CHANGE AND GROWTH IN RURAL CREDIT IN COLONIAL INDIA

Shiv Nath Mandal[1], Surjeet Singh[2], Nidhina Elizabathtom[3], Vishnupriya T.S[4]

Department of Economics, Hyderabad Central University, CUC, Professor CR Rao Rd, P O, 500046 Telangana, India

Abstract

This paper briefly overviews the change and growth in rural credit in colonial India. It intends to explain the problem faced by the poor people in rural areas of India, mainly the farmers because they were highly dependent on the credit for their agricultural production. These problems include dependence on usurious moneylenders, continuous exploitation, an absence of formal rural credit sources, and imperfect markets. When in need they (farmers) borrow from their employers at very high rates of interest. The borrower repays the loan usually in the form of labour in the lenders' fields or through crop produce.

Keyword: Agriculture, British Rule, Credit, Farmers, Moneylenders, Rural Sector

1.INTRODUCTION

There is no disagreement on the need for agricultural growth for overall economic development, particularly in the underdeveloped countries like ours (India). Agriculture is the world's oldest and the most important industry. Agriculture was started before 11,000 years ago in the Middle East. India during the pre-colonial era was an agrarian society in which about 80% of the labor force was indulged and agriculture contributed about 70% of the national income at that time. The agrarian society of India consisted of a number of poor and marginal farmers.

Agriculture growth has been known to define parameters of economic development in most countries, particularly true for countries with two-thirds or higher proportions of people engaged in the farm sector. Growth, in the farm sector, depends heavily on the growth of productivity, which requires sustained infusion of capital. In the underdeveloped countries, farmers depend heavily on credit for their capital requirement. Credit is not a capital; it is the amount of money that is obtained from formal or informal sources of credit by the farmers. Many studies have emphasized the role of credit in the acceleration of agricultural development (Belshaw 1931, Galbraith 1952, Myrdal 1968, Schultz 1964). However, credit is not the only input in agricultural production other inputs are to be made available along with credit (Hayami and Ruttan 1971).

*Term paper written for the mid-semester evaluation for the Course, EP-501: Evolution of the Indian Economy under the guidance of course-instructor Dr. Ashok.

2.WHY NEED FOR CREDIT ARISES?

In the colonial India, it was the British land revenue system of the East India Company that was considered as the main factor behind the credit requirement by the peasants. However, there are other factors also due to which demand for agricultural credit arises:

a) Lack of simultaneity between the realization of income and act of expenditure
b) Lumpiness investment in fixed capital formation
c) Stochastic surges in capital needs and saving that accompany technological innovations
d) Due to seasonal needs and fluctuations in order to facilitate smoothing of consumption pattern of farmers

A study conducted by NCAER (1974) shows that technology adopters tend to borrow far more than non-adopters do. Similarly, those farmers having access to irrigation borrow more than those not having irrigation facilities.

The demand for credit in the short-term production is directly related to input requirements and inversely with the self-financing ability of the farmers. Also, the demand for credit is inversely related to the asset endowments (Subbarao 1980). Other important factors that determine the demand for credit includes technological factors, the rate of interest, input-output prices, and level of productivity etc. Estimates of credit needs have been made by a number of scholars. The Venkatappiah Committee (RBI 1969) estimated the short-term credit requirement in 1973-74 at Rs. 20,000 million. The NCA in 1976 assessed the credit requirements for 1985 at RS. 1,61,490 million.

3.SOURCES OF CREDIT

From the very beginning the primary source of agricultural credit in India were moneylenders, especially the local grain trader (*'the village banya'*) and the local banker (*mahajans*).After independence the government adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a lower rate of interest.

Sources of agricultural credit can be broadly classified into institutional and non-institutional. Non-Institutional sources include moneylenders, traders and commission agents, relatives and landlords, whereas institutional sources include co-operatives, commercial banks including the SBI Group, RBI and NABARD. Since independence, the institutional agricultural credit structure in India was very poor. In the post-independence period, various attempts were made by the Government for enriching the institutional agricultural credit structure of the country leading to continuous growth in the base and sources of agricultural credit.

Both the co-operative sectors, commercial banks and rural banks are trying simultaneously for meeting credit requirements of the farmers. Even then, there are a number of problems (insufficiency, lesser attention of poor farmers, growing overdue) faced by agricultural credit structure of the country which are standing on the path of development of the agricultural sector.

4.COLONIAL INDIA

One hundred years of British revenue policy of the East India Company made the entire Indian peasantry poor and indebted to exploitative moneylenders and bankers. Under the British Rule, a system of intensive exploitation of the peasantry was developed which was unparalleled. The extractions from the peasantry were extreme and this led to an unprecedented and continuous growth of peasant indebtedness. The crisis of agriculture production seen in the overcrowding, low levels, stagnation and deterioration of agriculture reflected the crisis of the social relations in agriculture.The agricultural prices underwent a sharp fall during the Great Depression of the 1930s and as a result, things worsened.This reduced the peasants' capacity to fulfil the commitment of paying land revenue. This resulted not only in the increasing burdens on the peasantry, their poverty and indebtedness, but the increasing class differentiation and the widespread dispossession of the large number of peasants from their landholdings. The dispossessed peasants reduced to a situation close to serfdom or brought down into the category of the landless proletariat. The Famine Commission of 1880 reported that 2/3rd of the land holding classes were in debt, 1/3rd of them deeply and completely in debt.

Many historians have written extensively on the relationship between the creditor and debtor in the colonial rule. The study of rural credit under colonial rule has shown one very important aspect, "the loss of peasant lands to moneylenders". S.S Thorburn has noticed this aspect of colonial rule and discussed it in his book *Mussalmans and Money-lenders in the Punjab*published in 1886. Thorburn's book and his report on indebtedness proved to be effective weapons in the hands of the authors and backers of the Punjab Land Alienation Act of 1900 which sought to prevent alienation of land from "Agriculturalist" to "Non-Agriculturalist". Darling in his book *Punjab Peasant (1978)* has said that, "indebtedness of a Punjab peasant was more directly related to affluence than to his poverty". In concluding chapter of his book Darling wrote that debt was allied to prosperity and poverty alike, and that, while its existence was due to poverty, its volume was due to prosperity. The 'Poverty thesis' related debt to the initially high revenue demand of the colonial state and the forced character of the process of commercialization. According to Eric Stokes, wheatas a commercial crop was grown mainly for the bania and the revenue collector and thus the predominance of land under wheat was regarded, "a serious hardship". The switch to more labour-intensive and higher value cash-crops generally increased credit needs.

In the traditional land system of India in pre-colonial rule, the land belonged to the peasantry, and the Government received a share of the produce. The king's share was traditionally fixed at one-sixth to one-twelfth of the produce. Whenthe Mogul Emperors established their dominance; they raised this tribute to one-third. During the British rule, collectors often increased this level of tribute to even as high as one-half. The traditional system during kings' time was replaced by the system of fixed money payments, assessed on land, regularly due in cash irrespective of annual's production, in good or bad harvests, and whether more or less of the land was cultivated or not. This payment was commonly treated as "rent." By this transformation the British Conqueror's took the ultimate possession of the land, made the peasantry equivalent of tenants, who could be punished for failure of payment and with the further continuation of the process an increasing proportion of the peasantry became landless labourers or the new class of agricultural proletariat.When the East India Company took over the financial administration, in 1765-66, it raised the land revenue to £1,470,000. When the permanent settlement was established for Bengal in 1793, it further increased to £3,091,000. The total land revenue collected by the company stood at £4.2 million in 1800-1, and has increased to £15.3 million in 1857-58 and then £17.5 million by 1900-1, and £20 million by 1911-12 and £23.9 million.

The role of moneylenders has taken to new extent and a new significance under capitalist exploitation in the period of colonialism. Moneylenders were given additional powers under the British rule. Moneylenders held the monopolist position in the village and the peasants usually not able to check records of what they have paid and what is due to them. As the land fall into the hands of moneylenders, the process is carried farther, the peasants become labourers or share-croppers completely working for them, paying over to them as combined rent in interest, the greater part of what they produce; they turned out to be more and more the small capitalist of Indian village, employing the peasants as their workers. Behind the moneylenders stands the whole power of the British Raj. The moneylenders was at the centre of the entire mechanism of finance-capitalist exploitation.Usurious money lending practices are very well documented in many official reports from the colonial period. Perhaps the most important is the Central Banking Enquiry Committee (CBEC) report (1929) and its associated Provincial reports, of which the Madras Provincial Banking Enquiry Committee (MPBEC) report is regarded as a classic.It explains how the mechanisms of debt typically had a cumulative force:

"Frequently the debt is not repaid in full and a part of the loan persists and becomes a pro-note debt. In the course of time, it may with a lucky year be paid off or it may become a mortgage debt. By the existence of this heavy persisting debt, the creditor takes the bulk of the produce and leaves the ryot unable to repay short-term loans. But equally, the short-term loan has produced long-term debt and there is a vicious circle. The ryot cannot clear his short-term debt because of the mortgage creditor and he cannot cultivate without borrowing because his crop goes largely to the long-term creditor. If he pays his long-term creditor his current debts swell and overwhelm him" (MPBEC Report, 1930, Vol. I, p.77).

The colonial administration was aware of this problem and made several attempts to grapple with it. The first was the enactment of the Deccan Agricultural Debtors' Relief Act (1879) that authorised courts to stop charging of usurious interest and sales of land as a result. Similar Land Alienation Acts were passed in Punjab, United Provinces and Central Provinces and Berar. The late nineteenth century also saw Land Mortgage Banks being set up. Low interest loans were provided after the Land Improvement Loans Act of 1883 (for long-term loans) and the Agriculturists Loan Act of 1884 (for current needs). But these loans remained extremely sparse and ineffective.

5.RURAL INDEBTEDNESS

Rural indebtedness has been the ever green companion of the Indian peasants. According to a well-known saying, the Indian peasant is born in debt, lives in debt and dies in debt. The prevalence of poverty among agricultural labouring households is underlined by the prevalence of the rural indebtedness.

Indebtedness was widespread in the rural sector of India, behind this there lies number of reasons. In the rural sector, farmers are helpless for borrowing to get seed, cattle and other inputs at the beginning of the season. Also farmers in the rural sector were burdened with landlord's rent and state's tax due to which they had again to rely on credit to meet these obligations.

Due to these reasons poor farmers in the rural sector depends on credit for their survival and these reasons are also responsible for the practice of usury by moneylenders. In India the practice of moneylending, practised by money lenders, called *'mahajans'*, *'sahukars'* or *'bohras'*, existed before the British conquest (Irfan Habib 2006). The local grain trader (called banya) and the local banker (mahajans) were sources of credit for farmers.

In 1874, R.C Dutt found that interest rate in Bengal Villages were never less than 25% and seldom less than 37.5%. Villages of Bengal and Bihar investigated in 1888 showed that large numbers of poorer peasants were in debt. Similarly high rates of interest and large extent of indebtedness were reported from other areas (Berar, Bombay-Deccan).In case the debtors failed to repay the loans, their lands passed into the hands of creditors who thereupon become owner of the land. An enquiry into land transfers in the Bombay Presidency in 1899 found that in the British districts of Gujarat, the 'non-agriculturist moneylenders' held 14.8 % of the land; in the Bombay Deccan, 21.2 %; and in Kanara and southern districts, 6.5%.

The rural indebtedness was Rs.300 crores in 1911 and in 1931; Central Banking Enquiry Committee estimated the magnitude of rural indebtedness around Rs.900 crores. By 1937, the rural indebtedness doubled to Rs.1800 crores following the economic crisis and collapse of agricultural prices.

The government has undertaken several measures since long to put an end to rural Indebtedness; this includes several legislative measures;

a) The Deccan Agriculture Act, 1879
b) The various Loans Act, 1918
c) The Regulation of Accounts Act, 1930
d) The Punjab Relief of Indebtedness Act, 1934

6.REASONS FOR RURAL INDEBTEDNESS

In colonial India, a huge portion of the population was engaged in the agriculture. Agriculture was carried on by peasants living in villages. Cultivation was based on individual peasant farming and the size of land cultivated by them varied greatly. As already mentioned that it was the of British revenue policy of the East India Company that made the entire Indian peasantry poor and indebted to exploitative moneylenders and bankers. However, Factors that contributed to the growth of peasant indebtedness can be analysed under two aspects, namely those which empowered the peasants to borrow money and those which forced them to do so.

- *Factors that enabled the Peasants to borrow money*
  - It was the direct result of the British administrative system. The peasants had a tangible asset (land) against the security of which they could borrow. Additionally, over a time period, the value of land increased due to increased demand linked to the growth in population, commercialization of agriculture and so forth.
  - The increased interest of the money lenders' to lend: In the pre-British period, there existed a strong and active village community which glared at excessive lending and borrowing and also shielded the peasants from exploitation by the moneylender. Further, state took no interest in helping the moneylender in the recovery of loans. Thus the money lender could not indulge in extreme exploitation.
- *Factors which forced the peasants to borrow money*
  - It was the result of British policy of monetizing land revenue payment and the high demand of land revenue at exorbitant rates and its constant increase year after year throughout the colonial period. This often forced the poor peasant to mortgage his lands, in order to borrow money to meet his land revenue and rent obligations.
  - Existence of many intermediaries between the cultivators and the state, and lack of capital and the repayment of old debt.
  - Besides these man-made disasters, natural calamities like uncertain monsoon and famines also affected the Indian peasants and made them impoverished. A number of major famines occurred in UP, Kashmir, Rajasthan, Maharashtra and Sindh. Of

all these famines the most devastating was the 1770 famine of Bengal, where one crore people died.

7.CONCLUSION

After studying the rural credit in colonial India, we have found one very important aspect i.e. the transfer of lands of peasants to money-lenders. The interest rate charged by the money-lenders was usually very high. However, the higher interest rate was not the only reason behind the exploitation of peasants, the British East India Company's land revenue policy has also played an important role in the exploitation of Indian peasants.The Famine Commission of 1880 reported that 2/3rd of the landholding classes were in debt, 1/3rd of them deeply and completely in debt.

Usurious money lending practices are very well documented in many official reports from the colonial period. Perhaps the most important is the Central Banking Enquiry Committee (CBEC) report (1929) and its associated Provincial reports, of which the Madras Provincial Banking Enquiry Committee (MPBEC) report is regarded as a classic.

REFERENCES

[1] Belshaw, H. (1931). *The Provision of Credit with Special Reference to Agriculture,* Cambridge: Auckland University Press, Texts No. 1.

[2] Bose, Sugata. *Credit, Markets and the Agrarian Economy.*

[3] Darling. *Punjab Peasant* (1978), pp. xvi and 246.

[4] Dutt, R. Palme. *India Today.*

[5] Dutt, Romesh. *The Economic History of India (Volume 1).*

[6] Galbraith, J.K. (1952). "The Role of Agricultural Credit in Agricultural Development" in *Proceedings of the International Conference on Agricultural and Cooperative Credit,* Berkeley: University of California.

[7] Habib, Irfan (2006). *People's History of India, 1858-1914, Volume 28.*

[8] Habib, Irfan.*Colonialisation of the Indian Economy: 1757-1900*, Social Scientist, March 1975, no. 32.

[9] Habib, Irfan & Raychaudhuri, Tapan. The Cambridge Economic History of India (Volume 1: c. 1200 – c. 1750).

[10] Hayami Y and V. Ruttan (1971). *Agricultural Development: An International Perspective,* Baltimore: John Hopkins Press.

[11] Maddison, A. (1971). The Economic and Social Impact of Colonial Rule in India. In A. Maddison, *Class Structure and Economic Growth: India & Pakistan since the Moghuls.*

[12] Myrdal, Gunnar (1968). *Asian Drama: An Enquiry into the Poverty of Nations,* Volume II, the 20thCentury Fund Inc.

[13] NCAER. (1974). *Credit Requirements for Agriculture*, New Delhi.

[14] RBI (1969). Report of the All India Rural Credit Review Committee, (Chairman: B. Venkatappiah), Bombay.

[15] Schultz, T.W. (1964). *Transforming Traditional Agriculture*, New Haven, Yale University Press.

[16] Stokes, Eric. *Peasant and the Raj*, p. 260.

[17] Subbarao, K. (1980). "Institutional Credit, Uncertainty and Adoption of HYV Technology: A Comparison of East U.P with West U.P", *Indian Journal of Agricultural Economics,* 35 (1): 69-90.

[18] Thorburn, S.S. *Mussalmans and Money-lenders in the Punjab (London, 1886)*, p. 49.