

Land Reforms and the Question of Food in Kerala

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This paper explores the idea that the decline of foodgrain production in Kerala originated in the decline of agriculture following migration to the Gulf. It is this event, it is argued, that has stood in the way of land reforms working themselves out completely, a process that may be expected to take time. The author also points out the implications of the consequent import dependence of food supply in the state.

IN perhaps his best known work on India Daniel Thorner had taken as his subject of investigation the agrarian prospect in India as forecast in the mid-fifties. Such an attempt cannot be a task for the fainthearted since for over half a century by then per capita foodgrain production had remained stagnant. While half a century may not appear an overly long period for those used to thinking in terms of millennia, it must have appeared a heck of a long time for an American economic historian. However, Daniel Thorner's concern for the stagnation of Indian agriculture can hardly be put down to any culturally driven impatience with India's slow rate of progress. From his writings we are able to sense that this concern springs from an appreciation of the central importance of foodgrain production to any serious project of raising out of poverty numbers as large as in India. To Daniel Thorner land reform was a large part of the solution even as he was not oblivious to the role of vested interests in watering down even the most radical proposals. Early on, commenting on the provisions of the UP Zamindari Abolition Act which left plenty of room for the persistence of non-tilling absentee cultivators he had noted that: "The real questions at issue were much larger than that of the feelings of particular castes or sub-castes in certain areas of UP. For no state in India - not even the recent communist regime in Kerala - has passed a land reform or agrarian relations act requiring the cultivators to till. The fact is that there is in India an age-old feeling that manual labour, physical work, is degrading... In the villages there is one sure sign by which successful cultivators show that their economic condition is improving and that they now wish to raise their social standing: they and the members of their families, stop doing the field work..." [Thorner, 1961: 6]. Later I shall have occasion to refer this observation made to the 25th International Congress of Orientalists held in Moscow in 1960. Daniel Thorner it seems had a clear idea of what land reforms mean. Legislation

which absolved the so-called cultivator from tilling did not quite add up to reform in his scheme of thought. This takes us to the idea most closely associated with Thorner and to what has been seen as the role of land reforms in general and in India in particular.

Thorner saw the agrarian structure in India as unique, combining remnants of the pre-British economic order which included above all a layered set of rights, including that of the state, to draw income from the soil in the form of rents and the modern western concept of private property. He claimed that this complex of legal, economic, and social relations served to produce a built-in effect stifling agricultural growth, and this effect he had termed "the depressor". Stagnant agricultural production restricted the home market for the developing manufacturing sector and thereby the depressor cast a pall on the entire Indian economy. There seems to have been little doubt in Thorner's mind that India's plans for economic development could not get very far without a concerted effort to remove the depressor, and land reforms were the route.

Of course, even as Daniel Thorner was propounding his view of the constraints on Indian agricultural growth the Indian state had adopted a certain position vis-a-vis land reform. A version of this is presented in the Third Five-Year Plan document from which I quote: "Land reform programmes, which were given a place of special significance both in the First and Second Plan have two specific objects. The first is to remove such impediments to increase in agricultural production as arise from the agrarian structure inherited from the past. This should help to create conditions for evolving as speedily as possible an agricultural economy with high levels of efficiency and productivity. The second object which is closely related to the first is to eliminate all elements of exploitation and social injustice within the agrarian system, to provide security for the tiller of the soil and assure equality of status

and opportunity, to all sections of the rural population" (The Third Five-Year Plan, p 220). We see that even as its implementing arm was weak the Indian state armed itself with reasoned ambition.

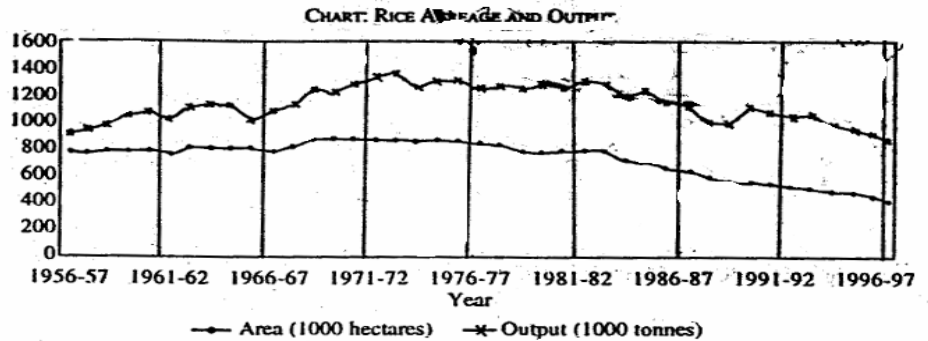
Finally, continuing with the question of what was expected out of land reforms. I turn to an entirely different segment of opinion makers set in a different period. A study on agrarian reforms in developing economies under the auspices of the International Labour Organisation in the eighties has the following to say: "Some economists take the view that the only valid criterion for judging agrarian reforms is provided by the imperatives of industrialisation, i.e. the possible movements of the marketed surplus as a consequence of agrarian reforms. At the other end of the spectrum of opinions, there are those who insist that the welfare of agricultural producers should receive priority over the imperative of rapid industrialisation." Observing that the marketed surplus can increase even in a situation of widespread starvation the study concludes that: "For buoyant growth, growth of marketed surplus, and hence the growth of the industrial sector must depend on the growth of agricultural output and not on growth of deprivation. By the same reasoning, agricultural growth must be one of the basic objectives of any agrarian reform programme, for rapid industrialisation is a necessary condition for development in the long run. To view agrarian reform as primarily a distributive mechanism is to ignore the lessons of history" [Ghose 1980: 123].

From the views expressed here which comprise those of an independent researcher, the Indian state and an international development agency we see that for over three decades during which these views were expressed there had existed a broad consensus on the likely consequences for growth of land reforms.

For close to 15 years following the formation of Kerala state in November 1956 we have witnessed a range of initiatives pertaining to the reform of

agrarian relations most of this conforming to the widely used term land reforms. These initiatives have received wide attention not only in India but also internationally. K N Raj and Michael Tharakan (1983: 31) have provided a reason for why this may have been so. They observe that "agrarian reform in Kerala over the last quarter of a century is generally believed to have been more far-reaching and effective than elsewhere in India, though carried out within the same administrative and political framework as in the rest of the country". While the question of what exactly the political leadership of the state had envisaged as the outcome when embarking upon the reforms remains, from the economist's point of view there might be expected a certain interest regarding the performance of agricultural production in the state since land reforms.

I confine attention here solely to the production of rice. Historically pulses have not figured much in Kerala's production structure as they do elsewhere in the country. On the other hand, the output of tapioca which was not only historically a staple of sorts here but was also widely cultivated, has more or less behaved akin to rice. The table presents the data on the area and output of rice production in Kerala since 1956. To start with I focus on the behaviour of output. While there are many interesting observations that may be made I make only one. By the agricultural year 1996-97 the output of rice was lower than it was estimated to have been in 1956-57. However, it is not as if rice production in Kerala has declined steadily from the very beginning of this period. Indeed the period breaks down more or less into two halves each of a rising and a declining trend in production. The year of the turnaround in the rice economy may be put down to 1974-75 when acreage under rice peaks. Since that date the trajectory of rice acreage in the state is inexorably downwards, and output follows with a lag. The key events associated with the implementation of land reforms in Kerala may be put down to span the period 1959, the date of the passing of the Kerala Agrarian Relations Bill, and January 1, 1970, the date as of which tenancy legally ceased to exist in the state. Essentially, this intervening period was the occasion of the implementation piece meal of various land reform legislations. The sixties were a period of continuous growth of output, and this dynamic appears to have carried over into the first third of the seventies. While this does not by itself establish a benign role for land reforms in the subsequent history of the growth of



rice production in Kerala – a history of unmitigated decline – it does provide reason to believe that the principal cause for the outcome needs be sought elsewhere. Indeed, I shall argue that such an explanation can be provided, and proceed to do so.

You may notice that I do not present data on the behaviour of rice yield. Actually yields have grown more or less without faltering right through the four decades since 1956. However, I do not consider increasing yield in the context of declining production, and very likely employment, a significant achievement at all. In any case, I find¹ that the increase in yield over the 25 years starting from the agricultural year 1971-72 was only marginally higher than the increase in yield over the 15-year period ending 1970-71. So while there might even be a prima facie case for arguing that land reforms have contributed to a decline in agricultural production there is not even a prima facie case for these having contributed to any increase in yield. For the remainder of my lecture I do not discuss yields.

The experience with rice production in Kerala is easily seen as the outcome of developments in a small open economy. While openness as an idea is easily understood, the reference to size is in the sense in which it is used in trade theory whereby the country's external terms of trade are given so that its producers are price takers. I consider the latter a point worth stressing in the context of Kerala. Equally, while openness may be easily understood as a concept, its implications in determining the trajectory of Kerala's economy has mostly been overlooked. This has led on the one level to a focus on the wrong variable and on the other encouraged the belief that the policy-maker has been in control.

The decline of food production in Kerala may be seen as similar to the case of a traded goods sector in a small open economy being constructed by a boom elsewhere in the economy. Referred to as the

'Dutch disease', so called to describe the decline of manufacturing in the Netherlands after natural gas was discovered there, this phenomenon has now come to be recognised as a distinct case in open economy macro-economics with a sizeable literature devoted to it. Since I consider this a worthwhile line of enquiry I spend some time on expounding the theme, and subsequently presenting a model due to Max Corden and Peter Neary (1982).

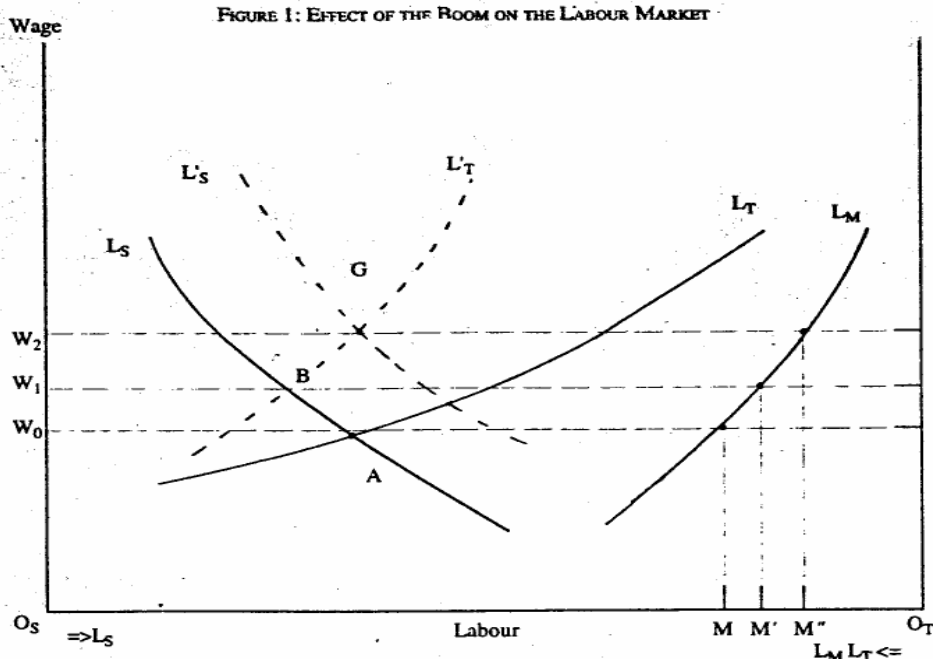
The Dutch disease, a phenomenon common to the developed and the developing economies, essentially refers to the co-existence within the traded goods sector of booming and lagging, or progressing and declining, sub-sectors. In many cases, the booming sector has been of an extractive kind – such as minerals in Australia, natural gas in the Netherlands and North Sea oil in the United Kingdom – and the sector that is placed under pressure is the traditional manufacturing sector. For this reason the resulting condition has been referred to as de-industrialisation. However, the sequence of events is generic and are applicable to situations where the booming sector is not extractive such as the displacement of older industry by technologically more advanced ones and even to the case of a boom that is occurring offshore so to speak. Indeed the results from the analysis of the Dutch disease may be profitably applied to the study of the effects of booms arising from a variety of exogenous shocks in a small open economy. To run ahead a little, it is these latter cases that are particularly relevant to Kerala.

An analysis of the Dutch disease best proceeds by a decomposition of the effects of a boom on the functional distribution of income and the size and profitability of the manufacturing sector. Consider a small open economy producing two goods traded at exogenously given world prices and a third non-traded good the price of which adjusts to clear the market. Label the two traded goods 'energy' and 'manufactures' and the non-traded good

'services' even though a range of possibilities exists. Equally, while there may be many sources of a boom in the traded good sector consider the specific case of a one-shot Hicks-neutral improvement in technology. The model is made to work by recognising two effects of the boom, namely the *resource movement* effect and the *spending* effect. The boom in the energy sector leads first of all to an increase in the marginal products of the mobile factors employed there. This draws resources from other sectors. This in turn gives rise to adjustments in the rest of the economy. It is this drawing of resources into the booming sector that is described as the resource movement effect. If the booming sector uses relatively few resources that can be drawn from elsewhere in the economy this effect must naturally be small and the main impact of the boom must be due to the spending effect. Within this model the spending effect works via the higher real income resulting from the boom leading to extra spending on services raising their price and leading to further adjustments. Naturally, the impact of the spending effect depends upon the marginal propensity to consume services. Note that while some of the spending from increased real income would automatically fall on the traded goods also, notably manufactures, in this model their price cannot rise since these are set in world markets. This has a major impact on the re-alignment of production in the economy.

(a) *The pre-boom equilibrium*

Figures 1 and 2 depict the effects of the boom on the labour market and the commodity market, respectively. In the former the wage rate (in terms of manufactures) is measured on the vertical axis and the economy's total labour supply is given by the horizontal axis $O_S O_T$. Employment in services is measured by the distance from O_S while the distance from O_T measures employment in the two traded goods sectors together. It is assumed that the demand for labour in each sector is a decreasing function of the wage rate relative to the price of that sector's output. Thus L_M is the labour demand schedule for the manufacturing sector and by laterally adding to this the labour demand schedule for the energy sector we obtain L_T the pre-boom labour demand schedule for the entire traded goods sector. Similarly L_S is the labour demand schedule for services drawn for a given price of services. Pre-boom equilibrium is at point A where the L_T intersects with L_S yielding an initial wage rate of W_0 . Figure 1, however, cannot by itself provide a complete story. Note



that the location of the L_S schedule depends upon the initial price of services and this, unlike the price of the traded goods, is not exogenous but determined as part of the complete general equilibrium of the model.

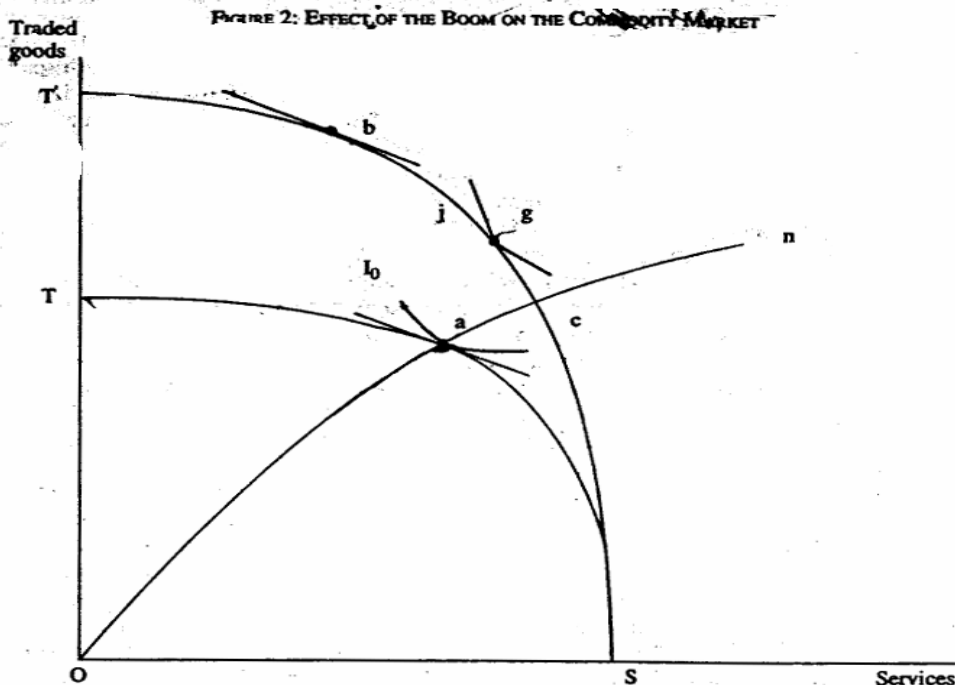
The determination of the initial equilibrium price of services may be illustrated via the Salter diagram with traded goods on the vertical axis and services on the horizontal one. Fixed terms of trade allow the aggregation of manufacturing and energy into a single Hicksian composite traded good. The pre-boom production possibility curve is TS. If indifference curves may be used to summarise aggregate demand in the economy the initial equilibrium is at point A and the price of services is given by the slope of the common tangent to the two curves at this point.

(b) *Effects of the boom on outputs*

Consider the occurrence of a boom in the form of Hicks-neutral technical progress in the energy sector. To highlight the two distinct effects of the boom described earlier we analyse their consequences separately and in turn. Further, in the case of the resource movement effect we conduct the analysis in two stages. First, the relative price of services is held constant, and then it is allowed to vary to clear the market. In terms of the two diagrams here, at the first stage, the labour demand schedule L_S in Figure 1 and the price ratio in Figure 2 are held constant.

Beginning with the resource movement effect, the labour demand in the energy sector increases. Note that the effect of the technological progress is to increase profitability at a given wage rate akin to an increase in the price of energy. Now, in Figure 1, the composite labour demand schedule L_T shifts out to L'_T yielding the new equilibrium B. This has associated with it a higher wage rate and lower employment in both the services and the manufacturing sectors. Concentrating on the manufacturing sector, we note that with employment having fallen from $O_T M$ to $O_T M'$ the resource movement effect has given rise to direct de-industrialisation. Turning to Figure 2, the boom raises the economy's maximum output of traded good but not that of services. The production possibility curve shifts out asymmetrically to $T'S$, with O_T representing the new maximum in the traded goods sector. The resource movement effect may be represented by a movement of production from a to b. The point b lies to the left of the point a since the shifting out of labour causes a decline in output in the services sector.

Since we are isolating the resource movement effect we assume that the income elasticity of demand for services is zero ignoring the spending effect. This assumption implies an income consumption curve that is vertical through a, intersecting the production possibility curve at j. We note that at the original relative price there is excess demand for



services. The relative price now increases switching demand away from the good and dampening, but not reversing, the fall in the output of services. The equilibrium point must lie somewhere between *b* and *j* on *TS'* implying that the output of services is reduced due to the resource movement effect.

Turn now to consider the spending effect on its own. To isolate the resource movement effect assume that the booming sector, energy uses no labour. This translates into the co-inciding of curves L_T and L_M in Figure 1 and no effect of the boom may be discerned here at the original relative price. In Figure 2 the boom displaces the production possibility curve vertically upward with point *b* now lying directly above point *a*. Provided that services are a normal good in the aggregate, at the original relative price the demand may be expected to grow along an income consumption curve such as on implying point *c* as indicative of demand. Once again, given the original relative price, there is excess demand for services and the price of services increases. In the new equilibrium, which must lie somewhere between *j* and *c*, the output of services is higher when compared to the original situation.

We see that while both the resource movement effect and the spending effects on their own cause an increase in the relative price of services, their impact on the output of services is asymmetrical. The former tends to reduce output while the latter tends to raise it, and there is no

presumption as to which will dominate.

The entire point of this exercise, as far as my present concerns go, is to bring out that while there may be some ambiguity regarding output response in the services sector there is none of this whatsoever in the case of the manufacturing sector. We can see this from Figure 1 directly. Allowing for the rise in the price of services the labour demand schedule for that sector must shift outwards. At the new equilibrium *G* we find the wage rate still higher at W_2 and the employment in manufacturing still lower at $O_T M'$. At the end of the analysis we see that the boom gives rise to direct de-industrialisation reflected in the lowering of output from $O_T M$ to $O_T M'$ and indirect de-industrialisation reflected in the further lowering of output from $O_T M'$ to $O_T M''$. The former is caused by the resource movement effect alone while the latter is caused by the rise in the price of services resulting from a lower output due to the resource movement effect and the higher demand from the spending effect. Since the manufacturing sector's employment unambiguously falls the same must be true of output within that sector.

(c) Effects of the boom on factor incomes

We start with a consideration of the effect of the boom on the real wage. The resource movement effect taken on its own leads to a decline in output in the services sector. This must be associated with a rise in the wage measured in terms of services. From Figure 1 we see that the

same effect raises the wage in terms of traded goods. Thus the real wage – which takes into account the prices of all goods consumed by the workers – must rise due to the resource movement effect. Now turn to the spending effect. On its own it leads to a fall in the wage measured in terms of services since the output of services has increased. On the other hand the wage in terms of traded goods rises because of the spending effect. All told, and combining the two effects, therefore, the effect of the boom on the real wage is uncertain. However, it is easy to see that a fall in the real wage is more likely the stronger is the spending effect relative to the resource movement effect and the greater the share of services in the wage basket.

The changes in the returns to the specific factors in the three sectors may be interpreted as measures of the impact of the boom on the profitability of each sector.

TABLE: RICE ACREAGE AND OUTPUT

Year	Area (1000 Hectares)	Output (1000 Tonnes)
1956-57	762.0	887.2
1957-58	766.8	925.5
1958-59	768.4	954.4
1959-60	769.0	1038.0
1960-61	779.0	1068.0
1961-62	753.0	1004.0
1962-63	803.0	1093.2
1963-64	805.1	1128.0
1964-65	801.1	1121.4
1965-66	802.3	997.5
1966-67	779.4	1084.1
1967-68	809.5	1124.0
1968-69	873.9	1251.4
1969-70	874.1	1226.4
1970-71	875.0	1292.0
1971-72	875.2	1351.7
1972-73	874.0	1376.4
1973-74	874.7	1257.7
1974-75	881.5	1333.0
1975-76	876.0	1331.2
1976-77	854.4	1254.0
1977-78	840.4	1294.6
1978-79	799.2	1272.7
1979-80	793.3	1299.7
1980-81	801.7	1272.0
1981-82	807.0	1339.9
1982-83	798.0	1308.0
1983-84	740.1	1207.9
1984-85	730.4	1255.9
1985-86	678.3	1173.1
1986-87	663.1	1133.8
1987-88	604.1	1032.6
1988-89	577.6	1002.3
1989-90	583.4	1141.2
1990-91	559.5	1086.6
1991-92	541.3	1060.4
1992-93	537.6	1084.9
1993-94	507.8	1003.4
1994-95	503.3	975.1
1995-96	471.2	953.0
1996-97	431.0	871.0

Source: Kerala State Planning Board.

To keep things focused, we may confine ourselves to the manufacturing sector. It is clear that profitability in the manufacturing sector must unambiguously fall because of the rise in the wage relative to the price of traded goods brought about due to both the resource movement and the spending effects.

We are now in a position to summarise the essential results of the literature on the Dutch disease as they pertain to the manufacturing sector. When de-industrialisation is defined as a fall in output and employment in manufacturing, there must be de-industrialisation in this model provided there is any spending or resource movement effect. Profitability in manufacturing must fall when measured in terms of traded goods and, when there is a rise in the price of services, even more when measured in terms of services. Furthermore the balance of trade in manufacturing must deteriorate since domestic spending increases (so long as manufactures are a normal good) due to the boom while output in this sector has fallen.

Thus far in the analysis only labour has been considered to be mobile. Once we allow for the mobility of capital across sectors—depending upon the relative factor intensities of the traded and non-traded goods—several alternative outcomes are possible including so-called pro-industrialisation or the expansion of the manufacturing sector. I do not pursue this line of analysis because I do not find capital mobility particularly relevant to the context. Instead, I now propose an explanation of the decline in rice production in Kerala.

The standard version of the Dutch disease has concentrated on the case of a booming natural resource sector exerting a squeeze on the manufacturing sector, the boom itself having been caused by a fresh discovery of the good or technological progress in the production of it. However, as I have already indicated, the formal structure of the model is consistent with many alternative interpretations concerning both the structure of the economy and the source of the boom. This I exploit to provide an explanation of the decline of agriculture in general and food production particularly in Kerala.

The decline of rice production in Kerala since the early seventies may easily be explained within the framework of open economy macro models developed to account for the Dutch disease. Within the specific version that we have just looked at this only requires that 'manufacturing' is replaced by 'agriculture' and that the boom in the domestic energy sector be

replaced by a boom offshore. In the very same Figure 1 then the labour demand for the energy sector may be replaced by demand for domestic labour to service this offshore boom, you may call it labour exports. Indeed the specific reality of Kerala was that starting the early seventies there has been an expansion in the demand for migrant labour following the rise in real income in the Arabian Gulf region being the bounty of the fourfold hike in oil prices in 1973. So it has even been an energy sector that has boomed, though not the domestic one. I find this application of the standard model quite persuasive. Neither the assumption of full employment equilibrium in the original version nor the feature of a single economywide wage rate need lead to our baulking at its use. The role of full employment in the original model is to ensure that the resource movement effect always bites in that every outflow of labour from a line of production or sector in the language of the model leads to a decline in output. The observation in an economy of unemployment per se does not guarantee the free flow of labour between lines of production within an economy. If the hubris that allows for the appeal to the idea that 'nature abhors a vacuum' is foolhardy in the context of the industrial economies we ignore the highly segmented labour markets of traditional agricultural labour markets only at our own peril. In particular, I refer to a long-term feature of the labour market in Kerala, prevalent into the seventies, that not all occupational boundaries disappeared fast enough as wages altered. Thus any outflow of labour traditionally engaged in agriculture does not necessarily lead to this being filled by labour inflow from among the unemployed within the economy.

Coming to wages, it is not necessary to insist on interpreting the model as predicting a wage rate common to all sectors of the economy and therefore being irrelevant for a situation with market segmentation. Where historic wage relativities tend to be preserved the change in the wage rate within the model may be seen as indicating, correctly, the direction of change of the entire wage structure.

Finally, while the standard model of the Dutch disease is a static general equilibrium model with all its limitations when used to analyse developments occurring in an economy over a 25-year period it does score in providing an economy-wide angle with certain distinct advantages which I shall return to. However, the model's alleged strengths are its weakness too. It is economicistic so to speak and has no room

for sociological factors which can be as important. For instance we cannot escape from a serious consideration of traditional social attitudes towards manual labour referred to by Daniel Thomer which alone can account for the decline in the once steady supply of female agricultural labour so vital to the cultivation of paddy. However, even here the primary role is that of the boom and this is captured sufficiently well by the model.

Two pieces of evidence with respect to the evolution of Kerala's rice economy give me reason to believe in the validity of the explanation that I have proposed, this explanation, let me emphasise, being that the origin of the agricultural decline lies in the exit of labour from the sector. The first of these is that area under cultivation peaks in the very first year after the quadrupling of the price of oil in the winter of 1973. It has not escaped my attention though that this is altogether too neat! Therefore, I prefer to highlight the second piece of evidence that I refer to, that the behaviour of real wages—of male and female agricultural workers—and the output of paddy in Kerala since 1973 is in line with the predictions in the model of the Dutch disease. That is, the real wage has risen as the output has fallen. This would not have been worth mentioning for even a moment if the very same relationship had not puzzled some earlier researchers. Thus in the well known compilation of a real wage series for agricultural workers by A V Jose the author remarks on the egregious behaviour of these variables in Kerala which singles it out from the rest of the country. In most of the states of India agricultural production and real wages were found to have moved together. However, it was found that in Kerala the real wages of male and female agricultural labour have increased while agricultural production has declined. Since Jose's study is largely empirical in its approach it is not clear from what perspective the surprise need be expressed. However, I might make one comment even as I pass. This is that from Jose's data I am now surprised to find that the extent of increase in the real wage for male agricultural workers over the period 1971-1985 is actually lower than the extent of its increase over 1956-71. Of course, I am surprised only to the extent that this goes against the requirements of an explanation based on a faster growth of wages. However, while it may pose some problems to those who attempt to explain the decline of production in terms of high wages it poses no particular problems to the explanation of the same phenomenon as a case of the Dutch disease.

For in that story the wage is endogenous, ergo it can have no explanatory power per se. A pointer from the model is that the wage rate is determined by economywide factors, something that is missed when the focus is on the relation between wages and employment in the agricultural sector alone. Studies in the latter mode exist of course and routinely claim to have provided an explanation of declining production by pointing out that real wage growth has exceeded the growth of yield (a proxy for labour productivity when fixed proportions are assumed in the technology). Observe that this cannot by itself be considered an explanation. At best, it only succeeds in pointing out that the relationship between output and some key variables is in line with a version of the neo-classical model of profit maximisation. By contrast, an application of the model of the Dutch disease does succeed in providing an account of the origins of the decline of agriculture in Kerala and in predicting accurately some of the subsequent sequences. In conclusion, I wish to add the caveat that the real wage data of AV Jose, upon which many commentators including I have relied is in terms of a basket of commodities while most theoretical explanations of the trajectory of output are based on the product wage. Perhaps some young graduate student in this audience would be sufficiently enthused to check whether that which has been claimed for the behaviour of wage rates in terms of a basket of commodities also holds for the wage rate in terms of the price of paddy, the so-called product wage.

I presume that I have been able to make a reasonable case for the view that the decline of rice production in Kerala has little to do with the land reforms that have preceded it. I have argued that it has instead to do with the flight of labour from this sector consequent upon the boom in the Arabian Gulf. However, I am yet to get rid of two potential arguments that link land reforms with the decline. Both these are of a mould which suggests that the nature of land reforms in Kerala and the manner of their implementation may have created the pre-conditions for migration.

It may be argued that one of the consequences of land reforms in Kerala is to have created a labour market where one did not exist. While to those familiar with the situation this would be of no surprise, the creation due to land reforms of a labour market is not an obvious consequence and the very possibility needs to be explained. What I refer to is the destruction of an institution peculiar to Kerala, an institution

which, curiously, is best recognised in terms of the nomenclature of the rights accorded to one set of participants. I refer to the arrangement whereby families were permitted to set up a 'kudil' or hutment on landed property upon the understanding that they participated in the agricultural activity of the 'janmi' and even of his or her 'kudiyaa' in return for the right to habitation. This institution is to be seen as a timeless arrangement central to feudalism in Kerala, and its principal role was to ensure a supply of labour. In the context of agricultural production, especially where commercialisation was less than complete, the guarantee of labour supply was of far greater importance to the functioning of the system than the fact that it was cheap, an observation which has been made even as it is of dubious significance while referring to a situation where a labour market did not exist, which in turn renders comparison with the market wage entirely hypothetical. I digress here to state that in perhaps the only case of a somewhat hasty over-generalisation that I encountered in Thorner's work was his view, based on some work on Rajasthan by European historians, that feudalism as a category does not apply to India. For Kerala where this term has entered common parlance when speaking of the past and where the claim has even been made of the evidence of agrestic slavery this seems particularly off the mark. Be that as it may, though, Thorner's comment that it may be unsound to conceive of agrarian India in terms of an evolutionary sequence from feudalism to capitalism to socialism has not only proved to be prescient, it evokes our admiration in that it was made as early as 1960. We were still over a decade away from the full flowering of the 'mode of production' debate in India!

In a provision unique to the legislation in Kerala land reforms here left the members of each hutment entitled to ten cents of land surrounding the kudil on grounds of 'kudikidappu' 'avakasam'. This had the immediate effect of alienating the beneficiary from the existing labouring arrangement, leaving him and his family free agents so to speak. It is in this sense that we may speak of land reforms having created a labour market where it did not exist hitherto. However, by the seventies this arrangement is likely to have been largely confined to the erstwhile Malabar District while the decline in rice production has been pretty much uniformly spread across the state. As for migration to the Gulf the districts recording the largest migration are Malappuram, Thrissur and Thiruvananthapuram.

The second of the two arguments linking land reforms to the decline of agriculture in Kerala is perhaps a more roundabout one. It might be initiated by asserting that the very fact of migration from agriculture lets us infer that land reforms had not succeeded in vesting ownership of land in the hands of the tiller, succeeding only in transferring it to the intermediary. If established, this would be a serious indictment of a programme led by a political party committed to the ending of land-lordism. However, this would yet leave the argument to deal with the counterfactual of how tillers of the soil had they been beneficiaries of land reforms would have responded to an increase, in this instance quite phenomenal, in the ex-farm wage rate. There is of course no reason whatsoever to presume that the peasantry – being used here without the slightest normative associations given to this term by both the Marxists and the Chayanovians, but only in the descriptive sense meaning household producers – would not shift out of agriculture as ex-farm wages and the probability of finding employment increases. This was indeed the presumption underlying the standard problematic in the conventional formalisation of dualism and the associated phenomenon of migration out of the family farm. To recognise that not even the peasant household is impervious to a rising off-farm income opportunity alerts us to the folly of accounting for the decline of agriculture in Kerala by focusing on intra-farm variables. I have already referred to studies that point out the differential rates of growth of real wages and productivity as the factor accounting for the phenomenon. It is easy to see, at least by now, that this line of reasoning leaves out altogether the opportunity cost of engaging in agriculture. For it is not only the hypothetical peasant of our consideration but also cultivators using hired labour who could be motivated by a higher alternative rate of return. Indeed for many an agriculturist in Kerala this has not even required migration, for the conventional multiplier effect has brought the offshore boom to their doorstep. The price of land has been bid up, partly also by speculation, to levels far exceeding the capitalised value of ground rent. The paddy field had become real estate.

In the prototype model of the Dutch disease presented here the spending effect of the boom is on 'services'. Note that the characteristics of the good are not particularly relevant here. The idea meant to be conveyed is that of a good the price of which is set on the domestic as opposed

to the world market, and the price of which varies according to market conditions. It is easy to identify the segment of the Kerala economy which has been the focus of the spending boom, itself identified as the second round effect in the model of the Dutch disease. In Kerala the focus of the spending boom with the most immediate impact on the economy has been construction.

With reference to the decline of the agricultural sector in Kerala one role of heightened construction activity has been to alienate hitherto agricultural land, a type of resource-movement effect that cannot be captured either by focusing on the effect of the boom on the labour market as I have here in Figure 1 or by focusing on producer equilibrium within the framework of the neo-classical theory of the firm as has been done by some researchers. Thus migration out of the state and the combined loss of land and labour to the non-agricultural sector have acted as a pincer movement on Kerala's agriculture, starving it of resources. Needless to say, of the two the latter movement has been far less important. Nevertheless, these two together explain sufficiently well the acreage and output trends with respect to paddy cultivation presented earlier on by me.

Having put forth my argument, I am encouraged to find myself in the respectable company of the president of the Janadipathya Samrakshana Samiti. Speaking recently near Mavelikara, where she had stoutly defended the rights of Malayali farmers to grow exactly what they pleased, Gowriamma had also chosen to provide an explanation for why farmers did not grow paddy. She is reported² to have argued that this was due to the shortage of labour. Clearly, the lady has a model up her sleeve!

I now turn to the consequence for the Kerala economy of a declining production of rice. This is relatively easy to see. Obviously, the increasing shortfall in requirement is now being met by inflow into the state from the rest of India. As would be expected this has been from two sources, private suppliers and the so-called central pool of grain maintained by the government of India. In a marked difference from the situation in most of the major states of the union a substantial part of the inflow into Kerala is made up by the latter source of supply.

What sort of figure may we reasonably place on the first source, supply by the national market? Above all, why do we need to know this? It has long been customary for the government of India to

publish the statistic 'public distribution as a proportion of total availability' for the economy as a whole. Availability is itself defined as production less provision for seed plus net imports. A similar estimate of availability for each of India's states is more difficult to arrive at due to the difficulty of estimating inflow into the state from the rest of the country. However, I might state at the outset that for the argument I am set to make now such an estimate is not necessary. Nevertheless, to provide some perspective I draw attention to one of the relationships on which data may be had. This comprises the relative magnitudes for Kerala of rice production and the amount of grain distributed under the public distribution system in the state. For the most recent data points available, the figures are 8,71,000 tonnes and 16,08,000 tonnes, respectively. This implies that the grain distributed exceeds domestic production by close to one hundred per cent.

The dependence of the state on grain distributed under the public distribution system has several implications. Of these, however, one stands out and this is that the state now loses any control that it may reasonably have had over the supply price of grain. This immediately casts such policy as the state might wish to adopt in a purely reactive mould. Prior to arguing why this is inevitably so, however, I make two related observations on the public distribution system. The first is the relatively straightforward one, in my view overlooked, that the existence of any scheme of rationing ought not to be mistaken for a strong economy. It is a safety net and one of the many that all civilised societies must provide. However the backbone of an economy it is not and it cannot ever seriously be taken to be for that position can only be credibly occupied by productive activity. Even if reference to the rice distributed under the public distribution system as "unfit for human consumption" made³ recently in Thiruvananthapuram by a former Malayali minister of civil supplies at the centre presently out of office ought to be taken with a pinch of salt, the provision of fixed quantities of inferior quality grain, even though at less than current market prices, should be seen as a second best supply-side arrangement. Obviously, the first best solution is that of expanding incomes via steady and widespread employment opportunities ensuring adequate access to good quality grain. It is clear that the route to this is a vigorously productive agricultural sector combined with a dynamic non-agricultural sector. To completely appreciate the role of the

public distribution system it helps to recall that it has its origins in the statutory rationing imposed by a panic-stricken British colonial administration in 1943. Recognising the implications for rice supply of the fall of what was then Burma to the advancing Imperial Japanese Army and the determination to maintain at all costs defence production supplying the war effort in Europe, which in turn required the keeping of the peace, an embattled government of India introduced compulsory rationing in the major urban conurbations of the country. This is also the origin of the so-called urban bias of the public distribution system even today. It prompts one to appreciate the comment by Daniel Thorner (1961: 12), albeit in another context, that "...the transition from British rule to independent India has been a fairly conservative process". That such a bias is absent from Kerala is due to both the greater political awareness of its people and the pattern of settlement of its population. Be that as it may though, I repeat, the existence of a widespread public distribution system is not by itself the sign of a strong economy exactly as a widespread network of free markets per se can never be either.

I now turn to the second observation that may be made about a public distribution system. This is that a proper evaluation of food policy ought not to be whether the PDS price is less than the current open market price. This is, quite literally, a static exercise. Of course, in equilibrium, under rationing this must be so for there to be any offtake. The comparison must be between the current price of food and the likely price in an alternative arrangement. In particular, the focus of our attention must be on whether policies cannot be devised to affect the market price itself. Otherwise, we should be content to live with an arrangement whereby the ration price is always lower than the market price, as under the Indian public distribution system, but these prices may themselves rise continuously. This can hardly be considered an arrangement conducive to food security. It leads me directly to the question of the determination of the open market price of grain in India and its implications for deficit states such as Kerala.

The government's role in the food economy of the country has entailed procurement and distribution. Over time procurement has come almost entirely out of domestic production, ridding the economy of dependence on imports. The last is an achievement of some significance given the not-so-distant experience of the drought of the mid-sixties when the country

received American wheat by the discontinuous shipload a strategy reportedly described by Lyndon Johnson as having been devised to "keep India on a short leash". Stung, the proud and patriotic Indira Gandhi had sprung a sleeping government machinery into action. The so-called Green Revolution that followed led to a phenomenal increase in production. To put this in perspective, the annual average rate of growth of wheat in the 15-year period since the mid-sixties is comparable to that attained by the leading wheat producing nations of today in their heyday. As has been noticed the record with respect to the rice crop is less spectacular. However, the geographical base of the Green Revolution in India has ensured that the increase in the rate of growth of production has been accompanied by a concentration of the marketable surplus in the hands of farmers from the concerned regions. For this reason farmers from Punjab, Haryana and western Uttar Pradesh have come to exercise disproportionate power over the process of the determination of the procurement price. Evidence of this is seen in the feature that while there may have been a much higher rate of growth of output since the mid-sixties there has also been a much faster increase in food-grain prices. Or to put it in another way we may say that it is no longer surprising that prices have increased so much even as output has grown so fast. The economist who most effectively popularised the idea that government intervention in India's grain markets is an entirely political affair is Ashok Mitra (1978). However, the germ of the idea is already contained in a paper by Dantwala (1967) which had appeared over a decade earlier where he refers to the case of procurement price setting as a reflection of what he terms the growing irrelevance of economics in planning. It is interesting that this paper was written barely two years after the practice of price intervention was launched. The point of my raising this here is to suggest that we need to probe a little the rationale of government intervention before accepting that it is well designed. Is the system geared towards the maximisation of procurement or to the expansion of the access to food? The pattern of stock holding by the Food Corporation of India suggests that the former might be the case. And in this effort to understand the workings of the system, little is to be gained by pointing out that since the mid-sixties the share of public distribution in total availability has increased. This is only to be expected, for as open market prices are driven-up by the continuous raising of procurement prices

sections of the population whose incomes do not keep pace are poorer and need to take recourse to the safety net that is the PDS.

The concentration of the marketable surplus of grain among farmers of selected regions, and in this case contiguous ones too, of the country introduces a feature which has two dimensions. At the macro-economic level, the implication of regional imbalances is that the Indian state has a disciplining problem on its hands. The origin of this is easily seen in terms of what is referred to as 'supplier power' in industrial economics. However, in the arrangements peculiar to India the farm lobby is twice blessed. The fact that the government stands by to purchase all grain offered to it means that the supplier power of the surplus farmers can never be checked by a countervailing buyer power as in a bilateral monopoly. Viewing from above, or to take a macro perspective, we are easily able to see that the proposal for the removal of regional imbalances should be seen as a move towards the strengthening of the hands of the centre. A regionally balanced growth enables the Indian state to be even-handed in a way that it is unable to be as of now, thus providing the pre-conditions for a nationally acceptable food policy.

Now to view the situation bottom-up so to speak, or, to take a micro perspective. This shows us that for the deficit state such as Kerala the flip-side of supplier power is that the state government can have no control whatsoever over the supply price of grain. Note that here the existence of a public distribution system is no consolation. From the beginning it has been made clear that the issue price, or the price at which the government releases grain to the states, will be a mark-up over the procurement price. Hence, while some temporary relief may be available, the central government's inability to deal effectively with the public finances has meant the periodic raising of issue prices, the most recent instance being only a few weeks ago. This means that the price at which the people of deficit states are to receive grain will be essentially determined by the influence of the surplus farmers elsewhere. This is one aspect of the question of food in today's Kerala, and it is inextricably linked to the decline of its own grain producing capacity.

Any argument regarding the role of government intervention requires that we ought to be able to refer with some confidence to the nature of certain relationships, notably among them being the relationship between the procurement price

and the open market price and that between the issue price, the open market price and the offtake from the public distribution system. These are, I believe, adequately established in my work with Bharat Ramaswami financed so generously by a grant from a research project co-ordinated by the late T N Krishnan [Balakrishnan and Ramaswami 1999].

I have explored here the idea that the decline of foodgrain production in Kerala originated in the decline of agriculture following migration to the Gulf. I have also pointed out the implications of the consequent import dependence of food supply in the state. I desist, however, from embarking upon a discussion of a strategy for arresting the said decline. My objective has been more to identify the reasons underlying the latter which has proved to be a substantial task in itself. Nevertheless attempting this task has left us with some clues as to what may be expected in the immediate future and it is to this that I turn even as I conclude.

While we might use models when they illuminate we ought to resist the temptation of seeing economies rather like certain mechanical devices that may be put to work in all directions. In the context, what may have held for the boom does not necessarily hold in reverse as the boom dies down, which it inevitably must do. Thus the presumption of 'homeostasis' or the replication of the original situation once the disturbance subsides may not be warranted. Indeed that was the very concern with the Dutch disease, that once the boom was over the manufacturing sector in the Netherlands would never really come back, that economies might permanently lose their competitive advantage in certain areas of production in return for temporary good fortune. The loss of competitive advantage in this context is itself best understood in terms of loss of potential productivity growth due to learning-by-doing which it is that leads to continuous shifts outward of the supply curve. A decline in output implies a lower level of accumulated experience and thus a permanently lower level of productivity. It is also worth noting that, when output has been kept down for a substantial period, recovery is hampered by the fact that history pins down the equilibrium. This feature has often gone by the name 'hysteresis' and has been used to highlight the problem of unemployment in the west of Europe and stagnation in its east. It has a direct bearing on what we might reasonably expect for Kerala agriculture in the near future.

Having started out discussing the theme of land reforms and the question of food

in Kerala I have ended up devoting a substantial attention to the Gulf boom. This appears to have been unavoidable given the extent to which this event has affected the economic landscape and productive fabric of the state. Arguably it is the event that has stood in the way of land reforms working themselves out completely, a process that may be expected to take time. An offshore boom from which one might nevertheless benefit ought not to be mistaken for prosperity on your shores. Any sustainable plan must have as its centrepiece domestic production within which agriculture must of course have a major part. To this is tied the question of food, for it is production that ensures both a continuous expansion of incomes and a steady increase in supplies. We are back to the objectives originally identified for but not fully attained by land reforms as implemented thus far in Kerala.

Notes

[This is the text of the Eighth Daniel Thomer Memorial Lecture delivered at the Centre for Development Studies, Thiruvananthapuram on February 25, 1999. For professional support and financial assistance in connection with the research underlying this paper I thank my own institution, the Indian Institute of Management, Kozhikode. It was Saradmoni who proposed that I speak on this topic and who remained enthusiastic and encouraging. Max Corden took me through his model of the 'Dutch disease' over e-mail. My students Apurva Owalekar and M Suresh Babu helped me prepare some of the material presented here. The Institute for Social and Economic Change at Bangalore granted me access to their library. For all of this I am grateful.

To economists of my generation Daniel Thomer is a somewhat distant figure, a name from Indian economics of the fifties. As students we had known of his lectures on land reforms at the Delhi School of Economics and of his perhaps more widely quoted work with his wife Alice. Over two decades later when I was invited to deliver this lecture I had the opportunity of reading not only a large part of his professional corpus, but also about him. The latter has proved to be equally interesting. My main source has been the article by Alice Thomer (1982) entitled 'Excerpts from an FBI File' published in the *Economic and Political Weekly*. The article mostly comprises raw clippings from FBI files now available in the public domain after the lapse of the period for which the dictates of official secrecy requires of the American state no such disclosure. These clippings make fascinating reading and help one imagine both the life that Daniel Thomer had attempted to lead and the political circumstances that had crowded him in as a free-thinking individual. However, one can always read into them a lighter side. For instance, in 1953 the United States Department of State had requested the American Consul in what was then Bombay to have Thomer sign an affidavit whether or not he was or had ever been a member of the Communist Party and whether or not he had had any part in the making of the book *American Shadow over India* then recently published. What

appeared to bother the State Department was that the Indian author of the book *...* their view calculated to do harm to American interests. India - had expressed his debt to an American friend who had furnished material, time and energy for this book but who wished to remain anonymous. While it may not have been entirely unsound of the authorities to have imagined that the 'American friend' in question may have been Daniel Thomer, then actually travelling through India, it is the reason given that is noteworthy. The memo item, believed by the State Department to clinch the issue, was that the "meticulous indexing, use of footnotes and heavy economic approach to the subject" [Thomer 1982: 882] was characteristic of Thomer. It is encouraging to note that not even the secret service can resist the seductions of scholarship.


Daniel Thomer, however, was not content with scholarship. He went on to do some important work on Indian agriculture which, what is more, was based on considerable field work. And as a free thinker he appears to have been not content with having invited the attention of the infamous Committee on Un-American Activities, itself a thinly veiled front for authoritarianism. In India he mentions having disappointed what he affectionately terms the panchayat of Indian economists. This time it was that in Delhi in the early seventies he had dared to revise his earlier, somewhat pessimistic, view of the prospects for Indian agriculture, now actually being optimistic about it. Daniel Thomer appears to have led somewhat of a full life!]

- 1 Data with the author.
- 2 *The Hindu*, Chennai, January 22, 1999.

See report in *The Hindu*, Chennai, February 16, 1999.

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NATIONAL CENTRE FOR GENDER TRAINING, PLANNING AND RESEARCH

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