

Agricultural Tenancy in India: Growth Promoting or Growth Retarding

S. Subrahmanyam*

Tenancy is gaining significance in Indian agriculture in recent times. It takes the form of fixed rent in the areas of assured irrigation and sharecropping in the areas of uncertain irrigation and low cropping intensity. With high use of purchased inputs like chemical fertilizers and pesticides, the importance of tenancy declined in rain-fed agriculture. There is no evidence of inter-linked transactions of land, labour and credit in the areas studied in Andhra Pradesh. On the other hand, tenancy leads to increase in labour use, cultivation of high valued crops, high participation of family labour and development of non-farm activities like dairying. Though tenancy agreements are oral and for short period, there is no frequent change of tenants. However, legalizing tenancy confers certain benefits to the tenants like access to the credit and insurance markets and removes imperfections in the land markets like choosing the tenant on the basis of caste.

I Introduction

Agricultural tenancy facilitates transfer of land from owners who are unable to cultivate their land due to economic or personal reasons to those who want to augment their land resources to make best use of the labour and other resources available to them. It exists in the form of fixed rent or sharecropping. Traditionally, tenancy is synonymous with sharecropping. A neo-classical model with constant returns to scale and perfect competition in factor markets is inadequate to explain why tenancy exists. The Marshallian model shows that sharecropping leads to inefficient use of resources as the tenant uses inputs only up to the point where marginal cost of each input is equal to a fraction of the marginal product (Marshall, 1920). This argument is not valid if the landowner shares the cost of non-labour inputs and the opportunity cost of tenant's family labour is less than the market wage rate. Cheung (1969) shows that sharecropping turns out to be an efficient system if the landowner can stipulate the labour input to be provided by the tenant and shares the cost of the other inputs in proportion to his share in output (Cheung, 1969). Both these models fail to offer an explanation for the existence of sharecropping. The Marshallian model works clearly to the landowner's disadvantage and the Cheungian model does not establish the superiority of sharecropping over fixed rent tenancy or owner cultivation. However, the presence of risk or non-marketed factors like management or the need for incentive for hard and careful work or uncertainties of employment explain the existence of tenancy (Bliss and Stern, 1982). Sharecropping is associated with inter-linkages between land, labour and credit markets. The neo-classical theory treats inter-linked markets as a method of internalizing externalities and promoting technological changes (Stiglitz, 1986). The alternative view treats inter-linking of markets as a method of surplus extraction, leaving only subsistence income to the tenant. The model shows that the landlord obstructs technological innovations due to the fear that the increased income of the tenant results in reduction in his credit needs

* Senior Fellow, Centre for Economic and Social Studies, Begumpet, Hyderabad 500 016.
The author is thankful to Prof. C.H.Hanumantha Rao and Prof. P.Venkataramaiah for their comments.