

Chapter 6

Growth of Cash Rent Tenancy and Modernisation of Land Lease Market in Punjab

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The main objective of this chapter is to show that nature of farm tenancy and land lease market in Punjab has completely changed over the Green Revolution period. The traditional share tenancy has been almost completely replaced by modern cash rent tenancy. The profile of lessors and lessees and nature of land lease market transactions has completely changed, and a competitive modern land lease market has become firmly established. But the tenancy laws of the state have not changed in line with the development of modern tenancy over this period. The tenancy laws of the state enacted in the 1950s, suitable and relevant for a regime of share tenancy and small weak tenants, are still in operation. These tenancy laws have become not only outmoded and irrelevant in the new complexion of land lease transactions, but also a major impediment in the full flowering of modern land lease market and structural change in agriculture. The existing tenancy laws of the state, therefore, need to be modernised to bring these in line with the new realities of land lease market transactions. The evidence on the changed nature of tenancy in Punjab is presented and evaluated in Sects. 6.1 and 6.2, profitability of cash renting is evaluated in Sect. 6.3, the factors responsible for the growth and dominance of cash rent tenancy in Sect. 6.4, and the need for and elements of modern tenancy laws are discussed in Sects. 6.5 and 6.6, that is followed by conclusions.

6.1 Growth of Cash Rent Tenancy in Punjab: The Evidence

Farm tenancy is a universally prevailing institutional mechanism through which land owners not wanting to or able to cultivate their own land rent it out to others to cultivate it for a specified period in exchange for a pre-agreed payment. Farm tenancy as an institution is very old and has existed in pre-modern as well as in modern societies, though its nature and form changes in response to the level of

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agricultural technology, commercialisation of agriculture and level of development of the country. In pre-modern traditional agriculture, share tenancy is the dominant form of farm tenancy, and rent paid to the landlord takes the form of a fixed share of farm produce. In modern agriculture, on the other hand, fixed cash rent tenancy prevails and rent paid to the landlord is a fixed amount of cash per unit of land. In the evolution of agriculture in developed capitalist countries, this has been the universally observed pattern; however, the rate and shape of shift from share tenancy to fixed cash rent tenancy has varied from country to country.

6.1.1 Growth of Cash Rent Tenancy in Punjab: Comparison with Other States

The modernisation of agriculture is occurring in all the regions of India, albeit at different rates and in different patterns. Among the states of India, the modernisation of agriculture has been the fastest in Punjab, and by now it has reached an advanced stage, whatever the indicator of modernisation one uses; degree of commercialisation, degree of mechanisation, yield rates, level of production efficiency, evolution of farm size structure or any other. The modernisation of agriculture being the most advanced in Punjab among states of India, the growth of cash rent tenancy has also been the fastest. By now, cash rent tenancy has become dominant in Punjab, and share tenancy has been almost completely eliminated. The comparative information on the proportion of fixed cash-rented area in total leased in area for major states of India for the year 2002–2003 (from NSSO 59th Round) presented in Table 6.1 clearly shows how advanced is Punjab agriculture in the prevalence of cash rent tenancy. In 2002–2003 (the latest year for which comparative state-wise NSSO data are available), 80 % of total leased in area in Punjab was leased in on fixed cash rent basis; compared to 30.17 % in India as a whole. In fact, except for the neighbouring State of Haryana, the growth of cash rent tenancy has not yet crossed even the one-third share of total leased area in most of the other states of India. The uniqueness of the fast growth of cash rent tenancy in Punjab is highlighted by the fact that in seven out of the 20 major states of the country the fixed cash-rented area in total leased in area is less than 20 %. Not only cash renting of land is much more developed in Punjab compared to other states, but also land leasing itself has grown at a fast rate. In Punjab, in 2002–2003 about 18 % of cultivated area was leased out to tenants (the highest among major states), compared to just 6.6 % in the country as a whole, and less than 3 % in 5 major states. The information given in Table 6.1 leaves little doubt about the complete dominance of fixed cash rent mode of leasing land and quite high development of land leasing itself in Punjab.

Table 6.1 Extent of land leasing and cash rent tenancy: Punjab and other major states of India (2002–2003)

| Sr. no. | State | Proportion of leased in area in total operated area (%) | Proportion of cash-rented area in total leased in area (%) |
|---------|------------------|---|--|
| 1 | Punjab | 17.83 | 80.30 |
| 2 | Haryana | 14.38 | 73.72 |
| 3 | Kerala | 4.18 | 40.11 |
| 4 | Rajasthan | 2.82 | 36.39 |
| 5 | Karnataka | 3.68 | 33.26 |
| 6 | Tamil Nadu | 6.11 | 32.59 |
| 7 | West Bengal | 9.39 | 30.16 |
| 8 | Maharashtra | 4.59 | 28.91 |
| 9 | Andhra Pradesh | 10.02 | 28.45 |
| 10 | Madhya Pradesh | 2.80 | 27.71 |
| 11 | Himachal Pradesh | 2.87 | 24.67 |
| 12 | Uttar Pradesh | 9.77 | 24.15 |
| 13 | Uttaranchal | 3.49 | 24.07 |
| 14 | Assam | 5.04 | 16.51 |
| 15 | Chhattisgarh | 5.41 | 14.50 |
| 16 | Bihar | 11.75 | 12.94 |
| 17 | Orissa | 13.15 | 10.96 |
| 18 | Gujarat | 5.08 | 9.45 |
| 19 | Jammu & Kashmir | 0.32 | 7.82 |
| 20 | Jharkhand | 2.08 | 2.18 |
| | All India | 6.60 | 30.17 |

Source NSS Report No. 492: some aspects of operational land holdings in India, 2003

6.1.2 Evolution of Cash Renting in Punjab over Green Revolution Period

The growth of cash rent tenancy in Punjab over the Green Revolution period is pictured in Table 6.2 on the basis of NSSO data. In 1971–1972, about 29 % of leased in area in Punjab was contracted on fixed cash rent basis, compared to about 15.42 % in the country as a whole. Between 1971–1972 and 1981–1982 (the early phase of green revolution), cash-rented area in total leased in area rose to 42.13 % in Punjab; whereas in India as whole it declined to 10.86 %. The growth of cash rent tenancy in Punjab in the next 10 years (1981–1982 to 1991–1992) was slower, from 42.13 to 49.20 % of the total leased in area. The maturing of green revolution in Punjab gave a further push to the growth of cash rent tenancy, the cash-rented area proportion in leased in area reaching 80.30 % by 2002–2003. The NSSO

Table 6.2 Growth of cash rent tenancy in Punjab agriculture

| State | Percentage of fixed cash-rented area in total leased in area | | Source of information |
|-----------|--|-----------|---|
| | Punjab | All India | |
| 1971–1972 | 29.08 | 15.42 | NSS, 26th round |
| 1981–1982 | 42.13 | 10.86 | NSS, 37th round |
| 1991–1992 | 49.20 | 19.00 | NSS, 48th round |
| 2002–2003 | 80.30 | 30.17 | NSS, 59th round |
| 2010–2011 | 90.42 | – | Primary survey of 300 farms conducted in May–July 2011, Institute for Development and Communication, Chandigarh |

information is available right now only up to 2002–2003, but a random survey of 300 farms conducted by the author in connection with a Punjab Government project indicated that by 2010–2011 the share of cash-rented area in total leased in area in Punjab has reached 90.42 %. The information displayed in Table 6.2 clearly suggests the following conclusions: (i) the growth of cash rent tenancy in Punjab over the Green Revolution period has been quite fast and much faster than in the other states of India; (ii) by now, cash rent tenancy in Punjab has almost completely replaced the traditional share tenancy; (iii) the growth of cash rent tenancy over this period has not been at the same pace throughout; it has been faster in the early phase and the mature phase of green revolution, but slower in the middle phase.

6.1.3 Regional Variations in Growth of Cash Rent Tenancy

In spite of Punjab's small size and compact structure, some regional variation in the development of cash rent tenancy is also observable. The information from the 2010–2011 survey referred to earlier presented in Table 6.3 indicates that cash rent tenancy is more developed in the central and Northern Malwa zones of the state where 93.23 and 96.55 % of leased in area, respectively, is contracted on cash rent basis. Even in the Eastern Malwa zone, share of cash-rented area in total leased in area was more than 90 %. The share of cash-rented area in total leased in area was lower in the foothills zone (87.65 %) and the southern western Malwa zone (82.35 %) of the state. It may be mentioned that in both these zones rice–wheat rotation cultivation is less dominant than in the Central zone and the two Malwa zones of the state; maize and sugarcane being the important crops in foothills zone, and cotton in the southern western zone. It may also be emphasised that the regional variations in the development of cash rent tenancy in Punjab being moderate (the range being 82.35–96.35 %), one can say that cash renting is the dominant mode of land leasing throughout the state.

Table 6.3 Regional variations in extent of cash rent tenancy (2010–2011)

| Zone | Districts in the zone | Main crops | Percent of cash-rented area in total leased in area |
|------------------------|---|--|---|
| Punjab | All | Wheat, rice, cotton, sugarcane and maize | 90.42 |
| Foothills | Gurdaspur, Pathankot, Hoshiarpur, Roop Nagar, Nawan Shaher, SAS Nagar | Wheat, rice, maize and sugarcane | 87.65 |
| Central | Amritsar, Tarn Taran, Jalandhar, Kapurthala | Wheat and rice | 93.23 |
| Northern Malwa | Ludhiana, Moga, Fatehgarh Sahib | Wheat and rice | 96.55 |
| Eastern Malwa | Patiala, Sangrur, Barnala | Wheat and rice | 91.35 |
| Southern western Malwa | Bathinda, Mansa, Faridkot, Ferozepur, Mukatsar, Fazilka | Wheat, rice and cotton | 82.35 |

Source Primary survey of 300 farms conducted in May–July 2011, Institute for Development and Communication, Chandigarh

6.2 Changed Profile of Land Lessors and Tenants

6.2.1 Profile of Land Lessors

One of the factors responsible for the shift to cash rent tenancy is the completely changed profile of land lessors. In the pre-green revolution traditional agriculture, the typical land lessor was a big semi-feudal landlord living in the village and dominating the rural sector. But now it is mostly the small land owners who are renting out land or the big owners who have left the village for good and have settled in the urban sector. The information on the relevant features of land leasing out households for the year 2002–2003 (NSSO, 59th Round) is presented in Table 6.4. Out of the 14.65 lakh land-owning households in the state, 5.22 lakh households (35.63 % of total) were not cultivating any land; obviously they were leasing out their land to others for cultivation. Out of these 5.22 lakh land leasing out households, 48.73 % resided in rural areas and 51.27 % in the urban sector. The owned land size-wise distribution of these non-cultivating land owners shows that 87.17 % of them owned less than 1 ha of land; another 4.98 % of these owned between 1 and 2 ha. So, more than 90 % of land leasing out households were small owners having less than 2 ha of land. It may also be observed that most of the bigger land owners (owning 4 ha or more) leasing out land were absentee owners living in the urban sector. All the 100 % owners of 10 ha or more leased out land were living in the urban sector, and 75 % of lessors leasing out 4–10 ha were resident of urban sector. More than 50 % of even small owners (owning less than 2 ha) leasing out land were resident in the urban sector. On the basis of information

Table 6.4 Non-cultivating land owners of Punjab: owned land amount and residential location (2002–03)

| Owned land size class (ha) | Number of land-owning households (lakh) | | | Residential location of non-cultivating land owners (per cent of all non-cultivating) | |
|----------------------------|---|--------------------------|--|---|--------|
| | Total | Not-cultivating any land | Non-cultivating as per cent of total land owning | Rural | Urban |
| Up to 1.0 | 8.24 (4.28) | 4.55 [87.17] | 55.22 | 51.08 | 48.92 |
| 1.0–2.0 | 2.74 (7.27) | 0.26 [4.98] | 9.55 | 18.33 | 81.67 |
| 2.0–4.0 | 2.15 (11.29) | 0.27 [5.17] | 12.61 | 58.93 | 41.67 |
| 4.0–10.0 | 1.27 (13.76) | 0.11 [2.10] | 8.76 | 24.03 | 75.97 |
| 10.0 and above | 0.25 (6.25) | 0.03 [0.58] | 12.13 | 0.00 | 100.00 |
| All | 14.65 (42.85) | 5.22 (100.00) | 35.63 | 48.73 | 51.27 |

Notes (1) Source NSS, 59th round, 2003

(2) Figures in round brackets indicate area owned (lakh hectare) by each size class

(3) Figures in square brackets are percentages

given in Table 6.4, it can be safely concluded that most of the land lessors in Punjab are small owners, and absentee big owners who have left the rural sector are living in the urban sector. It is the completely changed profile of land lessors that is responsible for growth of cash rent tenancy. As will be discussed in detail later, share tenancy for being profitable to the land lessor requires his close monitoring of the inputs used and outputs produced by the tenant. But effective monitoring is possible only if the land lessor is more powerful than the tenant and is also present on the scene of farm production. The small land lessors cannot monitor the inputs used by the big farm tenants even when they are resident in the village; the absentee big land lessors are prevented by the distance factor and lack of farming experience from monitoring the inputs used by the tenants. Consequently, such lessors prefer to rent out on a fixed cash rent basis in which no monitoring by the lessor is necessary and the rent amount can be obtained without visiting the village.

6.2.2 Profile of Tenants

The profile of tenants has also completely changed in Punjab over the Green Revolution period. The ubiquitous small weak tenant farmer of the pre-Green

Table 6.5 Tenant farms and pure owned land operators: size, technology and productivity differences (2010–2011)

| Sr. no. | Feature description | Tenant farms | Pure owned land operating farms |
|---------|--|--------------|---------------------------------|
| 1 | Share in total operated area (%) | 54.52 | 45.48 |
| 2 | Share of leased in area in operated area (%) | 47.67 | 0.00 |
| 3 | Size of operational holding (ha) | 6.69 | 3.30 |
| 4 | Size of owned land (ha) | 3.53 | 3.30 |
| 5 | Per cent owning tractors | 83 | 55 |
| 6 | Per cent owning power-operated tube wells | 78 | 61 |
| 7 | Per cent employing permanent farm servants | 56 | 27 |
| 8 | Fertilizer used in paddy (kg/ha) | 220 | 195 |
| 9 | Fertilizer used in wheat (kg/ha) | 263 | 233 |
| 10 | Paddy yield (kg/ha) | 4881 | 4245 |
| 11 | Wheat yield (kg/ha) | 4505 | 4148 |

Source Primary survey of 300 farms conducted in May–July 2011, Institute for Development and Communication, Chandigarh

Revolution era has almost completely disappeared and has been replaced by the bigger enterprising farmer having a sizeable owned land of his own, and also the complete paraphernalia of modern farm machinery and a number of hired permanent farm servants. The changed profile of tenants in Punjab agriculture is clearly visible from the information presented in Table 6.5. The size of operational holding of tenants is more than double of the pure owned land operating farms, and a significantly higher proportion of them are owning tractors and power-operated tube wells compared to the pure owner operators. The mean size of their own land is also higher than that of the pure owned land operating farms, and the proportion of tenant farms employing permanent farm servants was more than double of the pure owned land operating farms. In the use of chemical fertilizers, also the tenant farms were ahead of pure owners' operators, and so was the case in getting higher rice and wheat yields. So the information presented in Table 6.5 fully supports the generally prevalent impression about the enterprise and efficiency of present-day tenant farmers of Punjab. They not only operate bigger sized holdings, but also have a sizeable owned area of their own, and they are the leaders in the adoption of modern machinery and biochemical technology and operate their farms with the help of regularly hired permanent farm servants. Their better expertise in modern farming is clearly reflected in the significantly higher yield per acre they are able to get in the two main crops of the state—rice and wheat. It may also be noted from Table 6.5 that these more enterprising more efficient and big tenant farms now operate more than half of the cultivated area of the state.

Table 6.6 Share in leased in area of various farm size classes (2010–2011)

| Farm size class (acres) | Sample information (2010–2011) | | Total number of farms in Punjab (2010–2011) | Total area leased in by the size group of farms (acres) | Share of size group in total leased in area (%) |
|--------------------------------|--------------------------------|---------------------------------|---|---|---|
| | Number of sample farms | Area leased in per farm (acres) | | | |
| <i>Marginal</i> (Up to 2.50) | 50 | 0.16 | 16,4431 | 26,309 | 0.88 |
| <i>Small</i> (2.50–5.00) | 63 | 0.52 | 195,439 | 101,628 | 3.38 |
| <i>Medium</i> (5.00–10.00) | 87 | 1.25 | 324,515 | 405,644 | 13.49 |
| <i>Big</i> (10.00–25.00) | 75 | 4.85 | 298,451 | 1,447,487 | 48.13 |
| <i>Large</i> (25.00 and above) | 25 | 14.72 | 69,718 | 1,026,249 | 34.12 |
| All | 300 | 2.86 | 1,052,554 | 3,007,317 | 100.00 |

Note Information on sample farms is from primary survey of 300 farms conducted in May–July 2011, Institute for Development and Communication, Chandigarh. Information on total number of farms in Punjab in various size groups is from *Statistical Abstract of Punjab, 2012*

Of course even now there are some enterprising marginal and small farmers who are leasing in land. But their presence in the land lease market is inconsequential, as their share in the total leased in area is very small. The distribution of total leased in area by farm size classes presented in Table 6.6 shows that the marginal and small farmer tenants' share in total leased in area is bare 4.26 %, compared to 95.74 share of the medium and bigger farm size groups. In fact, the land lease market of Punjab is now completely dominated by big farms (operating 10 acres or more), who control and operate about 82 % of the total leased in area of the state. They dominate the land lease market and set its tone and tenor in terms of cash rent rates and other terms and conditions of lease. The marginal and small tenant farmer is barely surviving in some obscure niches of the land lease market; leasing in pieces of land that probably do not suit the bigger tenants due to their location and other factors.

6.3 Tenant's Earnings from Cash-Rented Land

The fast growth of cash rent tenancy in Punjab and the dominance of big farmers (who are quite profit conscious) in land lease market suggests that cash renting of land must be a profitable business in the prevailing technological, productivity and

Table 6.7 Economics of cash renting: tenant's earnings compared with cash rent paid and owner-operator's earnings (average for triennium ending 2010–2011)

| Sr. no. | Variable description | Variable value |
|---------|---|------------------|
| 1 | Crop rotation system | Rice–wheat |
| 2 | Gross value of output per hectare (rupees) | 120,509 |
| 3 | Paid out costs per hectare (rupees) | 31,134 |
| 4 | Net return per hectare (rupees) (2–3) = (owner-operator's earnings) | 89,375 |
| 5 | Proportion of paid out costs in gross value of output (%) | 25.84 |
| 6 | Proportion of net return in gross value of output (%) | 74.16 |
| 7 | Cash rent rate per hectare (%) | 36,322 |
| 8 | Tenant's net earnings per hectare after paying cash rent (4–7) (rupees) | 53,053 |
| 9 | Share of cash rent in net value of output (%) | 40.64 (30.14) |
| 10 | Share of tenant in net value of output (%) | 59.36 (44.02) |

Notes (1) Estimated from the information given in cost of cultivation scheme reports of CACP
(2) Figures in brackets indicate share of cash rent and cash renting tenant's earnings, respectively, in gross value of output

price conditions of rice and wheat farming in Punjab. For a share tenant, operating in traditional agriculture profitability of rented in land does not matter much; as his prime motive for leasing in land is to use surplus family labour to eke out a living. But a big farmer operating in modern agriculture will lease in land only if it is profitable, because profit motive dominates farmers' behaviour once agriculture is modernised and commercialised. To what extent cash renting of land in Punjab is profitable for the tenant requires a comprehensive study in its own right that cannot be attempted here. However, a preliminary evaluation of its profitability is attempted on the basis of cost of cultivation data of CACP for the year 2010–2011. The details of this evaluation are presented in Table 6.7 and indicate that a cash renting tenant earned a net income of Rs. 53,053 per hectare after meeting the paid out costs and paying the cash rent. This estimate is based on the assumption that cash renting tenants' per hectare yield of rice and wheat is equal to the overall state average. But we have seen (Table 6.5) that the rice and wheat yield obtained by cash renting tenants is significantly above the average. Consequently, the net earnings of a tenant from cash-rented land must be higher than the average figure of Rs. 53,053 mentioned above. It may be seen from Table 6.7 that paid out costs eat up about 26 % of the gross return per hectare from rice–wheat rotation system; and out of the remaining amount above 41 % goes to the landlord as rent and 59 % is retained by the tenant as reward for his management, labour and capital services. Even as a share of gross return per hectare, tenants' net earnings come to about 44 % and landlords' cash rent to 30 %; the remaining 26 % being spent on

purchased inputs. In addition to its profitability per se, the attractiveness of cash renting to medium and big farms is enhanced by the existence of considerable excess capacity in tractor and other machinery owned and the team of permanent farm servants employed by them. The fixed per unit cost of using this excess capacity on additional rented in land is virtually zero. For example, the marginal cost of using tractor on additional rented in land is only the expenses incurred on diesel used to operate it for this purpose.

6.4 Growth of Cash Rent Tenancy: Causal Factors

The growth of cash rent tenancy with the modernisation of agriculture is a universally observed phenomenon in the development of agriculture in capitalist countries. In all the developed countries, cash renting of land is the rule, and share renting a rare exception produced by peculiar conditions of the lessor and lessee. So the basic cause of fast growth of cash rent tenancy in Punjab is the fast pace of modernisation of agriculture compared to other states. Even by the historical standards of modernisation of agriculture in the present-day developed countries, the pace of modernisation of agriculture in Punjab has been fairly fast. Just in a span of four-decades agriculture in the state has been modernised, fully commercialised and attained productivity level comparable to developed countries. How modernisation of agriculture created favourable conditions for the growth of cash renting in the specific historical context of Punjab is briefly described and discussed in this section

6.4.1 *Heightened Production Inefficiency of Share Tenancy*

The production inefficiency of share tenancy in modern conditions has been emphasised by all the classical economists from Adam Smith onwards. A very neat statement of the classical position is given by Marshall in his *Principles of Economics* (1949, p. 535), which is reproduced for ready reference: “when the cultivator has to give his landlord half of the returns to each dose of capital and labour that he applied to the land, it will not be to his interest to apply any doses the total return of which is less than twice enough to reward him. If, then he is free to cultivate as he chooses he will cultivate less intensively than on the English plan”. The English plan referred to by him is leasing on fixed cash rent basis; at that time, share renting prevailed in France and many other countries on the continent, but cash renting was the rule in England. The basic economic principle that producer’s net returns will be maximised when he uses inputs up to the point of equality of his share of the marginal product with the opportunity cost of the inputs, results in

share tenant using smaller amount of variable inputs, compared to cash rent tenant and owner—operator. So, under similar production conditions, the variable inputs used and the output produced per unit of land by a share tenant will be smaller compared to a cash rent tenant or owner operator. This inbuilt disincentive and production inefficiency of share tenancy remains dormant in traditional agriculture, but manifests with full force once the agriculture is modernised. In traditional agriculture, share tenancy is kept production-efficient by the operation of many factors such as:

- (i) Share tenant is a small weak farmer who cannot dare to disobey landlords' directions regarding the intensity of input use, whatever his own disincentive and inclination.
- (ii) The landlord is a big powerful owner resident and dominant in the village, who can easily monitor the inputs used by the share tenant.
- (iii) The tenant is a tenant-at-will having no legal security of tenure and can be easily evicted by the landlord if he cultivates land less intensively.
- (iv) The technology being traditional and stagnant, the optimal dose of inputs per unit of land gets standardised and known to everyone in the village; so the tenant cannot easily shirk using that amount of inputs.
- (v) The rational element in tenant's consciousness is very weak and he is not very particular in equating his share of marginal product with opportunity cost of variable inputs used. His sole aim is to eke out a living by using his family labour.
- (vi) The most important variable input used by tenant is family labour, that has almost zero opportunity cost in traditional agriculture due to non-availability of non-farm work. So even half of the marginal product of labour is positive and greater than the zero opportunity cost of tenant's family labour. He uses family labour, under such conditions, up to the point of zero marginal product to maximise his share of output.

All these factors combine to check the inbuilt disincentive of the share tenant to use variable inputs less intensively, and his production efficiency remains comparable with the owner operator and cash rent tenant in traditional agriculture.

The modernisation of agriculture makes all these checks on the share tenant inoperative, and his inherent tendency to use variable inputs less intensively manifests and makes share tenancy an inefficient production arrangement from the landlord point of view, as well as for society as a whole. This is exactly what has happened in Punjab with the fast modernisation of agriculture. The profile of both tenant's and lessors has radically changed and the power equation between them has been completely reversed. Like modern agriculture everywhere, tenant in Punjab is no longer a small weak farmer; rather, he is an economically sound enterprising farmer having the full paraphernalia of modern machinery and sizeable owned land of his own. In terms of production efficiency and agricultural expertise, he is among the best farmers in the village. The land lessor, on the other hand, is no longer a big

powerful land owner resident and dominant in the village. In most cases, he is a small owner not residing in the village or if resident in the village not in a position to dictate the big tenant farmer the input use on his share rented out land. The medium and big owners who are leasing out land in Punjab today are almost all absentees, residing in the urban sector or NRI's. So, due to small size of the land rented out and his weak position in the village or/and absence from the village due to settlement in the urban sector, the modern lessor of land in Punjab is no longer in a position to dictate the share tenant the dose of inputs to be used per unit of land; nor he is in a position to monitor whether or not such an amount of variable inputs has been actually used. The big quantity and great variety of variable inputs used in modern agriculture (casual labour, fertilizers, weedicides and insecticides, diesel and electricity, etc.) also makes such monitoring impossible even if the lessor is a big owner resident in the village. The tenant's position vis-a-vis the lessor is strengthened by the modernisation of agriculture by two other factors also. The enactment of tenancy laws that precedes modernisation of agriculture provides security of tenure to the tenant; he cannot be easily ejected if in occupation of leased in land for a specified number of years. Secondly, the farm labour becomes scarce with the modernisation of agriculture, and the opportunity cost of tenant's family labour becomes positive and sizeable because of the non-farm work being available. So, the share tenant has a choice either to use the additional dose of family labour on share rented in land, or hire it out for non-farm work. So, he is neither willing nor can be compelled to use family labour on share rented in land beyond the point of equality of market wage rate with one-half of the marginal product of labour on share rented in land. Under such a scenario, the lessor suffers a substantial loss if he rents out his land on a share rent basis; hence, a strong preference emerges among the lessors to rent out land on a fixed cash rent basis. By doing that he not only gets an assured rent per acre, but also avoids the monitoring costs and botheration of keeping track of the inputs used and output produced on share rented out land.

6.4.2 Heightened Tenant Preference for Cash Renting

A strong preference for fixed cash rent leasing in also emerges in the tenant once agriculture is modernised. The completely changed profile of the tenant (a medium/big land owner having full paraphernalia of farm machinery) is the main cause of emergence of this preference. The reasons for this preference for cash rent leasing in are many and varied; more important of these are described and discussed. The modern tenant being among the most enterprising and efficient farmers of the village is confident of reaping a good return by fully intensifying cultivation on the cash rented in land. Secondly, since cash rent rate per acre adjusts to growth of farm productivity slowly with a time lag, so in a regime of continuous growth of farm productivity (as has been the case in Punjab over the Green Revolution

period), the entire increment of natural growth of productivity is also pocketed by him. The comfortable economic position of the tenant also results in his developing a strong dislike for the interference of the lessor in production decisions on the leased in land; and that produces in him a strong dislike for share renting land. In share tenancy, the lessor has a right to participate in production decisions about his share rented out land; but on cash rented out land, the lessor becomes a virtual non-owner for the lease period and is debarred from interfering. The preference for cash renting and dislike of share renting by a modern relatively well-off tenant is also strengthened by the subordinate social position of the share tenant vis-a-vis the lessor in village society; it was a stark fact in traditional agriculture, but that taint lingers to some extent even after modernisation of agriculture. Somehow, in these days almost no tenant wants to rent in on a share basis, if he can afford to pay the cash rent in advance; share tenancy has gone out of fashion in Punjab rural side.

6.4.3 Sharp Reduction in Yield and Price Risk

The great reduction in yield and price risk with the emergence of rice–wheat rotation system in Punjab also accelerated the growth of cash rent tenancy. One of the major factors in tenants preferring share renting over cash renting was their strong desire to reduce production and price risk (Cheung 1969; Stiglitz 1974). In share tenancy, the production and price risk are proportionately shared by the landlord–lessor with the tenant; so tenants' risk is greatly reduced. The rent being a share of the produce falls proportionately when yield falls. On the other hand, in cash renting the entire production and price risk is borne by the tenant. So long as production and price risk was big and the tenant's risk-bearing capacity very low (as was the case in pre-green revolution agriculture), the tenant was not willing to rent in on fixed cash rent basis. He had neither the desire nor the capacity to bear the entire production and price risk; that is why share renting was the rule in pre-green revolution agriculture in Punjab. After the Green Revolution, the production risk was sharply reduced in the case of rice and wheat crops because of the great stability of yield of new high-yielding varieties (HYVs) of rice and wheat. The price risk in rice and wheat farming was simply eliminated by the introduction of an effectively functioning minimum support price and assured purchase programme after 1966. The sharp reduction in production and price risk in HYV of rice and wheat farming created a strong incentive among the tenants to rent in on cash rent basis, and reap the entire benefit of continuously growing rice and wheat yields and minimum support prices. Moreover, the changed profile of the tenant (he being now a medium/big owner and a relatively well-off farmer), also enhanced his risk-bearing capacity and he was quite willing to rent in land on cash rent basis. The higher proportion of leased in area rented on share basis in the foothills zone and south-western zone may be due to maize and cotton (which are more risky) being important there.

6.4.4 Improved Financial Position and Credit Availability to Tenants

Another factor that worked to make cash renting popular among tenants was their enhanced financial capability to pay the advance instalment of cash rent. In share tenancy, rent is paid by the tenant after harvesting the crop; it being a certain share of the produce. But in cash rent tenancy, the cash rent has to be paid in advance in the beginning of every crop season. A small weak farmer is debarred from cash renting in land simply by his inability to muster enough cash to pay the advance instalment of cash rent; he neither has cash of his own, nor he can get credit from anywhere to do so. The modern relatively well-off tenant in most cases has sufficient cash of his own to pay the advance instalment of cash rent; in some cases, when he does not have sufficient cash of his own, the local commission agent is keen enough to give him credit for it on the condition that he will market his produce through his commission agency. This factor also gave considerable impetus to the growth of cash rent tenancy in Punjab over the Green Revolution period and the increasing dominance of medium and big farmers in leasing in land. The hassle-free receipt of cash rent also made cash renting of land more attractive to lessors. In many cases, the Commission Agents transfer the cash rent online to the lessors on behalf of the tenants, and this mode of rent payment is found very convenient by NRI lessors and others living in the urban areas.

6.4.5 Impact of General Monetisation of Rural Economy

As a result of the constellation of many factors and processes, the monetisation of rural economy has become almost complete in Punjab. Almost the entire farm production is sold in the market, most of the farm inputs are now purchased by the farmers, most of the goods consumed by farm families are purchased from the market, (even Deshi ghee is not produced at home by most peasant households), and the traditional Jajmani system of payment in kind to artisans is completely gone, and almost all the permanent farm servants and casual labourers hired by them are paid in cash. So, almost complete monetisation of the rural economy and life has occurred in Punjab over the Green Revolution period. This complete shift towards use of cash in all economic transactions also accelerated the shift from share tenancy to cash rent tenancy. In a regime characterised by universal use of cash in economic transactions, persistence of the older form of exchange in kind in particular activities becomes odd and untenable even if it is profitable. The people simply lose the habit of thinking and exchanging in kind, once the use of money in economic transactions becomes all pervasive. But when the exchange in kind is not even profitable (as became the case of share tenancy once agriculture was modernised), its survival becomes impossible.

So the overall drift of rural economy towards monetisation of exchange also contributed in making cash rent tenancy more popular both among tenants as well as lessors.

6.5 Tenancy Laws and Imperfection in Land Lease Market

Although a sizeable land lease market has developed and cash rent tenancy has become almost universal, yet many imperfections in the land lease market exist and persist. The main source of these imperfections in the land lease market is the existing tenancy laws of the state. These tenancy laws were enacted mostly in the 1950s to protect the small weak tenant farmers from the exploitation of big semi-feudal landlords who were the main lessors of land at that time; share tenancy was the prevailing mode of land leasing. The main objective of these tenancy laws was to provide security of tenure to the tenants and ensure fair rent to them. These laws were need of the hour in the agrarian conditions prevailing in Punjab on the eve of independence, and they have served their purpose. But in the totally changed agrarian conditions of today, these tenancy laws have become not only irrelevant, but also a major hindrance in the further development of productive forces and structural change in agriculture. These laws are responsible for creating many imperfections and negative tendencies in the land lease market that obstructs the free flow of land for cultivation among rural households. As a result leased in area remains sub-optimal and production from existing area is not maximised, many inefficient farmers persist in self-cultivation on account of the fear of land loss created by these laws.

The main imperfections in the land lease market of Punjab are:

1. The high risk of lessor losing land to the tenant if land is leased out for a long time on a formally written/registered lease contract. There is a clause in the existing tenancy laws whereby if a tenant has been cultivating a leased in plot continuously for 3 years or more and there is sufficient proof of that in the land records, then he cannot be evicted by the landlord. The tenant then becomes a virtual occupancy tenant; and the landlord being merely entitled the fair rent as fixed by law.
2. The virtual village-wise segmentation of land lease market because potential lessees from other villages are not able to enter on account of the practice of renting out for one year to a particular tenant. But renting in for only one year is not economically viable for non-residents who have to create a new establishment in the village. Moreover, lessors do not trust such non-resident tenants, information on their reliability not being available. The fear in the minds of lessors of such tenants usurping the leased in land by invoking the tenancy laws gets exaggerated because of lack of information about their character.

3. The refusal of lessors to enter into written lease contracts and long-term lease contracts, to protect their ownership right against the possibility of tenant grabbing the rented in land by invoking the provisions of the prevailing tenancy laws.
4. The practice of advance payment of cash rent has created a huge barrier that prevents many enterprising efficient small farmers from leasing in land.
5. The non-availability of cheap institutional credit to tenant farmers on account of absence of any written proof of their having rented in land.

These imperfections in the land lease market result in many undesirable economic consequences such as:

1. Persistence of inefficient big land owners in self-cultivation owing to fear of losing land to tenants.
2. The virtual absence of long lease contracts and the practice of annual rotation of tenants to prevent them from availing the protection of tenancy laws. This dissuades the tenants from making land improvements that impact production only after a time lag and in a staggered manner over time.
3. The tenants are not able to get credit from formal sector credit agencies for cultivation of leased in land, because they cannot show any documentary proof of their having leased in land; it being leased in on an oral contract. Consequently, they have to borrow from Commission Agents at high interest rates.
4. The exclusion of many efficient and enterprising small farmers from the demand side of land lease market because they cannot pay advance cash rent from their own sources, and formal sector credit agencies do not provide them credit to pay advance rent.
5. The undue inflation of land rents due to annual bidding among tenants for leasing in land. The uncertainty of availability of leased in land for next year makes tenants offer unduly high rents, and as a result rent rate per acre continuously rises.

In view of the above imperfections and negative consequences, and the completely changed character of lessors and lessees in Punjab, the existing outmoded tenancy laws need to be replaced by modern tenancy laws.

6.6 Modernisation of Tenancy Laws

The tenancy laws are the rules and regulations enacted and enforced by the government to regulate the relations between lessors and lessees of land. The main objective of tenancy laws in traditional agriculture has been to protect the small weak tenant farmer from the exploitation of big semi-feudal landlords. The exploitation of small weak tenant farmers takes the form of rack renting, insecurity of lease tenure and many other direct/indirect excesses committed by the landlords.

The first and basic tenancy law of Punjab was enacted by the British government in 1887. After independence, a number of tenancy laws were enacted during the 1950s when land reforms occupied the centre stage of the state-induced agrarian change in the country. The tenancy laws in operation at present in Punjab are:

1. Punjab Tenancy Act, 1887.
2. Punjab Occupancy Tenants Act, 1952.
3. Punjab Security of Land Tenure Act, 1953.
4. Pepsu Tenancy and Agricultural Act 1955.

Of course, amendments and modification in these basic laws have been made from time to time. The main objective of the tenancy laws passed in the 1950s was to provide ownership rights to occupancy tenants, and security of tenure and fair rent to tenants-at-will. These laws were need of the hour in the agrarian conditions prevailing in the Punjab on the eve of independence; the tenants were mostly small weak farmers and lessors were mostly big semi-feudal landlords who dominated the rural side. These tenancy laws did play a significant role in providing relief to the tenants and in making a large number of occupancy tenants' owners of land. But in the totally changed technological and economic conditions of Punjab agriculture today these tenancy laws have become not only irrelevant, but the main source of imperfections in the land lease market discussed in the previous section. As a result, the free flow of land between those land owners who do not want to self-cultivate and others who want to cultivate more land than what they own is obstructed. The leased in area, therefore, remains at a sub-optimal level, and production from the existing area is not maximised.

Modernisation of Tenancy Laws: An Outline of Objectives

The main objectives of the modernisation of tenancy laws should be:

1. The risk of land owner losing land to the tenant should be completely eliminated. The laws should ensure the inviolability of owner's right to his land, irrespective of the length of occupancy by the tenant.
2. Easy and costless registration of lease contracts at the village level itself.
3. Speedy and hassle-free enforcement of lease contracts; particularly in lessor getting the leased in plot vacated immediately after the expiry of lease period.
4. Acceptance of lease contracts as collateral for borrowing by tenants from the banks and other credit suppliers.
5. Special incentives, financial as well as in enforcement of lease contract, for the development of long lease contracts.

The changes in tenancy laws on these lines will:

1. Facilitate smooth flow of land from the less efficient to more efficient farmers and maximisation of leased in area.
2. Result in maximisation of output from the existing area under cultivation.
3. Induce many big owner—cultivators to leave farming by renting out their land, and shift to some non-farm occupation or activity.

4. Result in rise in the average size of operational holdings, and more economical use of tractors and other machinery and consequently lower unit cost of production.
5. Improve the relations between lessors and lessees because of the disappearance of the lurking fear in lessors' mind of the lessee usurping his land by invoking the legal provision in the existing tenancy laws. The lessors will not be afraid of leasing out their land to the same tenant on a long-term basis, once the tenancy laws are modernised on the above lines.

Such a change in tenancy laws will be Pareto optimal; as everyone will gain and no one will lose. The country will gain from increased production from the same area; more efficient farmers will gain by expanding their operational holdings to the level of their managerial ability and paraphernalia of machinery; the small owners and inefficient big owners will gain by earning a handsome cash rent per acre without any fear of losing their land; the per unit cost of production will fall by the elimination of under utilisation of machinery, and relations between lessors and tenants will improve once the fear of lessor losing his land is gone. Moreover, it has no financial cost to the state, and the enforcement costs of these new modern tenancy laws will be much smaller than the existing tenancy laws. A beginning in this direction has already been made by Punjab Government by enacting Punjab Security of Land Tenure (Amendment Act, 2011). According to this amendment, the protection to tenant from ejection (provided by the existing laws) will not be available where the tenancy is for a fixed period, lease deed between lessor and tenant has been properly registered, and the lease period has expired. The beginning has been made, but much more needs to be done to make leasing out land absolutely risk free for the lessors. The security of tenure to the tenants should be guaranteed till the expiry of the lease period; the absolute unencumbered right of land owner to get his land back after the expiry of the lease period should be enforced quickly and hassle-free.

6.7 Conclusions

The main conclusions of the empirical evidence and analysis presented in the proceeding pages are now summarised:

1. The traditional share tenancy has been almost completely replaced by modern cash rent tenancy in Punjab.
2. The lessors are now mostly small owners and absentee (urban resident, NRI) medium and big owners, and the lessees are mostly medium and big farmers having the complete set of modern machinery and better farming expertise to get highest crop yields.
3. Owing to the completely changed nature of tenancy, the existing tenancy laws of the state have become not only irrelevant, but also a big hindrance in the free

flow of land between lessors and lessees and in the further development of productive forces and structural change in agriculture.

4. The existing tenancy laws have created many imperfections in land lease market such as high risk of lessor losing his land (to the tenant), if leased out on a long-term basis on a formal written contract, prevalence of short-term oral lease contracts and the annual rotation of tenants, advance payment of the entire cash rent, and village-wise segmentation of lease market.
5. These imperfections have resulted in the persistence of many inefficient big owners in self-cultivation, sub-optimal production from the existing cultivated area, exclusion of efficient-enterprising small farmers from leasing in land, disincentives to tenants in making land improvements and inflation of land rent rate.
6. The tenancy laws should be modernised to eliminate the risk of owner losing his leased out land, to ensure easy and costless registration and enforcement of lease contracts, and acceptance of lease contracts by banks to lend to the tenants.
7. The modernisation of tenancy laws will maximise production from the existing cultivated area, reduce the unit cost of production by fuller utilisation of farm machinery on big tenant farms, and speed up the structural change in agriculture by inducing big inefficient owners to leave agriculture by renting out their land.

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