



Small Landholders in Punjab: Debt, Distress and Depeasantisation

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ABSTRACT

Contrary to general perception of all round prosperity in the agricultural sector of Punjab, small land holders are economically non-viable which has pushed them under economic distress. Using primary and secondary data the paper highlights that the small farmers were under heavy debt which pushed them towards suicides. The economic surplus of small farm is too low to meet their production and consumption requirements. As a result, the process of depeasantisation started. In wake of slow employment growth in industrial and service sectors and poor skills of such farmers, their economic viability shall have to be improved through promotion of rural non-farm activities. Similarly, reduction in cost of production by reducing investments in farm machinery through expansion of cooperative agro-machinery service centres, which are currently running successfully under Primary Cooperative Credit Societies, can help improve economic viability of such holdings.

Key words: Small farmers, debt, suicide, depeasantisation.

JEL Classification: Q14, H31, R20

INTRODUCTION

Punjab a tiny north-west state of India occupying only 1.53 per cent geographical area produces around 20 per cent wheat, 11 per cent rice and 10 per cent cotton of the country and is known as her food bowl. The production of wheat increased from 1.74 million tons in 1960-61 to 16 million tons in 2011-12, and that of rice from 0.23 million tons to 12 million tons respectively in the state. The wheat productivity increased from 1.2 ton/ha to 5.2 ton/ha and rice productivity from 1.5 ton/ha to 4.1 ton/ha during this period. Punjab State practices intensive agriculture, where 98 per cent area is irrigated, chemical fertilizer use is 403 kg/ha and cropping intensity is as high as 190 per cent. The state was front runner in the adoption of green revolution technology comprising improved high yielding dwarf wheat and rice varieties, assured irrigation and chemical fertilizers in late 1960s, which was facilitated by favourable minimum support price policy for wheat and rice and its effective implementation in the state, rural electrification which promoted tubewell irrigation, availability of adequate agricultural institutional

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credit at low interest rates which encouraged private investments in irrigation, land development and farm machinery, rural roads and strong input delivery system. This conducive combination of technology and policy turned the country from food deficient to food self-sufficient. The state contributes substantially to the national food stocks, 10.2 million tons of wheat (45% of total) 8.6 million tons of rice (25% of total) in 2010-11.

In recent years, the growth in agriculture has decelerated. The rate of growth in crop sector which was as high as 4.3 per cent in 1980s, has come down to 1.5 per cent in 2000s. The productivity growth has either stagnated or slowed down. Climate change has further caused variability in yields. Degradation of natural resources especially groundwater and soil has caused more capital investments and higher inputs use in agricultural production process. The cost of production has gone up due to high capital intensity and unfavourable terms of trade, profitability has squeezed and economic distress in the rural sector has increased.

The economic distress is more serious in case of small holders, who constitute around 32 per cent of the total cultivators. Their marketed surplus is relatively less and they are generally capital deficient. Due to inadequate availability of institutional credit, they depend on informal sources of finance, which charge very high rates of interest. They are many a time unable to repay such loans, which lead to accumulation of debt over time. It has argued to have led to farmers suicides in the state. This paper, therefore, estimates the problem of farm indebtedness and farmers' suicide with main focus on small holders. The process of depeasantisation of small holders, which also indicates their economic distress, was also examined. The study mainly uses primary and secondary data sources for this purpose.

Productivity and Marketed Surplus

Empirical studies have shown that new agricultural technology is scale neutral. Small farms are considered to realize higher productivity due to higher use of labour and other inputs. In Punjab too, productivity of wheat and rice, the two most important crops occupying around 80 per cent of the cropped area, is not lower on small farm than other farm size classes (Table 1). However, their economic surplus is less due to small size of farms. The total value of marketed surplus of paddy and wheat was Rs.52034 and Rs.192096 on marginal and small farms, which is insufficient to meet production and consumption requirements of an average family of five members.

TABLE 1: PRODUCTIVITY AND MARKETED SURPLUS ON PUNJAB FARMS, 2010-11

Farm size	Wheat				Paddy			
	Area (ha)	Production (q)	Yield (q)	Marketed (q)	Area (ha)	Production (q)	Yield (q)	Marketed (q)
MR (<1ha)	0.61	29.25	48.5	17.13 (20042)	0.49	31.31	64.56	31.06 (31992)
S (1-2 ha)	1.64	72.83	44.54	59.97 (70165)	1.90	119.88	63.10	118.38 (121931)
SM (2-4ha)	3.44	155.21	45.09	138.21 (161706)	3.18	206.68	65.05	206.25 (212437)
M (4-6ha)	4.48	217.65	48.56	197.31 (230853)	4.45	287.86	64.74	286.94 (295548)
L (>6ha)	6.48	314.30	48.53	289.09 (338235)	7.59	499.84	65.87	499.28 (514258)

MR- marginal, S- small, SM - semi medium, M - medium, L - large.

Source: Cost of cultivation data.

Figures in brackets give the value of the marketed surplus in rupees.

Indebtedness in Agriculture

Agricultural production process in the state has become capital intensive due to high use of chemical fertilizers, agrochemicals, casualisation of labour, etc. and larger investments on irrigation and farm machinery. As a result, capital requirements of farming have gone up over a period of time, which increased the dependence of farmers on outside funding.

TABLE 2: INDEBTEDNESS IN PUNJAB AGRICULTURE

Source	1997 (Rs. Crore)	2006 (Rs. Crore)
Commercial Banks	1107 (19.42)	9407 (44.66)
Co-operative Banks	1547 (27.14)	3640 (17.28)
Commission agents	2640 (46.32)	6736 (31.98)
Others	406 (7.12)	1281 (6.08)
Total	5700 (100)	21064 (100)

Source: Shegill, 1998, PAU, 2007

Since the access of small holders to institutional credit is limited, they depend heavily on non-institutional sources, which charge high rates of interest. The level of debt, therefore, in Punjab agriculture was estimated to have increased from Rs 5700 crore in 1997 to Rs 21040 crore in 2006 (Table 2).

The average debt was the highest for small holders; Rs 102881/ha in case of marginal farmers and Rs.68749/ha in case of small farmers, which declined as size of farming increased (Table 3). Share of non-institutional debt was high at 36.77 per cent on such farms. Even the NSSO data (2005) showed the highest level of debt in farming in Punjab state. Heavy debt further raised the economic distress of small holders.

TABLE 3: MAGNITUDE OF DEBT ON DIFFERENT CATEGORIES OF FARMERS IN PUNJAB

Farm size Category	Debt (Rs/farm in 2006)	Debt (Rs/ha in 2006)
Marginal	72017	102881
Small	112441	68549
Semi-medium	210023	67807
Medium	215290	42332
Large	309949	35363
Total	178934	50140

Source: PAU, 2007

Farmers' Suicides

Though Punjab is an agriculturally progressive state with very high levels of productivity, but higher incidence of economic distress in agriculture is argued to have caused farmers' suicides in the state. The results of a census survey on suicides conducted in the most affected six districts namely Bathinda, Sangrur, Mansa, Barnala, Moga and Ludhiana (Singh *et al*, 2012, PAU, 2009) revealed that 3507 farmers committed suicides in these districts during the period of 2000 to 2011 (Table 4).

TABLE 4: FARMERS' SUICIDES IN PUNJAB, 2000- 2011

Suicides, category-wise	Small farmers	Other farmers	Total
No. of suicides	2788	719	3507
Suicides due to debt	2186	409	2595
Average debt (Rs.)	234541	361229	260514
Debt-income ratio	7.71	2.66	6.67

Source: Singh *et al*, 2011; PAU, 2009

Out of these suicides, 74 per cent (2595 cases) were committed due to economic distress, primarily unsustainable debt. The incidence of suicides was the highest among small farmers. Out of 3507 such cases, about 79.5 per cent were small farmers cultivating less than 5 acres of land. The average debt in such cases was Rs234541 while their annual income was only Rs 30420 which was insufficient to repay the debt and forced the farmers to commit suicide. Debt in case of these farmers was accrued on account of production and consumption expenditure, farm investments and cotton crop failure.

Process of Depeasantisation: Small Farmers Leaving Farming

Economic distress has compelled many small holders to leave farming in the state. Cultivators' census showed that during the period of 1991 to 2001, the number of small cultivators declined from 5.0 lakh (45% of total cultivators) to 2.96 lakh (31% of total) due to reverse tenancy and sale of land.

TABLE 5: REASONS FOR LEAVING FARMING, PUNJAB

(multiple response, n=543)

Reason	No.	%
Low income from farming	348	64.09
Division of land	182	33.52
Debt repayment	176	32.41
Starting new occupation/service	132	24.31
High land rent making costly/ difficulty to lease in	96	17.68
Land rent was equal to net returns	69	12.71
Money needed for social need	60	11.05

TABLE 6: FARMERS AFTER LEAVING FARMING, PUNJAB: WHAT DO THEY DO NOW?

Activity	No.	%
Self-enterprise	204	37.57
Service	127	23.39
Wage labour	118	21.73
Distress-rentier	53	9.76
Abroad	37	6.81
Others	4	0.74
Total	543	100.00

Source: Singh, et al.(2007)

A primary census survey in 40 randomly selected villages from 40 blocks, two from each district of the state, was also conducted to estimate how many farmers left farming and why? Their employment status after leaving farming was also studied and presented in Table 5 in order to ascertain whether they were suitably employed or were still in distress nature (Singh et al.2007). In total, 543 small farming families left farming, which accounted for 12.4% of such farmers. Many factors such as low income from farming, fragmentation of land holdings, repayment of debt etc. were responsible for this which forced them to look for other economic opportunities by leaving farming. The main impetus to rural non-farm employment growth generally comes from the dominant rural economic sector, namely agriculture (Mellor, 1976). After leaving farming, a sizable number (37.57%) of farmers established their own low-capital investment low-earning business like repair shop, petty-shop (karyana store), truck/taxi/auto/van operator-cum-driver, poultry farming, cable operator, *dhaba*, vegetable vendors and other activities (Table 6). About 23 per cent of small farmers left farming after they got job in the public

or private sector. About 22 per cent of farmers joined labour market due to scarcity of capital and technical skills. Another 10 per cent became a sort of distress-rentier, who lived on meager earnings of land rent or interest on deposits from sale of the tiny piece of their holdings. In most of these cases, their employment even after leaving farming was distressed in nature.

CONCLUSIONS

The Punjab state was front runner in the adoption of green revolution technology in late 1960s, which was facilitated by favourable institutional as well as effective policy measures. In recent years, the growth in agriculture has decelerated. The rate of growth in crop sector which was as high as 4.3 per cent in 1980s, has come down to 1.5 per cent in 2000s. The cost of production has gone up due to high capital intensity and unfavourable terms of trade, profitability has squeezed and economic distress in the rural sector has increased. The economic distress is more serious in case of small holders. Due to inadequate availability of institutional credit, they depend on informal sources of finance, which charge very high rates of interest. They are many a time unable to repay such loans, which lead to accumulation of debt over time. The average debt was the highest for small holders; Rs 102881/ha in case of marginal farmers and Rs.68749/ha in case of small farmers, which declined as size of farming increased. Share of non-institutional debt was high at 36.77 per cent on such farms. Heavy debt further raised the economic distress of small holders.

Though Punjab is an agriculturally progressive state with very high levels of productivity, but higher incidence of economic distress in agriculture is argued to have caused farmers' suicides in the state. The incidence of suicides was the highest among small farmers. Out of 2788 such cases, about 78.4 per cent were small farmers cultivating less than 5 acres of land. Debt in case of these farmers was accrued on account of production and consumption expenditure, farm investments and cotton crop failure. Also, economic distress has compelled many small holders to leave farming in the state. In total, 543 small farming families left farming, which accounted for 12.4% of such farmers. Many factors such as low income from farming, fragmentation of land holdings, repayment of debt etc. were responsible for this which forced them to look for other economic opportunities by leaving farming.

Contrary to general perception of all round prosperity in the agriculture sector of Punjab, small holders are economically not viable which has pushed them under mounting debt, suicides and depeasantisation. In wake of slow employment growth in industrial and service sectors and poor skills of such farmers, their economic viability shall have to be improved through promotion of dairying, poultry, bee keeping, mushroom production, protected cultivation of vegetables, etc. Similarly, reduction in cost of

production by reducing investments in farm machinery through expansion of cooperative agro-machinery service centres, which are currently running successfully under Primary Cooperative Credit Societies, can help improve economic viability of such holdings.

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