance, slander, arson, sabotage, and so forth. These Brechtian forms of class struggle... require little or no coordination or planning; they often represent a form of individual self help; and they typically avoid any direct symbolic confrontation with authority or with elite norms. ...... It would be a grave mistake...overly to romanticise these "weapons of the weak". They are unlikely to do more than marginally affect the various forms of exploitation which peasants confront."127

The absence of a powerful, large scale peasant movement in India, thus, may not be considered such an exception after all. In India's case, given the dependence of peasants on landlords and the structure of landlord power, the only way peasants could have become a powerful force was if a political party had mobilised them to counter the power of landlords and provided them protection. The most powerful party, however, turned out to be dependent on landlord support. This vicious circle could not be broken, except in the two states of West Bengal and Kerala which came under Communist influence.128


127 *Journal of Peasant Studies*, Vol. 13, no. 2, January 1986, pp. 5-6. Scott's revised and forceful formulations are now available in *The Weapons of the Weak*, New Haven: Yale University Press, 1986. If the reviews of this book are any guide, Scott seems to be redefining the agenda of peasant studies once again by emphasizing the "Brechtian forms of class struggle". See, for example, the review by Mick Moore in the *Modern Asian Studies* (Fall, 1987).

128 Why Communist influence did not expand beyond these states - a small state of Tripura has been added to this list recently - is yet another difficult question to answer. No studies of why the Communists succeeded in these states but remained a weak political force nationally are available.
Having explicated thus the level of organization of landlords and peasants and examined their impact on state policy, we are now left with our third question: what were the attitudes of these groups, organized or unorganized, towards a price and technology policy? The question has been partly answered by the discussion so far. If these groups did not matter in policy formulation at all but made their presence felt only in policy implementation, then their positions, if there were any, on alternative policies were immaterial. Still, it might be worthwhile to look at what the general picture of attitudes towards agricultural policy at various layers of the policy was. Weiner sums up:

"One encounters a marked change in attitudes toward agricultural policy as one leaves the office of ministers and planners in New Delhi and enters the homes of state legislators. At the top, there is support for more substantial land reform measures, for greater concentration of public resources and skilled personnel in limited areas, and for higher rural taxes; while at the state and local level, the sentiment is against tampering with the prevailing land system, is in favour of greater public investment throughout the rural areas and is reluctant to see any major increases in taxes. The differences in viewpoint are clearly related to differences in political position; the distance of the national leadership from rural political pressures disposes them toward a program which they justify primarily on economic grounds, while state and local leaders are sensitive to sentiments within constituencies and are therefore disposed towards policies based on political considerations."129

Two things are apparent. First, a set of attitudes towards policy existed at the lower levels but there was no organised lobbying. Second, missing even from the attitudes was a notion of prices and technology; at best, a general inclination towards higher public investment existed.

III.6

CONCLUSIONS

Let us sum up the discussion now. The sources of policy change in policy lay within the country. The external actors facilitated the implementation of the strategy through financial support or by supplying information to decision makers in a political climate that was more conducive to a policy change than before. They could not bring about the changes in the face of

129 Weiner, op cit, p. 152.
counterpreferences - that is, when the key decision making elite in India had a view different from that of the external actors. Once the elite changed substantially, once the counterpreferences turned weak in the political structure, once the new preferences close to the view of the external actors emerged with a power base in the domestic setting, a new strategy came into being.

Similarly, mobilised interests (groups or classes) in the civil society did not lead to a change in India’s agricultural policy. Interests in the Indian countryside were first of all not organised enough. Secondly, no groups, whatever the level of organization, were clamouring for a price and technology strategy. This does not, however, mean that the civil society did not have any impact on state policy. While there may not have been pressure from groups towards adopting a price and technology strategy, it was abundantly clear that the institutional strategy was not succeeding and had little chance of success: classes that the institutional strategy aimed at defeating were precisely the classes that held power in the countryside. Evolving a more pragmatic alternative to the institutional strategy, therefore, seemed increasingly necessary as years under Nehru passed by. As to what this alternative should be was left unspecified by the classes that held power in the India’s villages. The battle for policy was essentially fought within the state institutions - by political leaders holding different visions of the agrarian economy and leading different factions of the ruling party, along with their bureaucratic allies.

Did the state-society equation stay the same even after the new agricultural policy came into being? Did agrarian groups grow powerful enough to influence agricultural policy? The next chapters deal with these questions. They document the rise of a new agrarian force in Indian society and trace its impact on the economic behaviour of the Indian state.
CHAPTER 4
RISE OF AGRARIAN POWER IN THE 1970S

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   IV.1.1 Where Politics Enters the Policy Process

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CHAPTER 4
RISE OF AGRARIAN POWER IN THE 1970S

Viewed from the perspective of national politics, the decade of the 1970s was a turning point for rural India. Until the late 1960s, the power of dominant agrarian groups was confined to state politics. As argued in the last two chapters, these groups had the capacity to defeat the implementation of agricultural policy but they had little control over its formulation which remained a function of intragovernmental struggles and factional battles within the top rungs of the Congress party.

By the end of the 1970s, a new agrarian force had emerged in national politics. On the one hand, this force was dramatically represented in the personality and ideology of Chaudhary Charan Singh, one of the most powerful peasant leaders in post-independence India, who, as the decade moved through its last three years, came to occupy important ministerial positions in the central government and brought his peasant-based party into the uppermost layers of the power structure. On the other hand, new ideologies of rural political mobilization began to take firm roots. Agricultural prices increasingly came to replace land reforms as the major element in agrarian unrest. This was a development with major political implications since land reforms had mobilized only the subaltern rural classes against the landlords, never the rural sector as a whole. Agricultural prices, as the decade closed, began to emerge as a sectoral as opposed to a class
issue which attracted, to the great surprise of urban intellectuals, small farmers, too.\(^1\) A battle cry of rural versus urban India, not tenants versus the landlords, made its entry in the ideological discourse of Indian politics. The next decade would more fully witness the political impact of this change; the 1970s, with substantial clairvoyance, ushered in the shape of things to come.

What were the key moments in the rise of agrarian power over the 1970s? And what impact did the change in political universe have on agricultural policy and how? These are the two central questions addressed in this chapter. The emphasis will be on food prices, politically the most contentious aspect of India’s agricultural policy.

The clash between the economic and political arguments on food prices will be a recurring theme in this chapter. For most of the decade, the economic bureaucracy, basing its arguments on accepted canons of economic theory, had to contend with the steady rise of agrarian power. The economic bureaucrats\(^2\) kept calling the attention of politicians towards the impact of high food prices on inflation, on budgetary subsidies, and on welfare levels of the poor - in other words, on the macroeconomic implications of food prices - while not denying the role of prices in stimulating food production. The politicians were more inclined to give precedence to production considerations while not completely ignoring the implications for the rest of the

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\(^1\) Having said this, I should add that the issue of whether high agricultural prices benefit only the rich and middle peasantry at the cost of small peasants and landless workers in the countryside, or they benefit the rural sector as a whole, is a contentious one. It has an economic (who objectively benefits) as well as a political side (who supports the demand for high farm prices and why). A comprehensive treatment of the subject can be attempted only after the political and social bases of rural mobilization on farm prices are discussed in the next chapter. For the purposes of this chapter, I shall assume the greater correctness of a sectoral, as opposed to a class, interpretation. In Chapter 5, I shall demonstrate how the peasant agitations of the 1980s politically bear this assumption out, despite its messy economics.

\(^2\) As we shall see, there were divisions within the economic bureaucracy. The summary presented in this paragraph captures the central tendency of the economic argument made.
economy. Whether the stated belief of the politicians in the production side of prices was genuine or it was simply a window-dressing for appeasing the powerful surplus producers, or whether remunerative prices were seen a much needed corrective to the historical neglect of the countryside are questions that can not be conclusively answered. All these elements, it seems, were involved in varying degrees. What is clear, however, is that the politicians could not completely overwhelm the economic bureaucracy. The production argument for prices did win out but the margin of victory was, more often than not, tempered by considerations urged by the economic bureaucrats -- considerations such as the impact of food prices on budget subsidies, inflation and the poor.

To put the discussion in perspective, I shall begin with two general profiles. I shall describe first the price policy process and the institutions involved in making price policy so as to demonstrate the points at which politics can, and does, affect what is ostensibly a technical or economic decision (Section IV.1). Then, in Section IV.2, I shall deal with the changing face of the Indian politician, concentrating on the socio-economic composition of India's parliament, and showing the increasing ruralization of the structure of political representation. Having thus set the background, I shall move to three key points in the rise of peasant power over the decade. Section IV.3 will discuss the first phase (1971-73) when, faced with the beginning of what turned out to be an unending series of political attacks on technocrats making agricultural policy, the Agricultural Prices Commission, which is the key state institution responsible for determining agricultural prices in India, began to lose its political innocence. Section IV.4 will discuss how, in the next round, the power of the rural surplus producers - at the state level and on the ground - led to the miserable failure of a policy change decreed from above - namely, nationalization of foodgrains trade in 1973-

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As would be expected, the politicians also did not speak with one voice. Most of them, however, argued this way and as the decade ended, a consensus on the necessity of remunerative prices had started emerging.
74. Section IV.5 will, finally, trace the implications of the defeat of Mrs. Gandhi and the victory of the Janata Party in 1977 for agrarian groups. It will be shown how, despite reaching the uppermost levels of power in 1977, the agrarian ideologues could not, for one reason or another, drastically change the agricultural policy regime.

IV.1

INSTITUTIONS AND THE POLICY PROCESS

NORMS AND PRINCIPLES

Established in 1965 with the new agricultural policy regime, the Commission on Agricultural Costs and Prices (CACP), called Agricultural Prices Commission (APC) until 1985, is the institutional centerpiece of the economic bureaucracy dealing with agricultural price policy. It is a technical advisory body that recommends support and/or procurement prices for the major agricultural commodities, including foodgrains, every year. Its recommendations are not mandatory. It is for the political wing of the government - the Cabinet - to accept or reject the recommendations of the CACP.

The terms of reference of the CACP require consideration of the following objectives while recommending fixed prices: (i) provision of incentives to the producer and maximization of production; (ii) the likely effect of the prices recommended on the "rest of the economy, particularly

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*I shall use the two names interchangeably. This section will use CACP but in the next section, to ensure consistency with the quotes used, I shall switch to its original name, APC.*

*In addition to wheat and rice, the CACP recommends prices for sorghum, millet, maize, oilseeds, pulses, sugarcane, cotton and jute.*

on the cost of living, level of wages, industrial cost structure etc.; iii) balanced growth of the output of different crops.

The CACP is involved with three sets of prices - support, procurement and issue prices respectively. Support prices are the floor below which producer prices are not allowed to fall in the event of abundant supplies, thereby ensuring that higher production does not entail an income loss for farmers. To achieve this, support prices seek to cover the costs of production of the farmer and the government buys all grain offered at this price. Procurement price, on the other hand, is the operative price when supplies are not abundant and market prices are not crashing. It is a price at which the government purchases the quantities required for public distribution and for building up a buffer stock. Issue prices are the prices at which consumers buy grain from the public distribution network. Issue prices are determined on the basis of the costs of procurement, storage and distribution but more often than not, as the later discussion would show, the level of issue prices has depended heavily upon the ability of the government to bear the subsidy that public distribution entails.

Price recommendations of the CACP are considered by the central Ministries of Food and Agriculture, Finance and Planning, and in the case of export crops, also by the Ministry of Commerce. The concerns of these respective Ministries have already been laid out in the previous chapter. To briefly recapitulate, the Finance Ministry is basically concerned with the impact of the

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7 Ibid, p. 21.

*The cost plus principle of price determination is highly contentious. At issue is not only whether costs of production should be the principle for determining support prices but also whose costs should be covered (different regions and, within the same region, different farm sizes would have different costs of production) and how they should be calculated (whether land rent should be placed on the cost side of the equation or the income side). For a brief review of the problems involved, see Peter Timmer, 1988, "Analyzing Rice Market Interventions in Asia: Principles, Issues, Themes and Lessons", in Asian Development Bank, 1988, Evaluating Rice Market Intervention Policies, Manilla: Asian Development Bank.
food prices recommended by the CACP on the general price level in the economy and on the level of food subsidy. The Planning Ministry’s concern is the general price level, too, for on that depends the real value of planned investments. The Food and Agriculture Ministry is concerned with the impact of these prices on food production and procurement. Both how much is procured and how much is produced may be sensitive to the price given to the producers.

Since procurement at the CACP prices takes place in various states whose agencies, in addition to the central government’s Food Corporation of India (FCI), are involved in buying grains from farmers and traders, the opinions of the Chief Ministers of state governments are also sought on the CACP recommendations. The purpose is to come to an agreement over prices and statewise procurement targets. Contributions on the basis of pre-agreed state quotas constitute the central pool of foodgrains. The central pool, in turn, feeds the public distribution network, which is operated by the state governments. The distribution network covers mainly the urban centers.⁹

From the viewpoint of food production and distribution, states can be divided into surplus and deficit states. States whose contributions to the central pool exceed their offtake from it are called surplus states. Conversely, when offtakes exceed contributions, the situation is one of deficit. As would be expected, the surplus states typically ask for high producer prices: the higher the price, the greater the income of the surplus state. Contrariwise, deficit states press for low prices: the lower the producer price, the lower the budgetary burden on a deficit state.¹⁰

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⁹ The states of Kerala and West Bengal, where over the last twenty years Communist governments have often been elected to power, have a rural public distribution network, too.

¹⁰ Over the last decade, due to increasing agrarian mobilization, even deficit states have started demanding high prices.
In the main, there have been three wheat surplus states - Punjab, Haryana and Uttar Pradesh - all located in North India.\textsuperscript{11} There have been four rice surplus states - the southern Indian state of Andhra Pradesh in addition to the above three.\textsuperscript{12} Surplus states end up having a large voice in decision making since on their contribution and cooperation depends the viability of the public distribution network. Figures 4.1 and 4.2 demonstrate the extent to which these four states have dominated the central surplus -Punjab, in particular. Since 1971-72, Punjab, Haryana and Uttar Pradesh have accounted for more than 90 per cent of the total wheat procurement (with Punjab contributing between 50 to 70 per cent in any given year). In the case of rice, while from the early to mid-seventies, the three north Indian states and Andhra Pradesh contributed between 52 to 60 per cent of the total rice procured, this proportion over the last decade has gone up markedly and now fluctuates between 80 to 90 per cent -- most of it due to the rise in Punjab's contribution. From the viewpoint of public stocks (and marketable surplus), Punjab's overwhelming preponderance is unmistakeably clear.

After the considerations of the central Ministries of Finance, Planning, and Food and Agriculture, and the state governments, the CACP may or may not change the price it originally recommended. The final decision is taken by the central Cabinet. As would be shown later (Section IV.5.3), the Cabinet has on several occasions fixed a price higher than the one recommended by the CACP. The price thus fixed for the entire country is the price at which the central procurement agency - the Food Corporation of India - buys grains from the various purchasing centers strewn all over the country. State governments can pay a higher price to the producers for their own buying operations so long as they can fund such operations from the state

\textsuperscript{11} Madhya Pradesh is the other state which has sometimes produced a surplus.

\textsuperscript{12} Some major rice producing states - Tamil Nadu, West Bengal and Bihar - have not been surplus producers. Their requirements, due to their population size and dietary patterns, have been higher than their production levels. Orissa and Madhya Pradesh, on the other hand, have in some years been rice surplus states.
CONTRIBUTION TO THE CENTRAL POOL

WHEAT, 1971/72 to 1985/86

Punjab, Haryana & U.P. combined

Punjab

U.P.

Haryana

Figure IV.1
CONTRIBUTION TO THE CENTRAL POOL

RICE, 1971/72 to 1984/85

Punjab, Haryana, U.P. and Andhra Pradesh

Punjab

U.P. & Haryana

Andhra Pradesh

Figure IV.2
budget. However, they must contribute quantities to the central pool in accordance with a pre-agreed target for which the central government would pay the central price, not the marked-up state price.

IV.1.1 Where Politics Enters the Policy Process

What are the points at which, in the policy process outlined above, politics intersects with an economic decision? There is, first of all, the issue of what the composition of the CACP is and what its terms of reference are. The CACP is the institution whose recommendations constitute the benchmark for the final decision. Whether accepted or rejected, the recommendations of the CACP are the pegs on which depend the decisions of the political wing of the government. In addition to the Chairman who is an economist, the Commission has three members. It matters what the vector sum of the world views of the members of the Commission is: whether it is tilted more towards what the impact of food prices on food production is or towards what their impact on the poor food consumers, industrial cost structure and the level of inflation is. It is not surprising, therefore, that the composition of the CACP and its terms of reference have turned out to be an object of political struggle.

The Commission works on a cost-plus principle: producer price is equal to the cost of production plus some appropriate margin. The principles of cost determination are, therefore, another area of political debate and struggle. In a country with regions and states at different levels of technological development, there is bound to be a large variation in costs across regions and, within the same region, across different farm sizes. Some states like the Punjab have irrigation for nearly 80 per cent of the arable land; some like Bihar for only 30 per cent of the land. Since irrigation affects yields per acre - therefore, costs per unit of the output produced - one would expect costs to vary in different parts of the country. Similarly, small landholdings may not be able
to achieve economies of scale; biochemical inputs of the new technology are considered scale neutral but mechanical inputs are not. Different farm sizes, therefore, would also have varying cost structures. Whose costs - regionwise, sizewise - should be considered while recommending price? Is there a technical way of resolving the problem? Is the technical solution, if any, also politically acceptable? These issues have surfaced again and again in political debates over food prices.

Thirdly, there is the point at which the "technical" judgment of the CACP gives way to the open political process. The Central government is the ultimate declaratory body for an all-India price. It can provide a mark-up on the price recommended by the CACP. State governments, as explained earlier, are also consulted on the price recommended by the CACP. Since their cooperation is essential for a successful procurement of grains, views of the states that contribute large quantities to the central pool must be accommodated to some extent. If dissatisfied with the mark-up provided by the central government or if the CACP does not change its recommendation, state governments can, additionally, mark-up the price for their own purchases from the farmers and traders. Tables 4.1 and 4.2 provide evidence of how pervasive the state mark-ups were until 1977.\(^{13}\)

Finally, there is the issue of what determines whether the central and state governments would be willing to provide a mark-up and to what degree. On one side enters the issue of the availability of budgetary resources: what mark-up can be given depends to a great extent on how much is available in the government budget. On the other side comes the ideological view of the decision makers as well as the interest of the government in maintaining political support in the society. When price agitations spread in the country affecting the political

\(^{13}\) For state purchases, until 1977-78, food credit was available from the Reserve Bank of India. Since state governments started paying higher producer prices regularly with huge overdrafts, the Reserve Bank cancelled this facility. Since then the incidence of mark-ups by state governments has drastically declined. States now have to finance mark-ups from their own current budgetary resources.
TABLE 4.1

MEAN EXCESS OF WHEAT PROCUREMENT PRICE FIXED BY STATE GOVERNMENTS OVER THE PRICE RECOMMENDED BY THE AGRICULTURAL PRICES COMMISSION

Average of Eleven Years (1966-67 to 1976-77)

<table>
<thead>
<tr>
<th>State</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bihar</td>
<td>7</td>
</tr>
<tr>
<td>Gujarat</td>
<td>9</td>
</tr>
<tr>
<td>Haryana</td>
<td>9</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>4</td>
</tr>
<tr>
<td>Punjab</td>
<td>6</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>8</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>8</td>
</tr>
</tbody>
</table>

TABLE 4.2

MEAN EXCESS OF RICE PROCUREMENT PRICE FIXED BY STATE GOVERNMENTS OVER THE PRICE RECOMMENDED BY THE AGRICULTURAL PRICES COMMISSION

Average of Twelve Years (1964-65 to 1975/76)

<table>
<thead>
<tr>
<th>State</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>3</td>
</tr>
<tr>
<td>Assam</td>
<td>8</td>
</tr>
<tr>
<td>Bihar</td>
<td>12</td>
</tr>
<tr>
<td>Haryana</td>
<td>4</td>
</tr>
<tr>
<td>Kerala</td>
<td>7</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>5</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>3</td>
</tr>
<tr>
<td>Orissa</td>
<td>4</td>
</tr>
<tr>
<td>Punjab</td>
<td>5</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>3</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>4</td>
</tr>
<tr>
<td>West Bengal</td>
<td>8</td>
</tr>
</tbody>
</table>

support of the party or government in power, a need for responding to the agitations is normally perceived. Pressures emerging from the polity affect the willingness of the government to put additional burdens on the public exchequer or redraw the map of public expenditures by cutting corners elsewhere. Politics of food price policy in India over the last decade and a half has essentially revolved around these lines. The focus of politics has been to change the policy outcome, an attempt that has taken two broad forms: i) changing the way the benchmark institution - the CACP - functions by altering its composition and by attacking the guiding principles of its decision making; and ii) over and above the benchmark, adding openly political mark-ups whenever necessary or possible. There has been a tension in the interaction between the two forms of politics. If the second form is pursued too far, it calls into question the very rationale for having an institution specializing in price policy: why should the government have an institution if its recommendations are never acceptable and mark-ups are needed on a regular basis? On the other hand, the government also needs the technical expertise of an institution like the APC. Therefore, of the two forms, the main focus of politics has been to change the functioning of the benchmark institution by politically redefining what guiding principles are legitimate, what considerations ought to enter its decision making and what its composition should be.

Political pressures on the government have come from three sources - from within the governmental structure, from the party system and from the non-party political process. The non-party political process - price agitations led by non-party organizations - came of age in the 1980s and will be fully discussed in the next chapter. In the 1970s, the political process affecting price policy was primarily intragovernmental and party-based. The intragovernmental politics was of two

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14 See Pranab Bardhan, 1984, The Political Economy of Development in India, Oxford: Basil Blackwell, and New Delhi: Oxford University Press. Bardhan calls attention to the increasing burden of budgetary subsidies, particularly producer subsidies in agriculture, leading to a decline in public investment in the 1970s.
types: that between the central and state governments and that between the various agencies of the central government. By the end of the 1970s, the agrarian programs of the various political parties were also focussed on the necessity of remunerative prices. Part of the reason was the emerging political ferment in the viliges; the other part was the changing composition of the upper layers of political parties, increasingly rural and vocal.

IV.2

THE CHANGING FACE OF THE INDIAN POLITICIAN

State politics in India has always been dominated by rural politicians. The political leadership at the topmost tiers of the polity, however, was primarily urban to begin with. Over time, the top tiers also changed their character. Consider the occupational background of the lower house (Lok Sabha) of the Indian parliament since independence. Table 4.3 gives a detailed breakdown of all occupational groups from the first to the eighth Lok Sabha. Figure 4.3 captures the time trend with respect to three key groups - agriculturists, lawyers and businessmen (traders and industrialists). An unambiguous rise in agrarian representation is evident. The time series

18 I have not considered the Upper House (Rajya Sabha) because of its relative unimportance in the power hierarchy in a parliamentary system.

16 In the figure I have not included the category, political and social workers. This category was created in 1962, not at the time of first parliamentary elections in 1952. Since social work cannot provide sufficient income in India, it is generally reasoned that a number of these "social workers" had agricultural incomes, or urban rental or business income. More disaggregated data are not available, because of which I have left out this category from the graph.

17 It might be argued that many of the occupations listed in the table are mere derivatives. A number of lawyers, for example, come from an agricultural background and still derive some income from their agricultural lands. Seen this way, one might say that so long as the total representation of lawyers and farmers remains roughly unchanged, as indeed it has in the Lok Sabha, there is no reason to believe that agrarian representation has increased. In response, it can be argued that the profession of lawyers itself has undergone considerable ruralization since independence. The latter fact would suggest that even if the combined percentage of the agriculturists and lawyers is somewhat the same, this mix is likely to have a larger rural bias now than in the 1950s.
TABLE 4.3

OCCUPATIONAL BACKGROUND OF THE LOK SABHA, 1952-1984

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculturists</td>
<td>22.5</td>
<td>29.1</td>
<td>27.4</td>
<td>30.6</td>
<td>33.2</td>
<td>36.0</td>
<td>39.3</td>
<td>38.4</td>
</tr>
<tr>
<td>Social Workers</td>
<td>-</td>
<td>-</td>
<td>18.7</td>
<td>22.9</td>
<td>19.0</td>
<td>20.0</td>
<td>17.2</td>
<td>19.0</td>
</tr>
<tr>
<td>Lawyers</td>
<td>35.6</td>
<td>30.5</td>
<td>24.5</td>
<td>17.5</td>
<td>20.5</td>
<td>23.4</td>
<td>22.2</td>
<td>18.0</td>
</tr>
<tr>
<td>Traders &amp; Industrialists</td>
<td>12.0</td>
<td>10.2</td>
<td>10.3</td>
<td>7.5</td>
<td>6.8</td>
<td>3.3</td>
<td>6.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Educationists</td>
<td>9.9</td>
<td>11.3</td>
<td>5.8</td>
<td>6.5</td>
<td>7.1</td>
<td>8.4</td>
<td>6.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Writers &amp; Journalists</td>
<td>10.4</td>
<td>10.2</td>
<td>5.8</td>
<td>4.8</td>
<td>6.3</td>
<td>2.1</td>
<td>2.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Doctors &amp; Engineers</td>
<td>4.9</td>
<td>3.5</td>
<td>3.9</td>
<td>4.2</td>
<td>2.9</td>
<td>2.8</td>
<td>3.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Civil &amp; Military Service</td>
<td>3.7</td>
<td>4.0</td>
<td>0.9</td>
<td>3.2</td>
<td>3.4</td>
<td>1.7</td>
<td>0.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Ex-Princes</td>
<td>1.1</td>
<td>1.4</td>
<td>2.1</td>
<td>1.4</td>
<td>0.4</td>
<td>0.6</td>
<td>0.2</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Figure IV.3
on how these agriculturists were spread over the various political parties is not available but it is generally accepted that, except for the primarily urban based parties such as the Bhartiya Janata Party (BJP), the rise in agrarian representation has affected most political parties. The trend, of course, is more pronounced in the case of parties with an overwhelmingly agrarian base and program such as the Lok Dal, which we shall have occasion to discuss later at length (Section IV.5).

The changing character of the highest tiers of the polity indicates should indicate the build-up of a structural agrarian pressure on the Indian state. The structural pressure in the polity, however, did not automatically and instantly translate into a pressure on policy. The translation evolved slowly. It was crystallized by a confrontation between the technocratic and political impulses of the country’s economic policy. The three case studies in the evolution of food price policy, presented below, exemplify this.

IV.3

HOW THE POLITICIZATION OF PRICE POLICY BEGAN (1971-73)

By 1970-71, India’s food economy had emerged from the shadow of the mid-1960s. Compared to the average production of about 82 million tons throughout the early sixties, crashing further to 73 million tons during the two drought years of 1965-67, India food output stood at 108.4 million tons in 1970-71. Wheat imports from the United States had dropped from a high of 10 million tons in 1965-66 to 2 million tons in 1970-71. Domestic procurement in the same period went up from 3.5 million tons to 8.1 million tons.

So buoyant was the government that even concerns of equity, turned into a major programmatic slogan by Mrs. Gandhi after her 1969 split of the Congress party, did not deter her from drawing satisfaction from the production side of the green revolution. Otherwise claiming that
the economic preoccupation with growth and production had generally left the poor behind, Mrs. Gandhi, asked whether the green revolution had benefitted only the rich farmers, remarked: "The green revolution has resulted in increased foodgrain production, correspondingly larger availability of foodgrains for consumption and a certain measure of price stability which has been beneficial to all classes. The High Yielding Variety program is... being progressively extended to cover larger areas and a larger number of farmers."18 Another indication of the new confidence was the government's decision to lift food zones for wheat in 1970-71. By bottling up grain in surplus areas and not allowing it to be transported to deficit areas except on public account, food zones had been one of the mainstays of procurement since independence. Times of plenty seemed to be in the offing, and no regulative coercion, at least for wheat, appeared necessary. The confidence, as it turned out, was rather pre-mature but, more important for our purposes here, this period also quietly began a tussle between the politicians and technocrats on the issue of what the appropriate level of producer prices should be.

For three successive years, 1970-71 to 1972-73, the Agricultural Prices Commission (APC)19, under the widely respected leadership of Dharm Narain,20 argued that the emerging trend of plentiful wheat supplies called for a lowering of wheat procurement price. The APC gave six arguments in favor of a price reduction. First, an imbalance was developing between demand and supply. The APC calculations showed that over the past six years, wheat supply had grown at an annual rate of 14 per cent. Demand had lagged far behind and, even under the most


19 In this section and the next, to ensure consistency with the quotes taken from political debates, I shall drop the term CACP and use the original name of the commission, the Agricultural Prices Commission (APC). APC was the term used in debates throughout the decade.

20 Dharm Narain's work on food prices done at Cambridge University had already become a classic: The Impact of Price Movements on Areas Under Selected Crops in India, 1900-39. Cambridge: Cambridge University Press, 1965. By the early seventies, he had firmly established his reputation as an applied agricultural economist.
relaxed assumptions, it was not likely to grow at more than 5 per cent annually, implying the possibility of mounting stocks (which could not be exported due to low international prices).

Second, the APC called attention to the emerging distortions in the inter-crop balance, arguing that "the country not only needs wheat but also more oilseeds, cotton, sugarcane and pulses." Rice, in particular, called for special attention for which, the Commission argued, resources going into keeping wheat prices high could profitably be used.

Third, the procurement price was way above the cost of production. Data showed that in Punjab and Haryana in 1970-71 and in Western Uttar Pradesh in 1971-72, the cost of production of wheat was Rs. 61.04, 48.1 and 49.7 per quintal respectively whereas the procurement price was kept at Rs. 76 since 1968-69. A "moderate reduction", the APC argued, would still put the wheat procurement price above the cost of production.

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1 "Between 1964-65 and 1970-71, the production of wheat increased at a compound rate of nearly 14 per cent per annum. The demand on the other hand lagged behind but the gap, which so far remained concealed by displacing imports and building the buffer, is now becoming manifest. With a compound growth rate of population at 2.2 per cent per annum, even if the per capita real expenditure be assumed to grow at 3 per cent annually and the expenditure elasticity of demand for the cereal be rated at around unity, the demand for wheat would not seem to grow sharply in excess of 5 per cent per annum unless downward drift in its relative prices helps to accelerate it. This, then, is the crux of the problem -- a problem of adjustment in wheat prices so as to help reduce the imbalance in demand and supply." Report on Price Policy for Rabi Foodgrains for 1972-73 Season, Agricultural Prices Commission, Government of India, March 1972, p. 3. Hereafter, these reports would be cited with season, year and page number but without other publication details.

2 Ibid.

3 Ibid. p.4.


5 Rabi Report for 1972-73 Season, p. 5.
Fourth, and this the APC found critical, the subsidy implications of keeping the wheat producer prices at the existing level were beginning to get unreasonable. After presenting some brief calculations in 1970-71 and 1971-72, the APC worked out the implications in detail in 1972-73. Wheat was being procured at Rs. 76 a quintal and issued out of government stocks at Rs. 76. Costs of procuring, distributing and carrying the stocks of grains were Rs. 11, 7 and 8 respectively. The government loss on indigenous wheat was thus Rs 24 per quintal. The APC expressed its concern for the subsidy implied:

"If ...the structure of the procurement and issue prices were to be left undisturbed and the quantity of wheat released through the public distribution in 1972-73 were to be 5 million tons, the total loss on the operation of would amount to Rs. 120 crores. Adding to the cost of carrying the remaining 1.5 million tonnes - the additional quantity likely to be procured in the coming marketing season - the total subsidy involved would rise to Rs. 132 crores."\(^8\)

The level of subsidy could be reduced if procurement prices were lowered or consumer (issue) prices increased. Issue prices, in the judgment of the APC, did not deserve to be increased: "There is an obvious oddity in the situation in which prices undergo a spurt in the face of increasing production and mounting stocks of the cereal. That the producers have benefitted from the wheat revolution is only as it should have been. But there must come a stage when the benefit starts percolating to the consumers, too."\(^7\)

The APC gave two more arguments in its three-year long advocacy for reducing wheat price: One, that in recent years the trend in international prices of wheat had been downward

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\(^8\) *Rabi Report for 1972-73 Season*, op cit, p. 2. The APC also examined why the question of subsidy was not important earlier on. Imported wheat, which was sold at the same price through the public distribution network as domestic wheat but was cheaper, essentially alleviated the losses. As early as 1970-71, the APC had indicated: ".. if imported wheat declines in proportion as a result of availability or national policy or both, for a given level of procurement price, the issue price will have to go up if the subsidy level is not to rise." *Rabi Report for the 1970-71 Season*, p. 7.

\(^7\) *Rabi Report for 1972-73*, p. 3.
whereas in India it was just the opposite; and two, since those who depend on the public
distribution system were mostly low income consumers and those that sold grain to the
government were mostly surplus farmers, "within the class of consumers the distribution of the
burden of an increase in the issue price would be regressive in nature, whereas within the class of
producers the distribution of the incidence of a reduction in procurement price would tend to be
progressive." Thus, even on income distribution ground, reducing the procurement price made
sense.

The APC’s argument, based on considerations of demand and supply, fiscal
realism, inter-crop balance, costs of production, and income distribution, could hardly have been
faulted on purely economic grounds. However, it ran into serious political difficulties. For three
years in a row, the government refused to lower the price. Table 4.4 shows the consistency with
which the APC took its stand and the equal consistency with which the final price was higher.

**TABLE 4.4**

*Wheat Procurement Price: The APC versus the Government*

<table>
<thead>
<tr>
<th>Year</th>
<th>Price recommended by the APC</th>
<th>Price declared by the Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-70</td>
<td>Rs. 76</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1970-71</td>
<td>Rs. 72</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1971-72</td>
<td>Rs. 74</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1972-73</td>
<td>Rs. 72</td>
<td>Rs. 76</td>
</tr>
</tbody>
</table>

Source: Various APC Reports. I have only taken two varieties here which constitute
the bulk of production - Mexican and Indigenous (common white). Prices for the
third variety - Indigenous red - were lower but the difference between the APC and
the government marked that variety, too.

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According to the central government, the state chief ministers did not agree with the APC. They, instead, believed that "such reduction would have acted as a disincentive to the farmer and would have adversely affected production in subsequent years."\(^{30}\) Each year, the central government, in the light of this political reaction, turned down the recommendation of the APC.

What was, however, more ominous for the APC was the beginning of what became later a relentless political attack on the Commission's capability and biases. Irked by the insistence of the APC that the procurement price be lowered and unpersuaded by the economic logic the APC presented, a demand to change the composition of the APC began to emerge in the upper tiers of the polity. Did the APC have an agriculturist members or not? Raised countless times, and with unyielding pressure, in the Lok Sabha in the next decade, this question first came up in 1972. A member of parliament argued: "The Agriculture Minister has admitted in a press conference that there was no agriculturist on the Agricultural Prices Commission. Is this how we are going to provide relief to the farmer -- by appointing a Commission which has no agriculturist? It is like appointing a cobbler to perform the function of a dentist."\(^{31}\) The analogy drawn was not empty rhetoric. It anticipated the political sentiment of later years -- that agricultural policy could not be left to urban-trained agricultural technocrats.

Two more themes, that would subsequently persist, emerged in this period - that of the cost of production and of the relationship between industrial prices and agricultural prices.

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\(^{30}\) From the preface to the 1970-71 Rabl report, written by the Agriculture Secretary, Government of India. The same point was repeated in 1971-72 and 1972-73. Quoted again in parliament, Lok Sabha Debates, V Series, Vol. 13, n0. 29 April 17, 1972, p. 31.

\(^{31}\) Lok Sabha Debates, V Series, Vol 13, April 12, 1972, p. 141. The comment was made by relatively less known M.P., Vikram Mahajan. It is remarkable that most of the early debate on food prices was initiated by MPs not considered important in terms of the influence they wielded. Later these themes were taken up by well-known leaders and political parties themselves.
"Would the Agriculture Minister tell us", asked a member, "whether, while fixing the price, adequate attention is paid to maintaining some kind of parity between agricultural and industrial prices, and to the cost of production?"  

The answer to the latter question was yes; except that the APC came increasingly to be disbelieved.

Hitherto scarcely debated in political circles, the Agricultural Prices Commission hereafter became politically controversial. After 1971, food prices were politically debated every year, so was the APC - often hotly so in the halls of parliament. It is unclear what the APC could have done to avoid this fate, except remembering that administered prices once increased cannot be easily lowered. Being an economic body, it made an appropriate economic argument under the leadership of a Chairman with impeccable professional credentials. The APC, however, was swimming against an emerging agrarian political tide, whose force became clearer only later. The early 1970s marked the beginning of the politicization of food prices in India.

IV.4

THE SURPLUS GRAIN PRODUCERS VERSUS THE INDIAN STATE:

NATIONALIZATION OF FOODGRAINS TRADE AND ITS FAILURE (1973-74)

An agrarian tide may have been incipient from below, but the leadership of the highest tiers of economic bureaucracy was still in the hands of men whose ideas were guided by a belief in the capacity of the Indian state to tame the rural sector for larger social purposes. Nothing reflected this better than the nationalization of foodgrains trade in 1973-74. In many senses, this major policy initiative was a watershed in the evolution of the state-countryside relationship under

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82 Lok Sabha Debates, V Series, Vol. 13, no. 29, April 17, 1972, p. 31.
the post-1965 policy regime. When the APC recommendations were rejected between 1971-73, the power of the government was not at stake. The government after all had the authority to reject the APC advice. But nationalization of grain trade was not a policy recommendation of an advisory body; it was a decision taken by the Indian state. Yet nationalization failed miserably.

Wholesale trade in grains has traditionally been in private hands in India. In February 1973, just before the wheat harvesting season, the central government banned private wholesalers and authorized the Food Corporation of India (FCI) to act as the sole purchasing agency in the market. Only private retailers were allowed to stay in business. Whether farmers should sell their produce at a fixed price only to public agencies or they could divide their sale between the public and private agents was no longer a matter of choice. They were required to sell wheat to the government at the administered price of Rs. 76 per quintal. A target of 8.1 million tons was set for procurement.

In the event, instead of 8.1 million tons, the farmers sold only 5.1 million tons of wheat to the government. Within a few months of coming in operation, the government take-over of wheat trade was lifted and the proposed nationalization of rice trade for the second part of the season was also dropped. Private wholesale trade was restored. Procurement price for rice was increased from Rs. 56 per quintal the year before to Rs. 70. Subsequently, the procurement price of wheat for the next season was also increased by 40 per cent -- from Rs. 76 to Rs. 105 a quintal. This was the largest ever increase in a single year in the procurement price. The government candidly accepted its defeat at the hands of the surplus producers.

Why was grain trade nationalized? Why did it fail? What lessons were drawn from the failure by the Indian government? Let us look at these issues now.
IV.4.1 The Political and Economic Context

As explained in the last chapter, there was a temporary eclipse in the power of the left of center faction in the Congress party after Nehru's death. But with the landslide victory of Mrs. Gandhi in the 1971 elections on the slogan of "abolish poverty" in an alliance with the Communist Party of India, the ideological and political landscape changed once again. The left faction, enjoying a revival, came to dominate key decision making posts in the economic bureaucracy. By 1972, D.P Dhar, with known left inclinations, headed the Planning Commission and P.N. Haksar, similarly left inclined, headed the Prime Minister's Secretariat.

Within a year after Mrs. Gandhi's election victory in March 1971, deliberations on the fifth five year plan (1974-79) began. Three interventions in the rural sector were envisaged: a renewed commitment to land reforms, renewed proposals for a state take-over in trading in foodgrains and creation of a credit system that would extend loans to small farmers, marginal

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3 For a little over a year before Dhar took over, C. Subramaniam headed the Planning Commission. Subramaniam's association with Mrs. Gandhi during her political alliance with the Communist Party of India was rather curious. Subramaniam had expressed his distaste for the Communists during his days as the Food and Agriculture Minister. He was constantly attacked by the left as an Imperialist lackey, promoting American Interests. The fact that Mrs. Gandhi chose to give the chairmanship of the Planning Commission to Subramaniam also showed that, despite the left rhetoric, she was not playing a purely ideological game.

4 In May 1972, the Planning Commission released its approach paper to the fifth plan, called "Towards Self-Reliance, Approach to the Fifth Five Year Plan". For details, see Francine Frankel, op cit, pp. 500-503.

5 It is hard to believe that land reforms were considered possible in early 1972. A decade and a half of concentrated effort under Nehru had mostly met with failure. Their inclusion, it would seem, was mostly for reasons of rhetoric. What gives greater credence to this reasoning is the presence of Subramaniam in the Planning Commission. In the mid-sixties, Subramaniam had argued that land reforms were not practical. The fact that he approved the approach paper to the fifth plan seems to suggest that he was responding to the ideological pressures of the time. One can, however, also come up with an opposite interpretation. It is possible that Mrs. Gandhi's landslide electoral victory, buttressed later by the victory of her new party in the state assembly elections, convinced Subramaniam as well as the left faction that the Indian state now had the capacity to implement land reforms.
farmers, agricultural laborers and artisans.

The main thrust of the poverty alleviation strategy was the new credit-based programs for the poor. The plan finally prepared in 1973 calculated that if the desired levels of expenditures on poverty programs were to be made while maintaining a GNP growth rate of 5 per cent, investment outlays of Rs. 31,400 crores over the plan period would be required. Adding this to the expected current expenses and estimating the likely domestic revenues and foreign aid, the Commission found a resource gap of Rs. 6,850 crores, a gap that had to be met or reduced through resource mobilization.

Additional taxation seemed to be a solution. By the early seventies, indirect taxes had come to constitute 80 per cent of total tax revenue with direct taxes accounting for a mere 20 per cent.\*\* Rural incomes had remained virtually untaxed since independence. Agricultural income accounted for 45 per cent of the national income at the end of the fourth plan, but direct agricultural taxes contributed a mere 1 per cent to the total tax revenue. The K.N. Raj Committee, constituted by the Planning Commission to look into the problem, recommended an agricultural income tax, but no state government accepted the proposal. The planners met with a political defeat. Land reforms were also defeated. The state governments adopted a time-tested strategy: accepting the proposals of the central government but doing little by way of implementation.

The fate of the grain trade nationalization was, however, still in balance. The theoretical rationale for nationalization was achievement of price stability, elimination of the middleman, public control over agrarian surplus for purposes of economic development, and

\*\* For details, see Frankel, op. cit., pp. 505-506.
government hold over a key mass consumption commodity. But on this theoretical ground alone, the Planning Commission could not win the approval of its political masters. It took a emerging economic crisis to swing the scales in its favor.

A return of the vagaries of the food economy and the resultant inflationary pressures provided the setting for a potential economic crisis. After consistently climbing for five years and touching a peak of 26.4 million tons in 1971-72, wheat production declined to 24.7 in 1972-73 (and as it turned out, it dropped further to 21.7 million tons the next year). Foodgrain output as a whole declined from 105.2 million tons in 1971-72 to 97 million tons in 1972-73. Such agricultural fluctuations were not unusual in India but the steady progress in the late sixties had changed the climate of expectations.

Politically speaking, these fluctuations in output were not so disturbing as the impact of lower output on public stocks and food prices. In July 1972, government stocks of grain stood at 9.6 million tons. After a failed kharif (monsoon) crop, stocks had dwindled to 3 million tons by January 1973. Partly lower procurement, partly higher off-take from the public distribution system (since food prices in the "open market" had increased), and partly low planned imports accounted for the reduction in stocks.

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87 Interview, Professor Sukhamoy Chakravarty, (the then Member, Planning Commission), August 12, 1984.

88 The APC argued later that the fall was due to "deficient winter rains" which could not be compensated for by irrigation because I) "water availability in the canals was low" and ii) "tubewell irrigation was hurt by the widespread and acute shortage of power". Rabbi Report for 1975-76 Season, released on February 22, 1975, p.4.


90 India’s agricultural turnaround, India’s decision makers thought, had made imports unnecessary. As against 2.05 million tons of grain imports in 1971-72, less than half a million tons was imported in 1972-73. Cf. Rabbi Report for the 1975-76 Season, Table 7, p.25.
Moreover, between January 1972 and January 1973, foodgrain prices increased by 20 per cent.\textsuperscript{41} By February 1973, it was becoming clear that a smaller wheat crop would push up the prices even more.\textsuperscript{42} Ever faithful to food prices, the wholesale price index for the fiscal year 1972-73 was 13-15 per cent higher than in 1971-72, with possibilities of further increase if food prices were not controlled.\textsuperscript{43} In a Latin American scenario, this rate of inflation would hardly have been a matter of concern. But in a country that has traditionally had a low-inflation threshold, where the only other example of double digit inflation over the last decade had been in 1965-66 (15.6 per cent), which was a year of acute drought and political turbulence, a repetition of the mid-sixties caused nervousness in the governmental circles.\textsuperscript{44}

At this point, the old rivalry between Planning and Finance Ministry on the one hand and the Agriculture Ministry on the other flared up again. Over the objections of the Agriculture Ministry, the Ministries of Planning and Finance, with the intervention of the Prime Minister, managed to push the proposal about nationalization of grain trade, a proposal contained in the original fifth plan approach paper but dormant since then.\textsuperscript{45}

\textsuperscript{41} Wolf Ladejinsky, "The Rural Scene", in \textit{The Economic Situation and Prospects of India}, 1974, the World Bank, p. 103.

\textsuperscript{42} As it turned out, food prices increased by 29 per cent in 1973-74.

\textsuperscript{43} The wholesale price index rose by 30 per cent in 1973-74.

\textsuperscript{44} The Finance Ministry's concern was later publicly expressed at the time of budget presentation to Parliament on February 28. Y.B. Chavan, the Finance Minister, referred to "the abnormal increase in prices" during 1972-73 as one of the most pressing problems to be given the highest priority. See \textit{Economic and Political Weekly}, March 10, 1973, p. 539. In his budget speech a year earlier, Chavan had drawn attention to the increasing food subsidy, too.

\textsuperscript{45} \textit{Economic and Political Weekly} (March 3, 1973, p. 465) reported that the decision was essentially taken by the Planning Minister, D.P. Dhar, with the support of Mrs. Gandhi. This was confirmed during the course of my interviews. It was also revealed that the APC and its chairman, Dharm Narain, were completely bypassed. Dharm Narain, though against increasing prices, was never in favor of nationalization of trade. Later, D.P. Dhar himself gave a speech to Parliament about why nationalization
IV.4.2 The Taming of the Indian State: How Nationalization was Defeated

On February 26, 1973, the Food and Agriculture Minister announced the government take-over of wholesale trade in wheat. The aim was "to eliminate speculation and the distortions in price", to maintain "assured availability to consumers...at reasonable prices", and to bring about "economy in the costs of wholesale trading by elimination of unnecessary intermediaries." Private agents in retail trade were allowed to operate: firstly, because the government was not expected to cover all towns, particularly the small ones; and secondly, because retailers did not have the financial capacity to buy large quantities and affect prices. By virtue of their financial strength and market power, the wholesalers were "the manipulators and creators of runaway prices" and therefore could not be allowed to operate in a situation of scarcity.

The state Chief Ministers, never enthusiastic about a state take-over of grain trade, accepted the proposal of the central government. The stamp of the Prime Ministers's approval, coupled with their own abject dependence on her, eroded their traditional opposition to grain trade nationalization. They also accepted the procurement price set at the same level as in the preceding year even though foodgrain prices in the open market had increased substantially.

Finally, a procurement target of 8.1 million tons was also accepted as against 5.1 million tons

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"After the 1972 state assembly elections, Mrs. Gandhi initiated the new practice of nominating Chief Ministers of her choice as opposed to having the state level party organizations elect them, which was the practice under Nehru. Most of the new state chiefs owed their position to her, not to their own bases in their respective states. With Mrs. Gandhi strongly supporting nationalization, these Chief Ministers presumably had no choice but to accept the proposal. Thus, in a curious way, a new political trend produced an economic policy initiative. Nehru also had always wanted to nationalize grain trade, only to be forced back by the state bosses.

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procured a year back. 

The administrative machinery was tightened. Outlawed wholesalers were raided and many arrested on grounds of illegal trading. Employees of the Food Corporation of India were also arrested for indulging in "malpractices", a term used for aiding illegal traders in mopping up the marketed surplus. Such tightening notwithstanding, wheat brought to the public agencies - the "market arrivals" - continued to be very low. A black market flourished where a quintal of wheat fetched Rs. 120-150 whereas the government was paying only Rs. 76. Some coercion was used against farmers but, in response, opposition parties started mobilizing farmers against nationalization. Somewhat rattled by now, the central government and Congress party made it publicly known that nationalization was not against farmers but against traders. The Congress Working Committee, meeting two months after the take-over, passed a resolution castigating wholesale traders for their lack of social and national sensitivity, stating that, by eliminating the middleman and his margin, the take-over, in fact, was aimed at making a better price available to the farmer.

Wheat arrivals, however, did not pick up. Supplies from the public distribution system had to be reduced since stocks were plummeting and by early May, food riots were reported in the towns of Maharashtra, including cases where mobs "attacked the houses of the local District Congress Committee president and another party notable...demanding food

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48 The calculation was as follows. A 25-30 million ton crop was expected. Assuming that the marketed surplus was 30-35 per cent of the output, 8.1 million tons seemed to be in the range of possibility.


mainly. Food riots were also reported in Madhya Pradesh and Gujarat "where the Center was simply in no position to meet Gujarat's monthly wheat requirement". The states of Bihar, Kerala and West Bengal were added to the list of "problem states", going through political turbulence due to food shortages.

By the middle of June - the time when wheat arrivals in the market start ceasing - so desperate was the central government that instead of thinking of further tightening the administrative machinery and applying coercion, it developed an incentive scheme to step up procurement. According to the scheme, states which fulfilled 25 per cent of the target initially set for them would receive a bonus of Rs 4 per quintal, those fulfilling between 25 to 50 per cent would get Rs. 5 per quintal, those that succeeded in procuring 50 to 75 per cent would receive Rs 7 per quintal and those fully met their quota Rs. 10 per quintal.

In the end, despite using both carrots and sticks, the government could procure only 5.1 million tons against a target of 8.1 million tons. Possibilities of food aid as well as imports were frantically explored outside the country but the world supply situation had drastically changed by 1973 and grain prices were very high.

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64 Wolf Ladejinsky, "The Rural Scene", op. cit., p. 104.

65 As reported later by the Agriculture Ministry in Lok Sabha Debates, V Series, Vol. 27, July 29, 1974, p. 307.

66 Economic and Political Weekly (EPW), June 23, 1973, p. 1097. The EPW also made the following comment on this decision of the government: "It is an indicator of the degree of perversity which has overtaken economic administration in the country that those who ought to be hauled over the coals for their dismal performance are instead being kissed on the cheeks." (ibid., p. 1098).

In early July, a decision on rice trade was scheduled to be taken by the Congress party. The Congress Working Committee postponed the decision. Finally, in September, after consultation with Chief Ministers, the idea of nationalizing rice wholesale trade was dropped. States were left "free to adopt a system of procurement best suited to prevailing local conditions." Only three states, Assam, Maharashtra and Orissa decided to keep the government monopoly intact. As asked why rice trade was not taken over, the Agriculture Ministry stated in parliament: "..when we think of implementing and administering the food economy, naturally, as a responsible government, as a responsible party, as a Ministry which has to administer day to day problems, we have to be practical." As a further measure of pragmatism, the government increased the procurement price for paddy from Rs. 56 to Rs. 70.

IV.4.2.1 Causes of Failure

Why didn't farmers sell enough surplus to the government? The single most important factor has already been mentioned - the difference between the government price and the black market price. The amount that was procured came mostly from those "with no staying

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Ibid. p. 32 and p. 206.


Since this is the basic question with which his section deals, I shall not separately discuss the role of traders but essentially concentrate on the role of surplus producers with traders entering the picture from the sides. One should also add a general analytical point: that the power of grain traders in the Indian polity is much smaller than that of the surplus farmers. Viewed as venal profiteers, traders enjoy virtually no legitimacy in the Indian political system whereas farmers do. As a consequence, no political parties openly support the cause of traders.
power and compelled to sell early in the season.\(^6\) Even coarse grains, always considered inferior to wheat, were selling at a price much higher than what the government offered for wheat, a superior grain.\(^6\) The black market price being one and a half to two times higher than the government price, there was enough room for deals between surplus producers and the legally non-existent but actually operating wholesalers. Moreover, such deals, it came to be widely believed, were aided and abetted by the official machinery at the ground level which was expected precisely to prevent such transactions from taking place. The potential "rents" from allowing illegal trading were large enough to have enticed a large number of ground officials to ignore their official duties. To make matters worse, the state and district level politicians -some farmers themselves - also appeared to have aided farmers, wholesalers and defaulting officials.\(^4\) A subterfuge from within the state and collusion between state officials and surplus producers and traders, thus, defeated nationalization with considerable ease.\(^5\) Wolf Ladejinsky, in a passage of characteristic sharpness, summed up the reasons as follows:

"Nationalization necessitated a strong dosage of effective coercion but of this there was little. Farmers sold or did not as suited them; wholesalers didn’t sit idle; retailers indulged consumer-hoarders; and smugglers had a field day. Monopoly procurement couldn’t help but fall short of the target, and half a success was no success, not when every ton counted. And so it came about that the twin policy of the wheat takeover...and immobilization of customary wholesale trade channels caused a large quantity of wheat to disappear underground and finding its way into the thriving black market. The consequences were all too obvious: millions who depended on the distribution system for their food had to do with their short rations and not infrequently the fair price shops had no ration to dispense."\(^6\)

\(^{6}\) Wolf Ladejinsky, op. cit., p. 107.

\(^{6}\) *Economic and Political Weekly*, June 2, 1973, p. 969.

\(^{4}\) "It is freely admitted", reported the *Economic and Political Weekly* (July 14, 1973, p. 1180), "by ruling party leaders that not many Congress rich farmers....have sold their crop to the government agencies at the fixed procurement price."


\(^{6}\) "The Rural Scene", op. cit., p. 108.
IV.4.3 Consequences and Lessons of Failure

The government, predictably, came under a lot of fire. Political attacks on the government continued throughout 1973-74. Opposition parties saw a unique political opportunity in the government’s failure. In a matter of two years after Mrs. Gandhi’s landslide victory, the government, unable to provide enough food to the fair price shops and control food price inflation, was getting immobilized. By March 1974 when the next wheat procurement season started, food prices had increased by 30 per cent in the preceding twelve months, the largest ever increase in food prices after independence.

The Agriculture Ministry had faced questions and criticisms for almost a year. Finally, Planning Minister D.P. Dhar, the chief architect of the wheat take-over, was asked to face the Lok Sabha, and present a rationale for why nationalization was undertaken and why it was withdrawn. Dhar, in a major speech, presented his development theory as political rhetoric:

"If we look at investments which we have made in agriculture, we find that there has been a unidirectional flow of resources into agriculture without our making any savings from agriculture for investment. And the essence of growth is the capacity to save... Isn’t it time when we should consider the question of taking such measures which would make resources and savings available for investment from the agricultural sector..... .

.......The investments made in agriculture sector through rural electrification programs, for energization of wells and other lift irrigation systems are almost all running at a loss. ...Irrigation rates in most parts of the country are so fantastically low that even today we are paying a total sum of about Rs. 170 crores a year as a loss only on the maintenance of irrigation systems..... .

The agriculture sector is a highly subsidized sector...... Some segments of our agrarian population have received enormous benefits from the enormous investments which have been made in this sector and the community as a whole would ask them to part with a part of the debt so that we could invest it for Plan development purpose...... .

You must not forget the class that has benefitted. We are afraid of touching that class and we must touch that class. I cannot understand the logic of leaving 3 per cent of agricultural population alone to wallow in opulence at the cost of the community..... .

Then, agreeing that a lesson had been learned, he explained why nationalization had been given up:
The Government has been accused of surrendering to vested interests. Its a wrong interpretation. The simple point is that the takeover of wholesale trade was not an end in itself. We believed that it would be a good instrument for supporting the public distribution system and for building adequate reserves. But the question has to be worked out in relation to the objectives of food policy... After careful consideration... we feel that it would be more helpful to rely on the traditional market mechanism for acquiring the needed quantities of foodgrains...

This was the last public speech given by a Cabinet minister, or a major political leader, in India against the rich peasantry and in favor of extracting surpluses from agriculture for financing development. Criticism about underpriced agricultural products and underinvestment in agriculture became sharper in the late seventies. But after 1974, no major political leader publicly defended agricultural pricing and investment, whatever their existing level, in instrumental terms - that is, in terms of the logic of economic development. As the rural power unfolded, prices and investment in the agricultural sector had to be politically justified in terms of the welfare of the agricultural sector per se, not in terms of their impact on the development of the economy at large. Dhar's was the last open political defence of an economic postulate.

The Planning Minister's speech also made it clear that nationalization was aimed as much at the surplus producer - the rich peasant - as the trader, even though the earlier public statements of the government were directed at the wholesale trader. The dominant faction at the top of the economic bureaucracy - Nehruvian and enjoying a revival under Mrs Gandhis's new pro-poor dispensation - did believe that the power of the state could be used to tame the dominant class in the countryside, which had benefitted from the green revolution. This notion was set to rest after 1974. In the event, its epitaph was written by the Prime Minister herself. In May 1974, about the same time as Dhar made the Lok Sabha speech, the Planning Commission met to discuss the resource mobilization issues of the fifth plan (1974-79) and recommended agricultural income tax as the best way to generate resources and finance the plan. Mrs. Gandhi:

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*told the planners unequivocally that there was no question of taxing agriculture, adding that none of the experts in the Planning Commission and in the government... seemed to her to have a realistic appreciation of the political factors and constraints applicable to these matters. Agriculture could not be taxed for political reasons and so alternative ways of financing the plan had to be found.*

As for pricing, the wheat procurement price in the 1974-75 season was increased from last year's price of Rs. 76 to Rs. 105 per quintal. The APC recommended a procurement price of Rs. 95, which the Government, on its own, raised to Rs. 105 per quintal,** the largest ever increase allowed in a single year in the procurement price. This decision had implications beyond 1974-75. The base for subsequent procurement price decisions was raised within a year by 40 per cent. The APC, thereafter, could not go below this base, irrespective of the size of the crop.***

Also, throughout 1973-75, the Lok Sabha reverberated with the demand for including agriculturists on the APC. Mrs. Gandhi conceded that demand in late 1975. Chowdhry Randhir Singh, a Congress M.P. and an agriculturist, was appointed to the four member Commission. He took charge in April 1976. Since then, every year he disagreed with the professionals in the APC and consistently wrote a note of dissent against the majority recommendation of the Commission, asking a higher price. On his own admission, he could influence the functioning of the APC but lacking a majority, he could not do so nearly as much as he ideally desired.**** Soon, politicians in parliament started demanding that APC be chaired by an agriculturist and it also have a majority of

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** Economic and Political Weekly, May 25, 1974. Earlier, too, after the failure of wheat take-over, Mrs. Gandhi had expressed disappointment with her economic advisers but not in such explicit terms. In an interview published by the All-India Congress Committee, she seemed disillusioned with "certain cliches, for instance, what is left, what is radical and what is not." Cf. All India Congress Committee, Two Exclusive Interviews, Prime Minister Indira Gandhi on Questions Facing India and the World, quoted in Francine Frankel, Op cit., p. 515.

*** Lok Sabha Debates, V Series, Vol 38, April 8, 1974., p. 56.

**** As it turned out, the 1974-75 crop was bad but the next two years had good crops. Procurement price of Rs. 105 became the support price for the bumper years as well.

***** Interview, Chowdhry Randhir Singh, Delhi, January 23, 1985.
farmers, not of professionals. This was a demand that remained unmet through the seventies. A critical mass of decision-making elites, whatever their political rhetoric, remained wary of politicizing a technical body to such an extreme extent. The lower bounds of emerging agrarian power were expressing themselves in policy outcomes; the upper bounds were still not. A push towards the upper bounds, however, arrived soon.

IV.5

THE RISE AND FALL OF JANATA PARTY AND
THE TRAJECTORY OF AGRARIAN POWER (1977-1980)

Mrs. Gandhi’s defeat in the 1977 parliamentary elections brought the Janata party to power, which formed the first non-Congress government in New Delhi. Though called a party, Janata was essentially a coalition of several existing parties.77 Bhartiya Lok Dal (BLD hereafter), a party with a powerful following among the peasant castes of north India, was one of the key constituents of Janata. By virtue of being the undisputed leader of the BLD, Charan Singh, a powerful peasant leader, also became a central figure in the Janata party. Over the next three years, Charan Singh presided over some of the most important ministries: Home, Finance and, upon the death of the Janata coalition in mid-1979, also the Prime Ministership of the country.

77 The coalition was hastily put together in response to Mrs. Gandhi’s surprising call for elections after a year and a half of internal emergency during which she had suspended the democratic process and jailed most of the opposition leaders. With her decision to call elections in March 1977, these leaders were released from prison and the sentiment against Mrs. Gandhi was so strong that, forgetting their past squabbles, they put together a new party that would unitedly fight elections. The strategy worked. Mrs. Gandhi and her Congress party were defeated. The major constituents of the Janata party were the Lok Dal, a peasant based party from north India; the Jan Sangh, an urban based Hindu nationalist party; Congress (O), the group that had broken up with Mrs. Gandhi during the 1969 Congress split; and the erstwhile Socialist party. For further details, see Myron Weiner, 1983, India at the Polls. 1980, Washington and London: American Enterprise Institute for Public Policy Research, Chapter 1.
though only for a few months."

With Charan Singh and the BLD represented in the central government, rural voice directly entered the highest layers of power structure. Until then, only the relatively less powerful ministries - for example, Agriculture which, except for a brief spell under Subramaniam, was always dominated by Finance and Planning - represented rural interests in any direct sense. Whether the issue was getting a mark-up over the APC recommended price, or preempting agricultural income tax, or defeating nationalization of grain trade, agrarian power was not expressed through a direct presence in Delhi. Rather, it was the rural control over state governments which led to these pro-rural outcomes. None of these policies could be implemented without the cooperation of state governments."

Janata, like the Congress party, was an umbrella party whose range extended from the left of center Socialists to the right-wing Jan Sangh. Though, compared to the Congress party, all constituents of Janata had a less heavy-industry, more pro-agriculture ideology, the extent to which agriculture could be promoted was a matter of some dispute. Thus, despite a consensus on giving greater weight to agriculture in economic policy, differences over the precise contours of agricultural policy emerged: what level of agricultural prices could be considered remunerative;


74 Even there, ministers such as A.P. Jain, S.K. Patil and C. Subramaniam were all leaders with an urban background. However, their preferred policy visions, as explained in Chapters 2 and 3, were less in tune with the Nehruvian development model than with a more agriculture-based vision of peasant leaders like Charan Singh. Singh’s ideology is discussed later (Section IV.5.1.1).

75 Mrs. Gandhi’s argument about the impracticability of agricultural income tax was not an argument about what was possible, given the political map in Delhi, but what could be done, given the map in the states and on the ground.
how to restructure the APC; to what extent public resources could be used to subsidize agricultural inputs; which inputs (e.g., tractors or fertilizers) ought to be subsidized and by how much. Public policy also got heavily entangled in a fierce power struggle between the various constituents and leaders of Janata, each trying to consolidate hold over the fledgling party and government.

IV.5.1

CHOWDHARY CHARAN SINGH:

AN AGRARIAN IDEOLOGUE IN POWER

The ideology of the BLD and the political strategy employed by its leader, Charan Singh, not only had an impact on the policy struggles of the day. They created political pressures that survived the fall of Charan Singh in 1980. In order to fortify his own position and that of his party in the Janata coalition, Charan Singh used the dramatic method of mobilizing thousands of peasants for rallies to demonstrate his mass support. As a result, agrarian policy moved beyond the cloistered confines of intrabureaucratic struggles: it had now to be related to the dramatic visibility of agrarian power on the streets. Most political parties - and the powerful metropolitan media - had to begin to come to terms with this new force.

There were two sides to Charan Singh's politics: an ideological side that remained reasonably consistent throughout his public career since 1937, and a strategic side which changed depending upon the exigencies of the situation. Venerated in rural Uttar Pradesh for his ideological consistency, he was equally disliked in urban north India for his strategic shifts. A combination of

76 Charan Singh's political career can be summarized as follows. Born in a poor Jat (peasant caste) family of Western Uttar Pradesh, he joined the Congress party in the 1930s. Despite disagreeing fundamentally with the policies of the Congress party, he remained in the party so long as the party was strong - from 1937 to 1967. He was a minister in the state cabinet of Uttar Pradesh virtually uninterrupted from 1951 through 1967. After the first post-Nehru elections in 1967, when the Congress party failed to win a majority of seats in state legislative assembly, he left the party and, mustering enough anti-Congress support from the opposition parties, became the state chief minister for a brief while. Later, he went on to
the two, however, did make Charan Singh a formidable political force.

IV.5.1.1 Charan Singh’s Ideology

Charan Singh’s ideology had two central features -- a strong opposition to heavy industry and a stout defence of peasant proprietorship in agriculture. The heavy industry bias of Nehru’s development model was, to his mind, wrong because it was capital-intensive whereas India’s high population density and its consequent need for massive employment required small scale industry (or low capital intensity in areas where small scale operations were not technologically feasible). He was against industrialization based on transfer of resources from agriculture; rather, an agricultural revolution was necessary before industrialization was attempted. He defined agricultural revolution as a technological revolution that would increase production per acre in a system based on peasant proprietorship -- a system based on family farms having a size between 2.5 and 27.5 acres. Peasant proprietorship was necessary because "a peasant owner has been known to work harder and for longer hours than a tenant or a wage laborer", something

form a new party, Bhartiya Kranti Dal (BKD), which became the second largest party in Uttar Pradesh after the 1969 elections. Managing once again to get support from both the Communist Party as well as the right wing Jan Sangh, he became the chief minister, but given the ramshackle coalition, his government fell yet again. However, his status as the leader of the opposition in the state legislative assembly remained intact between 1970 and 1975, at which time he was jailed, with other opposition leaders, by Mrs. Gandhi during the emergency. In 1977, after the emergency, he moved from state politics to national politics and was instrumental behind the formation of the Janata party.


Singh, Abolition of Zamindari, Ibid., p. 132.
collectivization or farm cooperatives could never achieve. But the size of the owned farm should be within the range specified, for, according to him, evidence and experience suggested that farms larger than 27.5 acres were inversely related to productivity and those smaller than 2.5 were not viable. By technology that would revolutionize agriculture, he meant "better farming practices in general" in which he did not include large-scale machinery such as tractors, which, like large machinery in industry, were labor displacing. He was also initially against chemical fertilizers but changed his position in the 1970s.

His main criticism against the Congress model of development was that it neglected the villages and was excessively industry- and city-biased. How did this anti-rural model survive in a predominantly agrarian society? "Political power", argued Charan Singh, "lies in the hands of urbanites to whom urban interests naturally come first". And, "to the town dweller", he added, "the farmer was a mere grist in the mill of economic progress on whose bones the structure of heavy industry was to be reared." Charan Singh's mission was to put rural India securely on the power map.

IV.5.1.2 Charan Singh, Factional Struggles in Janata and Agricultural Policy

Charan Singh's party accepted this ideological vision but so long as the party was important

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78 Byres, op cit, also suggests that Singh developed the idea about the inverse size-productivity relationship much before it became an article of faith in economics in the late fifties.

80 The hostility to chemical fertilizers expressed in Joint Farming is considerably diluted in India's Economic Policy.

81 The Economic Nightmare, op cit, p. 208. This view is identical to Michael Lipton's famous urban bias argument. Although the quote I have cited is from 1981, Charan Singh had been writing about urban bias in Indian development since the mid-1950s, almost a decade before the idea was first developed by Michael Lipton.

82 Ibid, p. 205.
only at the state level, the question of changing the country’s policy and resource allocation between agriculture and industry did not arise. Now, being an important constituent of the power-coalition in Delhi, an opportunity presented itself. Charan Singh's first victory came when the program of the Janata party was formulated: “The relative neglect of the rural sector has created a dangerous imbalance in the economy. The farmer has been consistently denied reasonable and fair prices for what he produces. Allocations for agriculture and related development have been grossly inadequate and the need for improving conditions in the villages has received scarce attention.” A new idea about agricultural prices in the Indian context — “parity prices” between agriculture and industry — was also explicitly incorporated in the party manifesto: “The farmer must get remunerative prices based on the principle of parity that balances the prices at which he sells his produce and the price he pays for the goods he buys. If the rural sector is to grow and flourish, it must be accorded favorable terms of trade as a matter of overall national policy.”

As to how far the two basic propositions outlined above — change in investment pattern in favor of agriculture and paying “parity prices” to farmers — could be realized depended upon the extent to which the other constituents of the Janata party were willing to convert them into actual policy programs. Charan Singh believed that his party was the main reason for Janata’s rise to power — and therefore, he should have a suitably powerful role, both in the government and in the affairs of the Janata party. The other main constituents of Janata - the Congress (O), led by Prime Minister Morarji Desai, and the Jan Sangh - were, however, unwilling to concede primacy to the BLD and Charan Singh.

83 Election Manifesto 1977, Janata Party, Delhi, p. 12.

84 Ibid.

85 Plan investment in the agricultural sector did go up from 22 per cent of the total investment in the fifth plan under Mrs. Gandhi to 26 per cent under Janata, but that was not a big victory for Charan Singh. All constituents of Janata, as already mentioned, wanted to allocate more resources to agriculture than was the case under Congress governments (except during Subramaniam’s tenure in the mid-sixties). Even Congress (O), traditionally inclined towards big industry, had shifted its position after it became a
Swings in personal political fortunes were the first expression of this struggle. After a year in government, Charan Singh, then occupying the Home Ministry**, was sacked by Prime Minister Morarji Desai on grounds of indiscipline. Not to be so easily tamed, Charan Singh, to demonstrate his strength, organized a landmark peasant rally in December 1978. An estimated one million peasants - mostly from North India but from other parts of the country as well - came to Delhi. A 26-point charter of peasant demands was framed and the Janata government was stridently criticized for its betrayal of farmers. The principal demands included greater representation of farmers on the APC and on all other government bodies dealing with rural areas, parity prices between agriculture and industry, larger subsidies for fertilizers, irrigation, electricity and other inputs, and an aggressive governmental search for foreign markets for agricultural exports.***

The massive success of the peasant rally, **** had a two-fold effect. Its first impact was on the constituent of the Janata party. Prime Minister Morarji Desai, Congress (O)'s leading member, remarked: "The big city, the big machine, and big science have their place but they can not claim a prescriptive right to preference and dominance." Cf. Rudolph and Rudolph, Op. cit., p. 336.

** Home is typically considered to be the second or third most powerful Ministry along with Finance and External Affairs.

*** Singh's supporters had organized a similar peasant rally on his birthday a year back, when he held the Home portfolio. However, it was not as massively attended. Now out of government, Singh had to make a stronger point. His political strategy during 1977-80 seems to have been to consolidate his personal position as well as that of his party through periodic demonstrations of mass support. No other constituent of the Janata party could match him in this act.

**** For more details, see Marcus Franda, 1980, "An Indian Farm Lobby: The Kisan Sammelan", American Universities Field Staff Reports

"For two days, the traffic in and around Delhi was completely disrupted, as rows and rows of tractors, trucks, buses, and bullock carts poured into the city. Most of the Ring Road, the beltway that surrounds New Delhi, was used as a parking lot on the day before and during the rally. The largest open spaces in the city - the Red Fort grounds, the Ferozeshah Kotla grounds - all became "kisan grounds" for ... two days." Cf. Marcus Franda, Ibid, p. 23.
metropolitan media and its vast national network. News about the emerging peasant ferment was hitherto confined to local and regional newspapers, or to insignificant spaces in the national newspapers. The metropolitan media was now face to face with peasant power and, instantly, the issue of peasant power made the headlines and entered the editorial rooms. Typical of the urban response was the editorial in The Hindustan Times, according to which a peasant organization "speaking exclusively for the rural areas and articulating a set of comprehensive demands....has every chance of becoming a major political force, bringing on the national scene a distinct political culture which may not always be in tune with modernity."

The second effect of the rally was Charan Singh's restoration in the government. Within a month of the rally, Singh was brought back in the government, this time with an enhanced status. Called Senior Deputy Prime Minister, he was also given the charge of Finance Ministry. He quickly proceeded to make a budget for the country that "had the breath of the people and the smell of the soil." Singh reduced the various indirect taxes on agricultural inputs - on chemical fertilizers (by as much as 50 per cent), mechanical tillers, diesel for electric water pumps; lowered interest rates for rural loans; increased subsidy on minor irrigation; and earmarked funds for rural electrification and grain storage facilities. He was hardly concerned about the outcry in the media that it was a "Kulak budget". He had made his political point.

IV.5.2

STRUGGLE OVER PARITY PRICES:

TECHNOCRATS OVER POLITICIANS?

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80 The Hindustan Times, December 25, 1978. Subsequently, such editorials became a normal fare.

A battle also went under way for agricultural prices. The Janata party had promised "parity prices" in its election manifesto. The notion of parity price requires some explanation. Parity can have two meanings - parity between input and output prices and that between prices of the goods that the agriculture sector sells and those of the goods that it buys, both with respect to a given base period. The latter notion is more inclusive. The former notion simply implies that adjustment in output prices would be made in accordance with changes in input prices so as to protect some acceptable level of return from farming. The latter notion not only includes inputs but all the goods that the rural sector buys, implying therefore that agricultural prices be fixed in accordance with the cost of rural living.

The proposal for parity prices was, therefore, aimed at converting the price policy into an incomes policy. Rural incomes would be protected, irrespective of what happened to the supply and demand of agricultural products, or to relative technical change in agriculture and Industry. An excess of supply over demand or cost reduction via technical change in principle should bring prices down; focusing exclusively on incomes, however, parity prices would essentially prevent this from occurring. Clearly, a policy like this would have been a great boost to the countryside - in the short and medium run. But it required a change in the terms of reference of the APC since the original terms defined producer incentives primarily with respect to input costs, not living costs.

The Agriculture Ministry drafted the revised terms aimed at parity but faced opposition from the other ministries. In particular, economists in the Planning Commission as well as the then APC chairman himself opposed the proposal on technical grounds. Their argument is worth quoting at length:

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82 Bhanu Pratap Singh, the then Minister of State for Agriculture, and an important member of Charan Singh's party, had drafted the proposal. S.S. Barnala, Agriculture Minister at the time, fully supported the proposal.

83 The late Professor Raj Krishna, then a member of the Planning Commission, along with Dharm Narain, who was still the Chairman of the APC, led the counter attack.
"The parity approach was perhaps relevant in a chronic surplus situation which prevailed in the United States in the inter-war period. In that situation the main objective was to support the real farm income at some level. In Indian conditions, the main justification for an agricultural price policy is either to stimulate production growth or to induce desirable changes in the crop mix. The Indian policy is correctly based on the assumption of a continuing long-term excess demand situation (interspersed with short-run surpluses of particular crops). The present policy of covering the full cost in the procurement price is an appropriate one... Such full cost pricing automatically escalates the procurement price when input prices go up. Therefore, the input price part of "prices paid by farmers" is already fully covered by the present policy. So far as the other part of "prices paid by farmers", namely, the cost of consumption goods, is concerned, there is very poor justification for linking the procurement price to it in Indian conditions.... The farmer deserves no more protection than other classes in society..... Protection against price increases in consumer prices is deserved the most by the rural and urban poor in the unorganised sectors. But for such protection the right method is not...escalation of the procurement price but...extension of a rational public distribution system to cover the bulk of the poor - farmers and non-farmers - in the unorganised sectors."\(^4\)

The Planning Commission also made another argument. The parity price formula was undesirable because:

"If mechanically followed, it would have the effect of freezing price relationships as they obtained in the past and, by disregarding the changing realities of demand and supply, it would have the effect of obstructing the optimal allocation of productive resources."\(^5\)

In short, then, the economists made three generic arguments against a revision in the terms of reference of the APC: i) input-output ratios were already covered in the existing terms, guaranteeing returns over input costs; ii) in India, price policy could not be used as an incomes policy for which other instruments were more appropriate; and iii) a parity price formula, by freezing price relationships, went against the principle of supply and demand: resources would continue to be invested in sectors where it was profitable to invest them now, no matter what

\(^4\) Memorandum from the Planning Commission to the Ministry of Agriculture, April 23, 1979. I am thankful to the late Professor Raj Krishna for making this memo available to me as well as for permitting me to quote it. One should add that it was not a confidential memo.

happened to the demand for the products of that sector in future. Ultimately, the economists' argument did triumph. The terms of reference of the APC remained unchanged during the Janata rule.

In bureaucratic circles in India, the parity price case has come to be known as one where the technocrats defeated the politicians in the struggle for economic policy. This judgment seems somewhat overstretched. While it is certainly true that the case against parity prices was forcefully argued by some leading and highly respected government economists, it is unlikely that, left to themselves, the economists would have won the battle. Support came both from Prime Minister Desai and Finance Minister H.M. Patel. Patel had already expressed his view in parliament: "The term parity means that in any price that (the farmer) gets, account would be taken of the inputs. Whatever price he has to pay for them he should be able to recover when he sells the produce." The vicissitudes of Charan Singh's personal political fortunes also assisted the economists. In order for the proposal to go through, support of the Prime Minister's office, and/or the consent of the Finance and Planning Ministries were required. Given the nature of the Janata coalition, Charan Singh's party, or like-minded agrarians, could not dominate all of these Ministries.

The economists, however, did agree that the terms of trade ought to be reviewed from time to time and if a sharp fall in agriculture's terms of trade took place, some adjustment ought to be made in the procurement price. Beyond that, the argument for parity was rejected.

Based on interviews with the policy actors.

Both belonged to Congress(O). It is unclear whether their support came because of political reasons - namely, need to contain Charan Singh - or due to intrinsic economic reasons. From my interviews, it seems it was a mixture of both. Desai and Patel were, among other things, keen on price stability and looked at increases in food prices with concern.


Mention should, however, be made of a peculiar discrepancy I have discovered in Charan Singh's position on parity prices. On all public platforms as well as in his 1981 book, he advocated parity prices. In India's Economic Nightmare (1981), he wrote: "According to all canons of justice and fair play, the procurement price of agricultural produce should be based on the principle of parity between agricultural and non-agricultural prices." (op. cit., p. 201). Further, "fixation of procurement prices of agricultural produce according to the principle of parity is not a novel or chimerical idea. Both communist China and democratic U.S.A. have followed it" (Ibid., p. 202). Charan Singh took these positions in the peasant
IV.5.3

CHANGING THE CHARACTER OF THE APC:

MAKING AGREEABLE PERSONNEL CHANGES

An attempt was also made to change the functioning of the APC by making personnel changes. In October 1978, A.S. Kahlon was chosen by the government to succeed Dharma Narain, Chairman of the APC since 1969-70. \(^{101}\) The personnel change reflected the ideological proclivities of the agrarian bloc in Janata. Whereas Narain had repeatedly stressed the need to halt the rise in procurement prices, Kahlon was convinced that, if anything, a larger increase in procurement prices was required to "keep the tempo of production going". Whereas Narain's analysis always took note of the impact of food prices on the rest of the economy, Kahlon was primarily concerned with the impact of food prices on food production. The two Chairmen did not much disagree on what needed to be done in the rice economy. Rice production had still not taken off, and since

\(^{101}\) Kahlon was a professor of agricultural economics at the Punjab Agricultural University (PAU). His views on the role of prices in production were very different from Narain's. For details, see A.S. Kahlon and D.S. Tyagi, 1983, Agricultural Price Policy in India, New Delhi: Allied Publishers. Some of the differences are captured below.
wheat surpluses had started accumulating, even Narain was arguing for reducing price incentives for wheat and diverting the freed up resources towards increasing incentives for rice production. Kahlon pitched for an increase in both - on grounds of keeping incentives intact and enlarging public stocks of grain even more, so that in case of a decline in supply, the country had enough stocks to fall back upon.

To illustrate the difference between the two approaches and how politicians saw them, consider the arguments made by these two heads of the APC in identical circumstances. By 1977-78, India's food production once again inspired confidence. After two bumper crops, public stocks had a record 20.6 million tons of grain in July 1977. Wheat stocks stood at 14.6 million tons; rice made up the rest, with coarse grains constituting a negligibly small proportion of stocks.

Another good crop was expected in 1978-79. The APC under Narain argued: "When the need is for a policy of aggressive support purchases to prevent the price of wheat from falling below the level of existing procurement price, there is demand in some quarters for a substantial hike in the procurement price.... A step-up in the price in the present situation carries some important implications which... cannot be brushed aside."\(^{102}\)

The APC then outlined what these implications were: i) a higher procurement price would mean a higher budget subsidy, already at Rs. 450 crores, or a higher consumer price which, according to the APC, did not make sense since stocks were to be lowered, not further increased\(^{103}\); ii) the need


\(^{103}\) "An increase in the procurement price would either inflate the level overall subsidy in respect of foodgrains envisaged at about Rs. 450 crores for the coming year, or...lead to a corresponding rise in the issue price of wheat. In a situation when efforts are being made to enlarge the consumption of wheat through the food-for-work programme by releasing it at a price lower than the current issue price, there would be an oddity in raising the issue price itself." *Cf. Rabi Report, 1978-79 Season*, p. 5.
was to encourage production of pulses, some of which, mainly gram, competed with wheat for acreage in winter, and therefore required better price incentives as well as diversion of resources from wheat so that the technological base of pulse production could be improved; 104 iii) since wheat costs were increasing, the point was to reduce wheat costs by putting resources into irrigation and improving yields in areas bypassed by the green revolution, instead of keeping wheat margins intact in advanced areas by increasing prices to make up for the rise in costs. 105 The APC, therefore, recommended that the procurement price of wheat be maintained at the last year’s level of Rs. 110 per quintal. 106

With Kahlon at the helm, the APC for the next three years, while accepting that “wheat production has maintained a steady rise” 107; ignored argument i) even though food subsidy continued to rise; dismissed ii) on the ground that “in the case of gram, no technological breakthrough is in sight yet”, and, therefore, “no pitching up of administered price can fully compensate for lags in gram technology” 108; and turned argument iii) around to recommend an Increase in procurement price – since costs had gone up, price had to go up as well. 109 Wheat production, it should be emphasized, had increased in both years, which Kahlon did not consider as important as increase in costs. Kahlon added one more argument in favor of price increase: “...rise in the international price of wheat since 1977...calls(s) the developing countries ...to look more and more towards national self-sufficiency in food production with particular emphasis on

104 Ibid. p. 6.
105 Ibid., p. 7.
106 The government did not accept the recommendation and raised it to Rs. 112.50.
109 Ibid., pp. 6-7; Rabi Report, 1980-81, pp. 8-10.
wheat which has become costlier in the international market."^{110}

Thus, while Narain tried to balance the macro and the micro perspectives on food production, Kahlon was essentially working on the basis of a micro perspective, without any consideration of the larger impact of food prices on budgetary subsidies, income distribution, or the general price level in the economy. At no point did the APC under his guidance refer to the latter considerations. In the Indian context, a macro perspective, as already explained, typically calls for restraint on food prices whereas a micro perspective uses price incentives as a basic tool for raising production. A far cry from the Nehru era, when a macro perspective on food prices dominated the economic and political landscape, the change in the APC perspective in the late seventies suited the new political situation better. A rise in agrarian power and a micro perspective on food prices seemed to mesh.

But the movement towards this marriage had long been in the making, which suggests that structural pressures in the polity favoring the agrarian sector had been building up, no matter which party ruled the center. Table 4.5 shows how often the APC price recommendations under Narain were upwardly revised even by the Congress government. In fact, only in two years during the Congress rule in the decade was the APC recommendation accepted. Janata, by appointing a more politically acceptable Chairman, simply preempted a possible source of bureaucratic tension, ensuring the institution recommending producer prices had the same perspective as the political bosses.

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### TABLE 4.5

**Wheat Procurement Price: The APC versus the Government**

<table>
<thead>
<tr>
<th>Year</th>
<th>Price recommended by the APC</th>
<th>Price declared by the Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under Narain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970-71</td>
<td>Rs. 72</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1971-72</td>
<td>Rs. 74</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1972-73</td>
<td>Rs. 72</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1973-74</td>
<td>Rs. 72</td>
<td>Rs. 76</td>
</tr>
<tr>
<td>1974-75</td>
<td>Rs. 95</td>
<td>Rs. 105</td>
</tr>
<tr>
<td>1975-76</td>
<td>Rs. 105</td>
<td>Rs. 105</td>
</tr>
<tr>
<td>1976-77</td>
<td>Rs. 105</td>
<td>Rs. 105</td>
</tr>
<tr>
<td>1977-78</td>
<td>Rs. 105</td>
<td>Rs. 110</td>
</tr>
<tr>
<td>1978-79</td>
<td>Rs. 110</td>
<td>Rs. 112.50</td>
</tr>
<tr>
<td>Under Kahlon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979-80</td>
<td>Rs. 115</td>
<td>Rs. 115</td>
</tr>
<tr>
<td>1980-81</td>
<td>Rs. 117</td>
<td>Rs. 117</td>
</tr>
<tr>
<td>1981-82</td>
<td>Rs. 127</td>
<td>Rs. 130</td>
</tr>
<tr>
<td>1982-83</td>
<td>Rs. 142</td>
<td>Rs. 142</td>
</tr>
</tbody>
</table>

Source: Various APC Reports. I have only taken two varieties here - Mexican and indigenous (common white) - which constitute the bulk of production.
IV.5.4 Summing Up: Assessing the Significance of Charan Singh and the Janata Party

The Janata government did not last beyond mid-1979, nor did Charan Singh in the government beyond the end of 1979. But Charan Singh’s significance survived his fall. To be sure, by the end of the decade, agricultural price agitations had started emerging in parts of India including places where Singh had no political standing. The state of Tamil Nadu, in particular, had witnessed a violent agitation in 1978. But these agitations were all regional or local. They became an important political force only in the 1980s. It is unlikely that these agitations, and the issues they have raised, would have caught national political attention so quickly if Charan Singh between 1977-1980 had not made these into issues of urgent and national political concern. Similarly, agrarian representation in parliament had been rising but, before Charan Singh, no leader so completely identified his political career and stature with issues pertaining to rural India. Charan Singh did not singlehandedly transform rural India into a national political force, which ideally he would have liked to do, but it would be fair to say that he dramatically represented an emerging political trend and, in doing so, contributed to its strengthening. He forced the urban media, political parties and the top echelons of the government to acknowledge the new agrarian force in Indian politics.

A comparison with C. Subramaniam may be useful here. Subramaniam changed the agricultural policy of the country but did not mobilize rural India for political purposes. Subramaniam was essentially a technocratic politician, not a flaming ideologue or an inveterate political mobilizer. Charan Singh’s impact was precisely the opposite. He was unable to give a new direction to the country’s economic policy, which he would have if the parity price formula had

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""" Janata broke up into its constituents in the 1980 elections. Mrs. Gandhi returned to power with a solid majority in the Lok Sabha. Of the former Janata constituents, Charan Singh’s Lok Dal did best, emerging as the second largest party in the Lok Sabha, but it finished far behind Mrs. Gandhi’s Congress party.
gone through or the resource allocation between industry and agriculture had been durably altered. But, through peasant mobilization and an unrelenting advocacy of villages, he contributed to the emergence of rural India on the national power map. His politics led to a change in the ideological discourse of Indian politics, an effect Subramaniam neither (perhaps) intended nor was able to achieve. After Charan Singh, all political parties had to accommodate the new peasant power in their political programs and strategies.

The first person to understand the significance of Charan Singh was Mrs. Gandhi. In the 1967, 1971 and 1977 general elections, the Congress election manifesto - which reflects, however imperfectly, the program of a party in India - did not contain any references to agricultural prices. Worded in the spirit of the late sixties and the early seventies, the agrarian program of the Congress party in 1977 was "to develop and modernise agriculture" and to "promote the interests of the small and marginal farmers, agricultural workers...".112 By the 1980 elections, the Congress party was also seized of agricultural prices. After castigating the Janata government for not protecting the interests of the agriculturists, "despite its loud professions", the Congress conceded that "the working of the Agricultural Prices Commission and the Food Corporation of India needs vast improvement", and promised that "greater attention (will be) paid to the farmer's cost structure" and "input cost indexation of support prices will be instituted so as to safeguard the farmer's income from inflationary trends".113 Other parties followed suit.114

113 Election Manifesto 1980, Indian National Congress (I), p.22.
114 To be discussed in Chapter 5.
CONCLUSION

As argued in the previous chapter, the change in agricultural policy in the mid-1960s was primarily a state initiative with remarkably little input from the rural society. The decade of the 1970s, however, began to change this relationship. Pressures on the Indian state and on agricultural policy mounted as rural power expressed itself in two forms - one old, the other new. Blocking the implementation of unfavorable policy measures at the state and local level constituted the old form. It continued in the 1970s as an unwelcome nationalization of grain trade was squarely defeated. However, as the decade ended, rural-based parties made a transition from state politics to national politics. Rising to power, they were able to exert direct influence on the policy making organs of the Indian state as well. Both the new and the old forms of power were thus joined, giving greater political strength and visibility to rural India than witnessed before in Indian politics.

The economic and policy implications of the change in power structure did not, however, correspond to the best case scenarios that the new agrarian force strove to achieve. The new power realities succeeded in preventing the worst case scenarios from taking place: for example, a fall in prices that would have normally accompanied an accumulating grain surplus. The new power configuration also succeeded in substantially changing the composition of the state institution responsible for setting prices so as to ensure favorable policy outcomes. But the best case scenario - changing the very principles of price policy in a partisan rural direction - remained unrealized. The economic bureaucrats in the government fought the rural politicians using standard notions of economic theory as their armour. While they were unable, as one would expect, to totally subdue the politicians, they were not totally subdued either. Given that all the spaces on the landscape of leadership and power were not occupied by the agrarian partisans, the
technocrats were able to exploit the divisions in the political wing of the government to restrain the agrarian tide from fully dominating economic policy. The net result was tilted towards agrarian India but the tilt, in the absence of countervailing checks and balances in the system, would have been considerably steeper.

As the 1980s opened, yet another index of agrarian power emerged. Farm price agitations - robust, stable and widely supported in the countryside - spread to many parts of the country: Maharashtra, Tamil Nadu, Karnataka, Punjab, and Gujarat. More importantly, the leadership of rural India started slipping from the grasp of political parties. Previously little known leaders, heading non-party political formations, increasingly came to the fore. Political parties redoubled their efforts to wrest the initiative from the non-party political actors, but with little success. As to why non-party mobilization emerged in a big way, what impact the new mobilization had on agrarian politics and agricultural policy are issues taken up in next chapter.
CHAPTER FIVE

ORGANIZING THE COUNTRYSIDE:
PEASANT MOBILIZATION IN THE 1980S

Introduction

I The New Agrarian Mobilization: Scale and Issues
   I.1 The New Agrarianism: Ideology

II The Social Base of the Farmers' Movement: Sectoral or Class-Based?
   II.1 The Distributional Case Against Food Price Rise
   II.2 Introducing the Long-Run Considerations
   II.3 Towards Politics: Where the Agitations Are Strong? Who Supports Them?
   II.4 Support of Small and Marginal Farmers: Evidence and Objections
   II.5 Why Does the Small Farmer Support Higher Food Prices:
       Microfoundations of a Counterintuition
       II.5.1 A Special Case: The "Pure Deficit" Farmer

III The Plight of Agricultural Laborers
   III.1 Problems in Empirical Evidence: The Structural Position of Agricultural Workers
   III.2 What the Structural Context Means for Attitude Towards Price Agitations
   III.3 A Recapitulation

IV Impact on Party Politics and Economic Policy
   IV.1 The Response of Political Parties
   IV.2 The Response of State Governments
   IV.3 The Response of the Central Government
   IV.4 The Paradox of Non-Party Agrarian Politics: Political Visibility and Electoral Weakness

V Conclusion
Is the peasantry capable of organizing for collective action? Students of peasant behavior have long wrestled with this question. Three dominant images have marked the literature. The first image - one of collective docility - goes back at least to Marx’s statement that peasants are like “potatoes in a sack” isolated from each other and unable to organize. The second image, having its original roots in the success of Mao Zedong with peasant mobilization in China but coming to dominate the intellectual landscape during the Vietnam War, suggested the reverse. Peasants were now considered to have the ability to engage in revolutionary collective action.¹ A third image, sketched mainly by James Scott, who was earlier also one of the proponents of the second view, has made a forceful entry in the peasant studies of the 1980s.² Going under the rubric of ‘everyday resistance’, the third image is about the “the vast and relatively unexplored middle ground... (between) passivity and open, collective defiance”.³ Since peasant rebellions are rare, this image concentrates on individual acts of dissent - “clandestine arson and sabotage, footdragging, dissimulation, false compliance, pilfering, slander, flight, and so forth”, acts that “require little or no coordination or planning” and are routinely used by peasants to express protest.


³ From the "Introduction" to the Special Issue on "Everyday Forms of Peasant Resistance in South-East Asia", edited by James Scott and Benedict Tria Kerkvliet, The Journal of Peasant Studies, Vol. 13, no. 2, January 1986, p. 1. The remaining citations in this paragraph are also taken from this Introduction.
This chapter deals with yet another "unexplored middle ground", which is covered neither by acts of revolution, nor by docile silence, nor indeed by everyday forms of struggle. Best called "democratic peasant mobilization", it has a history in the developed countries but virtually no track record in the developing world. It holds the conceptual ground between revolutionary fervor and individual non-compliance: it is collective action for protest, but not for revolution.

Democratic peasant mobilization marks the Indian rural scene of the last decade. It is primarily sectoral. Its ideology is captured in the image that its leaders have relentlessly, and quite successfully propagated: the image of a Bharat-India divide, where Bharat, the Hindi term for India, notionally subsumes the oppressed rural many, and India, the English term for the country, represents the dominant urban few. It has a primarily reformist objective - namely, pressuring the government to achieve better prices for what the rural sector produces, and a better urban-rural balance in the country's resource allocation. At no point has this mobilization threatened the existing class structure in a revolutionary way but it has been powerful enough to rock the politics of many important and populous states of India: Tamil Nadu and Karnataka in South India, Maharashtra and Gujarat in the West, and Punjab and Uttar Pradesh in the North. And since it has emerged in so many states and with such persistence, it has managed to exercise considerable pressure on national politics, too.

A remarkable feature of this mobilization is that it has been led by non-party organizations. These organizations have, by and large, kept institutional autonomy from political parties and, in most cases, have refrained from contesting elections. Political parties, despite trying, have so far failed in their attempts to gain the leadership of these agitations. Their failure, however, has not led them to decry these agitations; rather, due to the pressure exerted, all political parties have felt the need to reformulate their political programs to support the demand for remunerative prices and for
greater allocation of public resources for the countryside.

The new agrarian mobilization in India raises many analytical puzzles. Consider some of the more striking ones.

i) It is generally believed, particularly by economists but not exclusively by them, that higher food prices benefit the surplus producers at the cost of the rural poor, who are net buyers of foodgrains and who, therefore, would be hurt by higher food prices - at least in the short run. The truly massive rural participation in the farm price movements, however, seems to suggest that the rural poor have also supported the demand for higher food prices. Why is a customary economic claim not at the same time a political fact? If the poor buy more food than they sell, then their support is counter-intuitive in the short-run. If, on the other hand, they believe that higher prices in the long-run might lead to higher employment or higher wages, their support still remains counter-intuitive. For it is not clear why a possible long-run benefit should be preferred over a definite short-run cost. Are some non-economic factors at work? Is the new mobilization an attempt by the rich peasantry to consolidate itself politically after gaining economically from the green revolution? If so, how does the rich peasantry get the support of the poor?

ii) Why did the leadership of these agitations go to non-party organizations, not to political parties? Still more puzzling, why is it that these organizations, despite attaining wide popularity, did not turn into political parties, and those few that did, failed miserably? Since it might safely be supposed that parties in power would be more in a position to affect government policy, what does the inability of non-party organizations to become successful parties tell us about the potential and limits of non-party mobilization to affect a key economic policy of the country?

iii) Why should there be producer price agitations when the policy is based on price incentives?
India's food policy, after all, was changed in the mid-1960s. Since then, price incentives and investments in new agricultural technology have been the cornerstones of food policy. Why didn't these agitations emerge earlier when, under Nehru, the country's leaders and planners explicitly stated that food prices had to be kept low and food had to be procured at lower than market prices? Why, in other words, are farmers agitating for higher prices now? Has the definition of agrarian interests been influenced by a change in state policy?

iv) And finally, we also have a comparative puzzle. Farmers in most third world countries are disorganized.\footnote{I shall use the terms "peasants" and "farmers" interchangeably. Eric Wolf's work \textit{Peasant Wars of the 20th Century}, New York: Harper and Row, 1969\) emphasizes the distinction between the two on the ground that peasants produce primarily for home consumption and farmers primarily for the market. For my purposes here, this distinction is not very helpful because in India, i) the native term for both is \textit{kisan} (or its linguistic variants in various parts of the country) and ii) increasingly more and more peasants are becoming part of the market nexus. Except for those heavily involved in questions such as whether the mode of production in Indian agriculture is feudal or capitalistic, this distinction has not carried much weight in India.} Olson's famous theoretical argument about why it is generally hard to organize large and dispersed groups has been used by Robert Bates to explain why farmers have little political power in Africa.\footnote{Robert Bates, \textit{Markets and States in Tropical Africa}, Cambridge: Cambridge University Press, 1981; and \textit{Essays in the Political Economy of Rural Africa}, Cambridge: Cambridge University Press, 1983. Bates uses Mancur Olson's classic \textit{Logic of Collective Action} (Harvard University Press, 1965) to explain the weakness of the African peasantry.} The size of the farm group in India is large and farmers are dispersed. Still, farmers have become organized. What explains the Indian exceptionalism? Or is there an exceptionalism here?

In the remaining parts of the dissertation, I shall seek to solve these puzzles. This chapter will concentrate on puzzles i) and ii). Puzzle iii) will be addressed in Chapter 6, when detailed statistical results are presented to examine the claim of the agitation leaders that, in principle, India's food policy may be based on price incentives but, in point of fact, government prices squeeze farmers.
Puzzle iv) will be taken up in the concluding chapter (7).

The organization and arguments of the chapter are as follows. The first section (V.1) describes the issues and scale of the new agrarian mobilization. The next section (V.2) argues that, despite its apparent counter-intuitiveness, both evidence and logic suggest that rather than having a narrow class base in the surplus-producing rich peasantry, the new agrarian mobilization has the support of all sections of the landed peasantry. However, the landless agricultural laborers do not relate to these agitations in any single identifiable way. In their case, all conceivable patterns - support, opposition and apathy - exist, whose causes I shall explore (Section V.3). Next, I shall examine the impact of these agitations on governmental policy (Section V.4). The argument will be that, despite the impressive mobilization, changes in agricultural policy have fallen short of the demands of the new peasant leaders. I shall then explore why the gap between movement demands and government response exists. Section V.5 will state the conclusions, weaving together the argument of each section.

SECTION V.1
THE NEW AGRARIAN MOBILIZATION:
SCALE AND ISSUES

Though coming of age in the 1980s, the new agrarian mobilization was born in the early seventies. The agitations did not start in the least developed Indian states but in the more developed ones and in the more prosperous districts -- in the Coimbatore district of the southern state of Tamil Nadu in 1970⁶ and in the Ludhiana district of the northern state of Punjab in 1972.⁷

⁶ For the origins of the Tamil Nadu farmers movement, see M.V. Nadkarni, 1987, Farmers' Movements in India, Delhi:Allied, pp. 60-69. Also see, K.C. Alexander, 1981, Peasant Organizations in South India, Delhi:Indian Social Institute, pp. 131 -135.

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Unlike many parts of the country having subsistence agriculture, these districts are well-endowed with irrigation facilities and their agriculture by the late sixties had already become heavily market-oriented. Input and grain prices, therefore, had an important role to play in their farm economies. In 1970, Coimbatore farmers successfully agitated against the decision of the state government to increase electricity charges. By 1972, their demands had expanded to include remunerative agricultural prices, input subsidies and waiving of agricultural loans. In 1972, there was also an agitation in Ludhiana, Punjab, against the decision of the central government not to increase the support price for wheat in 1972.

These beginnings were small, but over time they evolved into a movement supported by larger organizations. In 1973, a statewide non-party organization was formed in Tamil Nadu, called Tamil Nadu Agriculturists Association (TNAA) under the leadership of Narainswamy Naidu. By the late seventies, the TNAA had started organizing large scale protests. In 1980, the TNAA reportedly had a membership of 3 million farmers.

The Punjab organization, called the Khetbari Zimindara Union (KZU) had also become a state level non-party organization by the early eighties. In 1980, the KZU rechristened itself, acquiring its current name Bharatiya Kisan Union (BKU). Between 1973 and 1980, the KZU organized agitations on power rates for tubewells, rates for water and diesel, support prices for sugar cane etc. By 1983, the BKU had functioning organizational units in all districts of Punjab except one.


9 Nadkarni, op. cit., p. 67.

10 The following is based on Gill and Singhal, op. cit., p. 1729.
The organization had developed a four-fold structure, with office bearers at the village, block, district and state levels respectively.

The real turning point for these agitations came in 1980. As described in Chapter 4, the association of Charan Singh and his party, Lok Dal, with the central government between 1977 and 1980 had already sensitized the top echelons of the political structure in Delhi to the emerging agrarian power. Charan Singh’s exit from power was quickly followed by price agitations in the states of Maharashtra and Karnataka, though the leaders and organizations heading these agitations had little to do with Singh, or, for that matter, with any political party. Sensitization of the power organs above, and an unrelated but autonomously increasing agrarian unrest below coincided powerfully, attracting national political attention. These agitations were no longer mere state-level irritations. Moreover, the leaders of agitations in Maharashtra and Karnataka showed a remarkable capacity to formulate effective political strategies and articulate powerful idioms for rural mobilization.” Sharad Joshi in Maharashtra, in particular, stood out as a strategist and communicator, whose imaginative slogan of the Bharat-India divide became the new idiom of rural mobilization.”

With higher agricultural prices as their principal slogan, these organizations, over the next seven to eight years, led many successful agitations. Their rallies and demonstrations attracted a large mass of farmers -- the numbers ranging between 100,000 to 500,000 on a number of occasions. By 1987, two more agitations of a similar kind emerged - in the states of Gujarat and

"The most exhaustive account of the Karnataka agitation so far is M.V. Nadkarni, op. cit., pp. 82-135.

"For the Maharashtra agitation, see Sharad Joshi, 1983, Kisan Sanghthan: Vichar Aur Karyapaddhati (Peasant Organization: World View and Strategy), Varanasi: Sarva Seva Sangh Prakashan. No scholarly accounts of Joshi’s movement exist at present. My account here is based on interviews and newspaper reports.
Uttar Pradesh.¹³

On the basis of the decade long record, it is now widely accepted that these agitations have come to stay. The following editorial in The Times of India, a leading newspaper in the country, is an example of how the political significance of the new peasant mobilization has been viewed in the metropolitan media, (and in large parts of the intelligentsia and national bureaucracy):

"The peasants have started to flex the political muscles that their economic betterment has given them... . . . . In national terms, (they) cannot claim that (they) have received a raw deal. Witness the manner in which agricultural inputs have been subsidised for the past two decades... . . . But it is precisely because the farmers have been enabled to move beyond subsistence economy that they have acquired the capacity to launch the kind of sustained struggle they have. It is going to be difficult to either contain them or to accommodate them in the current economic arrangement. They cannot be contained because they command the vote banks in the countryside to which every party seeks access. And they cannot be accommodated because there is a limit beyond which the urban population cannot be expected to transfer resources to them. For to allow agricultural prices to rise unduly is to undermine the very basis of economic development, add to the woes of the poor in both urban and rural areas and fuel unrest in urban centers which is already proving difficult to control. .............A new spectre of peasant power is likely to haunt India in coming years."¹⁴

For the worldview underlying these agitations, I turn first to Sharad Joshi, the most eminent of the new farm leaders.¹⁶ I shall, then, set forth the similarities and differences that other peasant

¹³ For details of the Gujarat agitation, see India Today, March 15, 1987; For Uttar Pradesh, "Farmer Power", Front Line, February 20-March 4, 1988, and "Farmers on the March", Indian Express (Sunday Magazine), February 21, 1988. One of the rallies in Gujarat reportedly was attended by 400,000 farmers and the agitation in Uttar Pradesh by a 100,000 (Indian Express, Sunday Magazine).

¹⁴ The Times of India, February 3, 1988. This editorial was written after an agitation in Western Uttar Pradesh in the winter of 1987-88.

¹⁶ Joshi has published widely and spoken eloquently about his world view. Having led scores of agitations in this decade, his organization, the Sheikari Sanghthana (Peasant Organization) is the most vibrant of the new farmers' organizations. Joshi's background makes interesting reading. Holder of a Masters degree in Statistics from the University of Bombay and a former civil servant who also worked with the United Nations in the 1960s, he turned to dryland farming in the mid-seventies. He speaks three languages fluently - English, Marathi (his mother tongue) and Hindi - and displays impressive knowledge of the writings, on the one hand, of Marx, Rosa Luxemborg, Stalin, Lenin and Gandhi on the Agrarian Question, and of Michael Kalecki, Theodore Schultz, Michael Lipton and Ashok Mitra on the other. His background in statistics, moreover, has equipped him for questions of sampling design and procedures of statistical inference, matters that are of great importance to an analysis of agricultural cost data. Ability to communicate with the intelligentsia and capacity to lead the peasant masses at the same time have made him into a formidable political force in the state of Maharashtra. My account here is based on his
leaders have with Joshi's movement and ideology.

V.1.2 The New Agrarianism: Ideology and Issues

Joshi outlines three distinguishing features of the new agrarianism. First, unlike the old agrarians ("Tolstoy-Ruskin-Gandhi"), the new agrarians do not celebrate village life for its blissful simplicity and spiritual richness: "it does not glorify the pastoral/agrarian pattern." Rather, new agrarianism has material foundations:

"the quality of life of an individual, as also of a community, is to be assessed by degrees of freedom it enjoys. The three degrees of freedom are: number of occasions available for exercising a choice; number of options for the choice, the size of the spectrum of choices. The larger the number and the variety of means at disposal, the higher will tend to be the degrees of freedom and hence material opulence is desirable in itself... not for the enjoyment or happiness it brings... Increased production, higher productivity and accumulation of capital form the very core of all social and economic activity."

Secondly, unlike the peasant movements of the past which pitched tenants against the landlords, the low castes against the high castes, the new peasant movements are "not divisive". The essential conflict, according to Joshi, is not intra-rural, but between the countryside and the city, between Bharat and India. The misery in the villages is not caused by the "slightly better off farmer in the neighbourhood" but by an "outside exploiter", the urban India. "Transcontinental writings and many rounds of interviews conducted between 1984 and 1986.


"Joshi, Ibid., p. 74. Mahatma Gandhi's defence of agrarianism, spelled out in his Hind Sawara (Indian Self-Rule), was based on an antipathy towards the dehumanizing and consumerist impact of the big-factory industrialism. He preferred the morally rich and need-based village life which at best required small industries and handicrafts.

"Ibid.

"Ibid., p. 75.
imperialism", represented by the British, "has been replaced by internal colonialism". 20

Finally, since ".. savings in agriculture expropriated through a policy of cheap raw materials and artificially depressed prices" 21 constitute the main technique used by the new exploiters to transfer resources, the third feature of new agrarianism is its "almost exclusive concentration on the question of agricultural prices". 22 Joshi goes to the point of arguing that remunerative prices, if given, can eradicate poverty not only in the countryside but in the country as a whole. The following postulates are given in support of the "one point programme" based on prices. 23

i) Since farmers "respond rationally to price movements", they will react to price incentives by increasing acreage and investment and adopting improved technology.

ii) Since farmers' response will increase demand for labor, wage earners will also benefit. As a matter of fact, very soon in this process arrives a point when, Joshi argues, "the rate of increase in farm wages is higher than the rate of increase of agricultural prices". 24

iii) As a consequence of the additional incomes so received, farmers will undertake non-agricultural activities creating employment, and spend incremental incomes in a way that can lead to higher industrial growth. Indeed, "some of the more remarkable spurs in industrial activity have come immediately following temporary reprieves in agricultural price conditions." 25

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20 Ibid., p. 77.
21 Ibid., p. 69.
22 Ibid., p. 76.
23 Ibid., pp. 79-80.
24 Ibid., p. 79.
25 Ibid.
Thus, according to Joshi, price incentives in agriculture and a "natural" process of capital accumulation driven by agricultural revolution can benefit the entire economy and break the vicious circle of poverty. As opposed to this, an accumulation process driven by an Industrial revolution (before an agricultural revolution has taken place) is, on Joshi's view, always premised upon a coercive extraction of agricultural surplus.

The primacy of agricultural prices is conceded by the other new peasant leaders but, in their judgment, prices can not be a "one point programme". Their agendas are broader. Beyond input and crop pricing, the issues they have raised can be classified into three categories -- agricultural, rural and social.

The strictly agricultural demands, common to most state agitations, include the waiver of past agricultural loans on the ground that unfavorable farm prices have yielded incomes grossly insufficient for loan repayment; abolition of land revenue; cessation of taxes agricultural implements such as tractors, pumpsets etc; and provision of crop insurance.

Next, there are issues that are not strictly agricultural but rural. Some of these are consistent with the "old agrarianism" of Mahatma Gandhi -- for example, the demand for a larger allocation of public resources for village development (roads, schools, drinking water facilities) and for rural industrialization. To these have been added some new demands such as reservation of seats in educational institutions and reserved quota in government employment for farmers' children**, and old age pension to farmers.

Some social issues have also been raised of late though they are yet to move to the fore. These

** Sharad Joshi disagrees with the demand for a quota in educational institutions and employment. Interview with Joshi, op. cit.
include checks on alcoholism, better status for women and campaign against wife-beating, abolition of dowry or limitation of dowry expenses etc. Most of these are not so much aimed at the government as towards raising the consciousness of those mobilized and widening the support base of these movements by including women, too.  

Some of these issues are specific only to a couple of states, some are exercises in future hope if not plain rhetoric, and some simply attempts to widen the support base of the movement. From the differential pitch assigned to the various issues, one can infer a two-fold core which has attracted the maximum attention -- prices and loans. Input and crop prices, since the very beginning of these agitations, have been a first-order concern of all the movements. Loan waivers, starting with Tamil Nadu in the late seventies and Karnataka in 1980, have also finally become an important issue. By 1987, Sharad Joshi, who long resisted moving beyond remunerative agricultural prices, had also placed loans on his agenda.

The emergence of a two-fold core is not surprising since with increasing marketization, Indian agriculture has become heavily prices- and credit-based. The significance of prices in a market-oriented agriculture is self-evident. The need for credit is linked to the rise in the capital intensity of farming after the green revolution. Farmers required capital to adopt new technology and the government, on its part, also vastly expanded its credit operations in agriculture. Both the higher demand for credit and its larger supply have made loans a central feature of the post-green

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77 Cf. Sharad Joshi's interview to Rajni Bakshl, "The Uprising", The Illustrated Weekly of India, January 18, 1987, p. 47. First raised in Punjab, these issues were highlighted in Uttar Pradesh and Maharashtra between 1986-88.

SECTION V.2

THE SOCIAL BASE OF THE FARMERS' MOVEMENT:
SECTORAL OR CLASS BASED?

We move now to what is by far the most difficult and important question concerning these movements. Do they have a class character or does new agrarianism represent the interests of the entire countryside? The question is important because on it have depended political judgments about whether these movements ought to be supported, as well as about whether and how long they might persist. At issue is not only an economic question (who benefits from higher food prices and loan waivers and why) but also a political question (who participates in these movements and why). If groups that, according to economic reasoning, lose from higher food prices nonetheless participate in the movement for higher prices, how is that to be viewed? Is it an example of "false consciousness", of coerced participation, or is the intellectual reasoning itself narrow or wrong? This conceptual difficulty is compounded by the quality of evidence that exists. Evidence bearing on the political question (who participates and why) is not entirely unambiguous. Nor, once we move beyond the short-run effects on the poor of food prices increases and consider the long-run effects as well, is the economic evidence (on who benefits and why) conclusive.

This section and the next propose a resolution of the difficulty via a combination of inductive and deductive reasoning. There is no dispute about the support of the rich and middle peasantry for higher prices. So I shall take that as given. As for the rural poor, I shall divide them into two

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28 See India Today, March 15, 1988, and Economic and Political Weekly, October 6, 1984. In many ways, the linking of prices and indebtedness resembles the argument often made about the international debt problem. In a national context, however, the argument is unlikely to enjoy as much legitimacy as in the international context for the simple reason that credit agencies in the national case are domestic, whereas in the international case, they are of foreign origin.
categories - the landed poor (small farmers) and the landless laborers. Looking at the field reports about who participates in these movements, I shall argue that while there is evidence of small farmer support, the evidence may itself be selective, not randomly drawn, so that, in and of itself, it may not permit general inferences. However, if we can discover the logic of why a small farmer may support price agitations, we should be able to i) explain why we empirically observe such support, despite its counter-intuitiveness, and ii) make a generalization about small farmer support that will be more admissible than if only the evidence of uncertain validity is used.

The issue of landless laborers' participation is even more complex since empirical observations of both opposition to, and support for, price agitations exist, whereas in the case of small farmers, only observations of support, however unsystematic, are available. Using assumptions based on some fine-grained social anthropology work on the relationship between the landless and the landed peasantry in different parts of rural India, I shall then consider why we observe both opposition and support.

I set up the discussion as follows. I shall first present economic arguments about the distributional effects of food price increases in the short and long run, showing they remain inconclusive. I shall then move to the political arguments and illustrate their difficulties, too. Finally, I shall use the method suggested above to propose solutions to these difficulties.

V.2.1 The Distributional Case Against Food Price Rise

Of those writing on Indian agriculture, Ashok Mitra, M.L. Dantwala, Dharm Narain, Alain de Janvry and Subbarao, and John Mellor have been at the forefront of those arguing that higher food
prices hurt the poor. Speaking purely in terms of the short run, their central intellectual proposition can be summed up as follows:

Higher food prices benefit those who have a surplus to sell in the market. It is typically the rich peasantry, and in some parts of the country, the middle peasantry that can produce a surplus. The small peasant might sell after the harvest but only to buy greater quantities later in the off-season. He is, therefore, a net buyer of foodgrains, and higher food prices hurt him. The landless peasant is also hurt since the rise in food prices depresses the real value of his wages. Thus, the subaltern classes in the countryside - the small peasantry and the landless - that constitute the majority of the rural population lose from higher food prices.

Two kinds of evidence are normally furnished in support of this argument: i) the degree of shrinkage induced by a food price rise in the poor people's demand for food (with attendant consequences for their nutrition), and ii) the degree of their dependence on the market for foodgrains.

The economic concept of the price elasticity of demand -- i.e., an estimate of the proportional change in the demand for a good as the price of that good changes -- seeks to capture the first effect. Most elasticity estimates do show that the poor cut their consumption of food if food prices go up. It is also clear that the food consumption of the rich is relatively unaffected by prices. In 1977, India's Planning Commission estimated the price elasticities of

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demand for selected items in the urban and rural areas (Table 5.1). A 10 per cent increase in the price of cereals (wheat, rice and coarse grains), it was found, reduces the already low food consumption of those below the poverty line by 7.3 and 6.6 per cent in the rural and urban areas respectively.\footnote{Similar estimates are available for other countries, but in India's case, the problem is magnified because of the sheer size of those below the poverty line. For comparative figures, see P.E.R. Pinstrup-Anderson, 1985, "Food Prices and the Poor", European Review of Agricultural Economics, Vol. 12, also reprinted by International Food Policy Research Institute, Washington D.C., 1985. From available works, Pinstrup-Anderson has put together the estimates on Colombia, Indonesia, Bangladesh, Thailand, the Phillipines, Brazil, Sierra Leone and India.} The corresponding figures for those above the poverty line were 0.3 in the rural and 0.04 in urban areas. Another way of saying this is that higher food prices have a direct income effect for the poor.

The second type of evidence - on the market dependence of the poor for foodgrains - complements the first: whereas the first indicator tells us the extent to which the poor are sensitive to food prices, data on their dependence on the market tells us what percentage of their total food consumption is affected by this price sensitivity.

Table 5.2 contains the statistical evidence presented by Ashok Mitra, one of the most distinguished proponents of this argument in India.\footnote{Author of the widely noted Terms of Trade and Class Relations (op. cit.) and an economist with a doctorate from Cambridge University, Mitra served as a Finance Minister in the state government of West Bengal from the late seventies to the mid-eighties. He was also the Chairman of the Agricultural Prices Commission between 1967-1970.} Mitra's data are taken from three states and pertain to one year only (1963-64). Unfortunately, they cannot be easily supplemented since a time series on how the percentages reported in the table have changed is not available. However, whatever the exact numbers later, the general conceptual point of Mitra's data -- that the rural poor depend on the market for foodgrain consumption much more than do the rich, and generally speaking, the poorer the household, the larger the market dependence -- is not
<table>
<thead>
<tr>
<th></th>
<th>Cereals</th>
<th>Pulses</th>
<th>Sugar</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RURAL</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For those below</td>
<td>-0.73</td>
<td>-0.83</td>
<td>-0.84</td>
</tr>
<tr>
<td>the Poverty Line</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For those above</td>
<td>-0.30</td>
<td>-0.44</td>
<td>-0.63</td>
</tr>
<tr>
<td>the Poverty Line</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>URBAN</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For those below</td>
<td>-0.66</td>
<td>-0.87</td>
<td>-0.91</td>
</tr>
<tr>
<td>the Poverty Line</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For those above</td>
<td>-0.04</td>
<td>-0.19</td>
<td>-0.33</td>
</tr>
<tr>
<td>the Poverty Line</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: The negative sign indicates the movement of consumption in the reverse direction: the higher the price, the smaller the consumption.

### TABLE 5.2

MARKET DEPENDENCE OF RURAL HOUSEHOLDS FOR FOODGRAINS

(As per cent of total foodgrain requirement)

<table>
<thead>
<tr>
<th>Class</th>
<th>Andhra Pradesh</th>
<th>Maharashtra</th>
<th>Rajasthan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer Households with more than 2.5 acres of land</td>
<td>34.7</td>
<td>34.7</td>
<td>26.6</td>
</tr>
<tr>
<td>Households With less than 2.5 acres of land</td>
<td>81.2</td>
<td>82.4</td>
<td>87.0</td>
</tr>
<tr>
<td>Landless Laborer Households</td>
<td>99.4</td>
<td>97.6</td>
<td>74.0</td>
</tr>
</tbody>
</table>


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33 The APC reports after 1968-69 do not contain any reference to data on market dependence.
disputed.\footnote{The exception in Rajasthan could be because of a larger incidence of wages in kind for agricultural laborers as opposed to a predominance of monetary wages in Andhra Pradesh or Maharashtra.}

Left at this level, these two statistical profiles lead to a disturbing conclusion. Since it is widely believed that roughly 25 per cent of the agrarian population is landless and another 30 per cent owns 2.5 acres or less, it is reasonable to suppose that the nutritional well-being of at least 50 per cent of the agrarian population is acutely affected by food prices.\footnote{I am basing these figures on the 1971 census. Surveys done in the 1980s do not show any remarkable changes in the distribution of landownership. These later surveys have looked at distribution in two ways. Gini coefficients, measuring the concentration of holdings in various size categories, appear to have remained the same as in 1971 (Cf., Sheila Bhatta, 1987, "Trends in Employment in Indian Agriculture, Land and Asset Distribution", \textit{Indian Journal of Agricultural Economics}, Vol. 42, no.4, October-December). However, it is also reported that while the Gini ratio for all size categories taken together has remained the same, there is some change at the two extremes of the distribution. The percentage of marginal holdings has gone up whereas that of large holdings has declined (Cf., M.L. Dantwala, 1987, "Rural Assets Distribution and Composition of Labor Force", \textit{Indian Journal of Agricultural Economics}, Vol 42, No. 3, July-September). Increasing demographic pressure may have partly induced splinterization of holdings. However, since productivity in Indian agriculture has increased, the increase in marginal holdings should not drastically affect the rough calculations presented in this paragraph.} The urban poor, thought to be about 40 per cent of the urban population, are also hurt, though a subsidized public distribution system provides them some cushion. In other words, given the rural:urban ratio of 70:30 in the population, close to half of the country’s population should significantly lose from higher food prices. Moreover, it would also seem that at least some of those with landholdings in the range of 2.5 to 5 acres (constituting about 25 per cent of the agrarian population) are also affected, though not so acutely. Hence the famous rhetoric of M.L. Dantwala that lowering food prices is equal to “instant socialism”.\footnote{In Mellor and Desai, op. cit.}

\subsection{V.2.2 Introducing the Long-Run Considerations}

A large body of economists, though by no means all, would agree that the short-run
Implications of a food price increase are regressive for the poor. Disagreements generally arise when, moving beyond these short-run effects, one begins to examine the long-run effects of food price increase.

A whole series of long run effects can be visualized but for purposes of assessing the impact on the poor, three effects merit special consideration: on employment, wages and agricultural productivity. Higher food prices may hurt the poor in the short run but if higher prices, on the supply side, lead to higher production and, on the demand side, to higher demand for the services of the poor (as surplus producers spend their newly acquired incomes), either employment or wages should go up (or both after a point). The landless may thus benefit from the employment or wage effect in the long run. As for the small farmers, if higher prices give them an incentive to adopt new technology, then higher productivity may make them self-sufficient in food, and their

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dependence on the market for consumption may disappear. Moreover, if productivity-increases
end up generating a small surplus on their lands, they can gain further from their sales in the
market. In sum, the poor - both the landless and the small peasant - may be better off in the long
run as a result of higher food prices. Conversely, food prices, if lowered, may lead to a decrease in
employment, and a consequent increase in poverty.**

Do these dynamic effects, posited a priori, overpower the short run effects? Do we know
enough about how these various effects have played themselves out in the real world?

Economic models, known as computable general equilibrium (CGE) models, seek to capture
the dynamic effects. A discussion of the difficulties that beset these models is beyond the scope of
this chapter. Some economists have written critically both about their merits and limits. Lance
Taylor argues that the distributional results of the CGE models depend crucially on certain
assumptions, making it extremely difficult to derive robust empirical judgments.** It should not be
surprising, therefore, that, using these models, two economic studies that do aim at measuring the
dynamic effects of agricultural prices on income distribution in India came to opposite conclusions,

** Some, however, argue that this effect is very unlikely. For employment to go down as a result of lower
food prices, i) the employment intensity of food crops has to be higher than that of commercial crops and
ii) the elasticity of substitution of food crops for non-food crops with respect to price must also be high-
both of which are unlikely. See essays by John Mellor, Amartya Sen and Vijay Vyas in Mellor and Desai,
op. cit.

** *There is a fair amount of agreement among economists on most equations in a formal model....
Disputes arise over the closure assumptions, yet these may determine the whole character of the results.
Both the politics and economics of the rules by which a policy-oriented economist's implicit model is
closed bear close scrutiny before he can be taken seriously - he may well be assuming at the beginning
of his analysis precisely what he wants to say!* Cf. Lance Taylor and Frank Lysy, 1979, *Vanishing Income
Distributions*, Journal of Development Economics, Vol. 6, p. 15). Though made 10 years ago, this
argument, in its essentials, is still widely accepted.
one claiming that, on balance, the rural poor benefitted, the other arguing that they lost.

Practitioners of price policy analysis, therefore, contend that enough empirical knowledge about the long-run versus short-run trade-offs does not exist at this point. Peter Timmer explains:

"The dynamic effects of food price policy interventions are likely to dominate the static effects, but the main issue is whether they reinforce or cancel each other. Much remains to be learned in this area, and comparative case studies of modern economic history rather than econometric analysis are likely to provide much of that knowledge."**

**A Summing Up:** What inferences can one draw from this brief economic overview? The weight of the economic debate, it would seem, converges on the view that food price increases do hurt the poor in the short-run. But the long-run and dynamic effects remain unknown. Therefore, on purely economic grounds, firm conclusions on whether only the upper peasantry or the entire rural sector benefits from higher food prices cannot be made.

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"Quizon and Binswanger found that between 1960/61 and 1980/81, rural wages did not keep pace with price increases, as a result of which there was an income shift from wages to profits but, once they factored employment effects in, they concluded that "the rural poor did not suffer excessively from the adverse wage trends because agricultural employment increased somewhat and because the poor participated to a small extent in the growth of farm profits)... They also had substantial gains in non-agricultural incomes and, as consumers, they benefited from the decline in agricultural prices during the last five years of the 20-year period." Cf. Jaime Quizon and Hans P. Binswanger, 1985, "The Impact of Agricultural Growth and of Selected Government Policies on the Distribution of Income in India", Report No. A3U21, Agriculture and Rural Development Department, the World Bank, Washington D.C..


SECTION V.2.3

TOWARDS POLITICS:
WHERE ARE THE AGITATIONS STRONG? WHO SUPPORTS THEM?

If an argument based on a presumed economic result - the income distribution effects of higher food or agricultural prices - cannot establish the bias of the agitations for higher prices, can the argument be formulated differently? With or without reference to the economic benefits, political arguments about the class bias are also made on the following lines:*

I) Geographical spread: Price agitations have mostly emerged in the "better off" states - states that have reasonably high degree of irrigation and commercialization such as Punjab, Tamil Nadu, Gujarat and the Western part of Uttar Pradesh, not in the underdeveloped states such as Bihar, Orissa, Assam, or the Eastern part of Uttar Pradesh. Moreover, even in states whose agriculture is not so well-endowed with irrigation such as Maharashtra and Karnataka,* these movements have been stronger in the relatively better-off districts - e.g., Shimoga in Karnataka, and Nasik and Nipani in Maharashtra.

* The debate about the nature of farmers agitations is so far primarily confined to newspapers and magazines. Lloyd and Susanne Rudolph are the first political scientists to examine the politics of price movements at length (In Pursuit of Lakshmi, University of Chicago Press, 1987, Ch. 13) but their discussion does not resolve the issue at stake here. Their principal argument is that, aided by a democratic political system, price movements reflect the increasing power of the middle peasantry ("bullock capitalists" in their terminology) in Indian politics. However, they also argue that the movement is sectoral, not class-based, since it is supported by the entire sector. Why a movement based primarily in the middle-peasantry should also be sectoral at the same time is not examined at any length. The political arguments bearing on this question, put together below, are therefore based on the debates appearing in newspapers and magazines. Economic and Political Weekly (EPW) has over the years consistently published opinions. Of the EPW articles, the following bear special mention: Gall Omvedt, "Maharashtra: Rasta Roko (Road Blockades), Kulaks and the Left", November 28, 1981; BM, "Farmers' Agitations: Limits and Purposes", March 5, 1988. Also, see The Link (Delhi), January 26, 1981, and M.V. Nadkarni, op. cit., Chapter 5.

* The irrigation ratio (irrigated area as a proportion of the total arable land) of these two states is less than 20 per cent as against the all-India average of over 30 per cent. Though industrially developed, these states do not have a well-developed agriculture. They form part of the semi-arid zone of India, dependent mainly on rainfall.
ii) **Crop spread:** Even though a general slogan of price increase of all crops has been given, commercial crops have been at the forefront of these agitations -- sugar cane, tobacco, and cotton in Southern and Western India. These are grown mostly by big farmers, not by small farmers who, instead, concentrate on paddy and coarse grains for household consumption. In Punjab and Western Uttar Pradesh, however, agitations for food crops have also been launched but that is because, due to technological development, even food crops are heavily marketed in these states. Big farmers dominate the production and marketed surplus of these crops. The crops grown mostly by the poor peasantry - coarse grains - have not attracted the attention of agitation leaders.

iii) **Loan Waivers:** The main non-price demand, loan waivers, primarily benefits the rich peasantry since it is widely known that loan overdues are highest in the big farmer category whereas the loan repayment record of the small and marginal farmers has been far better.

iv) **The Wage Neglect:** Higher crop prices are on the agenda but not higher minimum wages for landless workers.\(^4^a\)

The new peasant leaders either deny these criticisms or call the conclusions drawn from them inadmissible. Their responses can be summed up as follows.\(^4^b\)

Argument i) is a trivial truism because it is only natural that price agitations first appear, and are stronger, in the more commercialized regions. For that is where prices matter critically at the current stage of agricultural development, but as commercialization proceeds, one would expect the movement to spread to newer areas also.

\(^4^a\) There is only one exception to this. In 1987, Sharad Joshi specifically included an increase in minimum wages on the agenda. See *India Today*, November 30, 1987, p. 50.

\(^4^b\) Based on a personal interviews with Sharad Joshi, op. cit., and on interviews of other leaders appearing in various newspapers and magazines.
Argument ii) is untenable because the main slogan of the movement has been agricultural prices in general. At any given moment, however, it may be necessary to concentrate on some crops rather than all. What is tactically necessary should not be considered more important than the principal ideological thrust of the movement. Secondly, to say that small peasants do not produce commercial crops is patently incorrect. Both small and big farmers have an interest in higher prices for sugarcane, all of which is sold in the market as opposed to subsistence crops whose surplus is by definition the quantity over and above what is required for household consumption. Far from showing a class bias, commercial crops were emphasized first for purposes of developing a mass base.

Argument iii) is fallacious because a) credit is important for all farmers, irrespective of the size, and b) indebtedness afflicts the smaller farmer more than the bigger one, due to the lower financial capacity of the former. The issue of loans, therefore, is a mass issue.

Argument iv) is irrelevant, say the leaders, because wages rise once prices do. The evidence, according to them, is the level of wages in commercialized regions as compared to where agriculture is still backward.

And, finally, these leaders argue, instead of making these arguments from the outside about who benefits and who does not, it will be more instructive to observe empirically whether the poor actually support these agitations. A quarter to a half million peasants that come from a few districts to participate in rallies, says Joshi, can not possibly be all rich peasants, not even primarily. That, he adds, lies beyond any sensible arithmetic of how the different size categories are distributed in the agrarian population. 47

How does one evaluate this debate? It would be helpful to divide up the composite category of the "rural poor" into its two constituents: the landholding poor - i.e., the small and marginal

47 Interview with Joshi, op. cit.
farmers - and the landless agricultural laborers. In what follows, I shall first concentrate on the small and marginal farmers and examine the various aspects of their relationship with the price movement. Subsequently, I shall deal with the plight of the landless agricultural laborers.

V.2.4 Support of Small and Marginal Farmers.** Evidence and Objections

Benefits of higher producer prices to small farmers, if they do accrue, can be viewed in two ways: a) one can say that, compared to how they did when prices were low, small farmers benefit from higher prices but b) one can also say that these classes do not benefit as much as the rich and middle peasantry, which produces the bulk of the marketed surplus. In terms of the size of the benefit, class-differentiated results may obtain from higher prices, as they doubtless do, but from this, it does not follow that the price agitations, therefore, have a rich-peasant class character. In order for the latter to be true in the presence of more or less benefit across classes, one will have to i) make a normative claim that a cross-class comparison of benefits is superior to a cross-time comparison and then argue that ii) if those benefitting less than others from a given cause nonetheless support the cause, their standards of judgment are flawed. It is not clear how a normative argument of the form i) can be formulated and short of that if, compared to a pre-existing point of time, small farmers are doing better, that, I shall assume, may be a sufficient reason for them to support the movement.

**Throughout this section, for ease of exposition, I shall not make a sharp distinction between small and marginal farmers. Marginal farmers, in Indian parlance, are a sub-category of small farmers. The rough-and-ready criterion for making the distinction is the size of landholding. Holdings less than 2.5 acres are considered marginal and those between 2.5 and 5 acres are called small. It should be clear that the distinction will break down if irrigation is factored in. In Punjab, as reported later in this section, where close to 85 per cent land is irrigated, it is possible now for marginal farmers up to 1.5 acres of land to produce a surplus for the market. I shall assume that all such farms, for our discussion here, are small. Where special problems concerning marginal farmers arise in the discussion, I shall point them out.
Let us look at the evidence now. Consider the following field report from Punjab:

"Since all the farmers, with differences only in degree, have introduced new technology, the green revolution has put the entire peasantry in the market framework. All the farmers have to sell a part (in many cases a major part) of their output to purchase inputs. Therefore, prices of agricultural produce and inputs are a matter of serious concern to all categories of farmers."\(^4\)

Consider now the report from Karnataka:

"The movements were of course led by either large or middle farmers not only at the state level but also at the disaggregated levels. But they needed the support of the small farmers to have a mass base. Numbers are important in agitational politics, to organise rallies and protest demonstrations, to block traffic, and court arrest in thousands and make the prisons overflow..... A conflict of interest was avoided by centering agitations mostly on commercial crops - a rather dominant instance being sugarcane......... No doubt there is disparity among farmers but the bulk of them had a stake in the market in the concerned regions....."\(^50\)

Can general conclusions about small farmers support be drawn from this evidence? Two objections can be raised. First, if there is a clear-cut case in this evidence for a complementarity between the interests of small and big farmers, it is essentially confined to commercial crops (which are, by definition, sold), not for food crops (of which the small farmers are net buyers). This is damaging because the argument about higher prices hurting small farmers focusses on food crops, not commercial crops. Complementarity with regard to food crops must be shown.

Second, to the extent that the evidence from Punjab may be taken to mean that such complementarity exists, one will have to reckon with the fact that Punjab, due to its high technological development, is a special case. It is not generalizable.

A response to these objections may be formulated in two steps. First, while detailed field reports from movements in other states do not exist and, therefore, more evidence on the lines of Punjab cannot be given, the fact remains that the turn-outs in all states have been large and, typically, all agricultural prices have been on the movement agenda, though specific agitations

\(^4\) Gill and Singhal, op. cit., p. 1728.

\(^50\) M.V. Nadkarni, op. cit, selections from pp. 139-141.
may at times be about commercial crops. Short of large scale coercion or "false consciousness" on the part of small farmers about their interests, such turn-outs must indicate widespread support. No evidence exists for large scale coercion, nor a claim to that effect has been made.

The possibility of false consciousness, however, remains and leads us to the second step of the response. If we inquire at some length into the logic of whether the interests of small farmers are served by higher food prices, we may get a better sense of why they would not only support agitations for prices of commercial crops but also of food crops. We shall, then, have uncovered the microfoundations for the rough-and-ready observation of large-scale support. And such microfoundations, not explored hitherto but if deducible, shall also counter the case of a possible "false consciousness".

V.2.5 Why does the Small Farmer Support Higher Food Prices: Microfoundations of a Counterintuition

Let us begin with the logic of new technology. Before the advent of the green revolution, key inputs for agriculture could be produced on the farm itself: seeds were traditional and manures organic. Moreover, traditional dug-wells and rainfall used to provide the water required. The green revolution changed the cropping practice: for an increase in yields, it became necessary to make use of High-Yielding Variety seeds along with inorganic fertilizers, and since, for best yields, assured water supply at certain key points of the crop cycle was required, reliance on Irrigation (and electric power in the case of tubewell irrigation) also became necessary.

Now, all of these inputs - new seeds, chemical fertilizers, power (and pesticides) - are purchased inputs. Unlike the traditional inputs, none can be produced on the farm itself. Since
input purchases call for cash outlays, it is necessary to sell crops, and get as much revenue from that sale as possible. The logic of new technology, thus, makes all farmers sensitive to prices - both of inputs and outputs. In fact, small farmers can be expected to be more sensitive to, and dependent on, the immediate post-harvest prices than the bigger farmers. Bigger farmers can hold on to at least part of their stocks until prices rise after the season, thus making use of a natural inter-seasonal variation in prices, whereas smaller farmers, lacking the financial capacity of the bigger farmers, do not have such holding power and must sell right after the harvest. Among other things, sowing of the next crop must be started and completed in time, which requires purchased inputs. Since procurement or support prices announced by the government apply mainly to post-harvest sales, it follows that small farmers have a clear interest in having them raised. The argument that small farmers are net buyers of foodgrains and, therefore, they do not benefit from higher prices, fails to take note of this acute short-run need induced by participation in the input market. Equivalently, if loans financed the adoption of new technology, repayment of loans is also facilitated by higher prices for the output sold.

It may be contended at this point that, over time, the trade-off between the short run benefit (higher post-harvest income) and the long run loss (higher financial deficit due to net buying of grains) should become clear to the small farmer so that his interests ought finally to dictate withdrawing his support from the price agitation.61 This argument is true statically but not dynamically. It will absolutely hold if yield stays constant. But if more can be produced from the same plot of land, which the new technology makes possible, then, given family size, the food deficit of the small farmer must go down. That should make him less dependent on food purchases in the off-season when prices are high.

61 In the case of commercial crops, the long and short run distinction need not be so strictly drawn since the entire output is sold and the higher its price, the better it is for the farmer.
This dynamic process, set in motion by increases in yield, can also mean that the off-season buying by the small farmer disappears altogether. In fact, a surplus may even appear, if yield increases are substantial. The yield effect of new technology, thus, tends to counteract the short versus long run trade-off, and should enhance the interest of the small farmer in higher grain prices.

Is there evidence that this process, deductively outlined, does actually take place? Since inter-temporal data on marketable surplus on the basis of size of landholding are not available, these points cannot be supported at length. Some indications from the green revolution belt are, however, available. In Punjab, for example, farms below 5 acres were unable to produce a wheat surplus in 1962-63; after the green revolution technology was introduced, farms as small as 1.25 to 2.5 acres started producing a surplus of wheat, Punjab’s main food crop.\textsuperscript{42} Reports from Haryana also confirm a similar trend.\textsuperscript{43} If these studies are any guide, then, the yield-effect of new technology, leading to small farmers producing a food surplus for the market, is not specific to Punjab or Haryana; it is intrinsic to new technology. It must happen wherever new technology makes headway, though the degree to which it does may differ, depending upon factors such as availability of irrigation and credit, agronomic conditions etc.\textsuperscript{44}

V.2.5.1 A Special Case: The "Pure Deficit" Farmer

A special class of problems, however, breaks the connection between a reduced food deficit

\textsuperscript{42} G.K. Chadha, \textit{The State and Rural Economic Transformation}, op. cit, p. 181.


\textsuperscript{44} There is reason to believe that in regions previously as undeveloped as Eastern Uttar Pradesh which are currently adopting new technology, a similar process of technological diffusion, and productivity increases, is underway.
and a higher small farmer welfare. A reduced quantitative deficit, made possible by higher yields, may or may not mean a smaller financial expenditure. With food prices going up, a smaller food deficit today may simply cost more than a bigger deficit yesterday. Since financial expenditure is equal to quantity times price, this may happen if the price increase is not offset by the rise in yields, or if the size of landholding is so small that increased output, despite technical change, does not lead to self-sufficiency for the household. In other words, some farmers may be "pure deficit" farmers. That this possibility is not simply logical is proven by the fact that even in Punjab, the most technologically advanced agricultural state in India, the onward march of technology has only ensured that those above 1.25 to 2.5 acres, given a family size of five, produce enough to become self-sufficient, not those below that size. It follows that for many in the category of "marginal farmers" (less than 2.5 acres according to Indian classification), the promise of new technology may be illusory and if in an attempt to cover the expenses of new inputs demand for higher grain prices is made, the result may simply be deeper debt. For such pure deficit farmers, demanding lower input prices -- which do not increase the financial deficit -- would make greater sense than lower input and higher output prices -- which may increase the financial deficit. It should not, therefore, be surprising that the immediate cause of most new farm agitations has been an increase by the government in prices of water or electricity, and the agitations so sparked off come to enjoy widespread support quickly.

A problem in this class of cases, however, still remains unresolved. Typically, even after water or electricity prices are lowered, farm agitations have continued - more often than not, with increased fervor. Assuming a marginal farmer will not voluntarily support the demand for higher food prices after he realizes that higher prices only mean bigger debt, might there be other reasons that continue to attract his support?

One reason may still be economic. If price-led higher incomes of the bigger peasants lead
to higher employment quickly enough, then it is possible that the new employment opportunities offset the increase in financial deficit. In that case, a marginal farmer household, which is known to supplement the income from land with off-farm work, may also become a net beneficiary of higher prices -- and may see it as such. A second reason, sociological in nature, may also exist. A landholder, however marginal, may simply choose to identify with the landed classes (and therefore with their demands) than with the landless. Sociologically embedded notions of status and prestige are supported by being with the landed, not with those lower down the hierarchy. A third reason may be political. The choice to have input prices lowered (and loans waived) with simultaneous resistance offered to the demand for higher grain prices may not be available in a political movement. A movement tries to aggregate demands of various sections of the rural population and may not succeed if it concentrates only on one section. Moreover, having a movement may yield other benefits: e.g., getting inputs like water and power in time from the huge agricultural bureaucracy which is known to be corrupt. As to which of these reasons would dominate, or whether all do, requires much greater empirical research than is available so far. What we do have at this point is some evidence of the political rationale for support - namely, a view of organization as a resource to fight corrupt bureaucracy. The following report from Karnataka explains:

"When asked about what gains they perceived from the movement, the common farmers said that they received better treatment from government offices and politicians alike and could get their things done without having to resort to bribes and with relatively less trouble and fewer trips than before the movement.... Reporting on the aftermath of Malprabha agitation, a press reporter wrote that it 'apparently put the fear of God into the hitherto haughty government officials'."^{64}

Similar observations come from Punjab:

"The present struggle of the BKU has another dimension. That is fight against corrupt officials who extract money from farmers as a bribe.... Two departments have been the targets of BKU, the Punjab State Electricity Board and the police.... Of late, the union has also started fighting against the commission agents and food procurement staff against their weighing malpractices.... ."

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^{64} Nadkarni, op. cit., p. 147.
... This has...earned the Union prestige and raised it in the eyes of the common public...
In the recent past, no union has taken up such cases in Punjab. This has helped the BKU widen its mass base. 

More such examples can be cited, but the point should be clear. Apart from getting higher prices, the movement also equips farmers to deal with the bureaucracy more effectively. The strictly agricultural side of this benefit consists in a more reliable power and water supply without which the potential of new technology cannot be realized - and which therefore gives the irrigation and electricity boards of the government, that have a monopoly over their supply, an opportunity to indulge in corruption.

It should also be emphasized that this benefit has a larger significance for the small and marginal farmers. The richer farmer, given his connections and status in society, generally has better access to public goods such as water and power. The small farmer, standing alone, is unable to make the bureaucracy mend its ways. Standing collectively together helps overcome the individual weakness.

A Summary. Let us sum up the discussion so far. Once the process of technological diffusion gets underway, four possible scenarios resulting from higher food prices can be envisioned for farmers: i) greater indebtedness if the rise in prices more than offsets the yield-induced reduction in food deficit; ii) smaller food as well as income deficit; iii) food self-sufficiency; and iv) surplus food production. While the desirability of lower input prices is clear in all four scenarios, that of higher grain prices is not evident in the first. Thus, higher foodgrain prices are

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87 In addition to pointing to the obvious issue of prices, a reporter, after surveying the sentiment of the agitating farmers in Western Uttar Pradesh, noted: "Added to this are the ever-present irritants from the U.P. State Power Board maintenance staff. A posting as a power engineer in Meerut division is considered lucrative. The transformers often burn out and the farmers allegedly have to grease the palms of the officials concerned to expedite repairs or replacement. Erratic power and low voltage compound the problems." (Cf. Frontline, op. cit., p. 7.)
problematic but only for a sub-class of small farmers, not for all small farmers. The indebtedness of this sub-class -- alternatively called a class of "pure deficit", or marginal, farmers here -- is likely to increase if the movement for higher food prices succeeds only in its price objective. However, some non-price benefits (higher employment, loan waivers) as well as some more general non-economic benefits and motives (organizational gains from the movement, considerations of status) might counter the financial effect that would result from grain price increases. These benefits illustrate that even the support of marginal farmers may be squarely based on considerations of personal benefit, not on a misperception of interests or on coercion.

SECTION V.3
THE PLIGHT OF AGRICULTURAL LABORERS

So long as "land to the tiller" was the most critical issue in agrarian politics and the big landlords were the principal target of political attack, the interests of both categories of the rural poor - the landless and the small peasant - could be coalesced since both, in principle, gained from land reforms. Among other things, this led some political parties, particularly those on the left, to mobilize them together. However, as a full implementation of land reforms became increasingly unrealistic, wages rather than land became the principal issue for labor mobilization.

Different categories of farmers view higher wages differently. The big farmers' position is relatively clear cut: at any given point of time the higher the wages are, the lower will be the profits. The position of small farmers is more complex. If they are entirely dependent on family labor, wages are of little interest to them. If they hire labor, then, like big farmers, higher wages are

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44 This is of course not to deny that, depending upon productivity, the inverse relationship between wages and profits might weaken, or dissolve, over the medium or long run. However, since it is not clear how long the long-run is, in political alignments the zero-sum short-run has a tendency to override what could potentially be a positive-sum long-run.

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an anathema to them. A third scenario is that of marginal farmers. For an undetermined but large number of marginal farmers, wages are a supplementary, though important, source of income but, as already explained, prices have also mattered to them since new technology has placed even marginal farmers in the marketplace for input purchases and crop sales.

As for the landless agricultural workers, regardless of the long-run implications of higher agricultural prices for wages, implementation of minimum wages in the short run seems to have been one of the important concerns for them. While farmers have pressed for higher prices, laborers have fought for wages. Here is a report from Karnataka:

"The Dalits" do not accept the view that once prices improve, agricultural wages too will improve. Krishnappa (the President of the Karnataka Dalit Association) pointed out that in Shimoga district itself, both paddy and sugarcane prices have more than doubled in the preceding decade, but wages have remained practically the same. The fact that no agitation, not even a symbolic act of pressuring the government to raise minimum wages, took place has not gone unnoticed by the Dalits. On the other hand, farmers have resisted when the Dalits have asked for implementation of at least the minimum wages. This author witnessed such a case at close quarters in an irrigated village, Kokkampalayan in Coimbatore district, in 1979. The farmers were organised and were fighting, on the one hand, against the government for concessions in electricity dues and loan repayments, and, on the other, against the agricultural laborers - mostly scheduled castes - who demanded implementation of minimum wages.60

or, where due to agricultural growth, actual wages have already exceeded the minimum wages, as in Punjab, the struggle has been over higher wages:

"The second implication of the BKU (Bhartiya Kisan Union) activity in Punjab is the growing strength of the peasantry via-a-vis agricultural laborers. ............ In 1979, when agricultural workers launched their struggle in Gurudipura village (of Ludhiana) on the wage issue, the BKU president...threatened to teach them a lesson in the same way as in Muskbad village (of Ludhiana) where they were forced to take shelter in the sugarcane fields against the farmers' fury."61

60 The term "Dalits" stands for scheduled caste and low-caste agricultural laborers.

61 Nadkarni, ibid., p. 152.

61 Gill and Singhal, op. cit., p. 1732.
The issue of wages apart, the demand for loan waivers has also been formulated by the movement leaders in a manner that goes against agricultural laborers. It is well-known that institutional loans - from the cooperatives and the commercial banks - go mostly to landed peasants, whereas the loans of the landless come overwhelmingly from the informal credit market dominated by the village money-lender and rich farmer (with the two often interlocking in the same person). The agitation leaders have asked for a waiver of institutional loans, not all loans. Nor have they asked for extension of institutional credit to agricultural laborers which might enable them to engage in some durable income-enhancing economic activity. Asked why that was so, an activist of the Karnataka Farmers’ Association remarked:

"if the labourers get monetary or material benefits or loans from the government, they can not repay them since they spend on liquor; or, they would develop their own activities (like livestock rearing) and would not come for agricultural coolie work. Agriculture would then suffer without coolies."³²

How generalizable are these observations?³³ Among other things, a Marxian understanding in terms of class conflict runs counter to the picture of rural India traditionally sketched by anthropologists and sociologists. The latter have often found not class conflicts but a Durkheimian world in the villages -- mutually beneficial, personalistic, patron-client linkages between the landlords and their dependents.³⁴ The services provided by the landlord are both economic and personal: they range from consumption and production loans to providing help in dealings with the

³² As quoted in Nadkarni from a field interview, ibid., p. 153.

³³ There is some evidence that such differences were also evident in Tamil Nadu and Maharashtra. For Tamil Nadu, see R.V. Rajdural, 1980, "Green Power on the March", Economic and Political Weekly, Vol. 15, number 52, pp. 2170-71.

³⁴ The potency of patron-client relationships, always emphasized by liberal sociologists and anthropologists, is now increasingly accepted by Marxist scholars. Two recent examples are Ashok Rudra, "Emerging Class Structure in Indian Agriculture", and Pranab Bardhan, "Agrarian Class Formation in India", both in Pranab Bardhan and T.N. Srinivasan, 1988, eds., Rural Poverty in South Asia, New York: Columbia University Press.

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bureaucracy and police, assistance in children's education, in daughters' marriages, funerals etc. If a generalization is possible at all, it is that while the normative order of patron-client relationships has been gradually disintegrating, class conflict has not always replaced it. Rather, agricultural laborers have been left in an awkward position. On the one hand, lacking channels of institutional credit, they are dependent upon the richer farmers for consumption and distress loans; on the other hand, their increasing consciousness about their rights, induced in considerable measure by a democratic political order, makes them resentful of the continuing social deprivations and indignities which a hierarchical

\[\text{\textsuperscript{66}}\] A laborer interviewed in Bengal explained why he valued his landlord: "I am a poor man and I do not even have enough to eat every day. I may require urgently some money for a funeral in the family. To whom shall I go?" Cf. Ashok Rudra, op. cit., p. 498.

\[\text{\textsuperscript{67}}\] For a fine, balanced and brief treatment of the Marxian and Durkheimian perspectives in the Indian context, see Ronald Herring, 1983, Land to the Tiller, New Haven: Yale University Press, pp. 31-42.

\[\text{\textsuperscript{68}}\] Andre Betelle, 1974, Studies in Agrarian Social Structure, Delhi: Oxford University Press.

Hindu social order reserves for them. These deprivations are associated with the fact that, almost all over India, agricultural laborers come overwhelmingly from the ex-untouchable scheduled castes, scheduled tribes or other "low castes", and, for sociological-cum-ritualistic notions of purity and pollution, all upper castes, whatever their internal divisions, share a mixture of condescension, apathy or outright antipathy towards the lowest castes.

The increasing political awareness of agricultural laborers, however, has not generally translated into organized collective action because i) unlike the landlords or rich farmers, those who mobilize them - parties or non-party organizations - are unable to provide credit, insurance or employment, and ii) over time, even the organizers, including the Communist parties, have been mobilizing on multi-class lines, not concentrating exclusively on laborers' interests. The landless agricultural laborers constitute, on average, a mere 27 to 30 per cent of the rural population in India, which, therefore, makes multi-class issues that can address the other 70 per cent electorally much more appealing.** Once land reforms which could presumably have put the small farmers and laborers together ceased to be a big political issue, prices rather than wages began to attract the maximum political attention of political parties. For prices addressed many classes in the countryside, wages only the laborers.

**This was one of the reasons, studies indicate, that even in West Bengal, the Communist party in power did not mobilize the landless beyond a point. Its popularity in the cities having declined, the party couldn't risk a strategy that reached the poorest but antagonized the landed peasants in the process. See Atul Kohli, 1987, The State and Poverty in India: The Politics of Reform, Cambridge: Cambridge University Press, Ch. 3. The Communist party learned this lesson originally in Kerala where the tenants, having received land under Communist-sponsored land reforms, turned their backs on the Communist party. See Ronald J. Herring, 1988, "Stealing Congress's Thunder: The Rise to Power of a Communist Movement in South India", in Kay Lawson and Peter Merkl, eds., When Parties Fall: Emerging Alternative Organizations, Princeton: Princeton University Press. Lenin, one should add, had already foreseen the problem of the embourgeoisement of the small peasantry in the early 20th century.
The agricultural laborers at this point are, therefore, caught in a limbo: the old patron-client order is disintegrating but the new political parties or organizations that attempt to organize them against the injustices of the old order are unable to provide the benefits of the old order. Collective weakness co-exists with individual resentment and consciousness of rights.

V.3.2 What the Structural Context Means for Attitude Towards Price

Agitations

The structural position of agricultural laborers has a few important implications for our purposes here. Independent of whether the farm leaders actually believe that higher prices ultimately lead to higher wages (and that wages, therefore, do not need to be explicitly put on the movement agenda), there are powerful political reasons - principally, the collective weakness of laborers - that explain their lack of attention to issues that most directly affect the laborers.

A deep ambivalence, however, marks the attitude of agricultural laborers. Independent of whether or not agricultural laborers gain economically from higher prices in the long run, there are two processes operating on them, one pulling them towards price agitation, the other drawing them away. The economic dependence of laborers on richer farmers - not only for loans but also for employment - tends to generate a pressure towards supporting the higher-caste patrons agitating for higher prices. At the same time, political awareness that organizing can be a means of both fighting social deprivations and striking better wage bargains produces a tendency towards wage struggles and non-participation in price agitations. Which way this underlying conflict is resolved in a given situation may depend on many factors: what the history of caste relations in a region is (which castes lead these movements? How do they treat the landless?); Whether

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70 In a labor surplus economy, labor contracts can be rotated and somebody else can always be hired for unskilled work.
agricultural laborers come overwhelmingly from a single scheduled or lower caste. How committed the political parties, or non-party organizations, that organize the landless, are; Whether other employment opportunities are available, particularly in the neighboring towns; Or equivalently, whether the growth dynamic in local agriculture has rendered labor in a previously labor-abundant economy relatively scarce. By reducing the dependence on landlords, the last two scenarios tend to increase the bargaining power of the landless.

These factors are so locally specific and indeterminate that it would be somewhat meaningless to point to any single typical response on the part of the landless. Generally unorganized for structural reasons, there are pockets where they have managed to get relatively organized - in Kerala and West Bengal, and in parts of Punjab, Karnataka, Tamil Nadu and Maharashtra. Of these, in Kerala and Bengal, price agitations are still not important; in Punjab,

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71 A classic example of this is the Thanjavur district of Tamil Nadu, which also happens to be one of the most widely studied cases of agricultural labor unrest. In the Old Delta region of the district, where political radicalism has been very strong, 60 to 80 per cent of the agricultural laborers come from the scheduled castes, whereas the landlords are predominantly Brahmins. The sociological cohesion of each opposing class has given class conflict an added strength. See Marshal Bouton, Agrarian Radicalism, op. cit.

72 The agrarian situation in Punjab, in fact, illustrates how politics and economics related to wages can significantly diverge. While real wages in most parts of India, according to studies, have stagnated, those in Punjab, it is believed, have risen. Despite that, laborers in many parts of Punjab have not supported price agitations. Instead, struggles for higher wages have persisted. A field report explains why: "Harvesting of crops is now completely done by (agricultural wage workers). Even small farmers no longer harvest their crops themselves. In the harvesting season, generally, there is a great demand for workers. The fact that high-yielding crops, when mature, need quick harvesting and higher investment in production necessitates timely harvesting to avoid the risk of bad weather adds to the demand for workers. In the early 1970s this resulted in spontaneous struggles in villages on the issue of higher wages for workers. At a number of places these struggles were successful....." Cf. "The Other Side of Punjab Crisis: Agricultural Workers' Struggle", Economic and Political Weekly, August 15, 1987, pp. 1386-7. One should add a proviso to this account. A heavy influx of migratory labor from Eastern Uttar Pradesh and Bihar after the mid-1970s, by increasing the pool of laborers willing to work for lower wages, had begun to mute the conflict. However, as the same report adds: "with the recent spate of terrorist violence and consequent spread of the fear, there is a decline in the number of migrant workers in the rural Punjab. It is in this situation that the peasantry......tried to push down the wages of agricultural workers in the Amritsar district", leading to a resumption of wage struggles, even in areas affected by terrorist violence. Why agricultural workers have agitated in Punjab, one should add, may also have something to do with the fact that scheduled castes constitute over 80 per cent of the agricultural labor households in Punjab. Scheduled caste Sikhs - called Mazbhis - have traditionally had an adversarial relationship with Jat Sikhs,
Karnataka and Tamil Nadu, where they are, conflicts between the laborers demanding higher wages and the farmers agitating for higher wages have been reported, but even within these states, there are areas of labor acquiescence. In Maharashtra, the leadership of the price movement has made a special effort to bring the landless together with the upper castes and convince them that higher prices also mean better wages, reducing the possibility of conflict that would emerge from a stronger Dalit organization and repressive upper caste behavior. All conceivable patterns - opposition, support, apathy - thus coexist.

V.3.3 A Recapitulation

The central claim of the critics of the new farm agitations that these agitations are class-driven is weak. Necessary distinctions between the small farmers and landless laborers on the one hand and between input prices, foodgrain prices and prices for cash crops on the other have not been made.

i) Small farmers: On both logical and empirical grounds, there is reason to believe that the support of small farmers for higher prices for cash and food crops and lower prices for inputs is

the cultivating caste. Where political organization has accompanied this sociological overlay, struggles have been particularly severe.

73 On patterns of behavior in Punjab, See Mark Jurgenseymer, op. cit., for accounts from three Punjabi villages - one in which the landless are completely unorganized, the other in which there are signs of organization, and a third in which considerable organization has already come about. Also see Amrinderpal Singh, "Farm Workers versus Rich Farmers", Economic and Political Weekly, October 27, 1979.

74 Joshi's movement in Maharashtra, as already mentioned, is the first new agrarian movement that has finally included higher minimum wages on the movement agenda. It is too early to tell whether the inclusion of wages will expand his movement further or weaken it by introducing internal conflicts, or how important the demand will be in his movement. For a recent account of how the Dalits view Joshi's movement, see Gali Omvedt, 1988, "The New Peasant Movement in India", Bulletin of Concerned Asian Scholars, Vol. 20. No. 2, April-June.

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widespread. Viewed dynamically, powerful economic reasons can be identified for demanding higher prices.

ii) Marginal farmers: On economic considerations alone, the subclass of marginal farmers can be expected to support higher prices for cash crops and lower input prices, as the evidence seems to indicate, but not higher food prices, unless strong political reasons - e.g., organization as a check on the bureaucratic abuse of input delivery - are simultaneously present.

iii) Agricultural laborers: The case of agricultural laborers has deep ambiguities and ambivalences. The political and sociological overlays of their existence - organizational difficulties, caste composition - complicate an already unconvincing economic case that might potentially link up higher prices with higher wages. Patterns of both support and opposition can be detected though, pending further evidence the scales seem tilted in favor of a view that support when it has existed may be more due to routine compulsions of their dependence upon the rich farmers than due to a genuine belief that price rises have a favorable wage effect.

To conclude, while price agitations cannot be considered to be class-driven in the narrow sense of furthering the interests of rich peasantry, they do not unambiguously serve the interests of the entire sector either. They embrace most of the landed peasantry, but whether the landless also benefit remains questionable.

SECTION V.4

IMPACT ON PARTY POLITICS AND ECONOMIC POLICY

We move now to the impact of these agitations on the country's politics and policy.78

78 I am concerned in this chapter with the impact of these movements on government policy, not with why they emerged. There are two aspects of the latter: a) why they emerged at all, and b) why they took a non-party form. The first of these will be clearer in the next chapter when I shall present results on agricultural returns over time. On some thought-provoking general considerations on why they took a non-party form, see Rajni Kothari, 1988, "Decline of Parties and Rise of Grassroots Movements", in his State
Bringing about desired changes in the country’s economic policy has been their principal aim. Since in a representative democracy, the process of policy shifts often goes through the medium of party politics, this section begins with an examination of how parties have responded to the new farm agitations and then, move to the changes in the policy realm.

V.4.1 The Response of Political Parties

These agitations became a serious political concern for the political parties in the early eighties. The reason was not that they had already engulfed the entire country by then; rather, there was an expectation that they would spread from state to state. As already stated, the recognition of the issues raised by these movements was hastened by the brief tenure of Charan Singh and his peasant-based Lok Dal in Delhi, but the hold of non-party leaders on these movements was perhaps of greater concern to political parties, including Charan Singh’s Lok Dal which was based in North India whereas these agitations were raging in the South and West.

The first impact of these agitations was ideological. Most party manifestos - which reflect, however imperfectly, the program of a party in India - began changing in the eighties. Let us look at the centrist parties first. The program of the Janata party has already been discussed in Chapter 4. The Congress party also did not remain unaffected. In the 1971 and 1977 general elections, the Congress manifesto did not contain any references to agricultural prices. The agrarian program of the Congress party in 1977 was "to develop and modernise agriculture" and to "promote the interests of the small and marginal farmers, agricultural workers...".\(^7\) In the 1980 election manifesto, after castigating the Janata government (1977-80) for not protecting the interests of the

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agriculturists, "despite its loud professions", the Congress conceded that "the working of the Agricultural Prices Commission and the Food Corporation of India needs vast improvement", and promised that "greater attention (will be) paid to the farmer's cost structure" and "input cost indexation of support prices will be instituted so as to safeguard the farmer's income from inflationary trends". Even in the 1984 elections after Mrs. Gandhi's death, when young urban professionals, seemingly unconcerned with rural India, took over the Congress party under Rajiv Gandhi, the party promised "remunerative prices to the kisans (peasants)".

The transformation of the parties of the left and right is even more indicative of the current trends. Until the mid-1970s, the Communist Parties used to believe that the consequences of higher food prices were highly inequalitarian. Capturing the core of the Communist argument, Ashok Mitra wrote:

"...it is of interest to explore who gains.....from a rising spiral of farm prices. ........ there is a substantial segment of opinion which argues that by tilting the structure of relative prices against industry and in favour of agriculture, the nation is merely making partial amends for the ruthless exploitation the farming community had been subjected to in the past. The majority of the latter, however, consists of landless labourers and small farmers. In the case of both foodgrains and commercial crops, the benefits of higher prices hardly accrue to these groups; on the contrary, as a consequence of higher prices, they are called upon to pay more for meeting their consumption requirements......... . A high level of foodgrain prices militates not only against the interest of urban consumers but also against those of the mass of landless laborers and small farmers.... ."

In the early eighties, the Communist Party Marxist (CPM) reformulated its position. Harkishan Singh Surjeet, a general secretary of the CPM, a long-time peasant leader and a party theoretician,

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In Terms of Trade and Class Relations, op. cit., p. 120. Mitra, before he resigned as the Finance Minister of West Bengal in 1986, was one of the chief intellectual spokesmen of the CPM. Mitra's own intellectual positions have not changed, but those of the CPM have. On being asked why the CPM changed its position, Mitra was characteristically candid: "In our kind of politb, populism can affect all parties. If you are in the market for votes, even leftist parties will not go against the rich peasantry". Interview, Calcutta, December 25, 1984.

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wrote in 1981: "Every section of the peasantry, including the poorest of them, is forced to sell a part of his produce.... to purchase food grains for his family's consumption... and is therefore interested in such a level of prices as would meet the cost of production." The position of the second main Communist party, the CPI, goes a step further. Indradip Sinha, Surjeet's counterpart in the CPI, not only claims that all sections of the peasantry now sell (and buy) in the market; he even argues that "payment of remunerative prices to peasants will facilitate the payment of minimum wages to agricultural laborers as well".

On the right, the Bhartiya Janata Party (BJP), a primarily urban party with a strong base in the trading community in North India, was barely concerned with farm prices in the seventies (except as a constituent party in the larger Janata coalition of 1977). The BJP currently advocates remunerative grain prices. Moreover, in order to ensure that the urban consumer prices do not go up substantially as a result of higher producer prices, the party would increase input subsidies and/or consumer food subsidy. Asked why an urban party should support higher agricultural prices, Atal Behari Vajpayee, a leading member of the party for the last two decades, commented that no party in India could possibly have a significant political future on the basis of the urban vote alone, but for broadening into the countryside, a pro-price position was essential in the political

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60 In "Upsurge", Seminar, no. 267, November 1981, p. 16. A similar statement is Surjeet's party pamphlet For a Fair Deal to Cotton Growers, All India Kisan Sabha, New Delhi, undated.


circumstances of the 1980s.\textsuperscript{63}

Most parties may have changed their positions under non-party pressure but did they also convert these ideological positions into concrete benefits for the farming community? Or were these changes merely in the political rhetoric? Some of these parties have formed state governments, by themselves or in coalition. And the Congress party has, with a brief exception, always run the national government. What did these parties do while in power and why?

V.4.2 The Response of the State Governments

Since the central government is at a remove from state capitals and towns where most of the agitations have been launched, it is the state governments that have had directly to face the farmers so far. Essentially, they can be said to be caught between the contrary pulls of populism and fiscal realism.

The state governments have not yielding equally to both sets of main demands, higher prices and loan waivers. They have been generally conciliatory on input and crop prices. On a number of occasions, an increase in power or water tariffs has been the immediate cause of these agitations. The state governments argue that such an increase is essential to cover the costs of producing and distributing power, or for reducing the deficits of the state-run electricity and irrigation boards. If agitations break out as a result - as they did in Tamil Nadu (1970, 1972, and 1977), Punjab (1975 and 1985), Uttar Pradesh (1986-87) - then, more often than not, electricity and water tariffs, which

\textsuperscript{63} Telephone interview with Atal Behari Bajpayee, Boston, June 22, 1987. Farm price agitations, he argued, had come to stay and land reforms had disappeared from the political agenda, bringing about a corresponding change in the position of political parties. Bajpayee also added that land reforms benefitted only the small man whereas higher prices benefit everybody in the countryside - bade ko bhi fayda, chhote ko bhi.
lie within the purview of state governments, have been reduced. Similarly, mark-ups on the central government's procurement/support prices have also been given. However, since state governments now have to provide for these mark-ups from their own budgets, their strategy has been two-fold: i) pressuring the central government for higher prices so that the budgetary burden on the state is minimized; ii) providing mark-ups only for crops grown in areas where the agitation is the strongest, not across-the-board for all crops.

The response to the demand for a waiver of overdue loans has been mixed. Most states have been unaccommodating, but two so far have yielded. However, even the unyielding states have expressed their position in a way that shows helplessness rather than an outright denial. The Karnataka government, for example, argued that a blanket loan waiver was unacceptable to India's central bank, the Reserve Bank of India, and would only result in reducing the future flow of credit to farmers. Because of the way the Indian credit system is structured, there is substantial truth in this argument. Nearly 60 per cent of the institutional credit in agriculture falls in the cooperative

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4 However, it seems that, over time, a somewhat game-theoretic situation has come into being. Agitations against an increase in tariffs are almost predictable now in many parts of India but fiscal pressures to reduce the losses of water and electricity undertakings are also mounting. As a result, some state governments, if faced with an extreme fiscal burden, have increased the tariff by a margin, which upon being lowered after an agitation, still exceeded the earlier tariff. For example, having had to reduce the electricity tariff after an agitation in 1972, the Tamil Nadu government increased the tariff in 1978 by a margin of 30 per cent, only to lower it by 15 per cent after a settlement with the peasant leaders. If strategic behavior is ruled out as an explanation for these acts, the alternative interpretation would be that the state governments are either completely unmindful of the popular reaction, or unable to anticipate it, or simply politically naive - none of which seems likely, given the rural origins of most state level Indian politicians and their knowledge of rural problems.

5 Sensing the political abuse of wide-ranging mark-ups and their increasing incidence, the RBI discontinued credit for mark-ups in the late seventies, asking states to use their own budgetary funds if they wished to increase the support or procurement price.

6 Based on interviews. Mr. Gundu Rao, the chief minister of Karnataka during the year 1979-80 when Karnataka's peasant agitation was at its peak, was candid in his response: "how else does one deal with the increasing farm pressures at the state level - you give them a high enough producer price or if the state budget does not permit that, you pressure Delhi to increase the price so that the central government finances the increase." Discussion in Delhi, January 21, 1987.

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sector, the rest mostly supplied by the nationalized commercial banking sector. A blanket loan waiver by a state government essentially means that the government will have to step in to finance the write-offs falling in the cooperative sector, unless of course the commercial banking sector does that. The commercial banks are, however, governed by central rules, not by state rules. Hence, short of the willingness of the central government or the Reserve Bank of India to bear the write-offs, the burden of the waiver falls on the state budget. Since the taxation system in India is heavily tilted in favor of the central government and most of the tax revenue falls in the central bag, the ramshackle budgetary house of most states makes the generosity of waivers relatively unaffordable.

In the judgment of two state governments, however, these difficulties were not insurmountable. Political benefits of a selective, if not a blanket, waiver seemed to outweigh its economic costs. The Tamil Nadu government, in a sharp political move in 1980, decided to waive overdue loans of small farmers only, arguing that i) small farmers deserved a waiver and ii) that a blanket waiver, by eventually reducing the flow of government credit, would only make the small farmers dependent on the big landlords for credit, thereby reviving the traditional ties of dependence. Tamil Nadu government thus actually succeeded in weakening the peasant movement in the state in the 1980s though the financial costs of even the selective waiver must have been quite high. Similarly, the current chief minister of the state of Haryana, Devi Lal, who is an important leader of the peasant-based party, Lok Dal, promised to write off cooperative loans (of up to Rs. 20,000) in his massively successful state election campaign in 1987. Most observers argue that the promise of a waiver was an important reason for Devi Lal's electoral success. Indeed, upon assuming office, writing

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off loans below Rs. 20000 was one of the first decisions of the Devi Lal government. At this point, it is unclear how the waiver has been funded, and what implications it will have on the future flow of agricultural credit.

These two cases do not seem to be representative. Generally speaking, the clash between the financial constraint and political benefits of granting waivers is unlikely to be settled in favor of farmers at the state government level. Only if the central government decides to grant waivers can the benefits to the farming community be substantial. Large-scale loan waivers are never easy since they can damage the viability of any financial system, but, with its lion’s share of the total governmental revenue in India, the central government at least has the theoretical capacity to deal more effectively with this demand. The same is true of granting higher administrative prices.

V.4.3 The Response of the Central Government

The central government is affected by these movements if one or both of the following two conditions are met: i) if the state government in siege is run by the party that also runs the central government, and ii) if the central government perceives the agitations to be spreading from state to state, turning farmers’ stir into a national issue for which an appropriate political response must be developed.

Like state governments, the central government has also shown greater accommodation on prices than loans. Two important decisions affecting the functioning of the Agricultural Prices

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The estimates of how much it would cost the state ex-chequer to write off loans below Rs. 20,000 varied from Devi Lal’s own estimate of Rs. 150 Crores (Rs. 1500 million) to Rs. 1000 crores. Even when told that “some of your officials say that writing off loans upto Rs. 20,000 could cost the state around Rs. 1000 crores”, Devi Lal answered: “I still feel they should be waived” (*India Today*, Ibid., p. 12).
Commission (APC) have been taken in this decade - one relating to its principles of functioning, the other to its personnel structure.

Changing the terms of reference of the APC was one of the first things done by Mrs. Gandhi's government upon her return to power in 1980. The APC was asked to include the agriculture-industry terms of trade while determining agricultural prices, enlarging thus a key principle of earlier years, according to which increases in the prices of agricultural inputs were the prime determinant of support prices considered, not increases in the prices of all goods, including consumption goods, that the agriculture sector buys.61 Mrs. Gandhi's government, thus, moved halfway between the existing principle of price determination and the demand for parity prices raised in many quarters.62

By 1985, two more changes were made - one symbolic, the other more concrete. Meeting the frequent criticism made by some of the movement leaders, particularly Sharad Joshi, the Rajiv Gandhi government gave a new name - Commission of Agricultural Prices and Costs (CACP) - to

61 In addition to changing the party line, Mrs. Gandhi, upon her return to power in 1980, also appointed Rao Birendra Singh, a politician from the same peasant caste as Charan Singh, as her Food and Agriculture Minister. Rao Birendra Singh was not from Uttar Pradesh but from the neighboring state of Haryana. He had also built a reputation in that state for championing agrarian interests. Rao Aya, Bhao Aya ("Rao Comes, Price Comes") had become one of the political folklores of Haryana.

62 Some officials during the Janata government argued that this halfway house was already being built before Mrs. Gandhi returned to power. Mrs. Gandhi simply stole a march over Janata by quickly implementing the principle that was getting lost in the factional bickering of the Janata Party.
the APC. A more concrete decision, however, was to change the personnel policy of the Commission. Instead of having just one agriculturist on the APC surrounded by three agricultural experts (agricultural economists, agronomists, or administrators specializing in agriculture), the newly christened CACP would have three agriculturists and three experts, with one more member - a technocrat - in the chair. Even this decision, though taken in 1985, was not implemented until 1987-88 when, after two years of comparative lull, price agitations flared up in Gujarat, Maharashtra and Uttar Pradesh in quick succession. The three agriculturists were finally appointed in April 1988. A policy recommending body, which in its original dispensation in 1965 consisted of technocrats alone, had thus changed its collective face twice: first in 1975, when an agriculturist was appointed to the Commission and second in 1988, when the Commission was split into two halves, technical and political, though the former half still retained its edge via a technocratic chairman.

Have these changes - in personnel and principles of price determination - led to significantly different outcomes? The personnel change is too recent to allow a judgment on its actual impact. The criterion of terms of trade, economically speaking, remains a matter of interpretation. Different chairmen of the APC have looked at it differently. In its first two wheat reports after the change in the terms of reference, the APC under A.S. Kahlon did partly justify big increases in the support price of wheat - from Rs. 117 in 1980-81 to Rs. 127 and Rs. 142 in the next two years - on terms of trade considerations: "Taking the triennium ending 1971-72 as the base, it is observed that the

Joshi had been claiming that the main function of the Commission was to collect cost data and base price recommendation thereupon, rather than go into considerations such as impact of agricultural prices on the rest of the economy, industrial costs and inflation levels. The Commission, In Joshi's view, simply did not have the competence to estimate such complex economywide implications of agricultural prices which, he believed, only the expertise and resources of the Finance Ministry could handle. Their inclusion nonetheless in the criteria of price determination, argued Joshi, only lowered the price level that might be permitted if costs were the only criterion as, he thought, they should be. Sharad Joshi, "Scrap the APC", in 'Bharat' Speaks Out, op. cit.

index of prices paid by agricultural sector has risen faster than that of prices received by it, particularly during the last three years" (emphasis added). But under the next chairman, Y.K. Alagh, considerable skepticism as to the appropriateness of the terms of trade principle was expressed since the concept was “beset with methodological and conceptual limitations”:

“The Commission would like to emphasize that analysis of terms of trade as one of the criteria for price policy decisions needs to be considered with an element of caution. The terms of trade analysis is for the sector as a whole while the price policy decisions are at the level of individual commodities... Depending on the vagaries of nature, prices can display large inter-year differences... Further, the change in the pattern and amount of subsidy given to specific crops/area under special programmes do not get fully reflected in the terms of trade analysis.... Though the Commission recognises that agricultural commodity prices cannot be over a long period kept out of alignment with the prices of other commodities, the related factors have to be taken into account.”

Thus, the economic view dominant in the Commission, normally shaped by the chairman, has moderated the impact of the political decision. The decision itself has not been questioned but how much emphasis can be attached to it in determining support prices has been. Politics, thus, has simply ensured that the principle be included, not how important it should be. The latter remains within the purview of the professional economists in the Commission. What governs their opinions -- economic theory (of various types) and/or a desire for upward mobility in the economic bureaucracy -- would essentially determine the periodic importance, or unimportance, of the new principle of terms of trade.

Turning to the demand for loan waivers, one can detect a measure of indifference in the response of the central government, broken only in exceptional circumstances. Even at the height of the peasant agitation close to Delhi and around in 1987-88, and despite a much-publicized political decision of a rival party to write off loans in the state of Haryana, the central government i) agreed

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only to write off interest if it exceeded the principal amount in areas hit by drought for three consecutive years, not in other areas, and ii) promised that recovery of the principal amount would be rescheduled in these areas.87

Why is the central government not yielding on loan waivers? The problem, on the first plain, is related to the question of what is a legitimate demand. Even if it is contended that the respective fiscal implications of the two demands - higher prices and loan waivers - are similar, asking a higher administered price on grounds of cost inflation is more politically acceptable than not repaying a loan already taken, particularly if an unfavorable price regime is argued to be the reason for the difficulties of repayment. If prices make loans difficult to repay, then, prices, in principle, ought to be made more remunerative, with some concessions on how loans may be repaid so that the impact of unfavorable prices in the past is countered, and the linkage between prices and debt is made more bearable in future. Farmers, however, have begun to demand both higher prices and loan waivers simultaneously.

But is the constraint of legitimacy binding? Might it be overcome at some point? Suppose that farmers' agitations spread even further, to many more states, increasing in the process the political pressure they have already come to exercise. How will the government react then? Will it write-off loans? And given that the victory of farm groups even on prices is not complete - technocrats still have an edge in the CACP, the parity principle has not been accepted - will greater political pressure make further accommodations on prices necessary? Posing the problem this way brings out an inherent political limitation of farmers agitations in India, a limitation which in its fundamental form is likely to stay.

V.4.4 The Paradox of Non-party Agrarian Politics: Political Visibility and Electoral Weakness

Given the increasing popularity of non-party leaders, the conflict between populism and fiscal realism takes the following form for the central government: i) whether the party in power feels that the only way it can steal a march over its non-party opponents is by accepting all of their critical demands, or by acceding to only some (should one waive loans or are other demands - better prices, higher rural investment - more negotiable?) and ii) what the financial consequences for such capitulation will be for the viability of the financial system? (will loan waivers reduce the flow of credit in the system? will other groups who have borrowed from nationalized banks also press for waivers?).

Fiscal realism has managed to moderate the pull towards populism so far. The reason is that the farmers movement has become a political force but it is not yet a decisive electoral force.**

Why does this paradox exist? Since the movement has mostly remained a non-party phenomenon, farmers cannot vote in election for the movement per se; they must vote for a party. This will not be a problem if a party committed to the movement is identified and supported, or alternatively, the movement itself turns into a political party. Both resolutions of the problem are, however, fraught with difficulties.

All parties ideologically support the farmers' cause. But only one significant party so far - the late Charan Singh's peasant-based Lok Dal - has been willing to run a campaign on the rural-urban

** It seems to have made electoral difference in one or two states only - and even there, not in all elections since the peasant movement became strong. According to journalists, in the 1982 state assembly elections in Karnataka, the opposition of the Karnataka Ryot Sangha to the then Congress chief minister, Gundu Rao, was one of the reasons for the defeat of Congress. In Maharashtra, Sharad Joshi's Shetkari Sangathana is reported to have reduced the lead of Congress in the 1984 parliamentary elections in many constituencies. Bigger electoral achievements are still to come.
divide. However, even this party has had to contend with the fact that a rural-based economic program, in and of itself, is not sufficient for an electoral majority. In order to run governments, it has had to enter into alliances with other parties, in which case compromises on policy have had to be made, or alternatively, it has had to settle with the status of yet another opposition party. This denouement illustrates a classic distinction: that pressure groups may concentrate on sectional interests but parties, if they are serious about seeking state power, must coalesce a given sectional cause with those of other groups in society. They must choose inclusionary as opposed to exclusionary strategies of mobilization.

This explanation, however, leaves a deeper paradox unresolved. In a parliamentary system, a majority of total votes is not required to gain a majority of representative seats; a plurality of votes is enough. Since 70 per cent of the country’s population is rural, the support of a majority in the countryside should, in principle, suffice for capturing power. A sectional strategy based on an urban-rural divide should therefore be adequate for gaining a plurality of total votes in a predominantly rural country. Why does, then, a sectional rural strategy fail?

How farmers vote, and how they define their interests at the time of voting may have little to do with prices and loans. The array of choices may be as follows: shall I vote for a party representing my caste, or a party representing my religious community, or one expressing my region’s interest, or a national party that advocates the country’s unity over everything else, or for a charismatic leader, or for a party that best represents my occupational interests. A farmer may well vote on caste, religious or regional considerations. Worse, even those who participated in price

\[\text{Qualitatively, the problem is the same as that of a strong women’s movement finding it difficult to turn itself into a women’s party despite women constituting, typically, more than half of a given population.}\]

\[\text{Besides, half a million may show up for agitations between elections, making political news, but an equal number may stay back distrusting the caste of the leaders of the agitation or the social composition of the leaders’ main support base etc. Those who stay back do not form part of the news.}\]
agitations between elections may vote on non-economic grounds during elections. In other words, a single issue, or a set of economic issues, may clash with other considerations that determine how farmers define their political interests and vote. The description below of electoral behavior in Uttar Pradesh during the 1980 parliamentary elections illustrates the problem. The Janata party comprising, among others, Charan Singh’s peasant-based Lok Dal party had broken up, each party of the erstwhile Janata coalition was contesting separately, and Mrs. Gandhi’s party, Congress (I), was bidding for a return to power.

"On the face of it, the election seemed to turn overwhelmingly on the issue of high prices, scarcity of essential commodities, the sugar cane price and the availability of agricultural inputs needed by the kisans (peasants) in the previous growing season ....... Whether or not a voter blamed the government for the economic difficulties and scarcities ..... depended more on the caste status of the respondent than on their economic position..... Brahmin voters favorably disposed to the Congress .. blamed the Janata government. .... Yadav kisans, who were inclined toward the Lok Dal, however, blamed only the Janata government and excused Charan Singh who had been in office only a short time. ....In other words, the (economic) issues in the campaign were as much the excuses for voting behaviour as reasons for it. The really central issue...in Uttar Pradesh at least .. was whether the voters identified with the middle cultivating castes or with the Congress coalition."101

This difficulty also explains why the leaders of these movements have miserably failed, whenever they have tried to convert their movements into parties and contested elections. Worse still, such mistakes ended up sapping the strength of their movements in Tamil Nadu and Karnataka, at least temporarily. Conversion of movements into parties takes away the very ground on which these leaders gained strength in the first place -- namely, that they were not organizing for the sake of acquiring political office but, since all parties were untrustworthy, they were going to build a strong movement that would force whichever party ran the government to pay attention to the farmers' cause.

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101 The Congress coalition is normally considered to comprise the upper and lower ends of the social system - the higher castes (except the traders), the minorities and the ex-untouchables. The quote is from Paul Brass, 1985, "Congress, the Lok Dal and the Middle Peasant Castes: An Analysis of the 1977 and 1980 Parliamentary Election in Uttar Pradesh", in Brass, Caste, Faction and Party in Indian Politics, Vol. II, Delhi: Chanakya Publications, p. 198.
Two conclusions follow from this analysis. First, the paradox of political visibility and electoral weakness may not be resolvable unless a) farmers define their identity primarily as farmers, not as members of a caste, linguistic or regional community; and b) they are convinced that prices and loans constitute their primary interests as farmers. The challenge before these movements is to create these necessary conditions, i.e. to transform the way farmers define their interests and identities. It seems that for at least some time to come, farmers will continue to view themselves both as farmers and as members of communities defined in other ways.

Secondly, until these conditions can be met, the most effective form of politics for these movements will continue to be non-party, which enables them to exercise pressure on all parties without the movements turning into parties themselves. Another strategy lying between these two extremes, whose effectiveness cannot be theoretically ruled out but which is still to be fully tested, would be to align with the least objectionable party (or a set of parties) and work out a programmatic agreement while using the base of the movement to deliver electoral support and votes to the party concerned. The choices, in other words, are i) staying non-party, or becoming part of a coalition, thereby making do with less in terms of desired policy outcomes but having a substantial political presence, or ii) converting movements into sectorally based parties in an attempt to maximize power only to run the risk of losing even the existing political strength. In either event, best case scenarios may not be realizable, but the first strategy, more rational under current state of peasant consciousness, will ensure that political pressure on the state continues and the second best scenarios obtain.

SECTION V.5

CONCLUSION

In terms of the rural-urban divide, the decade of the 1980s has reinforced a trend that the 1970s
initiated. As argued in the last chapter, the rise of Charan Singh and his peasant-based party in national politics had put rural India on the power map. Charan Singh fell from power at the turn of the decade, but his exit coincided with the spread of non-party agitations that concentrated on rural-urban issues - higher agricultural prices, loan waivers and a better allocation of public resources for the countryside. As the decade unfolded, these agitations gave evidence of their staying powers and of widespread popularity. Defying intellectual predictions about representing only the bigger farmers, the agitation leaders developed a substantial mass base that included all classes of landed peasants and in some case, even the landless agricultural laborers. The new peasant mobilization forced many important changes in the country’s politics and economic policy. Somewhat alarmed by the rise of non-party organizations, all political parties were compelled to incorporate remunerative agricultural prices in their programs. The powerful national media, too, was struck by the new agrarian vitality. With the political parties unable to tame the political rise of new leaders and the national media acknowledging the strength of the new peasant leaders, rural India in the 1980s has come to enjoy a political visibility that was not in evidence in the earlier decades and was only partially foreshadowed by Charan Singh’s brief tenure in power.

The incommensurability between the rising political strength of the countryside and the basic contours of economic policy remains, however. To be sure, in response to the demands of the new non-party organizations, several significant changes in the policy institutions and policy norms have been made by the policy makers. The personnel policy of the principal state institution involved with agricultural price policy, the Commission for Agricultural Costs and Prices (CACP) has been altered. Instead of a purely technocratic body, the Commission is almost half-political now. Similarly, for determining the level of producer prices, the Commission is not only supposed to look into costs but also the agriculture-industry terms of trade, a modification that goes to rural benefit. Though offering the countryside a better deal than before, these concessions stop short of the what the new agitation leaders would ideally desire. The demand for loan waivers continues to
be largely unmet, and even on prices, the struggles over what constitutes an appropriately remunerative level remain.102

The paradox of non-party politics drives a wedge between political strength and policy outcomes. Non-party organizations can mobilize farmers but, at the time of voting, cannot compel them to choose from among their multiple selves only the farmers’ identity - over other identities like caste, region or ethnicity. However, if these organizations convert into parties, they lose credibility which is based on not seeking political office but fighting for a cause. Electoral frailty thus coexists with political vitality, and enables the government to meet the new demands halfway.

The political paradox is not the only reason why the new agrarianism has not been able to realize its best case scenarios. There are significant technical problems, too, that compound the wedge between political logic and policy outcomes. The next chapter will complete the argument of this thesis by looking into the technical difficulties that an attempt to ensure farm returns through a price-based agricultural policy entails; and the final chapter will present conclusions.

102 Some leaders, though not all, would have wanted parity prices (which would freeze agricultural prices no matter what happened to costs), not simply consideration of terms of trade (which might allow prices to go down if costs did but would not freeze agricultural prices). Some like Sharad Joshi are unconcerned with terms of trade and want only a fair margin over costs but have differences with the policy makers on how to define costs. Chapter 6 deals with these issues in detail.
CHAPTER SIX
HAS RURAL INDIA LOST OUT?
THE PARADOXES OF POWER AND THE INTRICACIES OF ECONOMIC POLICY

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HAS RURAL INDIA LOST OUT?
THE PARADOXES OF POWER AND THE INTRICACIES OF ECONOMIC POLICY

Is the rising power of a group or class reflected in changes in the economic behavior of
the state? If so, how precisely does that happen? The dissertation so far has dealt with these
questions at two levels, and in order to proceed to the central task of this chapter - namely,
assessing the impact of group power on economic policy outcomes - it may be necessary to
recapitulate the argument developed.

The first level of the argument dealt with the changing shape of India's political
universe. Both in party and non-party politics, an unambiguous rise in agrarian power has taken
place. Political parties are no longer primarily urban agglomerations: agriculturists are the largest
professional group in the Lower House of Indian Parliament, their proportion having risen from 22
per cent of the House in early 1950s to over 40 per cent now. In non-party politics, led by a score
of peasant organizations, agitations for higher agricultural prices and subsidies (and, lately, for
waiver of agricultural loans) have engulfed a large part of the country. The parallel development of
rural pressure in two important sectors of politics - party and non-party - has led to an ideological
reformulation of politics on the agrarian question. All political parties, irrespective of where they
stand on the ideological spectrum, support the demand for higher agricultural prices and call for a
better deal for the countryside in economic development. At the institutional and ideological plane
of party politics and in public expressions of political positions, there are virtually no dissenting
voices left. A Bharat-India divide is one of the important idioms of Indian politics now.

But is it an idiom only? Has the ideological reformulation of party politics had an
impact on economic policy? The second level of the argument has dealt with policy norms thus far.
India's agricultural policy was changed in the mid-1960s after Nehru's death. Abandoning the principles of low agricultural prices and labor-intensive agricultural development, the post-Nehru government made producer price incentives and investments in new technology the governing norms of agricultural policy. It is noteworthy, however, that this change took place much before pressures for higher prices emerged in the polity, indicating that a change in policy principles actually led to a new definition of agrarian interests, not vice versa. However, once the new definition of agrarian interests acquired political momentum, the government reworked the principle of price incentives in a manner more favorable to the countryside. The touchstone of the original definition of incentives was a cost-plus formula, where farm costs were taken to mean input costs, over which a margin of profit was given. By 1980, agriculture-industry terms of trade were added to the cost criterion, thereby including not simply the changes in the costs of farm inputs but also rural consumption goods. This change in norms implies the possibility that even if the terms of trade went against agricultural due to a reduction of agricultural costs (which would tend to depress agricultural prices), such price-reduction, naturally induced by increases in productivity, would not be transmitted to the entire economy, or to the urban sector, since the terms of trade would be adjusted in favor of agriculture politically.

The operation of the second norm remains problematic for reasons already stated (Chapter 5; Section 4.3). Moreover, changes in policy norms per se have come to be viewed cynically in Indian politics, the dominant notion being that policy norms have no concreteness unless the personnel empowered to implement norms are also changed. The structure of state institutions responsible for agricultural policy has, therefore, been an object of considerable political struggle. Since the mid-sixties, the Commission on Agricultural Costs and Prices (CACP) has been the institutional centerpiece of agricultural policy. Initially envisioned as a purely technical body consisting of economists, statisticians and agricultural administrators, a governmental decision in the mid-1970s gave the CACP a "farmers representative" appointed from
among the politicians and another decision in 1984 split the Commission into three technical
members and three farmers representatives. These decisions were made in response to the
constant criticism, levelled even by members of the ruling party, that decision makers in the
Agricultural Prices Commission were urban technocrats, having academic or bureaucratic
knowledge of agriculture, but not being agriculturists themselves, they had little understanding of
the complexities of agriculture.

In short, rural power has gone up in the polity, policy norms have become more
favorable to the countryside, and the institutional centerpiece stands transformed. Have the
outcomes changed for the countryside? Have farm incomes gone up as a result? This chapter
concentrates on this question.

The argument is developed in four steps, each intermediate step leading to a question
and setting the stage for the next step.

1) Developing a simple measure for farm returns and applying it to wheat and rice, it
will be demonstrated that farm returns have depended on what crop one grows and where, a mixed
outcome that has come about despite a rise in agrarian power in the political system and despite
the policy norm of price incentives (Section VI.3). Why should that be so?

2) The disjunction between a) the logic of political power and policy norms on the one
hand and b) economic outcomes on the other is caused by three factors that countervail politics in
the short and medium run: technical change, fiscal realities and income distribution in society
(Section VI.4). But are these countervailing forces technically binding or politically manipulable?

3) Constructing a counterfactual, it will be argued that these constraints are indeed
politically alterable in favor of the countryside (Sections VI.5 and VI.6). But if that is so, how does
one explain that the rural pressure in the polity, though increasing, is nonetheless unable to

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overcome the forces that obstruct agrarian interests from achieving their economic objectives?

4) The answer comes in two parts: a) that rural power may have made remarkable gains outside the state institutions but, within the state, the institutions penetrated by rural ideologues are much less powerful than the ones opposed to a partisan rural view, and b) that the rising rural power is also self-limiting (Section VI.7). The result of the former is that the intra-state or interbureaucratic balance of forces within the state quietly counters the power and visibility of rural groups in party and non-party politics as well as their penetration of some state institutions, and the result of the latter is that this interbureaucratic balance remains unchanged. Agrarian pressure, though increasing in the polity, is unable to realize its full potential due to the cross-cutting nature of identities in the countryside. While farm agitations express economic demands and meet the eye, rural votes represent several other identities that diffuse the economic definition of rural interests, thus limiting the pressure that can be exercised on the economic functioning of the state.

Before this argument is developed, however, the weakness of the existing debate on whether or not the rural groups have lost the battle of incomes to urban India must be demonstrated. Starting over a decade back, the debate is a long and embattled one. I begin, therefore, with a critical examination of the received arguments (Sections VI.1 and VI.2), and work my way through them to an alternative way of answering the question.

SECTION VI.1

POLICY OUTCOMES FOR FARM GROUPS:
TERMS OF THE EXISTING DEBATE

Have the farmers lost out? The existing answers depend on where one looks. The politicians argue that farm incomes have declined, but a raging controversy marks the intellectual
debate. The views fall into two categories, class and sectoral. The class view is that the rich
peasantry has benefitted, at the cost of both rural and urban poor. And the sectoral view is that
India’s advances in agricultural production, particularly in food, have mainly benefitted urban India,
much to the detriment of rural incomes.

Four kinds of indicators have been used for supporting these positions: i) agriculture-
industry terms of trade, assuming that a decline in agriculture’s terms of trade represents a loss in
the rural sector’s income (and vice versa); ii) comparing government prices with free market prices,
assuming that if the latter is higher, the government purchases, substantial and rising, can be said
to discriminate and work my way through them against the countryside; iii) comparing price trends
with supply trends, assuming that if the relative supply of a given crop goes up, its price must fall
(and vice versa), and if it does not, the producers of that crop are the beneficiaries; and iv)
comparing price trends with cost trends, assuming that if the input costs for a crop go up faster
than output prices, incomes or returns from that crop must decline. I shall call these: the terms of
trade argument, the price differential argument, the relative supply argument, and the cost
escalation argument respectively.

The argument about agriculture-industry terms of trade is used by both sides, some
showing that agriculture’s terms of trade have gone up, others that they have not. With or without
reference to the sectoral terms of trade, the argument is also conducted sometimes at the level of
relative supply. Those identifying a rich peasant bias in India’s agricultural price policy stress the
fact that procurement prices have constantly gone up irrespective of the output of the crop.
Attention is, in particular, drawn towards wheat and rice surpluses of the last decade. A surplus
calls for a lowering of price so that the surplus can be drawn down, not for a price increase. The
power of “farm lobbies” or the pressure of the rich peasantry on the Indian state, these scholars
argue, has obstructed the process of an otherwise natural economic process - namely, price
reduction induced by surpluses. Finally, those claiming that the farm sector has lost incomes to urban India argue that linking crop prices with crop supply is misleading. One has to either take note of the input costs, or of the difference between government and market prices for a given commodity. A differential between the two prices has existed and/or input costs (fertilizer, pesticides, seed, water, labor) have increased faster than crop prices, both facts demonstrating income losses in the farm sector.

How does one evaluate this debate? The terms of trade debate is taken up first. The argument will be that i) empirically, intersectoral terms of trade do not show a conclusive trend in either direction, agriculture or industry, but ii) more importantly, in and of themselves, terms of trade are an inadequate measure for calculating returns to a sector. A measure cannot be invoked to form judgments for which the required information is missing in the measure. The other arguments are considered later.

SECTION VI.1.1

AGRICULTURE-INDUSTRY TERMS OF TRADE: MAKING SENSE OF AN ARTICLE OF FAITH

"A remarkable shift has taken place in the course of the past decade in the terms of trade between agriculture and industry in India ....... The weighted terms of trade between agriculture and industry have over the period (1961/62 - 1973/74)...moved by close to 50 per cent in favour of the former. ....... The movement in the terms of trade, we may maintain, does not represent any particular bias in policy, but is the consequence of divergent rates of growth in the two sectors. Is this hypothesis borne out by facts? During the quinquennium 1965-66 to 1970-71....., the index of farm production .... rose by roughly 25 per cent; the rise in the index of industrial output...over these years was actually less, namely, around 20 per cent: even so, the terms of trade moved in favor not of industry but of agriculture, and to the extent of around 25 per cent."
Thus wrote Ashok Mitra in a landmark political economy treatise a decade ago, starting a long debate in India over the political meaning of terms of trade. Having argued that an economic explanation for the terms of trade moving in favor of agriculture did not exist, he put forward a political thesis that supported the classic Marxist formulation on the nature of the ruling class coalition in Indian polity:

"This shift in terms of trade can be viewed as mirroring a political arrangement entered into by the urban bourgeoisie with the rural oligarchy. Given the frame of parliamentary democracy based on adult suffrage, urban industrialists, to maintain their control over political institutions, need to enlist the support from among the rural electorate. The task is immensely facilitated by an understanding they reach with surplus-raising farmers and their trading partners, who are in a position to ensure the votes of major sections of small peasants and landless laborers."

A democratic political system thus imposes a terms of trade price on the bourgeoisie.

The non-Marxist response to Mitra was to argue the opposite: that the terms of trade had in fact not shifted in favor of agriculture. With agricultural price agitations on the rise in the 1980s, the idea of terms of trade has by now acquired a political life of its own, used not only in

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2 Ibid., 141. The classic "bourgeois-landlord coalition" argument of Indian Marxists has of late been expanded to include the public bureaucracy also. For a three-fold dominant coalition, see Pranab Bardhan, 1984, The Political Economy of Development in India, New York and Oxford: Basil Blackwell, and Delhi: Oxford University Press.

3 Premised on the belief that agriculture-industry terms of trade were the principal determinants of accumulation and growth in an economy, the burden of Mitra's argument was that a politically induced shift in terms of trade in favor of agriculture, by hurting industrial accumulation, had retarded India's industrial growth in the decade after the mid-1960s. Mitra argument was firmly anchored in the classic terms of trade debate on Soviet Industrialization (discussed in Chapter II; Section 3.2.1), which was used to illustrate a contemporary Indian problem.

4 The strongest attack came from D.S. Tyagi, 1979, "Farm Prices and Class Bias in India", Economic and Political Weekly (EPW), Review of Agriculture, September. Tyagi argued that the official series on wholesale prices, on which was based Mitra's conclusion, overstated agricultural and understated industrial prices, spuriously tilting the terms of trade in favor of agriculture. This notion was further developed in A.S. Kahlon and D.S. Tyagi, 1980, "Inter-Sectoral Terms of Trade", EPW, Review of Agriculture, December 27. A useful review of the debate generated by Mitra is Gopalakrishna Kumar, 1989, "On Prices and Economic Power: Explaining Recent Changes In Intersectoral Relations in the Indian Economy", The Journal of Development Studies, January.

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scholarly treatises but also in bureaucratic and political discourses to the extent that in the early 1980, the central government, in an attempt to appeal to clamoring politicians, added terms of trade to the two principal criteria already existing for the determination of producer prices - costs of productions and the potential impact of agricultural, particularly food, prices on inflation in the economy.

Does the widespread use of the concept of terms of trade stand close Intellectual scrutiny? What conclusions can one draw from inter-sectoral terms of trade?

The pitfalls inherent in equating the increases and declines in agricultural incomes with the rise and fall of agriculture's terms of trade can be demonstrated in two ways. First, one can examine the form in which the argument is normally presented and ask whether the form supports the conclusions drawn. One can also go a step further, and inquire whether the argument would be acceptable, were the form of argument to change and made more rigorous.

VI.1.2 Terms of Trade: An Empirical Picture

The judgement on the direction in inter-sectoral terms of trade may differ depending on 1) whether two end-points, the base and the terminus, of a period are chosen for analysis, or 2) the entire time-series pertaining to that period is examined. Both kinds of exercises are available, and the results are revealing. Those identifying a strong trend against or in favor of a sector have typically followed the first method. In contrast, plotting the entire series does not show any significant time-trends.

The first method has taken two forms: A) using individual years as the base and terminus; and B) taking three year averages clustered around the base and terminus. One does
not have to show the implausibility of method 2A. Given the weather-dependence of agriculture and the consequent fluctuations in agricultural prices, single years taken as the base and terminus can strongly bias the results. The objective of method 2B is precisely to reduce the arbitrariness that may result from single years.

How the two methods -- taking two end-points (three year averages) or, alternatively, the time-series -- yield different results can best be illustrated with the help of the latest terms of trade time series starting from 1970/71 (Table 6.1). Using moving averages, the Agricultural Prices Commission (APC), for example, deciphered a trend against agriculture in 1980: "Taking the triennium ending 1971-72 as the base, it is observed that the index of prices paid by agricultural sector has risen at a faster rate than that of prices received by it."*

Let us now plot the entire time-series contained in Table 6.1 (See Figure 6.1). No trend in either direction is visible for the entire period: it is a random walk. Upward and downward trajectories are essentially short-run. Other exercises carried out for a longer period show similar results -- absence of a long-run trend but upward or downward trends for short periods of time.7

* To maintain statistical consistency, the starting point of the analysis is 1970-71, or the early 1970s generally. The current series on farm costs (and terms of trade) put together by the agricultural universities and government sources starts with 1970-71. If one wants to expand the time frame by merging the current series, called the Comprehensive Scheme, with the earlier series, called Farm Management Studies, bold but unsupportable assumptions will have to be made since the principles of cost collection and the definition of costs were different earlier. A longer empirical view can thus be obtained but it will be substantially inaccurate. As will become clear later, the series from 1970-71 is sufficient for the purposes of deriving robust arguments on trends in farm incomes.

6 Report on Price Policy for Wheat for the 1980-81 Crop, August 1980, p. 13. Consider briefly the method of single years. If 1971-72 is chosen as the base year and 1984-85 as the terminal year from Table 6.1, agriculture’s terms of trade improved from 91.7 to 94.9. Contrarily, if one chooses other combinations - for example, 1971-72 and 1980-81 - we will get declining terms of trade. Single years thus get completely arbitrary.

<table>
<thead>
<tr>
<th>Year</th>
<th>Prices of Agricultural Products as percent of prices of Manufactured Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>91.7</td>
</tr>
<tr>
<td>1972-73</td>
<td>90.5</td>
</tr>
<tr>
<td>1973-74</td>
<td>99.8</td>
</tr>
<tr>
<td>1974-75</td>
<td>100.7</td>
</tr>
<tr>
<td>1975-76</td>
<td>91.9</td>
</tr>
<tr>
<td>1976-77</td>
<td>90.5</td>
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<tr>
<td>1977-78</td>
<td>97.5</td>
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<tr>
<td>1978-79</td>
<td>95.8</td>
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<tr>
<td>1979-80</td>
<td>87.6</td>
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<tr>
<td>1980-81</td>
<td>81.8</td>
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<td>1981-82</td>
<td>87.6</td>
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<td>1982-83</td>
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<tr>
<td>1984-85</td>
<td>94.9</td>
</tr>
<tr>
<td>1985-86</td>
<td>90.4</td>
</tr>
</tbody>
</table>


Food Enough or Starvation for Millions, Rome: FAO. See below for a thoughtful recent paper by Tyagi on terms of trade between 1952/53 and 1983/84.
Agriculture-Industry Terms of Trade

Figure 6.1

SOURCE: As in Table 6.1
If politics were the sole, or even primary, reason for the shifting terms of trade, one would have to suppose corresponding shifts in the power of groups or classes as well. It is not clear how such short-run swings in the power of dominant groups in the industrial and agricultural sector could be established. It seems more plausible to argue that while politics may be one of the sources of shifting terms of trade, there are in probability other variables at work, too. What other variables might there be?" 

VI.1.3 Do Declining Terms of Trade Mean Deteriorating Incomes?

A search for the determinants of inter-sectoral terms of trade yields two results. It not only allows us to identify what the various determinants may be but, more importantly, it also enables us to explore whether a shift in terms of trade - however achieved, politically or otherwise - necessarily means a shift in incomes accruing to a sector. To put it bluntly, why should the dominant class, or all classes, in a given sector care if declining terms of trade do not in fact entail eroding incomes and may even co-exist with increasing incomes? It can be demonstrated that

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* It should be added that even after the problem of base years is tackled by constructing a time-series, the problem of commodity weights remains. And there is no uniquely acceptable, or easy solution of the problem either. Tyagi points to the inaccurate commodity weights used in the official wholesale price index series on which are typically based most terms of trade comparisons, including Mitra's, APC's as well as the one attempted in Figure 6.1: "In contrast to the homogeneity of products in the case of agricultural commodities, the products of the group - manufactured articles - are very heterogeneous. For example, rice is not only the same whether grown by farmer X or farmer Y, but it always remains, to a very large extent, the same over the years. Compared with this, poplin (shirting) made by mill X would not be the same as that made by mill Y, and furthermore, the poplin made in 1972 by mill X may not be the same as that manufactured in 1960. .....(D)ue to the greater heterogeneity in the products even when many items from many companies are included, the coverage .... remains partial, and as time passes, (the) coverage tends to become more and more partial due to additions of new items. Furthermore, since the prices of new items are mostly fixed at levels higher than those they replace, the official index tends to underrepresent the changes in prices." ("Farm Prices and Class Bias", op. cit, p. A-114). Tyagi goes on to illustrate the problem of weights with respect to other important commodities in the index, too.
returns to farming, or incomes from farming, and agriculture’s terms of trade are two very different concepts. Returns to farming can go up even while farm sector’s terms of trade decline.⁹ Stated another way, while agriculture’s barter terms of trade may deteriorate, its so-called income terms of trade may well improve.¹⁰

Terms of trade can go against agriculture for both political and economic reasons. In an effort to transfer resources from agriculture for purposes of industrialization, or because of an urban dominance of the political structure coupled with the city’s interest in cheap food, governments may wish to turn the terms of trade against agriculture by fixing low prices for agricultural products, particularly for food and export crops, and high prices for industrial goods.

The classic case of such political twisting is, of course, the Soviet Union during the First Five Year Plan (1928-32) when, based on the theories of Preobrazhensky, Stalin both launched the industrialization drive and sought to accomplish what, in his view, was the political correlate of such an economic policy -- elimination of the Kulaks, a class opposed to the Communists but controlling most of the cultivable land. Needless to add, the political extremities of such an agricultural policy have been avoided by most third world countries. The fact, however, remains that even if tried, such policies ultimately sow the seeds of their own destruction. As explained in Chapter 2 (Section 3.2.1), a “scissors effect” typically avenges big price twists, cancelling the political manipulation. The logic of “scissors effect” can be briefly re-stated as follows. As the

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⁹ In other words, even if, transcending the difficulties stated above, we figure out the terms of trade in a methodologically appropriate way, or, even if a clear trend is evident in available figures, this problem still remains.

¹⁰ This point was emphasized by Thamarajakshi, op cit. Kahlon and Tyagi question the validity of the concept of income terms of trade, since it can be shown that incomes of both industrial and agricultural sector can go up while barter terms of trade decline for only one, making barter terms of trade the only meaningful concept. See Kahlon and Tyagi, "Intersectoral Terms of Trade", op cit.
government drastically shifts the terms of trade against agriculture, peasants may simply respond by producing less. A declining food (and agricultural) output may, in turn, lead to an increase in agricultural prices frustrating the government design of keeping food (and agricultural) prices low. If selling at prices higher than the state-mandated prices is outlawed, the marketable surplus may simply be pushed into the black market." In such a situation, the state can, of course, use another instrument: cheap food imports, if available, can keep food prices down. But an extended use of this method may lead to a stagnation in domestic food production, leading to an even greater need for food imports, requiring scarce foreign exchange and creating a vicious circle. A number of governments, though by no means all, have by now realized the self-defeating nature of such policies.

A political twist aside, terms of trade also can go against agriculture for purely economic reasons, raising some interesting possibilities: i) new technology and skills may reduce the unit costs of agricultural production (costs per acre divided by yield per acre), while industrial costs remain unchanged; ii) contrariwise, compared to the farm sector, increases in import-costs may affect the non-farm sector more; and iii) rising incomes in the society may lead to a larger expansion in the demand for non-agricultural goods than for agricultural goods." It is in the third

"For how this happened in the Soviet Case, see Michael Elman, 1975, "Did the Agricultural Surplus Provide the Resources for the Increase in Investment in the USSR During the First Five Year Plan?", *Economic Journal*, December, pp. 844-864. For a theoretical exposition, Sah, Raj Kumar, and Joseph Stiglitz, 1984, "The Economics of Price Scissors", *American Economic Review*, Vol 74, no. 1, pp. 125-138. Though the Soviet case is the most widely known, similar processes have been in operation in Africa: "It should be stressed that government attempts to control the market for food crops have failed. By contrast with the market for export crops, the market for food crops is extremely difficult to control. Many export crops can be grown only in highly specialized areas, but food crops can be grown for virtually by all farm families. And whereas export crops must be moved through a few special locations - ports, for example - food crops can be moved in many ways. "


case that, given costs, declining terms of trade also mean declining returns from farming. Case i), on the other hand, is a classic example of how a decline in agriculture’s terms of trade can actually co-exist with increases in returns from farming. As new skills and technology reduce unit costs and increase production, a decline in agricultural prices may reduce the rate of return per unit of output (i.e. per quintal) but higher yields (quintals per acre) may lead to higher returns per acre ensuring a rise in farm incomes - and all of this while prices of industrial goods bought by the farm sector remain unchanged (which would tilt the terms of trade against agriculture).

Looking at the issue this way, one may add, is not simply a logical exercise. Japanese rice agriculture is the best-researched historical example of agricultural growth despite a stagnation in terms of trade: between 1880 and 1960, for a period of 80 years, the real price of rice remained stable while rice output increased. In a widely noted paper, Hayami shows how in an attempt to keep industrial wages low (so that the labor-intensive industrialization could proceed), the Japanese governments during this period essentially resorted to non-price interventions in agriculture - investments in yield-increasing technology for example - while keeping food prices in check.

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Conceptually, this idea is equivalent to the famous Raul Prebisch thesis about international trade between the developed and developing world. In the 1950s, developing countries mostly exported primary commodities, and since demand for primary commodities as opposed to manufactured commodities declines as incomes rise, Prebisch argued that international trade would hurt the third world.

Raj Krishna provided a simple mathematical proof of this. Symbolically, if Q and F are total output and total input, and Po and Pi are output and input prices, then return-to-cost ratio (r) can be written as PoQ/PiF. Let the terms of trade be defined as p* = Po/Pi, and total factor productivity as t* = Q/F. In growth rates, then, r = p* + t*. Thus, profitability can be raised by improving terms of trade (p*) without technical innovation (t* = 0), or by improving productivity (t*) at unchanged prices (p* = 0), or by improving both. Cf. Raj Krishna, 1982, "Some Aspects of Agricultural Growth, Price Policy and Equity in Developing Countries", Food Research Institute Studies, Vol. 18, no. 3, p. 238.

Yujiro Hayami, 1972, "Rice Price Policy in Japan’s Economic Development", American Journal of Agricultural Economics, August.

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For India, after correcting for many of the commodity-weight problems in the official series, Tyagi has recently showed that, factoring technology in, the movement of Intersectoral terms of trade in India can be periodized as follows: Period One (1952/53-1963/64) when a stagnant technology coexisted with adverse terms of trade for agriculture; Period Two (1963/64-1975/76) when favorable terms of trade for agriculture were accompanied by introduction of new technology in agriculture; and Period Three (1975/76-1983/84) when technological development spread to newer areas and crops but terms of trade shifted against agriculture. In Period One, private investment made by farmers in agriculture (machinery and other equipment), an indicator of how farmers were perceiving income-earning opportunities, stagnated. In Period Two, such investments went up. And in Period Three, the most interesting case for our purposes, investments have continued to go up despite a shift in terms of trade against agriculture."

A political datum is also worth adding. Unlike party politicians who, in heated parliamentary debates, continue to choose arbitrary base and terminal years to make arguments about declining agricultural incomes, the non-party peasant leaders heading the price agitations have found little use for such abstractions. The most important peasant leader in the country today, Sharad Joshi, wants only returns over costs, not higher returns and better agriculture-industry terms of trade:

"It needs to be clearly understood that we are not discussing ....Intersectoral terms of trade. We are talking about agricultural prices as compared not with non-agricultural prices but as compared with .. (the) cost of production."

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8 D.S. Tyagi, 1987, "Domestic Terms of Trade and Their Effect on Supply and demand of Agricultural Sector", Economic and Political Weekly, Review of Agriculture, March 28. The introduction of technology significantly qualifies Tyagi's earlier focus on terms of trade as a determinant of rural incomes and as an indicator of policy bias. One may still quibble with his periodization but the basic insight seems eminently supportable.

To sum up, a deterioration in terms of trade necessarily means declining incomes only in a static framework -- when agriculture is experiencing no technical change. That is the context in which the Soviet debate took place. The obverse is true in a dynamic setting: if new technologies are introduced, agriculture can grow and farm incomes can go up even as agriculture's terms of trade decline.

SECTION VI.2
PROBLEMS WITH THE OTHER INDICATORS

As stated above, three other economic arguments have been used in this debate: the relative supply argument, the price differential argument, and the cost escalation argument. These arguments are not confined to economics. More importantly, they are reflected in the political process since politicians have repeatedly used them in pressing their cases. The political power of the economic arguments has depended on who made them and when. The economists' arguments are reviewed below. How they emerged in the political process is discussed next.

Section VI.2.1
THE ECONOMIC ARGUMENTS

The Relative Supply Argument

Intersectoral terms of trade, being an aggregate measure, tend to mask inter-regional and inter-crop differences. It is perfectly possible for the agriculture sector to do poorly as a whole, while some states and some crops do well -- or vice versa. If, for example, the two principal food crops of the country go through contrasting experiences, one prospering, the other stagnating or
declining (and if we know the regional distribution of crops), a crop-level disaggregation can give much more meaningful insights into the regions gaining or losing than any aggregate measures.

Consideration such as these have led analysts to focus attention on intercrop pricing, or what may be called intrasectoral terms of trade. Wheat and rice have attracted maximum attention for two reasons. First, their prices affect the incomes and welfare of a large majority of rural (and urban) population. A second reason is, however, avowedly political. In some intellectual and political circles, there have been suspicions, even allegations, that the country's price policy is biased in favor of wheat and against rice. The roots of this discrimination are alleged to be regional and/or class-based, and the evidence for the claim is that if the economic laws of supply and demand were any guide, rice prices should have risen faster than those for wheat. That the eastern and southern part of the country is predominantly rice-growing (and rice-eating) whereas the North is overwhelmingly wheat-growing (and wheat-consuming) is cited to be the source of the regional bias*. The class-bias is construed to consist in the fact that the average size of landholdings in the wheat growing North is considerably larger than that in the rice-growing East and South, making rice primarily, though not entirely, a crop of small farmers who have little political power.

* The regional argument acquired high political pitch during the Janata years in Delhi (1977-79). Heated debates took place in parliament: "...the wheat price has been raised on many occasions. ... the price of paddy was not at all raised for the past many years in spite of the constant and continuous demand by the government of Tamil Nadu...and the southern rice-growing states..." (Lok Sabha Debates, 6th Series, Vol. 13, April 19, 1978, p. 286). And: "......there is a powerful wheat lobby operating in Delhi and that is the reason that paddy growers are at a disadvantage." (Lok Sabha Debates, 6th Series, Vol. 19, December 12, 1978, p. 308). It is interesting to note that the regional angle disappeared from parliament debates over agricultural prices after Mrs. Gandhi's return to power in 1980. Whether or not economics was one of the reasons for the regional argument, politics certainly was. 1977-80 was the first period in Indian politics when the ruling party at the center, the Janata, was almost entirely North-based, whereas the main opposition party, Mrs. Gandhi's Congress, was primarily South-based. The Agriculture Minister during this period, S.S. Barnala, was from Punjab, his deputy, B.P. Singh, the state minister for agriculture, from Uttar Pradesh, and the peasant-based Lok Dal party, a key component of the Janata coalition and its leader, Charan Singh, had no base in the South. The return to power of Mrs. Gandhi's Congress in 1980 restored the earlier pattern -- of a ruling party that was based both in the North and South. The regional accusation, thereafter, disappeared from political debates.
The intellectual source for both arguments has been Ashok Mitra again. Paralleling his intersectoral argument, Mitra noted that the output of wheat (and cotton) had increased significantly during the first phase of the green revolution whereas that of rice had barely increased (and jute production had actually declined), but the intrasectoral terms of trade, instead of going against wheat (and cotton) as a result of higher relative supply, had actually moved against rice (and jute). Once again finding no justifiable economic reason for this price behavior, Mitra put forward a political thesis:

* In the case of jute - and, to a large extent, rice - the majority of the cultivators are mostly small farmers and share-croppers, who are weak, unorganized, and have little influence on the processes of the polity. In contrast, the bulk of the wheat crop - certainly the overwhelming proportion of its marketed surplus - are raised in relatively large-sized holdings. ...... It is the inter-regional consequences of the discriminatory pricing policy which hit the eye, but the shifting terms of trade against rice and in favor of wheat, and against jute and in favor of cotton, are clearly the outcome of political arrangements having their roots in the antithesis of classes.*

Not all scholars shared Mitra’s reduction of the regional bias to class power, nor indeed the wheat-rice differential could be sustained in the 1980s. Punjab and Haryana in the North took to rice cultivation in a big way and rice ceased to be a crop confined only to Eastern and Southern India. What has, however, been noted even by non-Marxist observers is that even as wheat and paddy output increased and led to accumulating surpluses of these crops by the 1980s in the public stocks, much beyond the country’s storage capacity, the government, against the normal expectation that a rising surplus would lead to a lowering of price, continued to increase producer prices. I.G. Patel, in his capacity as the Governor of the Reserve Bank of India, argued:

* *.what should be appropriate support prices for major and basic agricultural commodities at any given time will always remain a matter of considerable controversy. But one should not overlook the fact that the farming community has become much

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* "If the policy of price incentives were intended exclusively to stimulate greater production and productivity", argued Mitra, "It is indeed curious that the bounty has been dispensed in a lesser measure in the case of a crop whose output was growing sluggishly than in the case of one which was expanding its production at a much more satisfactory rate" (Terms of Trade, op cit, p. 127).

more conscious of its political power of late, and that it is not averse to resorting to all possible methods to secure benefits for itself at the cost of the rest of the community...
In such a situation...... support prices could serve sectional rather than national interests.**

The Price Differential Argument

This argument was popular in the 1960s and 1970s. To support their "urban bias" arguments about India, Theodore Schultz and Michael Lipton relied heavily on the gap between the government procurement price and the free market price for food crops. The argument was two-fold: i) procurement prices paid by the government were anywhere between 10-25 per cent lower than the free market prices in the 1960s and 1970s for wheat and rice, and ii) since the government procured roughly 25-30 per cent of the marketed surplus of wheat and rice, government procurement prices depressed farm prices in general and reduced farm incomes.***

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***Around 1967-68, about a quarter of Indian cereal marketings were publicly procured, at prices about 25 per cent lower than were obtainable in the market...... In the 1970s, compulsory procurement of wheat, while not fully enforceable, has been used by the government...to hold farm-gate prices...... Government procurement, at low prices.... has been substantial enough to depress farm prices." (Michael Lipton, 1976, Why Poor People Stay Poor, Cambridge: Harvard University Press, London: Temple Smith, and New Delhi: Heritage Publishers, p. 295, the page
The first part of the argument was an incontestable fact until the mid-seventies, but the conclusion drawn was questionable. It was perfectly plausible to argue that procurement, by withdrawing a certain quantity from the market, was bound to push up the open market prices; and that, therefore, the weighted average of the procurement and market prices was the price at issue, not the differential between the procurement and open market price.  

Starting with the late seventies, developments in the food economy destroyed this argument as accumulating surpluses made the concept of a procurement price, fixed lower than the market price, redundant. Instead, the government price became the support price below which prices of wheat and rice would not be allowed to crash. Farmers would simply be supported at this floor. Indeed, there are states now - Punjab, Haryana, Western Uttar Pradesh, Andhra Pradesh - where the government is the main buyer of grains, since prices in the open market are typically lower than the government price.  

And in states where open market prices are higher, government buying is a relatively minor operation.

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23 John Mellor, 1968, "Functions of Agricultural Prices in Economic Development", Indian Journal of Agricultural Economics, Vol. 23, No.1, January-March. Others who make a similar argument include Yujno Hayami, K. Subbarao and K. Otsuka, 1982, "Efficiency and Equity in the Producer Levy of India", American Journal of Agricultural Economics, November. Also, all of these writers, typically, use the concept of elasticity to further reinforce their case. Mellor argued that "levy takes a significant portion of the supply and in effect gives it disproportionately to the lower income consumers with the more elastic demand. The free market is then left to those persons with higher incomes with highly inelastic demand" (p. 34), leading to a disproportionate increase in the open market prices.

24 Some farmers nonetheless sell grain to private traders because with the growth of government purchases have come the bureaucratic problems of late payments, long queues and malpractices by the staff of the Food Corporation of India.

25 Refer to Figures 4.1 and 4.2 (Chapter 4). Since the mid-seventies, Punjab, Haryana and Uttar Pradesh have typically accounted for over 90 percent of the procured wheat. Over 80 per cent of the government rice stock has also come from these three states, plus Andhra Pradesh.
The Cost Escalation Argument

The cost escalation argument, on the other hand, focuses on declining price-cost ratios. Costs of production have moved much faster than the prices received by farmers indicating, according to this argument, falling farm incomes and calling for an upward thrust in farm prices. At this point, economists working in the vast network of India's agricultural universities constitute the bulk of the group making this argument. Gunwant Desai, summarizing 58 papers presented on "farm price structure" in the 1986 annual meeting of the Indian Association of Agricultural Economics, notes: "papers on input-output prices are nearly unanimous in pointing out that despite increases in farm output and its prices, the farmers' net income has not increased because of increases in the prices of inputs." Over the last decade, the cost escalation argument has become the dominant argument of those arguing for an increase in producer prices, supported, among others, by the Commission of Agricultural Prices and Costs (CACP).

Section VI.2.2

Political Reflections of Economic Arguments

In the economic realm, the debate may have remained unsettled, with economists divided on either side. In the political realm, however, the scales are heavily weighted in favor of the thesis about falling rural incomes. Politicians in parliament, or, non-party political leaders outside parliament, have used the cost escalation or price differential arguments to demand higher

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* Price-fertilizer cost ratios formed part of Lipton's argument too but by now, the argument has been generalized to include all costs, not simply fertilizers. Lipton's use of the fertilizer cost data was prompted by the fact that fertilizer costs are typically the largest expense of farmers.

prices. The question of relative supply has been entirely absent in their expressed views. However, in the decision-making bureaucratic realm, part of the political process but analytically separable, political pressures have clashed with the realities of economic management. Both the cost escalation and relative supply arguments have been present. Elected politicians heading economic bureaucracies as ministers have had to juggle between two imperatives: the larger political imperative of responding to party and non-party politics, and the administrative imperative of economic management, necessitated by rising food surpluses and their financial implications for the government.

The political struggle over agricultural prices has been fought in three arenas: on the streets where peasant have been mobilized; in the halls of parliament; and, as against the public nature of these two struggles, inside the secluded walls of government bureaucracies. The last arena further divides itself into i) the struggles within the Commission of Agricultural Prices and Costs (CACP), and ii) the struggles between the CACP and Agriculture Ministry on the one hand and other wings of the government, particularly the Finance Ministry, on the other.

One would expect the non-party mobilization to be sectional for that is the nature of interest group activity. Over the last decade, however, for all practical purposes, India’s parliament too has become a sectional institution on the agrarian question. Given that all parties support the demand for higher prices, the parliamentary battle for agricultural prices has been conducted on three lines.

Irrespective of which party runs the government, the government has been attacked by the opposition parties for being oblivious to the needs of the farmers. The government has defended itself by arguing that it has done more for the farmers than the previous government; however, since it is responsible to the entire country, not just to the farmers, some compromises,
the government would argue, with the needs of the entire economy must be made. Members of the ruling party have been the third actor. They have shown ambivalence in their response. Agreeing with their party’s government that it is doing more than the previous government, they have, however, emphasized the need to do much more. And, instead of attacking the government per se, which the opposition parties have done, they have simply singled out the non-elected part of the government, particularly the CACP, for being anti-farmer, pleading the political wing of the government to curtail the biases of the bureaucrats. Both the treasury and opposition benches, thus, have exerted political pressure on the government.

The issues in non-party agrarian mobilization have already been discussed (Chapter 5). The parliamentary battles and struggles within the CACP are reviewed below. After Mrs. Gandhi appointed a farmers representative, Chowdhry Randhir Singh, to the CACP where he was to participate in decision-making with three other “technical” members, the CACP became particularly politicized. The other bureaucratic battle, between the agriculture and finance ministries, will be taken up later (Section VI.7).

VI.2.3 Economics as Political Rhetoric: the Politicians’ Arguments

 Politicians have made three arguments about rural impoverishment. One has essentially rested on a metaphor, paralleling Sharad Joshi’s argument about the Bharat-India divide, and the other two on economic arguments.

 The visual metaphor of two Indias has been frequently invoked in politics:

 “...If a foreigner comes to India today, he will come across two Indias. On one side is that part of our country which resides in villages, where there is poverty and

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Singh brought politics right into the heart of the body that sets producer prices, arguing that the "APC price recommendations so far, by and large, have not been remunerative to the farmers, leaving it mostly to the government to take a more realistic view...". (Agricultural Prices Commission, Report on Price Policy for Wheat for the 1979-80 Season, November 1978, p. 15.)
malnourishment. There are 118 thousand villages where, even after 30 years of independence, people don’t have drinking water... where people don’t have houses to live, where there are no arrangements for medicines. On the other side are the Oberoi Hotel, Ashoka Hotel, Hilton Hotel, from which it will seem that India is country as rich as America, England and Japan.”

The emotional locution of the speech should not be dismissed as a maudlin excess for it is genuinely believed in many political quarters. The trouble with the “two Indias” metaphor, however, is that it is both true and false. Poverty, malnourishment, lack of housing and poverty, though concentrated in villages, are not confined to them. To the glittering world of intercontinental hotels, one may wish to add the Dickensian realities of shanty towns. Moreover, it matters whether one compares Punjab’s villages with Punjabi cities or Bihar’s countryside with Delhi and Bombay: the latter may support the existence of two Indias but the metaphor emerging from the former comparison would not be of two Indias but of two points on the same continuum. For settling the argument, at any rate, metaphors may have to be reduced to some comparable statistical magnitudes. As we shall see later, this is a difficult task.

Politicians and the Price Differential Argument

The economic demise of this argument has entailed its gradual political decay, too. Over the last decade, whenever MPs in the Lok Sabha, and the farmers’ representative in the CACP, Chowdhry Randhir Singh, have made this argument, they have encountered difficulties. Chowdhry Randhir Singh, for example, argued that while the government paid Rs. 110 and Rs 112.50 for a quintal of wheat in 1977-78 and 1978-79:

"...the farmers of Madhya Pradesh sold their wheat in Indore market for Rs. 148 and 135 per quintal,...; Gujarat state farmers in Dhandkua market...at Rs. 130 and 135 per quintal...; Maharashtra state farmers in Amravati market at Rs. 139 and Rs. 150...;"

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30 Besides, even in Bihar, there are affluent landlords who enjoy both rural and urban luxuries.
Rajasthan farmers....in Ajmer market at Rs. 142 and Rs. 140...Karnataka state farmers..in Bangalore market at Rs. 195 and Rs. 185......" (emphasis added)31

An economist will quickly notice a glaring bias in this list. All the states mentioned - Madhya Pradesh, Gujarat, Maharashtra, Rajasthan and Karnataka - are deficit states where free market price is now-a-days the relevant price, not the government procurement price, since the government wheat operations are minuscule. Since the mid-seventies, the all-India price has been the operational price primarily in the surplus areas where the government concentrates its buying operations. Farmers are free to sell to private traders and interstate restrictions on movement of grains, typical of the earlier era, have been lifted by the central government.32

Unsurprisingly, with respect to surplus-producing Punjab, Haryana and Western Uttar Pradesh (U.P.) Singh was nonplussed to find that the free market prices were the same as the government prices and were even lower in some markets of U.P..33 The CACP, even under its openly pro-farmer chairman, A.S. Kahlol, quietly heard him, and published his position as a note of dissent.34


32 Some state governments, however, impose restrictions in times of droughts to support their own buying operations, conducted over and above the central government’s buying. Typically, the state governments’ share of grain buying is very small. For a discussion of the zoning system, see R.N. Chopra, 1981, Food Policy in India, Delhi: Macmillan.


34 Ibid, pp.10-19. Chowdhry Randhir Singh continued writing notes of dissent each year and asking for a price higher than that recommended by the APC. In parliament, many MPs undertook an exercise similar to Singh’s at various times. The Agriculture Ministers, both under the Janata Government (1977-80), and under Mrs. Gandhi’s government, continued to remind them that forced procurement was a thing of the past and that procurement had actually become a support operation. Procurement price in the deficit states was simply not the issue any more. In surplus states, it was: “Can you imagine a situation where the Food Corporation of India does not enter the market in Punjab? ..... Last year we were late by five days in announcing the paddy prices and so it came down to Rs. 90. ..... If we stop the procurement of wheat and paddy in Punjab, you can’t imagine to what level the price would go.” Cf. Rao Birendra Singh, Food and Agriculture Minister (1980-86), Lok Sabha Debates, VIII Series, Vol.XXVIII, April 19, 1982, pp. 447-8.
Politicians and the Cost Escalation Argument

The sheer empirical irrelevance of the price differential argument has made the cost escalation argument hegemonic in politics over the last decade. Increases in the prices of fertilizers and diesel consequent upon the oil price shocks of the 1970s did indeed lead to a cost inflation in the agricultural economy. Politicians, therefore, constantly attacked the CACP for failing to increase support prices to a compensating degree.66 The political argument about costs is also sometimes couched in larger terms. Chowdhry Randhir Singh, inside the CACP, regularly pointed to a whole series of inputs whose costs had not only gone up but whose supplies had become erratic or corruption-ridden, adding further to costs and increasing the woes of the peasantry:

"The farmers get sub-standard agricultural equipment and machinery after heavy investment which result in frequent burning of power motors etc. They get seeds at exorbitant price which are either adulterated or never germinate. More than one fourth of the credit advanced to farmers is consumed in payment of commission or greasing the palms of different anti-social functionaries at the local level... For diesel they have to be in queue for days on end..... They get power normally at night and in the process... fifty per cent irrigation goes waste. Power-meter readers seldom go to the spot, quite often preparing fake power-bills from their office desk......... 66

Singh, then, concluded:

"...We have practically reached a stage when the downtrodden peasantry is compelled to sell ... wheat and other cereals at a price even lesser than their costs. The poor feeding the rich at below cost price is a shocking phenomenon indeed."67


65 Report on Price Policy for Wheat for the 1980-81 Crop, APC, mimeo, August 1980, p. 22. Singh made these argument every year. For other years, see his note of dissent in the 1979-80 and 1981-82 reports of the APC on price policy.

67 Ibid, p. 28. Singh argued that agricultural inputs be declared essential commodities under the Essential Commodities Act, their prices controlled, their production taken over by the state, and the middlemen currently involved in the input distribution network eliminated (Ibid, pp. 14-15). Singh’s view remained a minority view in the CACP but his disagreements always attracted considerable
The technical members of the CACP did not have the same arguments but agreed that costs had escalated, and asked for a commensurate increase in support prices in their recommendation to the government.  

The cost debate is laden with a touch of irony. Cost data are collected in India by the vast network of agricultural universities spread over the entire country. Using this data, the Commission on Agricultural Prices and Costs (CACP) determines support prices that would give incentives to producers by allowing a margin over costs. Further along in the process, the Central Cabinet acts upon the CACP recommendations and typically, gives a mark-up over the CACP recommendation while setting the final support price. Presumably therefore the price recommended should provide enough incentives to farmers. Members of the opposition and some from the treasury benches claim it does not. The following excerpt from a parliament debate between the Agriculture Minister and opposition members is illustrative:

Rao Birendra Singh (Agriculture Minister): ...APC gives its recommendations on the basis of data collected through various agencies. It has its own system of data assessment -- it gets information on costs of production which is collected by the universities. But after that the government sometimes takes a political decision.

Madhu Dandavate (an Opposition MP): Political decision?

Singh: Yes, when we find that the farmer needs more incentive.

Dandavate: Is that a political decision?

Singh: Well, whatever you may say, it is not scientific.......... Sometimes we find that even though their data might be correct, the farmers should get more to improve their political attention in the press and parliament and given that Singh claimed access to the Prime Minister, his positions could not be dismissed by the technical members of the CACP.

**"The Commission views with concern that wheat economy is becoming a high cost economy. The cost of cultivation of wheat has been rising year after year which is due, in no small measure, to sharp increases in the factor input prices." Report on Price Policy for Wheat for the 1979-80 Crop, ibid, p. 8. It is noteworthy that the issue of costs has not been taken up in any significant way by those intellectuals who point to a rich peasant bias. Subbarao uses cost-data cross-sectionally for a year, not the time-series ("State Policies", op cit, p. 531). Mitra briefly refers to them without drawing any significant conclusion (Terms of Trade, op cit, p. 128).
living conditions... *30

The Agriculture Minister's statement was not simply an act of political salesmanship; it was genuinely true.

However, since the CACP's data are the same as that of agricultural universities whose economists make a case for prices higher than those set by the government, charges of technocratic insensitivity, urban bias or plain incompetence have been regularly levelled at the CACP in parliament and by non-party leaders:

*"..Your APC knows agriculture only on paper. Have they ever seen villages? Have they ever seen farmers? ... Those who know villages know the difficulties of farmers.. Farmers should have greater representation on the APC."*40

In sum, the politicians in parliament want the CACP to have more farmers' representatives (a struggle in which they have already partially succeeded); the non-party politicians want it either scrapped, or its guidelines substantially reformed*41; and for the intellectuals on the left, the composition of the CACP and its norms of functioning can at best marginally change the economic outcome so long as the nature and class-bias of the Indian state do not change.*42 Of the economic bureaucracies of the Indian government, the CACP has thus


*40 Translated from Hindi from Lok Sabha Debates, VII Series, Vol. IX, November 24, 1980, p 297. Incessantly critiqued, Rao Birendra Singh, the Food and Agriculture Minister (1980-86), once responded candidly: "I am not very sure that putting too many farmers in the APC would improve matters because we have had experience already. They might vie with each other in giving higher recommendation .... we have to take (a) balanced view." (Lok Sabha Debates, VII Series, Vol. XLVII, August 13, 1984).


*42 For example, BM, "Agricultural Policy Dictated by Rich Farmer", Economic and Political Weekly, May 28, 1988, pp. 1107-08. BM (a pseudonym) has regularly written such reports for the Economic and Political Weekly since 1973. Also, Ashok Mitra, Terms of Trade, op cit.
become a prime object of political attention, mired in attacks from several sides. It may undergo further politicization. The CACP now has three farmers representatives and three technical members, though the chairmanship still remains with technocrats. Given the political trends, the prospects of a politician chairman presiding over a CACP that has more political than technocratic members cannot be ruled out at some point in the future. That will unquestionably shift the power inside the CACP towards farmer politicians.

What economic outcomes have resulted from the balance as it has existed so far? Will a further institutional twist change the economic fortunes of the countryside? We turn to these questions now.

SECTION VI.3
RESOLVING THE DEBATE:
TOWARDS A RETURN INDEX AND ITS RESULTS

Of the four arguments made to judge the direction of rural incomes, the difficulty of the terms of trade argument and the implausibility of the price differential argument have already been demonstrated. What about the other two arguments?

The relative supply argument claims that if prices had followed the law of supply and demand, rising accumulating surpluses would have led to a fall in prices. While that may be true, it does not follow that, if prices have not fallen, the farm incomes in general, or incomes of the upper peasantry, have gone up. If rising prices co-exist with rising surpluses, two outcomes are possible: i) that farm incomes have risen; and ii) that, compared to a logical counterfactual about what would have happened if prices had been set to equilibrate demand and supply, incomes have not suffered. The relative supply argument can unambiguously support the second claim, but not the first one, for in order to figure out the directionality in farm incomes over time, we must know what
is happening to costs. If, despite accumulating surpluses, prices have risen but costs have also
gone up by a similar magnitude, then income levels, given yields, may not have changed at all.
Moreover, if, given yields, costs have risen faster than prices, farm incomes must, in fact, have
gone down.

The cost escalation argument potentially answers this problem but it entails a non-
sequitur also. It draws conclusions about farm incomes from price-cost ratios. Both cost and price
data are about unit costs (costs per quintal) and unit prices (prices per quintal). One increasing
faster than the other simply indicates the price:cost ratios per quintal, not returns per acre. The
latter would also depend upon yields -- that is, how many quintals are produced on a given
hectare/acre of land. It is perfectly possible for unit costs to increase faster than unit prices but if
productivity (yields per acre) goes up by a compensating (or higher) proportion, the returns can
still be the same (or higher).

Let us see the logic of the above proposition. Defining returns as a function of price-
cost ratios multiplied by yield, we can write the relationship as,

\[ R = f(P/C)Y \]  \hspace{1cm} [1]

where \( R \) represents farm returns/incomes, \( P \) and \( C \) represent price per quintal and
costs per quintal, and \( Y \) yield per acre. Price:cost ratio \((P/C)\) will show us what is happening to the
rate of return (per quintal). Multiplied by yield \( Y \) (quintals per acre), we get a measure for returns
per acre. We thus get a return index that overcomes the non-sequitur of the relative supply
argument by including costs and that of the cost escalation argument by incorporating yields. This
return index, if plotted over time, should give us a dynamic sense of returns from farming.\(^4\)

\(^4\) It should be emphasized that the formula developed above does not give us exact returns.
Rather, it yields a return index. Exact returns, using the same symbols, can be written as

\[ R = (P-C)Y \] \hspace{1cm} [2]

The problem with formula (2) is that it gives us nominal returns, not real returns. For (2) to give
us real returns, we need a price deflator, which is a monumental difficulty in that no uniquely
Let us see the results of the procedure specified above. Consider wheat returns first. Figures 6.2 and 6.3 present results from two major wheat states, Punjab and Uttar Pradesh. Figure 6.2 shows no trend at all in either direction; it is a random walk. A straight line, if drawn, would do violence to the empirical zig-zag. Figure 6.3 shows declining returns since the early seventies.

Take paddy returns now. Figure 6.4, which plots paddy returns in Punjab since the early seventies, shows an unmistakable upward trend after the mid-seventies. Figure 6.5 presents paddy returns from another technologically advanced state, Andhra Pradesh. Once again, roughly since the mid-seventies onwards, there is evidence of a mild upward trend, though, clearly, additions of recent years are required for a firmer judgment.

A cropwise and statewise disaggregation, thus, yields a diverse array of results: returns going up, down, or showing no trend at all. We have the makings of a paradox here: while the political power of farm groups, as argued before, has been rising over time, incomes from farming have risen or declined, depending on what crop one grows and where. If political power were neatly to translate into economic outcomes, returns from both crops should have increased: first of all, farmers have pressed for price increases for all crops; second, these crops are grown by, and constitute the main source of income for, a large fraction of the farming community; and thirdly, their prices are determined by the government.

acceptable deflators for measuring farm incomes exist. Because of the way weights are assigned to different commodities, the applicability of both the wholesale price index and consumer price index has been seriously questioned for calculating real farm incomes from nominal figures (Cf. note # 8). Formula (1) surmounts this difficulty: it divides prices, a nominal measure, by costs, another nominal measure, instead of subtracting one nominal measure from the other, which would in the end still leave us with a nominal magnitude. Formula (1) thus yields a proxy for exact returns, a second best measure which overcomes the inherent difficulties of the ideal solution, and suffices for the purposes of judging the directionality of farm incomes (whether they have gone down or up over time).
Why has a disjunction between the political and the economic emerged? The disjunction would not exist if politics were entirely determinative. Clearly, we have to go beyond a model driven purely by political determination.

SECTION VI.4

THE DISJUNCTION BETWEEN THE POLITICAL AND THE ECONOMIC: PROXIMATE CAUSES

The Role of Technology

The first resolution of the paradox comes from the role of technical change. Figure 6.6 shows how wheat and rice yields have changed over time in Punjab, indicating faster technical change in rice as compared to wheat, at least since the mid-seventies. Recall Figures 6.2 and 6.4, the former depicting stagnating wheat returns in Punjab, the latter showing rising paddy returns. The role of technical change in determining farm returns should thus be clear. Wheat drove the first flush of green revolution. By the mid-seventies, however, as the rate of increase in wheat yields decelerated in technologically advanced states, rice varieties initiated the second round of green revolution in these states, responding to controlled water-fertilizer applications.

Differential rhythms of technical change, thus, constitute a factor countervailing (or augmenting) the political power of farm groups. These results should also disconfirm the regional and class explanations given for wheat-rice divergence: that wheat farmers, generally bigger-sized than the mass of rice farmers in the country, or the wheat-growing Northern Indian states like Punjab and Uttar Pradesh wield greater power on the Indian state than the mainly rice growing South India. At least on the first reading, differential technical change rather than regional or class power seems to be determining the result.
Returns over Operational Cost, Punjab

Wheat, 1970/71 to 1983/84

PC Ratio times Yield

Years


Figure 6.2
A METHODOLOGICAL NOTE ON GRAPHS

1. All graphs on farm returns are based on Formula (1).

2. Unless otherwise stated, the source for these graphs is the "Comprehensive Scheme for the Study of Cost of Cultivation of Principal Crops in India". The data are annually published in the CACP reports on the Rabi and Kharif price policy.

3. The producer price (P) used in these graphs is the government procurement/support price. The implications of using this measure are as follows.

   i) Government price is relevant only to the "surplus" states (Punjab, Haryana, Uttar Pradesh, Andhra Pradesh), because over the last ten years, the government price has been a support price there, which is therefore the price producers have received. Government purchases have been concentrated in these states.

   ii) For deficit states, the government price is virtually immaterial since over the last ten years, these states have contributed minuscule amounts of grain to the government stocks. Free market prices are the prices producers have received. Since there is no good series on farm harvest prices, statistically sound results on returns in deficit states cannot be provided.

   iii) Even with respect to the surplus states covered in the graphs, some qualifications need to be entered. Support price has been the relevant producer price since 1975-76. In the period 1970/71-1974/75, producers received a weighted average of the free market price and government price, the former being somewhat higher. Once again, in the absence of a series on farm harvest prices, statistically exact results cannot be presented. But some reasonable inferences can be made. The shape of the graphs will change since most will have a higher base, but a higher base will not change the basic conceptual point emerging from these graphs.

   a) In Figure 6.2, a higher base will not change the random walk.
   b) In Figure 6.3, a higher base will simply make the decline in returns even more dramatic.
   c) In Figure 6.4, the base will not be higher because nearly all paddy in Punjab has always been sold to the government, whereas in wheat the government has traditionally competed with private traders.
   d) In Figure 6.5, a higher base will only make the rise in returns after the mid-1970s more pronounced.

The final result that returns have depended on what crops one grows and where, thus, will not be affected by these qualifications. Moreover, multiplying the number of cases will not change the result since just four cases are enough to give us the entire array of results: returns going up, down or showing no trends at all. Inclusion of deficit states, even if a reliable series on farm harvest prices can be created, strictly speaking is not required, though they can surely provide additional descriptive materials.

4. The cost (C) data are aggregated at the state level. This is a second best method. Breaking down C into c of various size-categories would have been ideal. It would have inter alia shown which classes were losing or winning in a given state, if at all - that is, if costs on all farm-sizes were not moving in the same direction. The available data do not permit such disaggregation. They only give us a state-level picture. That is however better than figuring out the cost index of the country's
entire farm sector, and deriving results about whether farmers have lost cut from intersectoral P and C. Two levels of disaggregation permit what an intersectoral P/C times Yield would have masked: a crop-specific and a state-specific scenario. A class-disaggregated scenario, if it could be generated, would further add to these results. Similar consideration apply to the third variable in the equation, yields, which is aggregated at the state level.
Returns over Operational Cost, U.P.

Wheat, 1971/72 to 1983/84

Figure 6.3
Returns over Operational Cost, Punjab

Figure 6.4
Returns over Operational Cost, Andhra

Paddy, 1971/72 to 1982/83

Figure 6.5
The general implications of this result are worth briefly considering. Given that i) prices of outputs, costs of inputs, and yields differ according to crops and ii) different states have different crop-specializations or cost structure, farm returns would differ cropwise and statewise. Examining other crops, beyond the scope of this study, should empirically confirm this understanding on larger scale. The role of technical change in determining returns seems intuitively plausible.

A technology-based resolution of the paradox between politics and economics, however, does not answer a different kind of question: why couldn't the government neutralize the income effect of the deceleration of technical change? Recall the return measure from equation (1). Technical change leads to increases in yield: thus, other things remaining the same, technical change, by increasing the value of \( Y \), would lead to higher returns. But the other things do not have to remain unchanged. Apart from yield \((Y)\), returns are also determined by the price-cost ratio \((P/C)\). Wheat returns, or equivalently returns from any crop experiencing a deceleration in technical change, can be restored, if the government increases support prices (thus pushing up the value of \( P \)), or decreases the price of major cost items (thus lowering \( C \)), or both. We know that the central government sets \( P \) and significantly affects \( C \) by setting *inter alia* the price of fertilizer which typically accounts for the largest farming expense under new technology.

The implication of this question should be clear. That the rural political power met with a counteracting force in technical change can only be a proximate explanation for the disjunction, necessary but not sufficient. It is still to be explained why the government did not, or could not, increase wheat prices or reduce fertilizer and other input prices *to an extent* that would offset the slowing down of technical change and restore (or increase) returns, despite mounting political pressures in favor of such an increase both in party and non-party politics as well as within the CACP.

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The Demand Constraint: How the Poor Affect the Income of Surplus Farmers

A lack of purchasing power in the economy provides the first answer to the question raised above. A "basked case" in the 1960s, perpetually dependent on American wheat, India has been running a food surplus in this decade. Over the last ten years, the government, depending on the output, has been procuring 12-18 million tons of foodgrain but distributing between 8-10 million tons through the public distribution system. Government foodgrain stocks have thus been accumulating since the late seventies. Table 6.2 gives an indication of stocks in the first half of this decade. Climbing further, the closing stocks had accumulated to nearly 30 million tons, one fifth of the total food output in the country, when the severe drought of 1987 brought the stocks down to 10 million tons.

India’s food surplus, however, is a pseudo-surplus for large masses of people remain half-fed. Those who need food do not have the incomes to buy the accumulating government surpluses at the price at which they are offered. The cost of production may determine the price at which the farm producers may wish to sell their grain but that may not be the price at which the consumers can buy all the grain they need. Rather, given their incomes, some sections of society simply cut their food intake.

~over~
TABLE 6.2
CLOSING STOCKS OF FOODGRAINS
(in million tons)

<table>
<thead>
<tr>
<th>As on</th>
<th>Rice</th>
<th>Wheat</th>
<th>Coarse Grains</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1981</td>
<td>6.63</td>
<td>5.00</td>
<td>0.11</td>
<td>11.74</td>
</tr>
<tr>
<td>1.1.1982</td>
<td>6.21</td>
<td>5.17</td>
<td>0.12</td>
<td>11.50</td>
</tr>
<tr>
<td>1.1.1983</td>
<td>5.44</td>
<td>7.18</td>
<td>0.21</td>
<td>12.83</td>
</tr>
<tr>
<td>1.1.1984</td>
<td>4.69</td>
<td>10.70</td>
<td>0.10</td>
<td>15.49</td>
</tr>
<tr>
<td>1.1.1985</td>
<td>7.75</td>
<td>14.71</td>
<td>0.09</td>
<td>22.55</td>
</tr>
<tr>
<td>1.7.1985</td>
<td>7.75</td>
<td>20.73</td>
<td>0.17</td>
<td>28.69</td>
</tr>
<tr>
<td>1.1.1986</td>
<td>8.93</td>
<td>15.04</td>
<td>0.10</td>
<td>24.18</td>
</tr>
</tbody>
</table>

This simple economic logic means that the producer price for wheat, if the government had not intervened, would have fallen irrespective of what the cost of wheat production was (a process continuing until such time as enough farmers moved out of wheat farming to restore equilibrium in demand and supply).“

Since the late seventies, the demand constraint has caught all governments in a bind: governments increasing producer prices both to pacify farmers and to encourage further food production only to realize that beyond a point prices cannot be increased while the existing increases are found inadequate by farmers. The Congress castigated Janata for betraying farmers, but while in power, the Congress ran into similar difficulties as the opposition took it to task for being pro-urban.

Violation of standard economic principles was the first political casualty of the demand constraint. For good reasons, economic theory maintains a distinction between the procurement price (whose function is to procure food at lower than market prices for public stocks and which therefore is typically relevant in times of relative scarcity) and support price (whose function is to keep intact a floor below which grain prices would not be allowed to crash, a price at which the entire crop output would be bought by the government, and which therefore is the price applicable in times of plenty). The central government had normally followed this principle until the mid-1970s. With surpluses emerging by 1976-77, the lower support price should have been the operational price. However, “In the case of major foodgrains”, emphasized the Janata government,“The government often labored this economic point in its clash with the opposition: “If the government does not move into the market, if there is no intervention with support prices, you know what will happen, how the market will be exploited by traders. ...... If the government does not purchase in the market, prices (will) fall.” Cf. Agriculture Minister Rao Birendra Singh, Lok Sabha Debates, VII Series, Vol. 36, April 8, 1983, p. 490.
"support is (now) provided at the level of procurement prices which are higher than the national support prices" because "this has been found to serve the cultivators interests better." Moreover, once a trend was set, the subsequent governments did not reactivate the distinction either. The issue is not even considered any more, having retreated entirely to the academic economic lexicon. 

The obliteraion of a time-honored theoretical distinction did not save the Janata government (1977-79) from being accused of having reneged on its pro-rural promise. The Janata's defence was essentially economic but presented politically:

"In your (Congress party's) case, there was compulsory procurement from the producers and at a rate that was lower than what we are giving today. Ours is only a support operation. Farmers are free to sell their produce at a higher price if they can. We go to their rescue when they cannot. .... you used to send coercive forces to their houses to take deliveries and at a much lower price." (parenthesis added)

The Congress returned to power in 1980, but this only meant that, instead of the Janata, it became a prisoner of the demand constraint. The erstwhile Janata coalition would criticize the government for "cheating farmers", while the Congress government often tried to:

"...remind the members (of the opposition) that the last government left the price of wheat at Rs. 115. They had been increasing the price by Rs. 2 (or so), whereas this government has increased it from Rs. 140 to Rs. 151, from Rs. 130 to Rs. 142 last year, and from Rs. 117 to Rs. 130 in the year previous to that. This government has been increasing it by Rs. 10 to 13 every year........ .." 

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47 The relevance of the distinction may, however, return if food supplies go through a prolonged period of scarcities again, which, on current trends, is unlikely.


Even an increase of 10 to 13 rupees, instead of 2 rupees, was, however, not enough to restore returns, while a higher increase was made exceedingly difficult by a demand constraint. A surplus, as we know, does not call for increasing the price but for lowering the price so that the excess stocks can be drawn down. But if the government had increased producer prices by a higher margin to restore wheat returns, it would simply have ended up with even larger accumulations of grain.

A rising surplus may not be a problem for politicians in parliament or for agitating peasants, but it becomes one as soon as politicians head governmental departments. Apart from the resources getting locked up in higher stocks, even managerial problems like storage can be formidable. In the 1980s, stocks have tended to exceed the storage capacity in the country: "... (E)xcess food stocks reflect misallocation of our scarce resources and also increase risks of loss through spoilage." This was also the nearest the government came to admitting a truly bizarre problem: considerable quantities of grain rotting in a poor country where the specter of hunger still haunts millions.\(^5\)

Though inhuman in view of the hunger at home, exporting grain is, in principle, a solution to the domestic demand constraint. In reality, this solution was not practical either. The government "found it impossible to export wheat: for the international prices were often lower".\(^6\) Moreover, "an adequate level of food stocks provides an important hedge against both uncertain


\(^5\) No good estimates of how much grain rots every year are available. Nor, given the political sensitivity of such an issue, can it be easily known. It is widely believed, however, that anywhere between 2-4 million tons of grain are lost this way.

\(^6\) Interview, Rao Birendra Singh, Agriculture Minister (1980-86), Delhi, September 18, 1986.
weather and inflation.⁵² Only small quantities could be exported, whenever, given price
fluctuations in the world market and the relative price stability of Indian markets, border prices went
above the domestic prices.⁵³

To sum up, apart from technical change, income distribution, or a demand constraint, has also
been a countervailing force to the power of the peasantry. Paradoxically, higher incomes for the
poor might have increased the incomes of the surplus producers.

The Rising Fiscal Burden

An emphasis on the demand constraint leaves yet another issue unresolved. In principle, the
government can lower the consumer price to draw down the surplus and simultaneously increase
the producer price (or lower the price of inputs) to satisfy farmers. All that is required is the
subsidization of the difference between producer and consumer prices. Did the government
choose this path?

Once again, the evidence shows that the level of subsidy rather than its sheer existence has

⁵² Long Term Fiscal Policy, op. cit., p. 18.

⁵³ One may still argue that, given the scarcity of foreign exchange, what India would lose by
exporting at a price lower than domestic prices it might gain by earning foreign exchange that has
high scarcity value. While the plausibility of such considerations requires detailed statistical
exercises, it is equally possible that the foreign exchange earned now by drawing down surpluses
would be more than lost at a future date when, faced with weather failures, large scale purchases
from the world market would not only necessitate foreign exchange but would inevitably shoot
international prices up. Typically, it takes only two successive weather failures to create a food
crisis in India. Moreover, large countries like India and China have a peculiar structural relationship
with the international grain markets. If they unload large supplies on the world market, they bring
down prices, just as their entry as large buyers always pushes up international prices. Thus, in
their case, only small interactions with the international market in a commodity like food seem
practical, making domestic food security an important imperative. Stocks that may rot for lack of
storage can obviously be exported, if for some reason they cannot distributed to the poor, which is
obviously their best use.
been the issue. The government has provided a substantial subsidy to farmers but even high levels of subsidy have not been adequate from the farmers' viewpoint.

As Figure 6.7 illustrates, since the early seventies, subsidies in the Indian economy have risen three-fold, from 1 per cent of GDP to 3 per cent. The rising curve of the central government subsidy, our main concern here, is mostly due to food and fertilizer subsidies. Figure 5.8 shows that after the oil price hike led to a sharp increase in fertilizer prices in 1972/73, requiring a subsidy to maintain fertilizer consumption and agricultural growth rate, food and fertilizer subsidies have constituted between 55 to 65 per cent of total central subsidies, with the curve rising more sharply in recent years. ⁴⁴

Farmers' rising surpluses have, thus, entailed a high and increasing fiscal burden on the exchequer. A larger increase in wheat prices or a substantial decrease in fertilizer prices would have simply translated into higher subsidies. In a way, Indian agriculture is thus becoming a victim of its own success. The government is clear about the source of the problem:

"In part, the problem reflects the success of our farmers and our agricultural strategy in raising food production to record levels. The problem has been aggravated by high levels of procurement without a corresponding increase in the off-take from the public distribution system. ...[T]here has also been a rapid increase in the volume of fertilizer consumption in the country. This, along with the rise in the cost of fertilizer imports and domestic production, has resulted in the growth of fertilizer subsidy from Rs. 600

⁴⁴ In India's case, food subsidies of the last ten years or so cannot be called consumer subsidies. Given the demand constraint, if the market had been allowed to rule, prices would have come down, both for consumers and producers. The food subsidy increased because the floor at which producers were supported was too high for poor consumers. A food subsidy is a consumer subsidy in situations of shortage but a producer subsidy in the context of surpluses. The fertilizer subsidy, however, may not entirely benefit farmers. Domestic costs of fertilizer production in India are high and given the cost-plus pricing principle, even inefficient fertilizer producers get protection. In other words, for a portion of fertilizer supplies (excluding international imports, that are still substantial, and the relatively efficient fertilizer producers at home), the fertilizer subsidy in India is in fact a subsidy to fertilizer producers, not to farmers. What is pertinent for the fiscal burden argument is that, whatever the reason behind subsidies, their rising burden goes against farm interests.
Figure 6.8

Food and Fertilizer Subsidies

as % of total subsidies

% of Total Subsidies

Years

*71/72*73*75/76*77/78*79/80*81*82*83*84*85/86

313
crores to over Rs. 2000 crores in the current year.\textsuperscript{55}

The subsidy burden has also contributed to the center-state budgetary politics. The central government has at times suggested that state governments should finance their own mark-ups, if the central government price is not considered adequate: "There would be no objection if the states want to pay additional amounts out of its own funds."\textsuperscript{56} Two structural factors, however, go against the states.

Their share of the total tax revenue in the country is small and the Reserve Bank of India, suspecting a political abuse, disallowed the use of credit to finance mark-ups in support prices beyond the level set by New Delhi in the late seventies. The state governments, therefore, must provide for any such mark-ups from their own budgetary resources, but, because of the central dominance of tax revenue, they lack a solid tax-base. Typically, therefore, they try to pressure the central government for a higher price before the support price is announced formally. In the end, the circle closes in New Delhi.

Moreover, the state governments have also to bear the subsidy resulting from the running and provision of electricity and water supplies.\textsuperscript{67} Table 6.3 documents the losses incurred on one of these responsibilities, the irrigation facilities. Some of the losses are simply the result of the

\textsuperscript{55} \textit{Long Term Fiscal Policy}, op. cit., p. 18.


\textsuperscript{67} In India, power plants and major canals are typically built with central government allocations but the operating expenses are borne by the states.
inefficiencies of the irrigation bureaucracy but a large part is also due to the underpricing of water. 

In fact, on many occasions, agitations have been launched when the state governments have tried to meet part of the budgetary weight by proposing increases in electricity charges, as in Uttar Pradesh in 1987, and by charging betterment levies on irrigation facilities, as in Karnataka.

To sum up, an amalgam of forces, not simply rural power, has determined farm incomes in India. The rising peasant power in the political system has run up against three countervailing factors: differential rhythms of technical change, income distribution in the society, and the mounting fiscal burden of agricultural subsidies. As a result, the best case scenarios are not what agricultural groups have been able to achieve. Worst case scenarios are what they have been able to prevent. Continual increases in farm returns irrespective of the rhythms of technical change would have been the best case scenario, and a fall in producer prices as a result of accumulating surpluses, the worst case scenario.

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64 Obviously, it is hard statistically to disaggregate the effects of the two, the inefficiency and the underpricing. A similar table on budgetary losses on account of electricity undertakings run by the state governments is not available, but it is generally believed that the losses are enormous.
# TABLE 6.3

BUDGETARY LOSS ON ACCOUNT OF GOVERNMENT IRRIGATION SYSTEMS

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Loss (Rs. million at 1970-71 prices)</th>
<th>Area Irrigated by Canals (million ha)</th>
<th>Net Sown Area (million ha)</th>
<th>Implicit Subsidy (in Rs.) per ha of canal irrigated area</th>
<th>Implicit Subsidy (in Rs.) per ha of net sown area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>365.6</td>
<td>8.30</td>
<td>118.75</td>
<td>44.0</td>
<td>3.08</td>
</tr>
<tr>
<td>1960-61</td>
<td>355.9</td>
<td>10.37</td>
<td>133.20</td>
<td>34.3</td>
<td>2.67</td>
</tr>
<tr>
<td>1970-71</td>
<td>1370.2</td>
<td>12.84</td>
<td>140.78</td>
<td>106.7</td>
<td>9.73</td>
</tr>
<tr>
<td>1980-81</td>
<td>4348.5</td>
<td>15.53</td>
<td>140.30</td>
<td>280.0</td>
<td>31.00</td>
</tr>
<tr>
<td>1982-83</td>
<td>5228.4</td>
<td>15.37</td>
<td>141.77</td>
<td>340.2</td>
<td>36.88</td>
</tr>
</tbody>
</table>

Note: Ha stands for hectares.

SECTION VI.5

TOWARDS AN UNDERLYING EXPLANATION

The closure of the explanation above is an analytical artifact: technical change, income distribution and fiscal constraints are assumed to be given in some sense, as indeed they appear to be on first reading. But are the constraints in some sense technically binding or are they politically changeable? For if they are politically manipulable, another set of questions needs to be addressed. Couldn’t something be done about reversing the deceleration of technical change in agriculture? Couldn’t the purchasing power of the poor be increased? Couldn’t a higher fiscal burden be borne?

A related group of questions also follows. How do technical change, income distribution and fiscal constraint make their presence felt in the political process? Do these abstract economic forces impinge impersonally upon the functioning of the state, or is it that certain institutions and groups within the state both represent these forces and have the power to impose their will on institutions that might represent the farm groups? The pricing decisions, after all, emerge within the state. We need to answer a very political question: Countering the political power of the peasantry, who represents these economic forces in the political system? If all political parties are for higher prices, if farmers are also putting pressure on the government, if the Commission on Agricultural Prices and Costs is getting increasingly ruralized, if its terms of reference have been changed in favor of the countryside, then where is the counter-pressure emanating from?

VI.5.1 Are Economic Constraints Technically Binding or Politically Manipulable?

The first constraint, technical change, has two sides: one relating to the technologically advanced areas and the other to the technologically backward areas. The seed-water-fertilizer
triad of the new technology has varying meanings in the two scenarios. The technologically
lagging areas of Eastern India (East Uttar Pradesh, Bihar, West Bengal etc.) require dissemination
of the existing technology. The current variety of (wheat) seeds will work if water and fertilizer
availability is increased or regularized, a process that already seems to be taking place in Eastern
Uttar Pradesh and Bihar over the past few years. In the advanced areas such as Punjab, however,
improvements in water and fertilizer delivery systems may only make a marginal difference to
wheat yields since the irrigation ratio (irrigated area: cropped area) is already very high and,
comparing to Eastern India, fertilizer supply has few bottlenecks. A new generation of wheat seeds
may be required in the advanced areas. And the same may happen eventually in rice, once the rice
yields from the current variety of seeds reach a plateau.

Thus, higher outlays of public funds, undertaken in response to political pressures, may help
disseminate technology in backward areas but such outlays alone may not be able to deliver the
goods in Punjab, Haryana or Western Uttar Pradesh. For a new variety of seeds not only depends
on higher fiscal allocations but also on the state of the biochemical sciences. A new seed suitable
for India’s agronomic conditions cannot be fiscally willed into existence by the political bosses.

In other words, for the technologically advanced areas, technical change may be a serious
constraint, not easily politically manipulable, whereas for backward areas the constraint can be
overcome via a greater provision of irrigation, fertilizers and seeds. This, among other things, also
means that Punjab and, subsequently, other advanced areas may have to move out of the wheat-
rice crop cycle, leaving it for the less advanced areas to grow these crops, while they themselves
switch to higher value-added crops. Over time, however, the currently backward areas may
themselves experience a similar deceleration in technical change, in which case one can expect
the corresponding political pressures to emerge there. At any given moment, thus, there will be states
that have the potential for price agitations as technical change slows down the rise in farm
incomes. Paradoxically, however, these are precisely the states where technical change cannot be easily politically influenced, even if the government increases fiscal allocations.

Similarly, income distribution, the second proximate constraint, is also not easily manipulable. Since blocked demand for food will emerge from the underfed poor, dissolving the second constraint means an income distribution aimed at the lowest deciles of the population. A redistribution of incomes towards the poor typically requires land reforms, transfer programs or food-for-work schemes. Three decades of research have shown that land reforms are easy to legislate but monumentally hard to implement. And sizeable food-for-work programs that run down the surplus in the short and medium run, or rural development schemes that create a sustained increases in the incomes of the poor can be run only if the state is prepared to bear the consequent fiscal burden.

All roads, therefore, lead to the third, fiscal constraint. Whether the issue is dissemination of the existing technology or creation of a new one, whether the solution is running large-scale food-for-work programs or designing other transfer programs, whether the way out is increasing producer prices and/or lowering input prices -- in all cases, the fiscal burden on the state will increase.

Three kinds of fiscal activities are potentially involved: larger investment in agriculture (through allocations for seed research, irrigation, extension); greater expenditures on rural development (income generating schemes for the poor, or even food for work programs); and higher subsidies (required if producer prices must be increased or input prices lowered). Of these, the third is politically the most critical. Investments in technology typically lead to returns over the medium and long run. While, arguably, such investments may be a better way of ensuring the continued dynamism of Indian agriculture than routine subsidies, political pressures are not pushing the state
in that direction: the farmers movement is not primarily aimed at the long-run benefit but at immediate gains. Similarly, food for work programs or poverty-alleviation schemes, which can indirectly benefit farmers by increasing the incomes of the poor, are also not on the political agenda of farmers, and the direct beneficiaries - that is, the rural poor - are not organized enough to pressure the government to allocate more than what it already does as a policy matter. Affecting farmers here and now, higher producer prices and lower input prices are the main bone of contention between the state and farmers. Farmers want more than the state is prepared to give.

SECTION VI.6

CAN THE STATE PAY MORE?

CONSTRUCTING A COUNTERFACTUAL OF FISCAL POSSIBILITIES

In principle, higher farm subsidies can be provided if the government does one or more of the following: i) increase consumer prices to reduce the burden on the exchequer; ii) increase government revenue to finance higher subsidies; iii) increase budget deficits, if raising more revenues is difficult; iv) cut government expenditure elsewhere if increasing deficits is ruled out for some reason. The impracticability of the first option in the light of a demand constraint has already been demonstrated.

What about the other three options? Why haven't these logical possibilities become empirical realities? The question leads us into the political economy of public finance, an underresearched, complex and large subject.\textsuperscript{\textsuperscript{*}} Some of its salient outlines, relevant for our purposes, are sketched below. It will be first demonstrated that the state can pay more to the farmers, and then an attempt

\textsuperscript{*} One of the few political economy works on public finance is John Toye, 1981, Public Expenditures and Indian Development Policy, 1960-70, Cambridge: Cambridge University Press. Ending with 1970, Toye's work does not deal with the period marked by farm subsidy issues.
will be made to answer why it does not.  

Taxes have been the main source of government revenue in India. Since the mid-seventies, tax receipts have ranged between 15-17 per cent of GDP. Since the proportion of indirect taxes has risen from 63 per cent of the total tax intake in 1950-51 to nearly 85 per cent by now, it is generally agreed that increasing tax revenue essentially involves raising the proportion of direct taxes in the total receipts. Further, since increasing the tax rate for existing tax-payers, beyond the salaried class, has only led to widespread tax evasion, it is also widely believed that lowering the tax rate but widening the tax base - that is, increasing the number of taxable people - is the most practicable solution for collecting higher tax revenue, even though it may not be equitable. In principle, several ways can be devised for implementing this solution. It will suffice to note a generally proposed solution -- that short of having an agricultural income tax, a sizeable increase in

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60 A methodological note is in order here. The discussion below is positive, not normative. Whether or not the state should pay more is not an issue here, primarily because normative judgments on what agricultural allocations should be (and in what form should the farm sector be paid, investments or subsidies) can change if the state is politically pushed. After all, supported by the Prime Minister and aided by the top rungs of the Congress party, Subramaniam, as Agriculture Minister, was able to change the existing normative understanding of agriculture in the mid-1960s. For every argument made to show that fiscal priorities can be changed, a normative case demonstrating the adverse implications of the proposal for the economy can indeed be made. But that is quite beside the point here. Why that normative case politically holds in the government is the main issue. If the state can pay more, why doesn't it?

61 The other, smaller source being mainly the savings of the public sector firms in the oil and natural gas sector. Public firms in other sectors have generally been net dissavers.


63 Though tax evasion has often been pointed as the culprit that has driven a gap between the expected and actual revenue collection, it should be pointed out that, despite evasions, a tax-GDP ratio of 17-18 per cent is quite impressive for a country at India’s GDP. It can nonetheless be shown that, even at the given level of income, tax receipts can go up. See below.
tax revenues is not easily achievable in India. 

Agricultural incomes have remained virtually untaxed since independence. But if they were taxed to finance higher agricultural subsidies, it would only be a pseudo-solution for the farmers: what was given from one hand would be taken away from the other. Moreover, an agricultural income tax entails some formidable administrative and political difficulties. It has often been recommended by economists but always rejected by politicians. In the circumstances of the 1980s, when rural groups are already putting considerable pressure on the government for higher incomes through increased prices, taxing agricultural incomes would be an act of extraordinary political daring. Policy documents that bemoan the lack of higher revenue in recent years also at the same time dismiss the idea of an agricultural income tax:

"It is often been stated that exclusion of agricultural income ...constitutes an important explanation for the weak revenue-raising capacity of the personal income tax. Taxing agricultural income presents many conceptual and administrative problems...... . The Centre

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The most widely known case for an agricultural income tax is the Report of the Committee on Taxation of Agricultural Wealth and Income (also known as the K.N. Raj Committee), New Delhi: Ministry of Finance, 1972. Raj committee was constituted at a time when the left dominated India's economic policy making under Mrs. Gandhi, and the talk of taxing the new agricultural rich was widely prevalent. It should be noted, however, that the left was not the only advocate of taxing the beneficiaries of the green revolution. In 1983, the World Bank also favored taxation of agricultural incomes as a way to raise resources, arguing that "The agricultural sector currently generates about 35 per cent of national income but only 11 per cent of direct tax revenues.... . (Cf. The World Bank, Economic Situation and Prospects of India, 1983, p. 98).

The World Bank was conscious of the political and administrative difficulties: "The implementation of (an agricultural income tax)... presents administrative and political difficulties. ............ (T)he structure of the agricultural sector with its millions of small, widely dispersed, independent producers leads to a high cost of tax administration in rural areas. At the same time, the existence of a vast, politically vocal and powerful agricultural electorate makes measures to mobilize resources from agriculture particularly unattractive to policy makers operating in a political democracy." (Ibid., p. 87). Yet, the Bank went ahead with its proposal to which the Government of India paid no attention. Earlier, even while the left dominated policy circles under Mrs Gandhi in the late 1960s to mid 1970s, Mrs. Gandhi's response to proposals for taxing the agricultural rich was fairly straightforward. She "told the planners unequivocally that....none of the experts in the Planning Commission.....seemed to have....a realistic appreciation of the political factors...... . Agriculture could not be taxed for political reasons..... ." (Cf. Economic and Political Weekly, May 25, 1974).
has no intention of seeking any change ....

The difficulties of an agricultural income tax may be insurmountable but the fact remains that "the total number of tax payers has remained at about 4 million or so for many years." Assuming a family size of 6 and assuming only one earning member per taxed family - a reasonable assumption under Indian settings - 4 million taxpayers would translate into 24 million people. Moreover, since, until recently, urban India has constituted only 30 per cent of the country's population 700-750 million people, we get roughly 210 to 250 million city dwellers. Thus, even with generous assumptions, it would seem that barely 10 per cent of urban population pays an income tax. It cannot be said that a potential for higher tax revenues in the urban sector does not exist.

What of the other two options -- increasing budget deficits to finance agricultural subsidies, and if that is not possible, cutting government expenses elsewhere? No theoretical unanimity exists in the economics profession over the respective values of budget deficits and balanced budgets. In the circumstances (and presumably, even otherwise), the perception of the government would more critically decide whether budget deficits would be raised and, if not, whether other expenses could be cut. The Rajiv Gandhi government stated its view in the following manner: "If subsidies continue to grow at the present rate, they will either be at the expense of developmental expenditures or they will lead to higher budget deficits which, in turn, will affect cost and prices, thereby increasing demand for further subsidies."\[67\]

That this view is not confined to the Rajiv Gandhi government should be emphasized. Budget

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deficits have been an enduring fiscal concern in India. In an acrimonious debate in 1981, occasioned by the increasing popularity of Sharad Joshi's agricultural price movement, the then Finance Minister was less theoretical and more direct in stating a direct and positive relationship between farm subsidies and budget deficits:

"...Your argument is very simple and sitting there you can say 'subsidise it'. I will like you to ... remember that...in the budget, if the Finance Minister, accepting your proposal, comes forward with a heavy dose of deficit financing to give more subsidies, what will be the honorable member's reaction?"**

How valid is the claim that if farm subsidies increase, it will either lead to higher budget deficits, or if budget deficits stay at the same level, higher subsidies will be at the cost of development expenditure?

Let us accept, first, for the sake of argument that deficits cannot be increased. Is a trade-off between subsidies and development inevitable in that case? Can the so-called non-development expenditure of the government not be reduced?

Figure 6.7 had depicted a rising curve of subsidies. Let us now look at the other major expenses in the government budget. Figure 6.9 presents the results. The main triad of government's budgetary expenses - defence, interest payments and farm subsidies - comes more fully in light. Of the three, interest payments have increased most sharply over the last decade and a half.

Why have the interest payments risen and can something be done about them? The government has borrowed, mainly domestically, to fund public investment, to meet deficits of the public sector and to even finance the current government expenses are the main reasons. In

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recent years, the government has even conceded that to redress budgetary problems, "the bulk of the effort...will have to come from improvements in the functioning of public enterprises"; which, instead of generating their own surpluses, continually need replenishments from government funds in ever larger quantities. Moreover, the government has also admitted that further budgetary resources can be saved if a firm check is kept on the growth of Government staff, proliferation of government agencies and unproductive expenditure of all types." Clearly, just as there is room for higher tax revenues, resources can also be generated if the public sector dissaves less, assuming that it cannot perform with the same commercial criteria as the private sector in a developing economy.

Let us now relax the assumption that budget deficits cannot be increased. Have they actually increased and if so, are farm subsidies the reason? Figure 6.10 shows a rising curve of budgets deficits. Putting Figures 6.9 and 6.10 together, one can conclude that, if anything, rising interest payments have contributed more to the increasing deficits than farm subsidies, and defence has also not stayed at the 3 per cent level of nearly a decade. The argument that budget deficits must increase as farm subsidies go up can hold, if and only if other budgetary heads, that have also contributed to higher deficits, cannot be cut.

In sum, whether or not farm subsidies can increase is thus an issue that can be reduced to the following choices. Can more than 4 million urbanites be taxed? Can budget deficits be increased, if tax revenues cannot be raised further? Can defence outlays, the current expenses of the government and the deficits of the public sector be reduced, if deficits cannot be increased? The answer to each question is yes, for these are political decisions. The government has continually

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"Long Term Fiscal Policy, op. cit., p. 19.
Ibid.
Main Items of Expense in Central Budget

![Graph showing the trend of main items of expense in Central Budget](image)

Figure 6.9
Budget Deficit of the Central Govt.

Figure 6.10
expressed a deep concern over budgetary deficits, yet it has chosen to increase them. There is nothing technically sacrosanct about defence expenditure staying at 3 per cent of GDF, or increasing to over 4 per cent; the defence outlay depends on what the state perceives to be desirable for the country’s defence. Public undertakings are certainly required in many sectors in the third world and investment in them is necessary; their ineptitude, however, is not a technical necessity, but a burden that, if the state elects to impose stronger discipline on the public undertakings, can be cut. And, finally, the administrative expenses can be reduced. There is a range of choices available to the state. In the end, the government has been more willing, or has found it easier, to bear some increases in the fiscal burden, not others.

Why has the government, despite rising rural protest and power, chosen to bear burdens that cut into the resources potentially available to the rural sector? Can the situation change?

SECTION VI.7

WHY THE STATE DOES NOT PAY MORE:
FROM FISCAL POSSIBILITIES TO POLITICAL REALITIES

The easy answer is that the government can get away with its current fiscal priorities. The analytical core of the explanation, however, calls for two disaggregations. First, it is necessary to disaggregate the state. The rising rural power in parliament, in the party system and in the non-party street politics gets substantially dissipated inside the state organs. From the viewpoint of decision-making, the state institutions substantially penetrated, if not captured, by rural politicians - for example, the Commission for Agricultural Costs and Prices - are less powerful than the institutions such as the Finance, Defence and Planning Ministries that, for a variety of reasons, do not subscribe to the view of rural politicians. The Finance Ministry in particular stands out in its influence over the conduct of economic policy. Secondly, the rural identities also need to be
disaggregated. That the peasantry is on the rise on prices and subsidies is what meets the eye. But hidden underneath are the multiple identities that clash with the economic identities of farmers. The rise of the peasantry must be juxtaposed with the enormous fact that governments so far have not risen and fallen on prices and subsidies, nor have peasant-based parties come to power, despite rural India constituting an overwhelming majority in the country. The reason is that rural voting has expressed a variety of concerns that seem as real as economic concerns. The cross-cutting nature of rural identities and interests limits the pressure rural India can exercise on the state.

VI.7.1 The Towering Finance Ministry and the Self-Limiting Rural Power

As sketched at some length in Chapter 3 (Section 4.1) and shown on many occasions later, three ministries are directly involved in agricultural policy - agriculture, planning and finance. It was argued that these bureaucracies are driven partly by their institutional concerns, not purely by political considerations. However, if conflicts arise between their respective positions, the resolution of the conflict is a political matter, done typically by the Prime Minister.

To recapitulate the characteristic tendencies of these bureaucracies, the Agriculture Ministry is normally driven by a micro (Intrasectoral) view of agriculture. Its task is to increase agricultural production and if price incentives and input subsidies are deemed necessary to achieve that, as is likely to be true in the short run, a case for higher prices and subsidies will be made. Investments in research, extension and technology may increase production but they do so typically in the medium and long run. Bureaucrats in the Agriculture Ministry are taken to task if production falls or levels off in the absence of weather calamities. A short-run concern often dominates the long-run concern.
The first pressure on the Agriculture Ministry may arise from within the Ministry, if the Food Department is placed within the Agriculture Ministry. The functioning of the Food Department/Ministry is directed more at food distribution than at production, and to encourage higher take-off from the public distribution network, it may wish to lower the consumer price. Further pressures against higher food prices typically emanate from the Planning Ministry. Given the large weight they have in the various price indices, food prices affect the general price level in the economy and, by extension, the real value of plan investments. The Planning Ministry would like greater agricultural production, but the economywide macro implications of food prices are normally its greater concern.

The most powerful representative of the macro (intersectoral) view is, however, the Finance Ministry. The Planning Ministry deals mostly with the design of economic policy; the Finance Ministry is involved with both the design and the actual, day-to-day conduct of economic policy. The power of Finance squarely lies in the fact that it holds the governmental purse, a power superseded only by that of the Prime Minister. The Finance Ministry is intimately concerned with the general price level in the economy and with the macro balances (budget, trade and foreign exchange). Farm subsidies can affect the budget balance, and the fertilizer-intensity of green revolution inevitably influences the trade and foreign exchange balance.

Normally hidden behind the principle of governmental secrecy, some of the key interbureaucratic dimensions of the problem have come out in the open in the 1980s. With prices and subsidies becoming issues not only in bureaucratic politics but also in party, non-party and parliamentary politics, Agriculture Ministers have been repeatedly pushed to explain why producer prices cannot be raised further. Some have candidly stated the intersectoral nature of food prices:

"I have many responsibilities that are equally important. Agriculture Ministry is my responsibility - my task there is to raise production. Food Ministry is also my responsibility - my task there is to feed people. I have to look at both.... . .... . The ultimate decision lies with the Cabinet. ... One has to see how much cloth there is for the coat. .... . The views of the Planning
Commission, Finance and Civil Supplies have to be obtained.\footnote{72}

The demand constraint and rising surpluses of the last decade have given the interbureaucratic struggle a distinct flavor. They have added to customary power of the Finance Ministry over economic policy by giving its position an ideological legitimacy. In the 1960s, with deficits in food supply, the Finance Ministry was concerned about the impact of higher food prices on Inflation. But Subramaniam, as Agriculture Minister, could make a forceful argument that without price incentives and input subsidies, food production would not rise either (Ch. 3, Section 3.1). With surpluses emerging in the 1980s, the production argument is losing its bureaucratic vigor, even as it is acquiring ever increasing political strength in party and non-party politics.

If the farmers are not getting remunerative prices, how is it that they are producing surpluses? If they sell more to the government because they cannot sell in the market, but the government cannot sell it to the consumers in turn, how is that to be financed? Concerns such as these typically mark the response of the Finance Ministry, but when they also become the arguments of the Agriculture Ministry, the bureaucratic differences between Agriculture and Finance blur, strengthening the latter. The following statement by the Agriculture Minister in the early 1980s could well have been made by the Finance Ministry:

"How can (the) increase in production be possible if there were no remunerative prices? This is a very ... simple thing to understand. ...... (T)he farmers' standard should rise. .... But we cannot compare our conditions with the conditions in other advanced countries......

...Japan and USA being prosperous countries, the contribution of their farm sector to the gross national income is only 6 to 7 per cent. ...... ......(T)hose countries are able to provide huge subsidies to sustain their farm production. Why? This is because only a very small percentage of their population is employed on agriculture. In Japan,......, (t)hey procure...rice for instance by paying several times the international price. But can we afford to do that in India? If we go to the same level of procurement, by raising the procurement price without raising the issue price, according to the estimates of my Ministry, we have to pay subsidy to the extent of 300 crores per year. Can we take upon ourselves that burden? Do you want this country to develop in every field, or do you want this country to spend all its resources on the

development of farming and thus all the time remain a poor country?"\textsuperscript{73}

This was not a lonely lament nor a forced defence amidst a frenzied political attack. Consider a policy statement made by the Agriculture Ministry in the 1980s:

"Since the support/procurement prices are to a certain extent cost based, input subsidies help in holding down the procurement/support prices to a reasonable level to subserve the interests of the consumers. Viewed in this framework, both fertilizer subsidies and price support programmes are needed as complementary instruments of the twin policy of promoting productivity and holding the price line."\textsuperscript{74}

If the statement had ended here, it would have been virtually indistinguishable from the policy proposals of the Ministry in the 1960s and 1970s. But the Agriculture Ministry went on to add:

"At the same time, if subsidies continue to grow at the present rate, they will be either at the expense of development expenditure; or they may lead to higher budget deficits, which, in turn, will affect costs and prices, thereby increasing demands for further subsidies. They may also result in inefficient use of inputs. There is, therefore, a need to contain subsidies within a reasonable limit and the farmer has to be prepared to pay a realistic price for inputs like fertilizer, irrigation and electricity."\textsuperscript{75}

The second half not only comes close to the Finance Ministry's view but almost repeats it verbatim (see p.53).

It has already been demonstrated that the plausibility of these contentions (impact of farm subsidies on budget deficits, and on development expenditure) depends on a simple but politically changeable assumption -- that the other items of the budget are more important or that the deficit levels are given, while the farm subsidies somehow have an upper bound. That the Agriculture Ministry accepts this claim and cannot point to the range of fiscal possibilities, which would cut other subsidies but increase farm subsidies, should indicate the ideological hegemony enjoyed by the Finance Ministry in this decade.


\textsuperscript{75} Ibid., p. 16.
Two conclusions emerge this discussion. First, as farm pressures in the party and non-party politics have increased in the 1980s to the extent that there are virtually no dissenting voices left in party politics arguing against the farmers' demands, the interbureaucratic politics of the state institutions have, ironically, gone in the other direction. In the end, the noisy parliamentary uproars and the agitational politics of non-party organizations have been dispersed by the quiet power of the Finance Ministry in particular, and by the state institutions in general. Second, by concentrating on the character of the Commission on Agricultural Costs and Prices (CACP), the rural politicians have been attacking a wrong target. The idea that more rural politicians and fewer urban-trained technocrats in the CACP would redress the grievances of farmers is fundamentally flawed. By having politicians as members, the CACP is certainly more visible than before, but it remains a minor player in the state structure. It has a recommendatory status only. The final decision is taken by the cabinet. The CACP can raise clamors for higher prices but if it cannot even carry the Agriculture Minister with it, it will at best make a marginal difference to the decision. The pressure exercised through the CACP can work if marginal changes make a difference. For crops experiencing a technical deceleration, and for situations requiring larger resources, the CACP may not be enough. The more powerful institutions of the state must be penetrated, or forced to change.

Diagram 1 schematically represents the refractory process. The analytical space is divided in two parts, political and economic. The political realm, in turn, has two parts. Realm A represents

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*Once again, of the politicians, only Sharad Joshi has realized this point: "What means does (the APC) have at its disposal for evaluating the repercussions (of agricultural prices) on the cost of living, wages, industrial costs? What does it know of the overall needs of the economy and balanced price structure? These are matters dealt with...in much higher forums - the ministries of Planning, Finance, Agriculture, Commerce, the Planning Commission, the Reserve Bank." (Cf. Sharad Joshi, 1984, "Scrap APC - Demand Farmers", in Bharat Speaks Out, Bombay: Build Documentation Center, pp. 33-4.*
the trends in party and non-party politics, showing an unmistakable rise in rural power. This is the segment most visible to the eye. Realm B depicts the intrastate, or interbureaucratic realm, where the power of Finance, or its ideological hegemony, bends the trajectory of Realm A to produce the economic outcomes in Realm C, outcomes that do not correspond to the trajectory in Realm C. Without Segment B, or without technical change being a variable, the trajectories of Realms A and C could have been similar. The celebrated works on agrarian political economy works have so far not taken the entire analytical space into account. Michael Lipton concentrated on Realm C, inferring the shape of Realm A therefrom; Ashok Mitra also focussed on Realm C without taking technical change into consideration and the fiscal politics it creates in Realm B; and the political observers commenting on the power structure have correctly read the trends in Realm A, assuming incorrectly, however, that outcomes in Realm C must reproduce the trends in Realm A. The point about a partial mapping of the problem, generally speaking, holds good beyond India, too.  

What can alter the situation for the farmers? Two scenarios can be envisaged -- an autonomous change above and a push from below. The former can happen in two ways. Presumably, Finance Ministry can change its view of the economic priorities if an agrarian

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77 For example, in the highly celebrated 1980s political economy classic on Africa, Markets and States in Tropical Africa (Cambridge: Cambridge University Press, 1981), Bates has dealt with Realms A and C. Arguing that a downward trend in Realm C is a result of trends in Realm A, the puzzle for him was: why, despite the countryside constituting a majority in the population, there was no upward trend in Realm A. Why was African peasantry so powerless? Bates gave a compelling resolution of the puzzle. That even an upward trend in Realm A may not directly determine results in Realm C, however, was not his concern. Rising rural power was not part of his empirical universe, hence missing in his analytical space. The state remained undisaggregated, the Finance Ministry did not enter the scene, and the possibility of disjunctions did not appear. As for the general tendencies of other works, macroeconomists have typically been acutely sensitive to the concerns of the Finance Ministry. The micro-oriented agricultural economists, on the other hand, have generally remained intrasectoral. For an exception to the latter and for a weavining of macro concerns, see Peter Timmer, Walter Falcon and Scott Pearson, 1983, Food Policy Analysis, Baltimore and London: The Johns Hopkins University Press for the World Bank, especially Chapters 5 and 6. An explicit recognition of the link between agricultural production and Finance Ministry is also available in Peter Timmer, 1988, "Analyzing Rice Market Interventions in Asia: Principles, issues, Themes and Lessons", in Asian Development Bank, Evaluating Rice Market Intervention Policies: Some Asian Examples, Manila: Asian Development Bank.
ideologue takes charge of the Finance Ministry (Charan Singh did in 1979 but only for a brief while) and carries the Cabinet with him (Charan Singh could not). Alternatively, if a peasant-based party captures power in Delhi, politics can also be in command. However, since both possibilities in good measure depend on electoral power (of the agrarian ideologue, or of the peasant-based party), in the final analysis the issue boils down to whether or not a peasant-based party can come to power - individually, or, as an overwhelmingly dominant partner in a coalition. The answer to this question has already been provided (Chapter 5; Section V.4.4). To recapitulate, economic interests of farmers are expressed in agitational politics but they clash with their other concerns in electoral politics -- concerns of caste, village and region, and the patron-client realities of rural India. So long as the cross-cutting cleavages hold, and so long as the definition of interests varies among rural dwellers, the rising rural power is inherently self-limiting. It may avoid the worst case scenarios by pressuring hard but it will get less than it ideally set out to achieve.

Since there are no indications that the cross-cutting identities and interests would be resolved in favor of economic interests, defined as higher prices and subsidies, there is little reason to believe that the counterfactual sketched above would materialize. Marginal changes are possible but a priority of defence expenditure over farm subsidies, or a drastic reduction in government expenditure which then is transferred to agriculture must be considered unlikely.

SECTION VI.8
CONCLUSIONS

At the proximate level, four factors have determined the evolution of farm incomes in India: the rising power of the peasantry, the differential rhythms of technical change, the income distribution in the society, and the fiscal burden of farm subsidies on the government. All these factors can work in the same direction if technical change in agriculture does not slow down and the incomes
of the poor can be raised. A positive sum game for all, then, becomes possible. If, on other hand, technical change decelerates, and the poor continue to lack purchasing power, a series of political and economic contradictions emerge. The working of the state comes under increasing strain since the state is heavily involved in the agricultural economy and its policies have a crucial impact on farm incomes.

Since the rise of food surpluses in the late 1970s, the behavior of the Indian state has reflected two conflicting imperatives. Giving producer incentives (and disseminating subsidized new technology) has been the first imperative, required by political exigencies now but owing its origin to a policy principle -- price incentives combined with a new technology -- that led to the impressive production performance of Indian agriculture after the green revolution in the first place. To the extent that continued strides in food production depend on what was called the new agricultural policy in the mid-1960s, the Indian government would continue to abide by the successful policy norm. Thus, an increase in the political strength of the countryside is not the sole reason for the existence or continuation of the state's commitment to the post-1965 agricultural policy, though the extent to which the state is willing to implement that policy has certainly been affected by the change in power balance. The ironies of the food situation since the late seventies otherwise cannot be explained. Even as surpluses mount and the state bears a heavy fiscal burden, the poor remain underfed while considerable amounts of grain routinely rot due to lack of storage. Rural producers may be in a ferment, and for strong reasons, but the state has certainly met their demands half-way, despite the paradoxes that entail.

Precisely these ironies, however, also lead to the second state impulse that conflicts with the first. The fiscal implications of a huge surplus stemming from a lack of purchasing power in the economy impose constraints on the state functioning, given its other goals. If the poor were to have greater purchasing power, consumer prices could be increased more than they have been,
which would both reduce the fiscal burden and increase farmers' incomes. But under the circumstances, farm prices and subsidies can be increased more only if the resultant burden can be borne by the exchequer.

The state has so far showed an unwillingness to meet the farmers' demands fully. Other expenditure goals have competed with farm subsidies. The ultimate reason for the unwillingness of the state to shuffle the competing expenses lies in the paradox of farm power. Rising farm power in the party and non-party politics has not been matched by a corresponding increase in rural power within the state institutions. The policy organs that the rural groups have been able to penetrate are relatively minor in the state structure. Moreover, given that rural electoral behavior continues to reflect interests and identities that go beyond the economic, it is unlikely that the pressure on the state would significantly increase and the fiscal priorities would drastically shift in favor of the countryside. The minor role of rural groups in the decision-making realm and the multiple rural identities thus constitute the outer boundaries of agrarian power in the system.

That the rural demands have been met half-way by the state is a reflection of the changing shape of India's political universe. It is also a tribute to the role played by rural partisans such Charan Singh and Sharad Joshi. However, the whole process started with an autonomous change in the state policy in the mid-1960s. The countryside was highly invisible in the upper layers of political structure at that point. Urban leaders such as C. Subramaniam initiated the process that has, ironically, culminated in the ideological emergence of a Bharat-India (urban versus rural) divide.

One may wish to end on a normative note. If the benefits of food production are to be made positive-sum, it may indeed make sense for the state to spend, on the margin, greater resources on technology than on prices and subsidies. An emphasis on the latter, while the income distribution
stays unchanged, puts the poor at a terrible disadvantage while clashes between the state and farm sector increase. The route of technology -- greater water and input supplies in areas that are deficient in them, higher investment in research and extension, and a shift of food crops to less advanced areas while the advanced areas move to a high-value added crop-mix -- is likely to make costs lower. Such cost-reductions, a normative need of the hour, will not only benefit the entire economy but also farmers, whose profit margins may decrease but whose overall incomes, as a result of higher productivity, will increase. Moreover, by bringing prices down, the cost reduction will also put food within the reach of the poor. Finally, it may also lighten the burden of a conflictual situation between the state and countryside. How far this positive-sum normative scenario is realized depends, among other things, on whether or not rural politicians agree with this logic and push for it politically. In the absence of the latter, the state will continue to perform a balancing act between prices and subsidies on the one hand and investments in the technological base of the country on the other. And conflicts will continue.
CHAPTER SEVEN
CONCLUSION:
THE INSTITUTIONAL FOUNDATIONS AND LIMITS OF INDIA'S RURAL EXCEPTIONALISM

VII.1 Democracy and the Rural Sector

VII.1.1 The Changing Configuration of Political Elites
VII.1.2 Explaining Rural Collective Action
VII.1.2.1 Strategy versus Culture in Rural Mobilization

VII.2 How Far Can Rural Power Go?
Factoring Economics In

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CHAPTER SEVEN

THE INSTITUTIONAL FOUNDATIONS AND LIMITS OF INDIA’S RURAL EXCEPTIONALISM

Two persistent themes have marked this dissertation. It has been argued that India’s rural sector has acquired substantial power since independence. At the same time, it has also been contended that limits exist on the further evolution of rural power. Of the two claims, the first claim is more surprising for a third world country. The historical and comparative arguments summarized in the introductory chapter indicate that a powerless rural sector typically marks the early stage of industrial development. It is only after industrialization reduces the rural population to a small proportion of the total population and agricultural economy to a minor share of the overall GDP that an empowerment of the rural sector takes place. A powerful rural sector in the third world is a rarity. India’s exceptionalism, therefore, calls for an explanation.

There are two aspects to the empowerment of India’s rural sector. Its representation and voice in the politics above (parliamentary politics, state institutions) has significantly increased and, simultaneously, the politics below (mass political mobilization) is also marked by increasing rural organization. A democratic political system is related to both -- to the former in a relatively straightforward way, to the latter in a slightly more complicated way. Let us see how.

VII.1

DEMOCRACY AND THE RURAL SECTOR

VII.1.1 The Changing Configuration of Political Elites

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The existence of a democratic polity in a country with a large rural population explains the changes in India's elite politics. Universal franchise came to the West much after the industrial revolution. Independent India was, however, born in poverty with a universal franchise. In a poor and largely agrarian country with low literacy rates characterizing most of the countryside, the first politicians were predominantly urban. A substantial number were trained in law, the profession that led the national movement. The nation's democratic leadership, however, made a conscious decision to involve the countryside in the mainstream politics. Nehru's economic model was driven by an industrializing zeal; his political model, however, was animated by a desire to politicize the rural periphery in a nation-building effort. The Congress party, consequently, moved into the villages to enlist popular support. Moreover, the Congress government got involved in development though various schemes -- building roads, schools, better communication systems, irrigation systems, cooperatives etc. The party and government -- practically the same in the initial years of independence -- were thus increasingly visible in the rural areas and were also great sources of patronage and power. Given this, the lower wings of the party ruralized first. Over time, rural politicians moved to the state level, and, finally, in a progression, many built their careers upwards to reach the topmost central level. The face of the Indian politician has changed by now.

It is interesting to see how political judgments on rural representation in the political system have evolved over the last three decades. Let us recall Myron Weiner's observation about agrarian politics in the late 1950s: "...There is a marked change in attitudes ... as one leaves the offices of ministers and planners in New Delhi and enters the homes of state legislators. ... The distance of the national leadership from rural political pressures disposes them toward a program which they justify on economic grounds, while state and local leaders are sensitive within their constituencies and are therefore disposed towards policies on political considerations."¹ A decade

later, Rajni Kothari noticed a change: "State (and district) leaders ...control a good part of the
election machinery of the Congress Party. This is partly due to the size of the country which keeps
the central leadership remote from the bulk of the population, and partly to the increasing
importance of rural patronage and influence in the outcome the election."2 Two decades thereafter,
the *Times of India* was editorializing, somewhat alarmingly, that "a new specter of peasant power is
likely to haunt India in coming years."3 About 20 per cent of the *Lok Sabha*, the directly elected
lower house in India's parliament, was rural to begin with: over 40 per cent of it states agriculture as
its family occupation now. If one adds those who only recently took to urban occupations and still
have substantial agricultural interests, the proportion of course would be much larger.

Rural pressure on the state institutions was partially a result of the changing social base of
political parties, though rural groups have had much less success in this. In 1965, Agriculture
Minister C. Subramaniam was shocked to discover that the bureaucratic (as opposed to political)
head of the agriculture ministry - the agriculture secretary - could see agriculture "only in the files".4
A decade later, the first rural politician to the Commission for Agricultural Prices and Costs (CACP)
had been appointed in response to the unending parliamentary uproar that the Commission
members were urbanites, having knowledge of agriculture but no direct experience thereof. By
1985, the Commission was split into two halves -- one technocratic, the other rural political.
Unfortunately for rural politicians, compared to the major bureaucratic players in economic policy
(Finance and Planning), the CACP is much less powerful. Nonetheless, compared to earlier times
and as a consequence of the functioning of a democratic system in a largely rural society, rural
representation in the upper levels of the national power structure has increased significantly. Not

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2 Rajni Kothari, 1970, *Politics in India*, Boston: Little Brown, and Delhi: Orient Longman, p. 120.
4 As reported in Chapter 3 of the thesis, Section III.4.2.1.
only has the Indian politician changed; a good deal of bureaucracy also has, though to lesser degree. Rural politicians may want the upper levels of bureaucracy to follow their wishes more, or to be more like them. But that is a statement on what they would ideally prefer, not a judgment of how the present looks compared to the past.

Non-party peasant leaders, however, maintain that a party politician having rural origins does not necessarily push for the rural sector. In the colorful phraseology of Sharad Joshi, for a Member of Parliament, "many pastures are greener than agriculture". If at all the political parties have been forced to take pro-rural ideological stands in the last decade, that, Joshi argues, is due to the sustained pressure of rural collective action organized outside the formal political process. Joshi may be wrong in believing that a pro-rural stand by political parties is simply an ideological window-dressing, with no material consequences for policy. He may, however, be right in asserting that rural politicians do not necessarily represent rural economic interests: the bright lights of the city may allure them away, or they may construct rural interests in ethnic, caste or regional terms.

By now, of course, no political party is opposed to the main demands of the movement over prices. And some parties even favor a waiver of loans. But it is true that until the mid-seventies, by which time India's parliament was considerably rural, the ideological platforms of political parties had not included remunerative agricultural prices. After Mrs. Gandhi's fall in 1977, the arrival of the peasant-based Lok Dal party as a member of the ruling coalition and the presence of a powerful rural partisan, Charan Singh, in the government started changing party programs. However, it is also worth recalling that the Lok Dal and Charan Singh enjoyed only a brief spell of power. Moreover, just as Mrs. Gandhi returned to power in 1980, price agitations flared up in different

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6 Interview, Pune, December 2, 1984.
parts of the country. With much fewer seats in parliament than the Congress party, Lok Dal has been relatively weak in the 1980s. It is, therefore, fair to say that, even though having origins in the elite politics of 1977-80, the non-party agrarian movement has been the primary source of rural pressure on the party system in this decade.

VII.1.2 Explaining Rural Collective Action

The analysis above can account for changes in elite-level politics. It does not tell us about why rural mass politics changed. How does one explain the continuing vibrancy of rural collective action on prices and subsidies (and, of late, loans) in India? This is a harder question to answer because the difficulties of organizing the countryside are well-known. Discussions on collective action by now tend to be dialogues with Mancur Olson. Some dialogues emerge as extensions of Olson's insights, as in the work of Robert Bates; others tend to be critical reformulations, as for example the work of Clause Offe. Let us continue in the cumulative vein.

Why some groups in the society are more organized than others is, according to Olson, a "collective action" problem. Olson's basic insights are two-fold. First, if individuals follow their own interest, then they may not follow the interests of the group to which they belong, for it can be shown that, under many conditions, individual interests contradict group interests. Workers may find it more individually rational to compete with other workers in search of higher wages rather than work to strike collective wage bargains. A capitalist may find driving out another capitalist from the market more in his interest than working for the entire capitalist class. Even Marx was aware of this problem: "organizations of the proletarians into a class, and consequently into a

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political party, is continually being upset by the competition between the workers themselves."

The second insight of Olson is that the smaller the group, the easier it is to organize and, conversely, the larger the group, the harder it is to organize. If a group is small, every individual gets a large share of the benefit, so he has an incentive to engage in collective action. Larger groups, however, increase the temptation to "free ride". A single individual's share of the benefit is small but if he cannot be deprived of the benefits that do accrue from collective action, there is an incentive not to participate. There is, of course, a paradox here. If everyone thinks this way, collective action will not take place. That's precisely why the free-rider problem tends to cripple large groups. On rural collective action per se, Bates extends Olson's logic. Taking i) the size of the group from Olson, he adds ii) dispersion and poor communications of rural communities, and iii) the strategy of the state (reward compliance and punish recalcitrance) to explain the absence of collective action in African countryside, despite exploitative agricultural policies of African states.

Collective action, nonetheless, takes place among large groups, as we know from history. So how should we explain it? So long as we remain in the rational choice paradigm, collective action is simply put, equal to overcoming the free rider problem. Four relatively straightforward logical solutions of why some large groups may succeed at collective action are: i) coercion may be exercised formally (depriving non-participants of benefits) or informally ("the agent may feel guilt or shame about abstaining, based on an anticipation of informal social sanctions that can be brought to bear upon him") by organizations or communities over its constituent members; ii) participants

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* The Communist Manifesto, reproduced in the Marx and Engels, Collected Works, London: Lawrence and Wishart, p. 493. Marx, however, left it to Olson, Elster and Przeworski to clarify the seeming contradiction between individual and group interests.

may have their eye on some future gains accruing from the act of participation itself - (building networks that may enhance future mobility); iii) a tradition of cooperation (or what would be functionally equivalent, existence of an ideology) may characterize a given community, group or class, and iv) reversing the assumption about human nature, human beings may be viewed as agents that do not simply enjoy the benefits of action but also the very process of seeking.10 The first two solutions retain the instrumental view of human nature; the latter two contest that, making human beings more value or norm-oriented, and less consequentialist. Clearly, community traditions, or intrinsic (as opposed to instrumental) pleasures of participation would make atomistic calculations of interests, costs and benefits irrelevant.

The specification of the problem above is entirely deductive. Its value, as that of deductive theorizing in general, lies in setting up the problem with ruthless simplicity, and indicating the possible lines of explanation. But without an empirical investigation, one cannot establish which factor(s) would explain rural collective action in India.

The most common solution of the free riber problem is cultural. It has been proposed for India too. Invoking Sen and Hirschman’s objections to the instrumental view of human nature, Lloyd and Susanne Rudolph have recently argued that collective action of Indian farmers is a non-problem since “for many rural Indians, political participation is like pilgrimage and sport. The increased self-consciousness, the sense of community and adventure that collective action can yield, even the exhilaration of ‘combat’ experiences by cultivators in padyatras, gheraos or rasta rokos (marches,

sit-ins and road blockades)) can benefit them as much as the realization of policy or electoral objectives".

VII.1.2.1 Strategy versus Culture in Rural Mobilization

The culture-based objection to "rational choice" accounts of mobilization is a serious one, but it has its customary share of serious problems - of explaining variations with respect to space and time. Why has the new agrarian mobilization taken place in only some states, not in others? Is it because in Bihar, Orissa, Andhra Pradesh and Rajasthan, the rural folk are less driven by a sense of community than in Maharashtra, U.P., Gujarat, Punjab, Karnataka and Tamil Nadu where price movements arose? Secondly, even in this latter, new agrarian, club of states, why did the movement ebb away in Karnataka and Tamil Nadu? Finally, collective action, like a mela (fair), may be quite enjoyable irrespective of what one buys in the mela, but surely getting shot at or lathi-charged (beaten up) is not enjoyable, even for "rural Indians". Farm price agitations are known to have incurred such costs. (And as for pilgrimages, think of the decline in Sikh attendance at the Golden Temple in recent years)

Consider the following remarks on the problem of organizing the countryside by Sharad Joshi, leader of the most vibrant peasant movement of the 1980s:

"...Our biggest difficulty is that we work in villages.... One cannot even enter so many villages for months due to the rains. If you have a district level meeting, it is so hard to reach some villages.... Comparatively, it is easier to organize industrial workers.... Communication is such a problem in organizing farmers." (p. 93)

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I have translated the statements below from Hindi. The source is Sharad Joshi, 1983, Kisan Sangthtan (Vichar aur Karya-Paddhati), Varanasi: Sarva-Seva-Sangh Prakashan, 1983. The Hindi translation of the title would be Farmers' Organization (Thought and Strategy). All the citations are from this source. All parenthetical additions are mine.

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"(Even otherwise), it is so hard to organize in the villages. If two neighboring villages have had quarrels in the past, one village will come but the other will not. If one family in a village comes, the other will not. If the smaller people come, the kothiwala (the bigger people) may not come...... . There are so many of these disputes ...... Villages are far apart. (And) disputes among farmers are many.... How should we organize in these circumstances calls for serious thinking (pp. 93-4)

"Organizing villagers runs into (yet another) peculiar problem. Every village has people belonging to various parties. These parties look at farmers mobilization with some skepticism.....thinking their turf might be overtaken in the village.... . With respect to parties, our understanding is clear..... They are all against remunerative prices. The question of a good or bad party does not arise. But that is not the reason for antagonizing villagers in the various parties...... . That doesn't help..... We should actually use them. .. If they belong to Mrs. Gandhi's party and believe in the twenty points of her program, .. tell them we have only one point (remunerative prices). Give us support on this point only... Fight your elections. We won't contest against you." (pp. 96-7)

The theory that posits how easy the task of rural mobilization is due to communal bonds and cultural pleasures of "pilgrimage and sport" does not, thus, resonate well with the account of the leading practitioner of peasant mobilization.

Theoretical insights of Sen's justly famous "Rational Fools" can thus be overextended.13 The point of Sen's (and Hirschman's) critique is not so much that collective action is unproblematic; only that human motivations cannot be construed in purely instrumental and selfish terms, as economic theory does. Similarly, Joshi's account cannot be construed to mean that there is no tradition of cooperation or community consciousness; simply that, despite such traditions, collective action is tough. Community consciousness may exist within castes or kinship networks but not across several castes, within party clusters but not across parties, within a village but not across villages. And even if does exist across villages in some cases, communication may be a problem. A community orientation may help formulate a critique of the view of human nature in economic theory, as Sen, Hirschman and Pizzorno do, but it is not adequate to make rural collective action unproblematic. As an explanation of rural collective action, the cultural argument does not sufficiently distinguish between the "within" and "across" propositions.

13 Sen, "Rational Fools", op. cit.

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Just as need does not create its own fulfillment, as the rational choice theorists have forcefully argued against functionalism,\textsuperscript{14} existence of community traditions, one may conclude, does not automatically lead to collective action. The problem with a cultural explanation of rural collective action is that instead of being presented as a stage-setting factor, it is construed as a full play. Left at the former, it adds to explanatory power. Extended into the latter, it makes explanations too broad-brushed, and therefore weaker. For, between the culture of cooperation and collective action lies a long shadow: of seizing an issue; convincing farmers that it is a real issue, not yet another political ploy; converting it into a slogan; mobilizing people with an organization of some sort; showing that mobilization can lead to success (so that the collective momentum could be maintained). And if all of this must be done across castes, classes and villages, leaders, organizations and strategies are required. If they do not exist or emerge, there will be, despite community traditions, no collective action within the community, let alone across villages.

What might such a strategy be? As outlined in Chapter 6, at least two central components of a successful strategy of new agrarian mobilization can be empirically identified. First, we have the axiomatic truth that higher agricultural prices must be, or must be seen to be, in the interest of agrarian producers. This is not unproblematic. Buying more and selling less, small farmers are typically net buyers of foodgrains; higher food prices hurt them, at least in the short run. Consequently, the crop for which agitations are launched must generally not be food crops (wheat, rice) but commercial crops (cotton, sugar cane) which are produced for the market by all farmers irrespective of farm size. Only in regions where the food crop is heavily marketed can it be turned into an issue of mobilization (Punjab, Uttar Pradesh etc), since these happen to be areas where,

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\textsuperscript{14} Special Issue of Theory and Society on "Game Theory, Functionalism and Marxism", Fall 1981, built around Jon Elster’s work.
due to technological diffusion, even smaller farmers can produce a surplus. At the same time, a demand for raising all agricultural prices must be made so that the farming community is not divided. A clever balancing act between the general platform and specific mobilizations must be performed by the leaders and organizations.

Second, the leadership of these movements must be with non-party organizations which should resist converting themselves into political parties; if they do, they lose credibility for their very appeal is based on the fact that the new leaders are not viewed as chips of the old block, power-hungry party politicians. The organizations that lost sight of this and contested elections - e.g. in Tamil Nadu and Karnataka - withered away, pushing back their movements by many years. Moreover, once contestants in elections, these leaders lose the advantages of an issue-specific rural mobilization and run into the customary cross-cutting cleavages of their own constituencies. In the act of voting, caste, ethnic and other considerations may override the economic identities expressed in price protests. The popularity of price-based protest may, thus, be electorally deceptive. That these non-economic identities can be extremely powerful is dramatically illustrated by the fact that Punjab, India’s leading agricultural state, also had a powerful price mobilization in the late seventies and early 1980s, but the ethnic conflagration in Punjab in the 1980s finally led to the Sikh protest becoming hegemonic, completely overwhelming the price protest in the process.

An excessive emphasis on strategy, however, leaves another issue unresolved -- that of Indian exceptionalism in a third world perspective. If strategy is the only difference between India and Africa (whereas the size of the farm group is large, villages are dispersed and communications

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16 Alternatively, credibility of the movement can be built first by launching agitations around commercial crops and once having done so, food crops can also be considered, on the argument that over the medium run, higher foodgrain prices will benefit small farmers by providing more employment or higher wages (small farmers typically work on others’ farms to supplement their incomes).
poor), then it is clearly worth asking why farm leaders in Africa did not develop these strategies. Rational strategies cannot surely be the preserve of Indian farm leaders.

It is at this point that the role of the political system, or more broadly speaking, the role of the state can be more fully appreciated. India’s democracy not only leads to a ruralization of the power structure; it also facilitates rural collective action. The logic of this relationship can be stated as follows. Rural price mobilization is, after all, a protest against state policies. If the state can repress farmers with impunity, rural mobilization can be easily stilled at its very birth. A democratic system, however, puts serious constraints on the state’s repressive capacity vis-a-vis the peasantry, particularly as farmers themselves are well-represented in the upper tiers of the polity.

This is not to say that the Indian state has not repressed farm mobilization. Farmers have lost their lives to state police in the initial stages of the mobilization. But such repression had to cease after the initial stages of the rural mobilization. Every police firing on the agitating farmers in Maharashtra led to an explosion in parliament in the first years of price protest. Subsequently, the state developed a strategy of conciliation. Or, if it found farmers demands excessive, it simple adopted a posture of protracted inaction, hoping to win the battle of attrition: farmers, after all, must return to their farms at critical junctures in the crop cycle.

Repression, it should be further clarified, was not really the planned strategy of the Indian state, even to begin with. Rather, the sight of rural dwellers blocking roads was enough of a frustrating novelty for district level administration to treat the conglomeration as dispersable with a show of might. Once such mobilization acquired legitimacy, thoughts of dispersing agitators through

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The Lok Sabha Debates in 1980 and 1981 reverberate with rancorous debates over the police repression of Joshi-led agitation. The State legislature in Maharashtra, too, exploded with charges and countercharges between the treasury and opposition benches. Police firing on agitating farmers ceased after that.
police firings withered away. Legitimacy of these movements, thus, has made a difference to the behavior of the coercive institutions vis-a-vis agitating farmers. Earlier this year, a somewhat dramatic example -- with significant symbolism -- of the change in state behavior was the arrival of thousands of farmers in Delhi about the same time as the Indian Prime Minister wished to hold a mammoth rally of his party. Eventually, farmers held their demonstrations in the heart of Delhi; the Prime Minister was forced to move his rally to the outskirts.

To be sure, rural collective action, even in a democracy, has costs. Being away from the farm can lead to losses; time and energy must be spent on organization; weather is not always kind to those blocking roads or those participating in sit-ins; and ex-ante possibility of police repression, despite its improbability, always remains. But what is critical is that in democratic systems, the costs of collective action are significantly lower since repression cannot normally be exercised with impunity. Opposition parties have a vested interest in embarrassing the government, as they do in India; a free press puts constraints on the government, as it does in India; and support groups form easily, as they do in India. Mechanisms countervailing repression are built into the system. Controlling for all the customary obstacles to rural collective action in the third world (size, dispersion, poor communication), the nature of the political system thus makes a difference. On

17 Moreover, political opponents can always plant criminals in such rallies, provoking the police and administration, achieved normally through destruction of public property. Such political games are not unknown in movement politics.

18 The logic of a democratic system facilitates not only price mobilization but many other forms of collective action -- ecology, women's issues and even the surprisingly newer forms of ethnic conflict, to name the recent few.

18 The repression-resisting capacity of a democracy, as Dahl explained with great clarity, will not apply to some groups -- groups whose numbers are so meager that they are electorally important, and/or if the group is geographically concentrated, and/or the dominant ideology in the system makes discrimination of certain groups more acceptable than that of others. Dahl explained the position of American blacks before the mid-1960s that way; the argument can be extended to quite a few groups in India but not to farmers. See Robert Dahl, 1971, Polyarchy, New Haven: Yale University Press, 1971, esp. Chs. 2 and 3.
rural collective action, a democratic polity may well account for the observed differences between India and most of Africa.

To sum up, rural collective action on prices and subsidies is a result of three factors, two were developed at length in Chapter 5 and one is argued above:

i) The various segments of the peasantry have an interest in higher agricultural prices and subsidies. However, this is more true of commercial crops than of food crops, since the smaller peasantry, which buys more food than it sells in the market, may or may not benefit from higher food prices, depending on the assumptions one makes about the indirect effects of food prices on employment, wages etc. Political reasons for supporting movements for higher food prices may nonetheless exist. Organization helps the small peasantry negotiate with the bureaucracy that so dominates the supply of inputs. A small peasant, on this level, needs the organization more than the richer peasant. The distinction between food and cash crops is not necessary, however, in high-productivity areas. Functionally, food crops in such areas become commercial crops, its surpluses marketed even by smaller peasants.

ii) Given the basis in interests, cultural explanations of group solidarity may, then, be invoked to explain why some castes participate, but given that mobilization cuts across castes, party clusters and villages, one needs to go beyond cultural assumptions of solidarity to focus on organizational strategies of the leaders. Two aspects stand out. These are non-party movements and mobilization has generally been for commercial crops, or if for food crops, such mobilization has remained mostly confined to the green revolution areas. Organizations and leaders that developed electoral ambitions as a result of the increasing popularity of the movement were defeated, their movements set back by many years. Cross-cutting cleavages of rural Identities and the original non-party justification of the movement constituted the
source of these declines. In several states - Maharashtra, Gujarat, Uttar Pradesh -- these mistakes were not made and the movement has grown in strength.

iii) the democratic nature of the political system constitutes an autonomous factor. Interests of farmers and suitable organizational strategies, by themselves, would not have turned into movements if an authoritarian system, instead of a democratic one, had significantly raised the costs of organizing via its repressive capacities. The limited repressive capacities of a multi-party democracy, on the other hand, lower the costs of collective action. Moreover, the increasing ruralization of the top tiers of the polity put additional constraints on the state proclivity, if any, to repress agitating farmers.

Democracy, thus, accounts for India's rural exceptionalism in two related ways. It explains the expanding rural presence at the upper levels of the polity and it facilitates rural collective action, the latter keeping a pressure on the former as well as being made easier by it.

VII.2
HOW FAR CAN RURAL POWER GO?
FACTORIZING ECONOMICS IN

Chapter 6 gave a political explanation for why the increasing rural power in the system does not totally determine the country's economic policy. Briefly, the explanation was that i) within the state institutions (the executive), as opposed to the elected tier of the polity (the legislature), the rural sector had a small presence, and ii) that rural power was self-limiting due to the cross-cutting cleavages in the countryside that make it difficult for a rural party to emerge with a parliamentary majority (which would, in turn, enable it to form the government). An underlying economic factor
may now be added to this explanation. The tendencies unleashed by a democratic polity are, at this point, increasingly at odds with some of the institutional properties of a poor economy.

As already indicated, powerful rural sectors exist in first world democracies, where the development process has already reduced the size of the agricultural sector and agriculture-based population to less than 10 per cent of the economy. Rational choice analyses of group power may well be right in claiming that the small size of agricultural populations in the developed countries aids the organization of the rural sector. Two simple economic facts, however, also stand out. In a developed economy, the small size of the agricultural sector, and the meager proportion of the average household income spent on food reduce the political and economic pains of subsidizing the agricultural sector through price supports and other programs. Western governments, of course, point to the drain caused by agricultural subsidies to their public exchequers. But, if a low income country, responding to rural political pressures, were to follow in the footsteps of the rich countries, imagine the drain caused by subsidizing a sector that held 60-70 per cent of the population and produced 35-40 per cent of the national income. In rich countries, the politics and economics of the farm sector run in the same direction. In a poor country with democratically induced farm pressures, the two tendencies diverge. Democracy in India exists in a low income country.

There is a sense in which, after a point, agriculture cannot prosper if the rest of the country is poor. India's food economy already shows several symptoms of the food economies of the first world. Food surpluses are increasing and so are budgetary subsidies to agriculture. On the other hand, the economy is also inevitably burdened by the typical third world features. The most important is the lack of purchasing power, a function of the poverty of a large number of people. The country's poor simply do not have the incomes to buy food at the price at which it is offered. Rising surpluses and subsidies are, to a large measure, a consequence of politically induced
policies. The demand constraint is, however, an economic reality of a poor country. In a hypothetical, politically uninfluenced world, if government intervention in the food economy ends and the market forces are allowed to operate, food prices will sharply decline.

How would the clash in the two institutional impulsions develop in future? Which institutional tendency -- political or the economic -- would triumph? Two scenarios can be envisaged. The first one would be a decline in rural pressure for two possible reasons: as a result of ethnic or caste Identities overwhelming economic Identities, or (what is functionally equivalent) as a result of political mistakes made by farm leaders, manifested, in particular, in decisions to contest elections on agricultural platforms. It has been noted in the earlier chapters that, given the evidence so far, the balance of cross-cutting cleavages has hurt the evolution of farm power. If caste, kinship, and ethnicity -- that is, non-economic identities -- had existed simply as bases for social, not political, groupings, one would have expected a monumental rise in farm power in India’s democracy. But as the dissipation of price mobilization in Punjab after the ethnic mobilization of the last decade and the miserable failure of non-party farm leaders in elections in Tamil Nadu and Karnataka in the early 1980s indicate, there is a real electoral clash between economic and non-economic Identities. If the political pressure on elected politicians is not maintained, a pro-rural tilt in the country’s policy may or may not exist, depending on the ruling ideology, factional struggles, the dominant view of economic policy and other factors in elite politics. Indeed, even if the percentage of rural politicians in parliament further increases, we may, short of rural mobilization on economic issues, may not witness pressure being exerted on the government towards a pro-rural economic policy. If politicians can win votes on ethnic slogans, economic issues may recede to the background. The clash between the political and economic tendencies can thus get resolved in favor of the economic tendency.

At the other extreme lies the second scenario -- the scenario of continual increases in rural

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power and pressure in the polity. Its implications are worth considering. Given the lack of purchasing power in the economy, the political tendency of the system, if pushed too far, may become counter-productive for the rural sector. If producer prices are increased by higher margins due to increasing political pressures, agricultural subsidies will undoubtedly increase, and/or consumer prices of food will increase at a rate higher than so far. Many counterfactual scenarios of fiscal possibilities were suggested in Chapter 6. Politically speaking, an endless increase in consumer food prices while food surpluses also continue to mount -- one of the likely scenarios -- is potentially the most explosive. So far the ideological legacy of a historically exploited peasantry has not created serious urban political resistance. But an urban backlash in the future cannot be ruled out. If this should appear as a far-fetched scenario, consider the following analogy. In the 1950s, no one resisted the policy of affirmative action (quotas for the depressed castes in public sector jobs and in institutions of higher education). Nor a possibility of a backlash was seriously entertained. But, as the list of castes for job reservation increased under political pressure of a democratic polity, some of the most violent clashes erupted in urban India in the 1970s. Ten years hence, such an urban backlash against increasing food prices cannot be ruled out. The nature of conflict has often changed in Indian politics, and so it can on the issue of food prices. The resistance may come from the urban poor; or it may emerge from the urban working class and lower middle classes. At some point in future, an urban backlash against increases in food prices, while surpluses in the country mount, is one of the possible outcomes. This would be an unfortunate outcome since the rural sector still needs to be supported.

The real issue is how. The contradictions of a democratic polity co-existing with a poor economy are potentially resolvable if cutting costs rather than increasing prices is the route chosen.

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One may argue that the former is less likely than the latter for a) mostly concentrated in the informal sector, the urban poor have a smaller capacity to organize, and b) the migrants into the informal sector typically maintain strong roots in the countryside. The organized working class is less constrained by these factors.

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for future production gains. Conceivably, price incentives for crops other than food can still exist. Such price-support programs do not create the same political and economic burdens. Of the agricultural products, it is food that creates the biggest town-country tensions in the early stages of development, as a series of economic analysts have rightly reminded us. A policy of price incentives for food producers was perhaps well-conceived in the circumstances of the mid-1960s when increases in supplies were badly needed. The urgency of the social need, one can legitimately argue, dictated giving both producer price incentives and making technological investments. That policy may well have served its purpose by increasing food supplies as well as making agricultural sector better off.

A decoupling of the two -- of producer price incentives from technological investments - for food crops is the emerging need of the hour. As indicated earlier, on the margin, public resources invested in technological improvements, instead of being spent on producer price increases, would be a positive sum game for all sectors of the society, farmers included. With technologically induced cost reductions, even a lower increase in producer prices can increase farm incomes. Meanwhile, due to a halt in food prices (or due to lower increases), the urban sector will be less pressed, and the public exchequer will also have greater degrees of freedom. Moreover - and most of all - this solution will be the kindest for the millions of Indian poor.

Technology, thus, seems to be the only rational way to dissolve the embarrassment of food surpluses co-existing with widespread hunger. In India's case, this means food crops being gradually moved out of the green revolution belt while investments, primarily in irrigation and water management, are made in the less advanced areas. The currently advanced regions, in this scenario, would switch to high value added crops. Fortunately, the country's savings rate has already gone above 20 percent. The implication is that even the least painful development prescription of Arthur Lewis -- make agriculture productive but tax it to generate resources for
industrialization -- is not required any more. With or without agricultural contributions, the system has started generating enough resources for development. The issue now is improving its utilization.

That India's villages can, and should, be further improved is beyond doubt. At this point, there are two roads to that -- higher prices, greater subsidies and loan waivers on the one hand, and technological (and infrastructural) improvements on the other. The former entails the possibility, though not the inevitability, of a Bharat-India (rural-urban) divide turning upon itself, with the urban working classes lashing back at the government for continuous increases in food prices, perhaps not too far in the future. If that happens, "the road not taken" will be missed. Some long-run deliberation and a conscious devaluation of short-run calculations is required on the part of the rural leadership. Whether the current political tendency deepens or new political and economic choices will be made, whether a rise of non-economic identities will overpower the economic, farm identities --- only time will tell.

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21 Refer to Chapter 1, Section 1.1.1, for details.