Self-Limited Empowerment: Democracy, Economic Development and Rural India

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This study deals with two questions: (i) what accounts for the rise of the countryside in India's polity? and (ii) how has rural power in the polity affected economic policy and economic outcomes for the peasantry? The rural sector is typically weak in the early stages of development. A powerful countryside, therefore, is a counter-historical occurrence. Universal franchise and a competitive democracy in a primarily agrarian India have led to the empowerment of the countryside. The power of the rural sector is, however, not unconstrained. The first principal constraint is, ironically, the size of the agricultural sector itself. Beyond a point, subsidising a large rural sector is fiscally difficult. The size of the rural population thus cuts both ways: it makes the countryside powerful in a democratic political system but checks this power economically. The second principal constraint on rural power stems from the cross-cutting nature of rural identities and interests. Farmers are also members of caste, ethnic and religious communities. Politics based on economic interests can potentially unite rural India and push the state even more: politics based on caste, ethnicity and religion cuts across rural and urban India, and divides the countryside. Both kinds of politics are vibrant, neither fully displacing the other. The refusal of farmers themselves to give precedence to their farming interests over their other interests and ascriptive identities means that the power of rural India is ultimately

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self-limited. The urban bias view ignores that farmers, like most of us, have multiple selves and there is no reason to assume a permanent superiority of the economic over the non-economic. As a result, even when farmers become powerful politically, the possibilities of which were underestimated or ruled out by the urban bias theorists, they may not be able to change the economic outcomes completely. They may certainly be able to prevent the worst-case scenarios, but find it hard to realise the best-case scenarios.

This study presents three arguments. The first concerns what has become conventional wisdom in political economy — namely, that the historical trajectory of rural power is marked by a paradox. It is argued that 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 industrialisation makes a society overwhelmingly or predominantly urban, the power of the rural sector increases [Bates, 1981]. It is also recognised that the power of farm groups in advanced industrial countries is reflected in the high protection granted to agriculture [Anderson and Hayami, 1986].

The explanations for why this is so are both political and economic. Mancur Olson's argument [1965] about the organisational advantage of small groups is normally used to account for the high level of rural organisation. 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 organise for political action. The economic argument, on the other hand, is that, being small relative to other sectors in the economy, the farm sector in industrialised countries can be subsidised by the government with lesser fiscal difficulty than if the farm sector were large. Moreover, a small proportion of the household budget is spent on food, making it possible for governments in the developed world to raise farm prices without hurting consumers much.

India defies this historically derived proposition. It is a poor country with over 60 per cent of the population still in 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 mobilisation on prices, subsidies and loans dominated non-party politics in the 1980s. All political parties support rural demands 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 are by now substantially rural in social origins (although for rural politicians that may still not be adequate).

What is the explanation for the progressive empowerment of India's rural sector? Is it that the introduction of universal franchise and a competitive party system 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 study argues, has led to the empowerment of the rural sector in the polity.

If democracy has indeed empowered the peasantry, does not 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, because the state makes the decisions on input and crop prices and on public investment. However, if the state responds to the democratically-induced rural pressures by increasing crop prices, lowering input prices and waiving loan repayments from India's nationalised banking system, it must either raise consumer prices to finance the resource transfer, or bear a burden of subsidy on its budget (for other options including taxation, see section IV). With incomes as low as they are in India, and food being the largest item in the typical household budget, food prices for consumers cannot be increased beyond a point. Higher prices will only lead to lower food intake (by the poor in particular) and to accumulating food surpluses. Indeed, in contrast to the bleak production scenario of the mid-1960s, India today suffers from the embarrassment of food surpluses coexisting with widespread hunger. The state, therefore, goes for the second option: namely, increase producer prices (to appease the farmers), not increase consumer prices (or not by the same margin as producer prices), and subsidise the difference through its budget. Are there limits to such subsidisation? With agriculture being the largest sector in a poor economy, the scale of the subsidy required is potentially very large. Unlike advanced industrial economies, subsidisation of the large agricultural sectors in the Third World is thus inherently problematic for public finance. My second argument thus is that the two tendencies - a political tendency increasing the rural pressure in the polity, and an economic tendency arising out of the aggregate poverty of the country - are increasingly at odds. India's poverty, and the compulsions of economic development, are putting a check on the political, rural tide.

The economic constraint on rural power, however, is not the only
constraint. My third argument is that in the ultimate analysis, rural power is self-limiting. For rural power to push the state and economic policy more in its favour, it must present itself as a cohesive force united on economic interests (higher producer prices, larger subsidies and greater investment). Rural India has chosen not to construct its interests entirely economically. While politics based on economic demands is stronger than before, politics based on other cleavages – caste, ethnicity, religion – continues to be vibrant. Politics based on economic interests potentially unites the villagers against urban India; politics based on identities divides them, for caste, ethnicity and religion cut across the urban and the rural. There are Hindu villagers and Hindu urbanites, just as there are ‘backward castes’ in both cities and villages. Until an economic construction of interests completely overwhelms identities and non-economic interests, rural power, even though greater than ever before, will remain self-limited. The ultimate constraint on rural power may not be the ‘urban bias’ of the power structure, as the influential urban bias theorists [Lipton, 1977; Bates, 1981] have argued. It may well stem from how human beings perceive themselves – as people having multiple selves. An abiding preponderance of the economic over the non-economic is not how this multiplicity is necessarily resolved. The cross-cutting cleavages as a constraint on rural power will be the third main theme of this study.

Section I documents the rise of rural India in the polity. Section II examines whether the rise in political power has changed economic outcomes in favour of the countryside. Noting a disjunction between political power and economic outcomes, section III starts an investigation of why the gap exists. Proximate reasons are examined first, the underlying reasons probed next (section IV). Section V asks what the implications of the study are for the urban bias theory.

I. THE CHANGING SHAPE OF INDIA’S POLITICAL UNIVERSE

For the purposes of identifying the trajectory of rural power, it will be helpful to divide the polity into three parts: party politics, non-party politics, and bureaucracy. State-level party 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. Figure 1 captures the time trend with respect to three key groups – agriculturists, lawyers and businessmen. It is generally accepted that the rise in agrarian representation has affected most
political parties. The trend, of course, is more pronounced in the case of parties with an overwhelming agrarian base, such as the former Lok Dal and today's Janata Dal. The Lok Dal formed an important constituent of the central government between 1977 and 1880, with Charan Singh, the most powerful rural politician of post-independence India, holding key cabinet portfolios. In 1989–90, Janata Dal formed the government in Delhi. Devi Lal, a rural patriarch from state politics, became Deputy Prime Minister and Sharad Joshi, the best known non-party peasant leader, was appointed as agricultural adviser, a Cabinet rank position.

FIGURE 1

Source: Lok Sabha Secretariat, Members of Lok Sabha, various issues.

In non-party politics, led by a score of peasant organisations, agitation for higher agricultural prices and subsidies and for a waiver of agricultural loans emerged in several parts of the country in the 1980s. Non-party peasant leaders – Sharad Joshi, Mahendra Singh Tikait,
Narainswamy Naidu – became household names in various parts of India. They presented urban bias arguments and pressured the elected politicians and government to accept their demands. The basic conflict in India, according to Joshi [1984], is between the city and the countryside, between India and Bharat (an indigenous term for India). Alarmed by their popularity, this is how The Times of India commented on these movements:

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.2

The parallel development of rural pressure in two important sectors of politics – party and non-party – led to an ideological reformulation of politics on the agrarian question in the 1980s. In the 1950s and 1960s, land reforms used to be the centrepiece of the agricultural programme of political parties. Agricultural prices occupy that place now. 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. The ideological transformation of Communist parties is by far the most dramatic.3 Until the mid-1970s, they used to argue that higher agricultural prices, particularly those of food crops, hurt the poor peasants and the landless labourers. These classes were, after all, net buyers of foodgrain. By the early 1980s, the Communist parties began to argue that all sections of the peasantry benefited from higher agricultural prices, not simply the surplus farmers.4 Before the fiscal and balance of payments crisis of 1991 emerged, several parties supported the demand for a waiver of agricul-
tural loans, too. At the institutional and ideological plane of party politics, there are few dissenting voices left. A Bharat–India divide has become an important idiom of Indian politics.

But is it an idiom only? Has the ideological reformulation of party politics had an impact on economic policy? Agricultural policy norms have changed significantly. India's agricultural policy was changed in the mid-1960s after Nehru's death. Abandoning the principles of low agricultural prices and labour-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 favourable 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 agriculture, due to a reduction of agricultural costs (which would tend to depress agricultural prices), such gains would not be transmitted to the entire economy. The terms of trade would be adjusted in favour of agriculture politically. Finally, after the arrival of the National Front government in power in December 1989, agricultural loans up to Rs 10,000 were waived for farmers on the ground that unfavourable terms of trade had actually mired the peasantry in a debt crisis.5

The structure of state institutions responsible for agricultural policy has also been an object of considerable political struggle. Since the mid-1960s, the Commission on Agricultural Costs and Prices (CACP) has been the institutional centrepiece 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 political criticism that decision-makers in the CACP were urban technocrats. They had academic or bureaucratic knowledge of agriculture but, not being agriculturists themselves, had little understanding of the complexities
of agriculture. In all three sectors of the polity rural power has thus unambiguously increased.

**Why Has Rural Power Risen: The Role of Democracy**

There are two aspects to the rise of rural India. Its representation and voice in the politics above (parliamentary politics, state institutions) has significantly gone up, and the politics below (mass political mobilisation) is also marked by increasing rural organisation. A democratic political system is related to both.

*The changing configuration of political elites:* The existence of a democratic polity in a country with a large rural population explains the changes in India's elite politics. In a poor and largely agrarian country with low literacy rates characterising 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 industrialising zeal; his political model, however, was aimed at politicising the rural periphery in a nation-building effort. The Congress Party consequently moved into the villages to enlist popular support. Moreover, the Congress government became involved in development through various schemes - building roads, schools, better communication systems, irrigation systems, co-operatives, etc. The party and government were thus increasingly visible in the rural areas and were also great sources of patronage and power. As a result, the district and state wings of the party ruralised first. Over time, rural politicians built their careers upwards to reach Delhi, the topmost level of the polity.

Rural pressure on the state institutions was partially a result of the changing social base of political parties. In 1965, Agriculture Minister C. Subramaniam was shocked to discover that the agriculture secretary could see agriculture 'only in the files'. A decade later, the first rural politician was appointed to the Commission for Agricultural Prices and Costs, and by 1985, the Commission was split into two halves - one technocratic, the other rural political. Not only has the Indian politician changed, but so has a good deal of the bureaucracy, though to a 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.

The analysis above may account for changes in elite-level politics, but not in rural mass politics. How does one explain the vibrancy
of rural collective action on prices and subsidies (and, of late, loans) in India?

*Explaining rural collective action:* India’s democracy not only leads to a ruralisation of the power structure; it also facilitates rural collective action. The logic of this relationship can be stated as follows. Rural price mobilisation is, after all, a protest against state policies. If the state can repress farmers with impunity, rural mobilisation can be easily stilled at its birth. A democratic system, however, puts serious constraints on the state’s repressive capacity *vis-à-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 mobilisation. Several farmers lost their lives to state police in the initial stages of the mobilisation. But such repression had to cease soon. 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 simply 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 was not really the planned strategy of the Indian state even at the early stages. Rather, the sight of rural dwellers blocking roads was enough of a frustrating novelty for *district level administration* to view the rural crowds as dispersable with a show of might. Once such mobilisation acquired legitimacy, thoughts of dispersing agitators through police firings withered away. Legitimacy of these movements has thus made a difference to the behaviour of the coercive institutions *vis-à-vis* agitating farmers. A somewhat dramatic example – with significant symbolism – of the change in state behaviour 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 in the autumn of 1989. Eventually, farmers held their demonstrations in the heart of Delhi and the Prime Minister was forced to move his rally to the outskirts. Farmers’ rallies have become a normal feature of political life in Delhi.

To be sure, rural collective action, even in a democracy, is not without cost. Being away from the farm can lead to losses; time and energy must be spent on organisation; weather is not always kind to those blocking roads or those participating in sit-ins; and the *ex-ante* possibility of police repression, despite its improbability, always remains. What is critical, however, 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 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 rural collective action, a democratic polity may well account for the observed differences between India and most of Africa.

II. POLICY OUTCOMES FOR FARM GROUPS

If rural power has gone up in the polity, policy norms have become more favourable to the countryside, and the institutional centrepiece transformed in favour of the villages, have the outcomes also changed for the countryside? Move fundamentally, has the increasing rural power affected incomes in the countryside – and how?

Terms of the Existing Debate

A raging controversy has marked the intellectual debate about whether farm incomes have declined or gone up in India. 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 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 terms of trade argument: For ascertaining whether or not a political bias exists, the customary emphasis on inter-sectoral terms of trade can be quite misleading. First of all, empirically, inter-sectoral terms of trade do not show a conclusive trend in either direction, agriculture or industry, but secondly and more importantly, in and of themselves,
terms of trade are an inadequate measure for calculating returns to a sector.

Figure 2 plots the latest time-series. 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 [Thamarajakshi, 1977; 1969]. At any rate, even if one could find a clear trend, do declining terms of trade mean deteriorating incomes? Returns to farming, or incomes from farming, and agriculture’s terms of trade are two very different concepts. Returns to farming (farm incomes) can go up even while farm sector’s terms of trade decline. Stated another way, while agriculture’s barter terms of trade may deteriorate, its so-called income terms of trade may well improve.

FIGURE 2

Agriculture-Industry Terms of Trade
(Base: 1970-71=100)

Terms of trade may go against agriculture for purely economic reasons, without requiring political manipulation: (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 case that, given costs, declining terms of trade may 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 coexist 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 (that is, per quintal) but higher yields (quintals per acre) may lead to higher returns per acre, ensuring a rise in farm incomes\textsuperscript{10} – and all of this while prices of industrial goods bought by the farm sector remain unchanged.

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 [\textit{Hayami, 1972}].\textsuperscript{11}

A political datum is also worth adding. Unlike several economists and party politicians who continue to use terms of trade 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 \ldots \text{intersectoral terms of trade. We are talking about agricultural prices as compared not with non-agricultural prices but as compared with \ldots (the) cost of production.’\textsuperscript{12}

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 early twentieth century 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.

\textit{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 twofold: (i) procurement prices paid by the government were anywhere between 10 and 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.\textsuperscript{13}

The first part of the argument was an incontestable fact until the mid-1970s, 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 [Mellor, 1968; Hayami, Subbarao and Otsuka, 1982].

Starting with the late 1970s, 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, 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.\textsuperscript{14} And in states where open market prices are higher, government buying is a relatively minor operation.\textsuperscript{15}

\textit{The relative supply argument:} Analysts have also focused attention on inter-crop pricing, or what may be called intra-sectoral 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, however, is avowedly political. In some intellectual and political circles, there have been suspicions, even allegations, that the country’s price policy is biased in favour of wheat and against rice. 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 because wheat output has increased more than rice output. That the eastern and southern part of the country is predominantly rice-growing whereas the north is overwhelmingly wheat-growing is cited to be the source of the regional bias\textsuperscript{16}

This argument died a natural death with a change in agrarian practices. The wheat–rice differential could not 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.
**The cost escalation argument:** Costs of production have moved much faster than the prices received by farmers, indicating, according to this argument, falling farm incomes. 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, summarising 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' [Desai, 1986: 433]. 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).

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**FIGURE 3**

*Returns over Operational Cost, Punjab*

*Wheat, 1970/71 to 1983/84*

- Source: Reports of the Commission of Agricultural Costs and Prices, various issues. The remaining graphs, unless otherwise stated, are also based on these reports.
Resolving the Debate: Constructing a Return Index and Its Results

Of the four arguments, the implausibility of the first three has already been demonstrated, but what about the cost escalation argument?

The cost argument contains a non-sequitur. 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

FIGURE 4

![Graph showing Returns over Operational Cost, U.P. for Wheat, 1971/72 to 1983/84](image)
(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 \( \text{acre} \). 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.\(^{18}\)

Let us see the results of the procedure specified above. Consider wheat returns first. Figures 3 and 4 present results from two major wheat states, Punjab and Uttar Pradesh. Figure 3 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 4 shows declining returns since the early 1970s.

Take paddy returns now. Figure 5, which plots paddy returns in Punjab since the early 1970s, shows an unmistakable upward trend after the mid-1970s. Figure 6 presents paddy returns from another technologically advanced state, Andhra Pradesh. Once again, roughly since the mid-1970s onwards, there is evidence of a mild upward trend, though, clearly, additions of recent years are required for a firmer judgment.

A crop-wise and state-wise 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.

Why has a disjunction between the political and the economic emerged? The disjunction would not exist if politics were entirely determinative. Is it that we have conceptualised power incorrectly and that urban bias, operating in an unidentified part of the power structure, limits the impact of the rural power charted above? Or should we go beyond a model driven purely by political determination? Let us first see if there are purely technical, or purely economic reasons for the disjunction.
III. THE DISJUNCTION BETWEEN THE POLITICAL AND THE ECONOMIC: PROXIMATE CAUSES

(i) The Role of Technology

The first resolution of the paradox comes from the role of technical change. Figure 7 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-1970s. Wheat drove the first flush of green revolution. By the mid-1970s, 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. Differential rhythms of technical change, thus, constitute a factor countervailing (or augmenting) the political power of farm groups.

A technology-based resolution of the paradox between politics and economics, however, does not answer a different kind of question: why could the government not neutralise the income effect of a deceleration in technical change? Recall the return measure from equation (1). Other things remaining the same, technical change, by increasing yields (that is, the value of Y), would lead to higher returns. But 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 does both. We know that the central government sets \(P\) and significantly affects \(C\) by setting the price of fertiliser which typically accounts for the largest farming expense under new technology.

That the rural political power met with a counteracting force in technical change can thus 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 fertiliser 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 favour of such an increase both in party and non-party politics as well as within the CACP.

(ii) 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 ‘basket case’ in the 1960s, perpetually dependent on American wheat, India has of late been running a food surplus. Government foodgrain stocks have been accumulating since the late 1970s. 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 ten 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. This simple economic logic means that the producer prices for wheat, if the government had not intervened, would have fallen, costs of production notwithstanding.

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’ [Ministry of Finance, 1985: 18]. 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 spectre of hunger still haunts millions.19

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 and rice for the international prices were often lower'. Moreover, 'an adequate level of food stocks provides an important hedge against both uncertain weather and inflation' [Ministry of Finance, 1985: 18]. 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.

(iii) 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 subsidisation of the difference between producer and consumer prices. Did the government choose this path?

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 8 illustrates, since the early 1970s, subsidies in the Indian economy have risen threefold, from one per cent of GDP to three per cent. The rising curve of the central government subsidy, our main concern here, is due mostly to food and fertiliser subsidies. The oil price hike led to a sharp increase in fertiliser prices in 1972/73, requiring a subsidy to maintain fertiliser consumption and agricultural growth rate. Figure 9 shows that food and fertiliser subsidies have constituted between 55 to 65 per cent of total central subsidies, with the curve rising more sharply in recent years.21

A larger increase in wheat prices or a substantial decrease in fertiliser prices would have been 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 fertiliser consumption in the country. This, along with the rise in the cost of fertiliser imports and domestic production, has resulted in the growth of fertiliser subsidy from Rs.
600 crores to over Rs. 2000 crores in the current year [Ministry of Finance, 1985: 18].

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.
IV. 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 these 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. Could not something be done about reversing the deceleration of technical change in agriculture? Could not the purchasing power of the poor be increased? Could not 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? 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 ruralised, if its
terms of reference have been changed in favour of the countryside, then where is the counter-pressure emanating from?

*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. 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 the technologically advanced areas. 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 politically manipulable, whereas for backward areas the constraint can be overcome via a greater provision of irrigation, fertilisers and seeds.

Income distribution, the second proximate constraint, is also not easily manipulable. Since blocked demand for food will emerge from the underfed poor, an income re-distribution aimed at the lowest deciles of the population is required. A redistribution of incomes towards the poor typically requires land reforms, transfer programmes 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 programmes that run down the surplus in the short and medium run, or rural development schemes that create 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 programmes, whether the way out is increasing producer prices and/or lowering input prices – in all cases, the fiscal burden on the state will increase.

*Can the State Pay More? The Fiscal Possibilities in Theory*

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; and (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 have these logical possibilities not become empirical realities? The question leads us into the political economy of public finance, an under-researched and complex subject. Some of its salient outlines are sketched below. It will be first demonstrated that the state can pay more to the farmers, and then an attempt will be made to answer why it does not.

Taxes have been the main source of government revenue in India. Since the mid-1970s, tax receipts have ranged between 15 and 17 per cent of GDP. Because 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 [Acharya, 1988]. Further, since increasing the tax rate for existing tax-payers, beyond the salaried class, has only led to widespread tax evasion, a generally proposed solution is an agricultural income tax, without which a sizeable increase in 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: ‘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 has no intention of seeking any change ...’ [Ministry of Finance, 1985: 35].

What of the other two options – increasing budget deficits to finance agricultural subsidies, and, if that is not possible, cutting government expenses elsewhere? The 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’ [Ministry of Finance, 1985: 19].

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 look at the other major expenses in the government budget. Figure 10 presents the results. The main triad of government’s budgetary expenses – defence, interest payments and farm subsidies – comes more fully to light. 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.

**FIGURE 10**

![Chart showing Main Items of Expense in Central Budget]

In sum, whether or not farm subsidies can increase is thus an issue that can be reduced to the following choices. Can defence outlays, the current expenses of the government and the deficits of the public sector be reduced? The answer to each question is yes, for these are political decisions. There is nothing technically sacrosanct about defence expenditure staying at three per cent of GDP, or increasing to over four per cent; the defence outlay depends on what the state perceives to be desirable for the country’s defence. Interest payments can be cut if the
state *elects* to impose stronger discipline on the public undertakings, instead of financing their deficits. 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, but not others.

*Why the State Does Not Pay More? From Fiscal Possibilities to Political Realities*

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? Two disaggregations are required. 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 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, rural identities also need to be disaggregated. That the peasantry is on the rise for prices and subsidies is what meets the eye. But hidden underneath are the multiple identities that clash with the economic identities of farmers. 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.

*The towering finance ministry and economic policy:* Three ministries are directly involved in agricultural policy – agriculture, planning and finance. 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, handled typically by the Prime Minister.

What are the characteristic tendencies of these bureaucracies? The Agriculture Ministry is normally driven by an 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.

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 economy-wide macro implications of food prices are normally its greater concern.

The most powerful representative of the macro (inter-sectoral) 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 lies squarely 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 fertiliser-intensity of the green revolution inevitably influences the trade and foreign exchange balance.

Normally hidden behind the principle of governmental secrecy, some of the key inter-bureaucratic dimensions of the problem have come out in the open in the 1980s. 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 [Singh, Rao Birendra, 1980a: 251–2].

The demand constraint and rising surpluses of the last decade have given the inter-bureaucratic struggle a distinct flavour. They have added to the 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. However, Subramaniam, as Agriculture
Minister, could present the forceful argument that without price incentives and input subsidies, food production would not rise either. With surpluses emerging in the 1980s, the production argument is losing its bureaucratic vigour, even as it is acquiring ever increasing political strength in party and non-party politics. 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 in 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? [Singh, 1980b: 422].

Two points emerge. 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 organisations have been dispersed by the quiet power of the Finance Ministry. Second, by concentrating on the character of the Commission on Agricultural Costs and Rices (CACP), the rural politicians have been attacking the 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
clamours 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. 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 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 intra-state, or inter-bureaucratic 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 only partially mapped the analytical space. Michael Lipton [1977] concentrated on Realm C, inferring the shape of Realm A therefrom. Ashok Mitra [1977] also focused on Realm C without taking technical change into consideration and the fiscal politics it creates in Realm B. Bates [1981] 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 Bates was: why, despite the countryside constituting a majority in the population, there was no upward trend in Realm A. That even an upward trend in Realm A may not directly determine results in Realm C was not his concern. Not part of his empirical universe, rising rural power was missing in his analytical space, too. The state remained undisaggregated, the Finance Ministry did not enter the scene, and the possibility of disjunctions did not appear.

What can alter the situation for the farmers? If a peasant-based party captures power in Delhi, politics can be in command. 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 multiple selves of farmers and self-limited rural power: 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 to capture 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, then, does 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. 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. Those who stay back do not form part of the news.
The array of choices at the time of voting may be as follows: should 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 occu-
pational interests. A farmer may well vote on caste, religious or regional
considerations; even worse, those who participated in price 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 politi-
cal interests and vote. The description below of electoral behaviour 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 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 [*Brass, 1985: 198*].

More critically, consider the lament of Sharad Joshi, the most success-
ful peasant mobiliser in the country, on how difficult it was for a movement based on economic demands to go beyond where it stood:

Men do not like to appear to be fighting for bread or even for butter. They like to feel . . . that there is a principle involved. Castes, language, religion and region provide ready-made principles for which men can be made willingly to die and brutally to kill. It is perhaps related to the primary urge to seek security in community. May be, the fraternity of an economic class has identity of interests but not the means and structures for securing them [Joshi, 1988: 67].

Joshi goes on to add how the emergence of religious strife completely overwhelmed a powerful peasant movement, based on economic demands and led by the Bhartiya Kisan Union (BKU), in Punjab in the 1980s.30

The further march of rural power may not be possible unless farmers define their identity primarily as farmers, not as members of a caste, linguistic or regional community. The challenge before these movements is to create these necessary conditions, that is, to transform the way farmers define their interests and identities. For at least some time to come, they are unwilling to let their multiple selves be reduced to a narrow economic groove. A rise in religious upsurge in recent years is affecting not only urban India but also the countryside. In an election charged with religious and identity issues, the Janata Dal, which incorporates the Lok Dal of yesteryears, picked up a mere 12 per cent of India's vote, whereas the party representing Hindu nationalism made the most gains in June 1991. There are no indications that the cross-cutting identities and interests would be resolved in favour of economic interests, defined as higher prices and subsidies.

V. CONCLUSIONS

About a decade before Lipton published Why Poor People Stay Poor: Urban Bias In World Development, Samuel Huntington presented an argument about 'The Green Uprisings: Party Systems and Rural Mobilisation' [Huntington, 1968]. Lipton in 1977 wrote how powerless the countryside was; Huntington in 1968 talked of 'ruralising elections', elections that ruralised a polity dominated by Westernised post-independence elite (Sri Lanka, 1956; Turkey, 1950; Senegal, 1951; Jamaica, 1944; Lesotho, 1965). 'The urban classes have been able to win
most of the rounds of struggle with the countryside’, wrote Lipton. Huntington argued:

Electoral competition in postcolonial countries thus seems to direct the attention of political leaders from the urban to the rural voter, to make political appeals less modern and more traditional, to replace highly educated cosmopolitan leaders with less educated local and provincial leaders . . . The effect of democracy is to disperse power among a plurality of more traditional elites. By increasing the power of rural groups democracy also tends to promote policies aimed at rural and agrarian rather than urban and industrial development [Huntington, 1968: 445].

Lipton ‘first noted urban bias in (his) analysis of India in the 1960s’ [Lipton, 1977: 18], precisely the time political scientists were reporting that the national leadership of the Congress Party had shifted from Nehru, a man educated at Harrow and Cambridge, to Shastri, a politician who had never been outside his country before becoming Prime Minister. They were also writing that the party leadership in Madras state had moved from Rajgopalachari, an anglicised Brahmin lawyer, to Kamraj, a man from a peasant background with very little formal education.

For some reason, the political economy field did not communicate with political science in the 1960s and 1970s. If it had, an urban bias argument without a distinction between democratic and authoritarian political systems would not have been made. In a primarily rural society, a democratic political system is likely, over time, to ruralise the political system and economic policy. An SLFP would begin to defeat a UNP (Sri Lanka in 1956); a Shastri and a Kamraj would begin to dominate the Congress Party (India after the mid-1960s); a Mahathir Mohamad would replace the generation of Tunku Abdul Rahman (Malaysia in the 1980s); and an Andrew Jackson would defeat a John Quincy Adams (the US in 1829).\(^3\)\(^1\) Authoritarian polities do not have to seek electoral legitimacy in the same way, so they are not under the same rural pressure. An undivided Punjab was split into India and Pakistan in 1947, with the better-endowed west going to Pakistan, and the less developed east coming to India’s share. After four decades of development, reports Holly Sims, agriculture in India’s Punjab has left Pakistani Punjab considerably behind [Sims, 1988].

One should not push this argument too far. Pro-rural policies and economic outcomes can exist in authoritarian polities, too. It depends on the ideological proclivities of the political leadership (Widner; this volume). Indonesia under President Suharto is by far the best known
example. His pro-rural inclinations have lifted Indonesia’s agriculture out of its 1960s morass (Timmer, this volume). Perhaps other examples can also be cited. The point simply is that there is no systematic ruralising tendency in authoritarian politics. Urban bias can flourish, at times with reckless abandon.

Economic counters to the urban bias can also be found. If the source of public revenue is not agriculture, industrialisation or state-building would not necessarily squeeze agriculture. Minerals can be one such source, oil another. Having these resources, of course, does not mean that public revenue would be spent wisely. A profligate state can squander away the asset and catch the Dutch disease: due to various economic fall-outs and indirect effects, agriculture could still lose out. The same can be said about states blessed with the bounty of foreign aid. A few national budgets are known to have been almost entirely funded by acts of strategic friendship – and for long years. In all of these cases, a structural opportunity to leave the countryside unharmed does exist, although some states may not cash in for various reasons.32

Other problems arise for the urban bias argument when we realise that even after rural groups acquire a great deal of power and manage to influence economic policy, the policy outcomes may still not be favourable at all times. Reduced to its core, the urban bias view is that the countryside suffers because it has no power in the polity. Influencing economic policy through accretions of political power may not, however, be enough to determine economic well-being in the countryside. Understanding this disjunction requires going inside a state to determine exactly how rural groups and their representatives function in pursuit of their aims and what forces are encountered. More importantly, it also requires determining whether rural groups can actually cohere politically around economic interests. The disjunction between the political and the economic in India is due not to the eccentricities of the Indian case but, rather, the relationship between political power and economic outcomes has to be more comprehensively imagined. The refusal of farmers themselves to give precedence to their economic interests over their non-economic interests or ascriptive identities may seriously constrain their power. Much of the political economy literature, governed by the assumption of rationality, ignores the fact that farmers, like most of us, have multiple selves and there is no reason to assume a permanent superiority of the economic over the non-economic.

Urban bias thus may not be as ubiquitous as we, the students of political economy, have often believed. Nor does its reversal in the political system guarantee continued rural well-being, although it does
perhaps produce happier outcomes for the countryside than is generally the case otherwise. From the perspective of the countryside, the real issue, it seems, is procuring appropriate economic policies, the appropriateness depending on the context of the country in question. Unfortunately, there is no good theory of policy change or of conditions under which policies change. Short of that, a democratic political system would be the second best alternative for the countryside.

NOTES

1. The terms ‘rural sector’, ‘peasantry’ and ‘farmers’ are used interchangeably in this study, 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’. 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 modernisation rather than restraining 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 labourers; therefore, the term rural sector, whenever used this study, makes no assumptions about the directionality in the welfare or power of agricultural labourers. The awkward position of landless agricultural labourers in the rural sector is discussed in detail in Ashutosh Varshney [forthcoming: Ch.5].

2. The Times of India. 3 Feb. 1988. This editorial was written after an agitation in Western Uttar Pradesh in the winter of 1987–88.

3. A similar transformation marks the position of the BJP, customarily an urban-based party. For details, see Varshney [forthcoming: Ch.5].

4. See Surjeet [1981: 16]. Surjeet is a politburo member of the Communist Party Marxist (CPM) and the party’s prominent theoretician.

5. The estimated cost of this waiver to the country’s credit system ranges from Rs 500–700 billion. Hard statistics are not available, but it should be clear that the magnitude is very large. In January 1991, they would have translated into $25–35 billion (by the exchange rate existing at the time).

6. The Lok Sabha Debates in 1980 and 1981 reverberated with rancorous debates over the police repression of the Joshi-led agitation. The State legislature in Maharashtra also exploded with charges and countercharges between the treasury and opposition benches, but police firing on agitating farmers ceased after that.

7. Moreover, political opponents can always plant criminals among such rallies, provoking the police and administration – the sort of disruption normally achieved through destruction of public property. Such political games are not unknown in movement politics.

8. The repression-resisting capacity of a democracy, as Robert Dahl [1971: Ch.2 and 3] explains with great clarity, will not apply to some groups – those whose numbers are so meagre 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 explains the position of American blacks before the mid-1960s in that way: the argument can be extended to quite a few groups in India but not to farmers.

9. For arguments for and against see Mitra [1977]; Tyagi [1979]; Kahlun and Tyagi [1980]; and Kumar [1988].

10. Raj Krishna [1982] provides 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 P/QPF. 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.

11. In the Indian debate, too, technology has recently been factored into the terms of trade arguments [Tyagi, 1987].


13. Around 1967–68, about a quarter of Indian cereal marketing was publicly procured, at prices about 25 percent 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' [Lipton, 1977: 265; page citation here and later from the Indian edition, published by Heritage Publishers, Delhi, 1978].

14. Some farmers none the less 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.

15. Since the mid-1970s, Punjab, Haryana and Uttar Pradesh have typically accounted for over 90 per cent of the procured wheat. Over 80 per cent of the government rice stock has also come from these three states and Andhra Pradesh.


17. Price–fertiliser cost ratios formed part of Lipton's argument too but by now, the argument has been generalised to include all costs, not simply fertilisers. Lipton's use of the fertiliser cost data was prompted by the fact that fertiliser costs are typically the largest expense of farmers.

18. It should be emphasised 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

\[ R = (P-C)Y \] (2)

The problem with formula (2) is that it gives us nominal returns, not real returns. For formula (2) to give us real returns, we need a price deflator, which is a monumental difficulty in that no uniquely 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. 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).

19. No good estimates of how much grain rots every year are available. Nor, given the political sensitivity of such an issue, can it easily be known. It is widely believed, however, that anywhere between two and four million tons of grain are lost this way.

21. 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 fertiliser subsidy, however, may not entirely benefit farmers. Domestic costs of fertiliser production in India are high and given the cost-plus pricing principle, even inefficient fertiliser producers get protection. In other words, for a portion of fertiliser supplies (excluding international imports, that are still substantial, and the relatively efficient fertiliser producers at home), the fertiliser subsidy in India is in fact a subsidy to fertiliser 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.

22. One of the few political economy works on public finance is Toyce [1987]. Ending with 1970, Toyce's work does not deal with the period marked by farm subsidy issues.

23. Although 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 none the less be shown that, even at the given level of income, tax receipts can go up. See below.

24. The most widely known case for an agricultural income tax is Ministry of Finance [1972], also known as the K.N. Raj Committee. The 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.

25. 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... [Economic and Political Weekly, 1974].

26. Of the three, interest payments have increased most sharply over the last decade and a half. 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.

27. For details, see Varshney [1989].

28. Once again, of the politicians, only Sharad Joshi has realised this point: 'What means does (the CAPC) 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.' [Joshi, 1984: 33–34].

29. 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.


31. One should expect that in other democracies in the Third World, too, a similar tendency - rural empowerment - would obtain. Stable Third World democracies have been few and far between. The link has been briefly noticed though not yet systemically developed. On Costa Rica, see Colburn in this volume. For Zimbabwe during its first ten years of democratic politics (1980–89), see Bratton [1987] and Herbst [1988]. For Sri Lanka, Mick Moore notes that ethnic identities overwhelmed farm identities as a result of which Sri Lanka's rural sector did not acquire the same power as India's
rural sector did [Moore, 1985]. Ronald Herring [1988] points out that the rural folk in
Sri Lanka had no special reason to organise as economic (as opposed to ethnic)
political groups since the economic policy of Sri Lankan government was already
substantially pro-rural. While arguing a case for Kenya's rural exceptionalism in
Africa, Bates notes how the pursuit of power became 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 politics, produced
a tendency towards pro-rural economic policies in Kenya [Bates, 1989]. It would be
interesting to see whether other democracies in the Third World – Botswana, Trinidad
and Tobago, Jamaica, Venezuela since 1959 and Chile between 1932 and 1972 – support
the proposed link between democracy, rural empowerment and rural well-
being in the Third World.

32. The final chapter of Bates [1981] anticipates some of these possibilities. And in Bates
[1989], he presents Kenya as an exception to the urban bias of Africa.

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