India's rising class of wealthy peasants passes first big test

by Ramtanu Maitra and Susan Maitra

The July 18 announcement by the National Front government to dramatically hike foodgrain procurement prices has provoked a firestorm of controversy inside and outside the government on the eve of the monsoon session of parliament.

In a country like India, where at least 40% of the population—mostly marginal farmers or landless laborers in the rural areas—struggle every day to scrape together enough foodgrain to survive, a move that would constitute a windfall for the handful of cultivators who produce a surplus and boost food price for all is bound to create a furor.

It is the first big policy move of the lobby of rich farmers that is now enjoying direct access to power at the center in the National Front government. In announcing the new pricing policy, Deputy Prime Minister and Minister of Agriculture Devi Lal, acknowledged head of the farm lobby, overruled an Expert Committee set up by the government to review support pricing methodology. Now, both the snubbed Export Committee and the powerful Commission on Agricultural Costs and Prices (CACP), the government body responsible for evaluating production costs and setting support prices, have demanded a review of the July 18 decision.

And, as an insider, who requested anonymity, told these reporters, "The battle is not over."

Target of opportunity

Procurement price is always an issue in the monsoon session of parliament. The government's procurement price—the price at which the Food Corporation of India (FCI) is bound to purchase grain from farmers who cannot get a better price elsewhere—sets a floor for the market. FCI purchases rice and wheat to stock the country's emergency reserve and to supply the nationwide system of "fair price" shops which distribute foodgrain at cost. Still, the vast majority of India's farm produce is traded privately.

Moreover, every year the procurement prices are raised, according to advice of the CACP, which runs an elaborate monitoring and evaluation operation to cover cost of production, input-output price parity, inter-crop parity, and so forth.

But this year things were different: A virtual war has been declared by the "ruralists" newly ensconced in the government against the so-called urbanites, and by extention against industry. And, "incentive pricing" is the key weapon in the

Devi Lal removed, but crisis is not

On the night of Aug. 1, Prime Minister V.P. Singh sent a tersely worded letter to Deputy Prime Minister and Minister of Agriculture Devi Lal, asking him to step down. Devi Lal's removal followed a series of crises in the ruling Janata Dal, in which intriguing peasant politicians figured prominently. The straw that broke the camel's back was the deputy prime minister's circulation of a letter, purportedly written by V.P. Singh in 1987, that tars cabinet member Arun Nehru with corruption—which turns out to have been a crude forgery. Nehru, a member of the powerful Nehru family and now minister of commerce, is considered by many to be the second most powerful person in the V.P. Singh cabinet.

This was preceded by an interview to a large-circulation English weekly in which Devi Lal repeated charges of corruption against Nehru and his close associate, Energy Minister Arif Mohammad Khan. In the interview Devi Lal also made some uncharitable remarks about the prime minister's ability to exercise his authority.

The fallout from the Devi Lal sacking is impossible to predict. Though proponents of the decision maintain that his political clout is highly overrated, some surprises may be in store.

Devi Lal's ouster will certainly have an impact on the rising lobby for the rich peasants, for whom the Haryana Jat has emerged the most colorful and power-ruralists' strategic arsenal to push up farm production and generate a substantial surplus for rural investment to wipe out poverty.

This year procurement prices were targeted as the first "landmark"—as Devi Lal put it in his July 18 decree—in the "endeavor to give the farmers a remunerative price for their produce in the context of the promises made by the National Front government to them."

In particular, the government proposed to change the method of calculating cost of production, which determines the procurement price, in two ways. First, labor costs are no longer to be valued as actual wages paid, but as the statutory minimum wage or actual wages, whichever is higher. Second, management costs are to be added at the rate of 10% of total cost of production. The impact of these measures on procurement prices has not been calculated, or at least the figures have not been made available.

But, since the Expert Committee that Devi Lal and his group rebuffed, had projected 5-15% price increases as a result of their own signficantly more conservative proposals, one can assume a windfall for some is at hand. Indeed, a number of surveys have shown that the present agricultural prices provide a margin of 15-20% over costs. Although the margin any given farmer actually gets varies because of the unequal agricultural infrastructure throughout the country, nonetheless it is generally accepted that a farm family of five owning more than 3 hectares of agricultural land gets a decent return against investment.

Perverse effects

On July 31, the Expert Committee, under economist and former planning commission member C. Hanumantha Rao, set up in January 1990 to review the methodology for determining cost of production of crops, issued their final report, emphatically reiterating their earlier views and calling for a review of the government's July 18 policy decisions. In

ful spokesman. The rich peasants' lobby has become the spearhead of a kind of "ruralist" revival. It is not the first time that they have sought to assert themselves at the national level. But today the fight between "ruralists" and the "urbanite-industrialists" has a sharper significance because it is taking place at a time when the post-Independence political geometry of India is undergoing drastic and fundamental change.

As Devi Lal sees it, since Independence, the Indian "urbanites" have systematically robbed rural India of their share of the growing pie, while throwing occasional crumbs to the rural poor through poverty programs to maintain appearances. In his characteristically acerbic tongue, Devi Lal accuses the "industrialists" of controlling the "urbanite politicians" and opposing rural development; and to Devi Lal, Arun Nehru, and Arif Mohammad Khan, who, among other ministers, represent this "urbanite-industrialist" coalition.

Indeed, since Independence from British colonial rule, which cut the subcontinent into three pieces, India has been governed by an alliance of rural socialists and urban elites, mostly educated in British universities, and with a distinct Fabian-liberal ideology. The first Prime Minister, Jawaharlal Nehru, was the leading figure, and this coalition was institutionalized for more than 40 years in the Congress Party. The other key arm of administration, the vast bureaucracy, was recruited by the urban liberal elite as a kind of junior partner.

It is also the case, that this alliance of what in the West would be known as "bleeding-heart liberals" failed to make any signficant dent in India's vast rural poverty. The Green Revolution and implementation of some major infrastructural projects, primarily to help the Green Revolution and power the newly built public-sector enterprises, did bring about some positive change in certain areas, but the success was distinctly limited. More important, the domination of this alliance, which mostly disregarded the large rural population, for more than four decades bankrupted the political system and created a number of hostile forces in rural India.

Recently, in an insightful opinion column titled "The Nehru Era Ends," Indian political analyst Harish Khare pointed out that Devi Lal "succeeds so brazenly" precisely because "he is perhaps the first politician to realize the hollowness of the political system over which liberals presided for the last 40 years." Devi Lal is perhaps right, Khare adds, that this political system has done little to move the country away from the *status quo,* "despite the pretentious egalitarianism and social justice."

Devi Lal's removal from the cabinet may well bring an open confrontation between the "urbanites" and "ruralists." There are indications that Devi Lal may challenge the "urban-dominated" National Front government. He might even join hands with the limping Congress-I to make the fight more potent.

Besides strength within his own Jat community, Devi Lal enjoys a signficant support in the rural areas of the Hindi belt—Haryana, Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan, and southern Punjab. More important, perhaps, since his committed political base is in northern Rajasthan, Haryana, and western Uttar Pradesh, all within an hour of New Delhi, Devi Lal's future activities can be expected to hog national attention.

arguing, as they had earlier, that labor costs should be valued on the basis of actual market wage rates alone, committee members pointed to the potentially perverse effects of the new policy.

In those cases where the statutory minimum wages are not enforced and actual wage rates are below the statutory minimum, small and marginal farmers and agricultural laborers with little or no marketable surplus will be penalized, since their own purchases of foodgrains will cost more. About 75% of farm families in India have holdings of less than 2 hectares. These families are incapable of creating surplus foodgrains and have to depend upon the market to buy their foodgrains during a certain period of the year. They generate the necessary cash by doing seasonal manual labor in the farmlands and in urban areas in the off-season.

In a press briefing, committee members also warned of arbitrary jacking up of statutory minimum wages at the state level as a means of boosting procurement price and propitiating the rich farmer lobby—something the state of Orissa has already jumped to do and the state of Assam has on the drawing board.

As far as the management cost issue is concerned, the Expert Committee argued that it should be valued at 10% of actual paid-out costs of production, and not total cost, since the total cost includes imputed value of such items as rental value of owned land, which have no bearing on the management factor. (And, as the committee noted critically, rental value of land is presently determined by the owner's personal assessment.)

In seeking to counter the most arbitrary and obviously swindling aspects of the new pricing policy, the Expert Committee stuck closely to its terms of reference. But the policy raises much broader and more basic issues.

Farm prices and rural poverty

Few would disagree that agricultural policy in India is urgently in need of a new and dynamic orientation. The persistence of a vast subsistence agriculture alongside a relative handful of modern, surplus-generating operations continues to define the poverty and backwardness of rural India. But, so far, in spite of its expressed concern for rural people and contempt for the urban population, Devi Lal and company have shown only that they can arrange a better deal for the well-to-do farmers. Indeed, given the structure of the rural economy "incentive pricing" cannot be anything but a boondoggle for the rich farmers; it cannot be an instrument of change, certainly not the central one.

Within the category of cultivators, those with 4 hectares or more constitute only 15.2% of the total, or about 6.5% of the rural working population. Yet this tiny section controls nearly 69% of the land. The 75% of India's farm families with holdings of less than 2 hectares—and the size of holdings has been continuously declining for the past 10 years—cannot produce a surplus of foodgrain at any price. Incentive pricing will only further pauperize them, as they will be forced to pay more for food.

There is the likely prospect that this huge population that is financially weak, but constitutes an enormous bloc of votes will demand subsidized food from the government. The government already subsidizes, to the tune of $2.4 billion, by making fertilizers available to farmers at a reasonable rate. Water and electricity are heavily subsidized. Since the agricultural sector has remained highly unproductive overall, and farm income is not taxed, further subsidies will have to be generated through cannibalization of the industrial and service sectors of the economy, which together produce almost twice the top surplus that the vast agricultural sector does.

There are other problems with the incentive pricing scheme itself. Apart from the obvious incentive to "cash in" on the bonanza, one is hard put to find a reward for productivity increases in the sense of cost-efficiency in farm production. Nor does one find any real incentive for the handful of well-to-do beneficiaries of the policy to launch a rural investment drive. On the contrary, if the experience to date around Delhi is any indication, we could expect to see farmers flush with additional cash investing in real estate in and around the cities, earning double profits both as real estate wheeler-dealers and as rich farmers.