CHAPTER I

INTRODUCTION

The present study is an attempt to analyse the impact of the savings — investment behaviour of the rural rich on perpetuation of rural poverty in general and agricultural backwardness in particular. In the existing socio-economic structure of rural areas characterised by (1) the high concentration of physical and financial resources in few hands, (2) the absence or near absence of ownership of productive resources for the majority of the households and (3) the near absence of any public sector employment opportunities in rural areas, the income of the major section of the rural households depends primarily on the agricultural wage employment generated through the private investment decision of the dominant owner of the resources in the areas. The tremendous importance of the economic behaviour of the rural rich households has resulted in a great deal of discussions centering around the question regarding how the rural rich households are utilising their resources and surpluses and what are the possible reasons behind such behaviour.

This problem has been dealt with by many researchers from various angles. Studies on this problem have been undertaken in India in terms of income, savings and investment behaviour of rural households. At the national level, National Council of Applied Economic Research[1] (NCAER) has been conducting studies on the estimation of income, saving and investment since the beginning of the planning era. Individual researchers like Ramanathan[2] and Bhalla[3] have made econometric studies on the savings function and its behaviour by using the data generated by NCAER. At the micro level, individual researchers[4] have also conducted empirical studies on income, saving and investment behaviour of rural households in various parts of India. The major emphasis in these micro level studies were (1) on the behaviour of the households belonging to prosperous agricultural belts and (2) on the comparison of the impact of adoption of High Yielding Variety (HYV) technology in agriculture on income, saving and investment (a) between different categories of farmers and (b) between adopters and non-adopters of HYV technology. These micro level studies are concerned mainly with the relationship of saving

and investment made by these households with the change

in farm income only. But in view of the fact that in

rural areas there are various sources of income viz.,

agriculture and allied activities, usury, speculative

trades, other businesses, cottage and small industrial

units and services, and that different members of a

joint family (which is still the dominant system in

rural areas, particularly among richer households) are

engaged in different activities, it is felt that such

household's saving and investment bahaviour can be best

described by the total income earned by different mem-

bers of the family from different activities either

individually or jointly.

It is further argued that the rich household's

utilisation pattern of the resources and the surpluses

are guided by the existing socio-economic structure of

the rural areas. The basic features of the existing

socio-economic set up have been most lucidly and co-

gently described by Amit Bhadhuri[5].These are : (1) an

extensive non-legalised share-cropping system,

(2) perpetual indebtedness of the small tenants,

(3) the ruling class in rural areas operate as both

land owners and lenders to the small tenants,(iv) small tenants have incomplete access to the rural markets. Given the socio-economic set up, the rich households need not invest their capital in productive activities, for such investment would increase production, employment and income for the rural poor which in turn might help the rural poor to get out of debt. Such a situation might reduce the economic hold of the rich households over the rural poor.

Ranjit Sau[6] argues that the big farmers are holding back the growth of agriculture in India. The big farmers have a multiplicity of channels of income generation — land cultivation, usury, and speculative trades. All these channels are utilised throughout the year in a certain fashion which optimises his income. The criterion of relative profitability induces the big farmers to keep his land idle for most of time in the year. They do not even lease out the lands since the share cropping system is no more a profitable system. Moreover, the big land owners fear that once given for lease it may not be possible to recover it.

Rudra[7], on the other hand, argues that the gradual increase in agricultural production and use of modern technology over the past few years would not have been possible without investment and capital formation by the rich households. It may be possible that the rich households are not investing their surplus in agriculture to the extent it is desired or to the extent it is possible. It is not that they are not investing in agriculture but for a complex of economic, social and political reasons they prefer to indulge in distributing their investment in different channels — some productive and some non-productive.

Another important aspect in the analysis of generation, mobilisation and utilisation of resources is the problem of excess consumption on the part of the top income earners. Nurkse[8] has attributed this excess consumption to the International demonstration effect. Baran[9] has shown how this excess consumption leads to reduced surplus which might have been put to various uses, including their use in productive activities. In India, along with many individual researchers, the Planning Commission in their plan documents since

early seventies has indicated the need for reducing the
excess consumption on the part of the top 30 percent of
the households. However, none has attempted an empiri-
cal investigation on the nature and measurement of this
excess consumption that causes low savings and hence
low investment, and that too often in socially undesi-
rable channels.

Against this background, the present study
attempts to fill up the gaps in the previous studies
on nature and causes of agricultural backwardness by
considering the total income of the household. The study
considers the role of various socio-economic factors in
the generation and utilisation of surplus and the empi-
rical verification of the excess consumption among rural
households. The study introduces a new source of income,
i.e., service income into the analysis of agricultural
backwardness. The study considers the role of service
income vis-a-vis other types of income including usury,
speculative activities, share cropping in the genera-
tion and utilisation of surplus in the rural areas. At
the end, this study makes an attempt to provide an
explanation of the agricultural backwardness in terms

of these savings and investment patterns conditioned
by these various sources of income and socio-economic
factors prevailing in the rural areas. To be more
precise, the present study has the following objec-
tives:

1) to examine the pattern of income gene-
   ration from all sources by all the
   members of the households concerned
   and the volume of actual savings,

2) to examine the nature and extent of
   excess consumption and how it can be
   reduced,

3) to examine the effects of the measures
   for reduction of excess consumption on
   the volume of actual savings,

4) to examine the pattern of utilisation
   of actual saving and the factors res-
   ponsible for that particular pattern,

5) to examine the effects of the above
   findings on the generation and perpe-
   tuation of rural backwardness, and

6) to suggest, based on the above findings,
   the emerging policies.

To carry out the proposed study Midnapore District in the State of West Bengal has been selected for empirical investigation. Primary data have been collected at two levels. At the first level, some basic socio—economic data and information have been collected from each and every household of the selected gram panchayats in Midnapore District in order to characterise the present socio—economic structure of the selected areas. At the second level, data and various information have been collected from a sample of 110 rich households. The layout of the present study is as follows :

Chapter 1 introduces the problem.

Chapter 2 consists of three sections. First section deals with the sampling design adopted for studying the problem under study. Second section describes the socio—economic characteristics of the sample district as a whole and establishes the economic backwardness of the district and the need for development. Section three describes the socio — economic characteristics of the sample gram panchayats. This section also examines the production conditions prevalent in the sample areas.

Chapter 3 consists of four sections. Section one defines the important concepts used in the study such as income, consumption and saving. It also discusses the practical problems in measuring these concepts. Section two describes the alternative classifications of sample households. Section three gives the estimates of income, consumption and saving for alternative classifications of households. Section four examines the nature of excess consumption.

Chapter 4 explores the effects of redistributing income of the high income group on the volume of their actual savings.

Chapter 5 examines the pattern of utilisation of the actual savings and the factors responsible for that pattern.

Chapter 6 contains the summary of the findings of the present study, the possible explanation of agricultural backwardness and the emerging policy suggestions for maximising socially desirable productive investment.