

The Problem of Rural Indebtedness

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PREFACE.

THE Problem of Rural Indebtedness is approached in the following pages after a careful investigation of conditions in two Villages of Chidambaram Taluk, viz., Sivapuri and Gavarpet. The manner in which the investigation has been conducted can be discerned from the questionnaire which forms the appendix.

Rural reconstruction is very much in the Public Eye to-day and we have attempted a brief analysis of the existing conditions and put forward some concrete suggestions in the last chapter.

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THE PROBLEM OF RURAL INDEBTEDNESS

The Problem of Rural Indebtedness

I

THE PRESENT CONDITION OF AGRICULTURISTS.

The low standard of living to which the mass of India's population attain is one of the first things that strike a western visitor. Wants are few, diet is simple, climate is usually kind and a deep-rooted tradition tends to make the country content with things as they are. But the depth of the poverty, the pervading presence of which cannot escape notice, is not so easily realised.

—*Simon Commission Report.*

1. The ever present theme of Indian rural economy is the appalling poverty of the people. Economists and observers both foreign and Indian have testified to the growing poverty of the vast mass of India's population that lives and labours in their thousands in the villages of India. The Central Banking Enquiry Committee has estimated the average income of an agriculturist in British India at about Rs. 42 or a little over £ 3 a year. The Simon Commission note that if we compare this income with the average income per head in England (£ 95 in 1922) even allowing for the different standards of life the contrast is striking. This view is more than corroborated by statistical evidence.

2. The average income per head of the Indian Agriculturist can be arrived at by subtracting from the gross value of the produce the cost of cultivation, land revenue and payments of interest etc., and dividing it by the total number of persons dependent on land. The gross value of the crops of the Madras Presidency in 1928-29 has been estimated at about Rs. 165 crores. Out of this, cost of cultivation and revenue assessment would have consumed nearly Rs. 70 crores and Rs. 8 crores respectively. The volume of rural indebtedness was estimated at Rs. 150 crores. If interest payment at an average rate of 12% per annum which will amount to Rs. 18 crores is taken to have been paid, then, only Rs. 69 crores would have remained for the maintenance and other purposes of farmers. Taking income from other sources to have been Rs. 11 crores, the amount available for the forty millions of the rural popula-

tion for their living must be Rs. 80 crores. This shows a net income per head of Rs. 20 per annum. As prices have gone down nearly by 47% and the gross produce has not shown any signs of increase, the gross value of the crops in 1933-1934 would be Rs. 87.45 crores. The cost of production has not fallen in the wet areas so much as in the dry. Granting a reduction in the cost of cultivation of about Rs. 20 crores the present cost will be Rs. 50 crores. The revenue assessment is Rs. 7 crores. Taking it for granted that the debt remained stationary and no interest was paid during the period of depression, the amount at the disposal of the forty millions will be Rs. 30.45 crores or a per capita income of Rs. 7.6. No doubt this income is supplemented by the wages earned by the labourers. But even this cannot exceed an additional Rs. 5. per head.

3. It is clear, therefore, that the agricultural classes who form more than 70% of our population are exceedingly poor. The gloom of poverty is only deepened by the disheartening conditions under which they labour. The holding of the average cultivator in India is too small to enable him to live in comfort on its yield. Poor and illiterate, half fed and ill-clad the Indian peasant works at his fields with cattle even more famished than himself at tasks which have become mechanical by the custom of centuries. Even under the enlightened and benevolent government of the day he is too much sunk in troubles and sorrows to dream of improved methods of agriculture or scientific manuring. Hungry and famished almost all the days of the year he easily falls a prey to disease and even the toil of his weakened hands is not enough to save him from the ravages of droughts, floods and pests. What the mercy of nature spares the money-lender is ready to filch away. When compared to other countries the yield per acre in India is ludicrously low and little attention is paid to scientific manuring and improved methods of cultivation. The consequence is that the average cultivator still continues to live on an insufficiency of food which impairs his physical capacity for work and largely accounts for the high percentage of mortality in the country. The Central Banking Enquiry Committee says that "these conditions cannot be wholly ascribed to an undue increase in population and consequent pressure on land. Nor can the low productivity be justly ascribed to the inefficiency or ignorance of the Indian cultivator. The standard of inherited skill in husbandry of the Indian cultivator is high, but the farmers of other countries are undoubtedly in a position of greater advantage in as much as they are aided by the discoveries of scientific research made available to them by an enlightened state policy in regard to agriculture". As Darling points out in his book 'The Punjab Peasant in Prosperity and Debt', the amount spent on agriculture by the Central and Provincial Governments stands no comparison with that of

other countries. In 1924-1925 the Central and Provincial Governments in India spent Rs. 34 per thousand of population and Rs. 30 per thousand acres cultivated whereas in the United States of America the amount spent in 1919-1920 was Rs. 1,020 and Rs. 210, in the United Kingdom Rs. 960 and Rs. 1,380 in 1921, in Germany Rs. 945 and Rs. 705 in 1910 and in Italy Rs. 265 and Rs. 184 in 1925-1926.

4. The causes for this state of things have been gone into by the Committee appointed by the Madras Government to investigate into the "Economic conditions of the Agriculturists in certain Districts" and have been endorsed by the Central Banking Enquiry Committee with certain additional remarks. "(i) While population has increased extension of cultivation has not kept pace with it. (ii) No improvement in the condition of unemployment of agricultural labour has taken place. (iii) There is an increase in the fragmentation of holdings while the average area of holdings has gone down. (iv) The indebtedness of the agricultural population is heavy, hampers cultivation and reduces incomes. (v) Various causes bring about a rapid change of hands of lands and ryots are unable to repay their debts except by the sale of their lands. (vi) The margins available for the maintenance of the cultivator's family after paying the assessments, are either inadequate or nil. While a few rich people get richer, and a small number remain on the margin of subsistence, the majority are running into debt and losing their hold on land which is frequently changing hands. (vii) The system of Land Revenue is based too much on *averages*. The inelasticity of the system leads to low production and indebtedness. It is antiquated, and is not in keeping with the trend of land revenue policy in civilised countries."

Land Revenue in India is much heavier in its incidence than other taxes. In the recent years of depression the incidence of taxation has been heavier and the poverty of the people greater as is shown by the working of the Revenue Department. The frequent resort to coercive measures for the recovery of its due in recent years is an index of the growing distress of the people. The following are the figures for South Arcot District:—

Year.	Notice of demand.	Notice of distraint or attachment.	Sale notices.	Sales : No. of defaulters.
1927-28	18,480	16,145	13,008	1,407
1928-29	19,933	13,299	12,468	592
1929-30	21,523	10,538	8,907	932
1930-31	36,127	27,314	16,702	1,092
1931-32	36,046	23,885	19,434	3,391

There has been a noticeable increase in the number of coercive processes issued for the realisation of the revenue demand. Whereas in 1927-1928 the number of demand notices, of distraint and sale notices were 18,480, 16,145, and 13,008 respectively, in 1931-1932 they were 36,046, 23,885, and 19,434. One can very well realise the rigour and the stringency with which the authorities enforced their claims at a time when the ryots were hard pressed for ready cash. The number of defaulters whose property was sold in the last two years was 1,082 and 3,391. The percentage of attachments of real property was on the increase. From 6.6% in Fasli 1325 it has increased to 16.6% in Fasli 1341. In Fasli 1341 the amount of arrears was Rs. 16,420. The fact that immovable property to the value of Rs. 1,25,579 was sold for Rs. 12,319 to realise the arrears in Revenue of Rs. 16,420 is proof positive of the utter helplessness of the ryots who could not but let slip their lands as they had no means of finding the necessary money where-with to pay their dues. No ryot, if he could help it would allow himself to be deprived of his land for a fraction of its value. So proverbially attached is the Indian ryot to land that he would have parted with anything if he could only retain his land.

5. The Central Banking Enquiry Committee hold that this state of things is the resultant of a few more contributory causes. Not least important among them are the comparatively small spread of literacy, extravagance of social habits, lack of opportunities for fuller life and for initiative and enterprise and absence of definite and large scale action by Government or people for the uplift and betterment of the agricultural classes. The steep fall in prices of agricultural produce in recent years (about 50%) has only served to intensify the suffering and distress of the peasants.

6. Another handicap which the Indian agriculturist labours under is the absence of large scale selling organisations and lack of marketing facilities. Without any organisation to support him and with next to no credit the Indian agriculturist is unable to get a fair price when he deals with the giant buying organisations of European nations. Illiterate and single-handed the Indian cultivator is unable to stand up to foreign capitalists and secure a square deal. The disorganised condition of the cultivators which in certain cases is accentuated by the presence of powerful organisations of buyers, and the lack of proper credit facilities enabling them to hold on to their crops in times of plenty, often prevent them in India from obtaining a fair price for their produce.

7. The amelioration of the condition of the agriculturist cannot be effected by the pursuit of any single method. It is wrong to suppose that in an easily obtainable credit alone lies the panacea for all the ills, from

which the Indian agriculturist suffers to-day. A complete programme of rural development must aim at measures that would make agriculture a paying industry. At present, 'in India agriculture is, with most cultivators, with uneconomic holdings more a mode of living than a business.' The following words of the Royal Commission on agriculture hold good even to-day: 'To a very great extent the cultivator in India labours not for profit nor for a net return but for subsistence.' The existing impediments to efficient production must be removed. The fiscal organisation of the country should be so arranged as to benefit agriculture particularly by means of subsidies and tariffs. The lightening of the burden of taxation and the economic organisation of the industry and in particular, development among farmers of better methods of purchase and sale and co-operative insurance will go a long way to better their condition. Not the least important of all is the organisation of the transport of the country with due regard to the interests of agriculture.

II.

THE PROBLEM OF RURAL INDEBTEDNESS.

(With Special reference to the Madras Presidency)

1. The central fact of the Indian economic situation is the poverty of the agriculturist, and the extent of his indebtedness is an unmistakable index of his growing penury. The spectre of debt has grown very much in proportions during recent years of a world-wide slump in trade and an unexampled fall in the price of agricultural produce and no scheme for bringing back prosperity to agriculture can afford to neglect the growing incubus of debt that lies heavy on the Indian peasant. A few years ago the Central Banking Enquiry Committee estimated the volume of indebtedness for the whole of India at Rs. 900 crores and for Madras at Rs. 150 crores. It is beyond doubt that the volume of debt could not have gone down during these years of depression. As the debt position of Madras in 1929 was estimated at Rs. 150 crores, the interest charge on an average at 12% per annum would come to Rs. 18 crores. Since, during the period of depression, the cultivators were struggling hard to make both ends meet, interest payments or repayments of capital—if at all there were any—would have been very slight. On the other hand fresh borrowings are to be found as a result of agriculture becoming completely a non-paying concern. The repayments of the principal and the fresh borrowings, even according to the most modest estimates, could be taken to balance each other. So the volume of debt should have increased at least to the extent of the non-repaid portion of the interest charges. For the past five years the interest charges would amount to Rs. 90 crores of which, even allowing

Rs. 40 crores for the repaid portion, at least Rs. 50 crores could not have been repaid. So even according to very modest estimates the present volume of indebtedness of our province would come to about Rs. 200 crores. With the 47% fall in prices the real burden would be nearly Rs. 300 crores. (The fall in prices has affected the pre-depression debt only). Thus we are able to see that the burden of indebtedness to-day is roughly two times heavier than what it was in 1928-29. If this state of affairs is permitted to continue for some more years the Indian agriculturist will be completely ruined. Since agriculturists form more than 70% of the total population the miserable position of the agriculturist will react on the prosperity of the nation as a whole.

2. Having regard to the vital importance of the problem to all schemes of amelioration it is necessary to gauge its origin and extent before turning one's attention to the methods of eradicating it. Sir Frederick Nicholson summarises thus with approval the findings in regard to the causes of agricultural indebtedness of the Commission appointed to investigate the causes of the agrarian riots in the Deccan in 1875:—

“First, poverty with unproductive soil, precarious climate and irregularity of income,

Second, ignorance and improvidence,

Third, extravagance,

Fourth, ancestral debt,

Fifth, expansion of credit,

Sixth, increase of population without corresponding increase of return,

Seventh, facilities for borrowing owing to influence of money-lenders,

Eighth, the limitation laws as leading to renewals on usurious terms including compound interest and,

Ninth, revenue system of a fixed demand.”

The root cause of the problem is not so much the extravagance of the expenditure as the extreme insufficiency of income. This state of things is due to the smallness of holdings, inefficient methods of production and marketing, frequent failure of crops and loss of cattle. There is barely an acre per head of the total agricultural population; for there are only $4\frac{1}{2}$ acres for every cultivating family of about five or six members on an average. As most of the Indian agriculturists are, “born in debt, live in debt, die in debt and bequeath debt,” the weight of ancestral debt is too much. Whether the ryot has got property enough to pay off the ancestral debt or not, he feels that he is bound to repay all his ancestral

debts. The idea of escaping payment of ones debts by declaring oneself insolvent is repugnant to peasant sentiment. The agriculturist has a deep rooted feeling that money once borrowed must be repaid even at the cost of his own existence. For example while conducting personal enquiries in certain villages we met some agricultural labourers who were involved very deeply in debt. When the suggestion of renouncing their claims and seeking some other job somewhere else was made they emphatically replied that on no account their conscience would permit them to do that ; for, they feared damnation in the other world.

3. A close observation of the working of the credit machinery in rural areas reveals it to be remorseless in its operation and devastating in its result. Usually some man who has command of ready cash starts lending it in small amounts to the agriculturists relying on their position in the village and their general standing. The rate of interest varies from 12 to 24% and even small sums tend to mount up in the course of a few years since the interest is often added on to the capital every year. When the amount has thus gone up the money-lender gets it secured on the peasant's property. The peasant always lives on the margin of starvation and is able to eke out a livelihood only after incredible labours. If the harvest is bad the only way in which he can continue is by borrowing. It is a fallacy to think that to the average peasant there is a surplus in a prosperous year which he can utilise in a year of bad harvest. Seasonal fluctuations and scarcity so frequent in India only tend to increase borrowings and eliminate all chances of repayment by the peasant of his debt. So the lender gets a sale of the peasant's lands and gradually turns into a ryot money-lender as a result of his getting lands in return for the amount due to him. In the case of landless men to whom he advances money he secures an agreement by which the peasants work for him till the amount they have borrowed is returned with interest. When the labourers struggle hard even for their maintenance the chances of repaying the loan are small indeed. This debt is bequeathed from father to son and slowly the whole family sinks into a torpor of semi-slavery. Helpless and hopeless they are at the mercy of the ryot money-lender for whom they work more and are paid less.

4. The average peasant's income is meagre because of the extreme smallness of holdings, the adoption of primitive methods of agriculture, the heavy burden of land revenue and above all the difficulties of a period of great economic depression. The agriculturist who is always leading a miserable life would try to lead a better life at least in one or two years when he gets a tolerably good yield. We cannot call this the extravagance of the peasants alone. It is only a part of human nature as a whole. In addition to the abovementioned factors the frequent loss of

cattle also goes to swell the debts of the peasant. Even more important is the lack of proper marketing facilities. 'In the first place his holding is often so small that, after keeping back what is required for consumption and for seed there does not remain enough of any particular product to make it worth while to take it to a distance. In many parts of the country the transport conditions act as a further deterrent. If, as often, the cultivator has to drive his bullocks for miles across cultivated land and along rough tracks to reach a metalled road he will prefer to sell his produce in the village market. Even when he can more easily reach the wholesale market he is out of his element. He is liable to find even the weights and measures confusing and still more so the numerous exactions and deductions of middlemen. On the whole the ordinary peasant cultivator finds that it suits him better to retail his produce on the village market where he can obtain his own simple requirements in exchange. If he has surplus quantities of wheat, rice, oilseeds, etc his need of immediate cash will usually make it better worth his while to dispose of them, even at a discount, to the itinerant traders who buy up such surpluses from village to village and finally take the produce to the wholesale market where they know how to make their profit.' (Ref. Agricultural situation in 1932-33 of the International Institute of Agriculture.) The lack of other sources of income plays no mean part in making the income of the agriculturist very small.

5. Next in order of the causes that contribute to agricultural indebtedness are 'ignorance and improvidence'. Even the Central Banking Enquiry Committee has recognised the higher standard of inherited skill in husbandry of the Indian cultivators. But the number of troubles and sorrows born of ignorance and illiteracy is legion. Nothing will minimise the exactions of money-lenders and prevent perpetual exploitation of the people by minor tyrants and swindlers than the spread of literacy. There cannot be even the shadow of a doubt that with the proper kind of education the economic condition of the people will be greatly improved. The Indian cultivator is too often accused of extravagance. Much emphasis has been laid on the wastage of money on ceremonials and festivals. Normally marriages and other festive occasions come only at long intervals. These are the only times in which the cultivator can have some enjoyment. The peasant who is in most cases forced to lead a hand to mouth existence throughout his life, wants at least some diversions. He is even prepared to sacrifice his freedom for the sake of that enjoyment which breaks the dull monotony of his existence. Though there are some cases in which much of extravagance is present, it would not be correct to say that the cultivators in general are extravagant. The burden of this portion of the debt is not much when compared with others. The reduction of expenses on marriage

and other festive items by the cultivators during the period of depression goes to prove that they are not indifferent to the realities. They try all available means to minimise their expenses. Thus we see that much emphasis need not be laid on this cause alone.

6. Another important factor which contributes to the volume of indebtedness is the want of cheap credit facilities. "If the genesis of debt is in insufficient income and unexpected happenings its rapid growth is largely due to the accumulation of interest." Mortgage debts, in our presidency, carry on an average not more than 12% interest. But interest rates on unsecured loans vary between 6% and 24%, though there may be stray cases of higher interest rates. The average interest rate comes to about 18%. The Chettiar Bankers and Marwaris in some places, demand a nominally low rate; but when calculated the rates will come to 36 to 40%. In brief the interest charges cover more than 20% of the total gross production of the presidency. The frequent renewals of notes with interest added to them lead to the quick increase of the volume of indebtedness. The demand of compound interest in many cases still further aggravates the situation. To point out an example, there was a case where the amount borrowed was Rs. 40. In a period of 20 years the debtor was made to pay Rs. 360 for which he had to dispose of his only house. Thus the evil effects of the higher rates of interest and the exaction of compound interest should attract, first, the attention of any one who studies the condition of rural India.

7. The inadequacy of easy credit is also a very important factor which has gone to swell up the volume of rural indebtedness in this country. It has long been recognised that the short term and long term credit needs of the agriculturist are not sufficiently met by existing agencies. In spite of the development of Co-operative Societies and inspite of the opening of a hundred new branches of the Imperial Bank of India the modern banking system has made little headway in India. The commercial Banks and the Imperial Bank have only touched the fringe of the problem of Indian credit. The Central Land Mortgage Bank of our Presidency had on 30-6-1934, 190 individual members and 63 primary banks affiliated to it. In 1925 there were only two registered Land Mortgage Banks while in June 1927 there were ten. In spite of the rapid strides which this movement has taken in recent years, they are not able to solve the problem of long term credit fully. The Central Land Mortgage Bank has till 30-6-1934 disbursed loans to the extent of Rs. 35 lakhs only, or, in other words the Land Mortgage Banks have taken over only 0.175% of the total rural debt which is estimated at Rs. 200 crores. This is no more than a mere drop in the ocean. Hence more than 90% of rural credit is in the hands of the indigenous banker and the ryot money-lender. The very high rates of interest charged by

these agencies, the very insignificant part that is played by the commercial banks and the Imperial Bank and the negligibly inferior position taken by the Land Mortgage Banks in supplying the long term credit needs of the agriculturists have all tended to a restriction of credit for the Indian cultivator.

8. The great volume of indebtedness whose evil effects have been intensified by the above causes tells heavily on the agriculturist. The menace of indebtedness brings in much economic, social and moral consequences. Debts lead directly to agricultural inefficiency. A cultivator who is deeply immersed in debt is indifferent to and impotent for using improved methods of cultivation. The incentive to work intensively is withdrawn. Moreover, as already pointed out, debt prevents the cultivator from securing proper prices for his produce. Pressed by the creditors who more often have got a share in the marketing of the produce, the debtors are forced to sell their crops without waiting for suitable prices. Thus debt forces the cultivator to receive a lower rate of income than his due. This reduced income which is still further diminished by the payment of interest or repayment of principal, leads to the inefficiency of the cultivator.

9. Another effect of indebtedness is loss of property. Unless exceptional circumstances intervene, mortgages generally end in sale. In this way land is frequently changing hands. The view that the frequent change of land-ownership is beneficial cannot be endorsed, at least as regards our Presidency. Whenever land changes hands it generally goes into the hands of a rich mirasdar or an absentee landlord or a money-lender. This leads to the evils of absentee landlordism and loss to the ranks of peasant proprietors. As Arthur Young puts it, "the magic of private property turns sand into gold." So the loss of peasant proprietors is a serious menace to be tackled with immediately. In 1921, for every thousand ordinary cultivators, there were only 291 farm servants and field labourers, whereas in 1931 the proportion of labourers was found to have increased to 407 for every thousand cultivators.

10. The worst evil of indebtedness is that it leads in many cases to servitude. The Pannaiyal system of the Madras Presidency, whatever may be its virtue has got its own defects. A labourer who borrows a small sum, say Rs. 50, to celebrate a marriage or a funeral, has in turn to work for the lender, receiving a bare pittance for his livelihood. He can never be expected to save up the amount needed and so the transaction becomes an indenture for life and in most cases for generations too. Thus on all sides the burden of indebtedness weighs heavily on the cultivators and produces many harmful results. It is a cancer which eats into the vitals of the agricultural population, nay the population of India as a whole.

III

A STUDY OF FIFTY FAMILY BUDGETS.

1. The correctness of the general statements made in the previous chapters is conclusively proved by the result of an investigation which the present writers undertook in January 1935. An intensive study was made of fifty family budgets belonging to the Sivapuri and Gavarpur villages of the Chidambaram Taluk.

2. The total strength of these families is 245. Of this only four families are completely free from debt. The total amount of debts of the remaining forty-six families is Rs. 44,129-8-0. This works out on an average to a debt of Rs. 882-6-0. per family of five and to a debt per capita of Rs. 180. The position of debt according to the number of years for which it has been due is as follows:—

One year old debt	Rs. 10,345	forming	23.44%	of the whole
Two	4,625	„	10.48%	„
Three	8,100	„	18.35%	„
Four	640	„	1.46%	„
Five	800	„	1.81%	„
Six	4,219	„	9.56%	„
Seven	25	„	.06%	„
Eight	2,900	„	6.57%	„
Ten	1,950	„	4.42%	„
Eleven	300	„	0.68%	„
Twelve	100	„	0.23%	„
Fifteen	4,100	„	9.29%	„

The current interest due is Rs. 6,025.5—13.65%.

The amount of debt incurred according to each cause and the percentage which that bears to the whole is given below:—

Causes.	Amount. of Rs.	Percentage.
Maintenance ..	4,925	11.16
Purchase of lands ..	9,900	22.43
Agricultural improvements ..	2,960	6.71
Purchases of cattle ..	460	1.04
Land Revenue ..	690	1.56
Liquidation of old debts ..	10,450	23.68
Marriage and Funeral ..	3,705	8.04
Education ..	2,700	6.12
Interest payments ..	850	1.93
Medical ..	169	0.39
Current interest due ..	6,025	12.65
Miscellaneous ..	1,295	2.93

3. Let us now try to analyse the nature of the debts as revealed by the above figures. Among the causes that lead to borrowing, agricultural activities naturally take the foremost place covering about 31.74%. Ancestral debt comes next in importance with 23.68%. The third rank is taken up by the exorbitant interest charges which come to 15.58%. They even outstrip in extent the debts that the cultivators are forced to contract for preserving even their present meagre standard of living. While thus the interest charges due to-day form not an unimportant portion of the debt burden, it has also to be borne in mind that a good portion of the interest must have been paid as they came due at least in the years before the depression. Thus it is clear that the burden of interest charges is pressing heavily on the cultivators. It is impossible to improve the condition of the agriculturist without a relaxation of this disproportionate interest burden. Next come marriage and funeral expenses a factor which has been over-emphasised for a long time, since it covers only 8.40% of the whole debt. It has long been the fashion to condemn the Indian agriculturists on the score that they have been incurring much debt on festive occasions. When one sees the real position it is easy to judge that the marriage and other ceremonial expenses entail only a less amount of debt than other causes. It is high time to change our opinion and to go into the real problem which affects the cultivators most. Insufficiency of income coupled with too dear a credit is steadily driving the cultivator to an impossible position. The amount represented as having been spent on education is that incurred by only one family. The statement made by the Central Banking Enquiry Committee that "to a very great extent the cultivator in India labours not for a profit nor for a net return but for subsistence" has been more than proved by the study of the above budgets. An analysis of the borrowing will make clear that the agriculturists' income is insufficient even for carrying on the work of cultivation not to speak of the liquidation of debts, interest payments and other charges.

4. The figures given above throw in addition an interesting sidelight on the effect of the recent economic depression on the agricultural classes. The sufferings of the agriculturists are clearly indicated by the steady growth of the debt burden during the period of depression (1930-34). Debts incurred during this period account for 64.54% of the total debts. If to these are added the current interest charges we see that the real debt burden of the depression period is 78.19% of the total debts.

5. Our investigation gave us also an inkling into the real nature of the rural credit system that now holds the field. Nominally the ratio of interest charged varies between 6% and 24%. But in reality the rate is

much higher since the notes and bonds are frequently renewed when the interest is added to the principal and thus a kind of compound interest is collected. We also found that the landless labourers were much more hard pressed by the alien banker than by the ryot money-lenders who follow the Pannaiyal system. In Sivapuri there is a banker who has come to own a large amount of land simply because of his money dealings. This banker has given on loan very small sums of money to the labourers at a nominal charge of 24%. The labourers are bound to work on the tobacco fields owned by the banker at a fixed rate of monthly wages for a period not exceeding six months. During the rest of the year they seek employment outside and return to the tobacco fields during the next season. From a monthly wage of Rs. 7 or 8 a certain percentage is deducted for interest charges. The remaining amount is given partly in cash and partly in kind of an inferior sort. As interest charges will be deducted only for six months the rest of them are added to the capital at the beginning of the next year and a fresh bond is got for the total amount. Thus the debt increases by leaps and bounds year after year while the labourer becomes a perpetual slave of the banker. When once a free labourer begins to borrow even a small sum of Rs. 50 from the banker his fate is sealed. This is merely an exploitation of the needy and ignorant agricultural labourer. On the other hand the labourers under ryot landlords are in a better position. Though here also there exists a sort of slavery yet the labourers do not feel their position so much. The landlord employs him throughout the year, though with a small remuneration. Constancy of employment is thus afforded. Further the landlord does not generally charge any interest on the amount which he has lent to his labourers so long as they serve under him. Besides, the gratuities which the poor labourer receives from his master are of a substantial amount. Thus the landless agricultural labourers feel the burden of a debt less in the case of ryot-masters than in the case of bankers. In short the change of ownership of land from peasant cultivators to the non-agricultural population serves only to aggravate the burden of indebtedness of the landless agricultural labourers.

IV.

LEGISLATION IN FOREIGN COUNTRIES AND IN INDIA.

1. A study of the attempts made to solve the problem of agricultural debts in other countries and in our own country in the past would be a guidance for the future. In this chapter a brief survey of the legislative measures undertaken in various countries with a view to bettering the conditions of the cultivator is attempted specially bearing in

mind the question of rural indebtedness. Before proceeding to individual countries we can generalise that in spite of its imposing heavy sacrifices on the state, considering the favourable influence which it would have on the national economy, in almost all countries legislation has been carried in one form or other, "aiming at the strengthening of the material condition of the farmer by extending credit, by fiscal facilities, by measures for the relief of indebtedness, by the artificial maintenance of the price of the principal agricultural products above the level of prices on the free market and by the encouragement of export."

2. In Bulgaria, by the Law of 1933 relief in regard to the payment of debts contracted upto 1931 is given. Relief is granted both by the credit institutions dependent on the State and the private banks and by the State itself, through the departments and through the communes in the case of debts of a fiscal nature. Broadly viewing, the relief consists in the postponement of payments for a period up to 10 years or, in exceptional cases up to 15 years, the reduction of interest rate to 6%, the postponement of payments for the amortisation of debts contracted not more than two years before, and most important of all the reduction of all the debts in proportion to their increase as the result of excessive rates of interest.

3. Czechoslovakia also adopts a similar method. By the Decree of 29th July 1933 the property of a person to whom agriculture is the sole means of livelihood cannot be placed in a state of bankruptcy on the application of a creditor except in certain special cases expressly determined by the Decree.

4. The Government of Denmark passed a law in 1933 which facilitates the conversion of loans granted by mortgage credit societies to a lower rate of interest. In order to make this conversion possible and to provide for increased fluidity as well as normal credit grants and a lower rate of interest, a fund amounting to 200 million crowns was credited in May 1933 by the Law establishing a Crisis Fund.

5. The Estonian Government undertook the following measures. By the Law of 10th November 1932 the rate of interest on loans granted by the Land Bank was reduced to 2½%. A Law of May 1933 made it possible to obtain private loans transferred compulsorily into long term loans, up to a total amount of 6 millions of Estonian Crowns, (i) when the farmer in question has up to then cultivated his lands rationally, (ii) when the indebtedness was incurred before 1932 and (iii) when the total amounts of the debts is neither less than 20% below nor more than 100% above the total amount of the land value of the farm as estimated by the

Land Bank. These private loans are paid to the private creditors in equal parts out of the Colonisation Fund in the course of ten years, while the farmers, on their part, have to repay their loans to the Land Banks in the course of thirty years.

6. Debt relief measures in French Indo China, have as their object the lightening of debts of agriculture and take the form of mortgage loans at a low rate of interest and of the creation of a colonisation office the mission of which is to buy up property sold by judicial process and to give to honest debtors hire-purchase agreements to enable them to recover by their labour the ownership of their holdings.

7. In Germany a comprehensive scheme is working. To prevent the heavily indebted farmers from throwing on the market crops at ruinous prices, financing of a suitable nature was aimed at. Under the auspices of the Reich Bank loans on the pledge of grains were facilitated and rendered possible, and also to a large extent, by the establishment of legal and commercial grades for cereals. Recently many measures have been passed including "the establishment of a procedure of mediation for the settlement of debts in agriculture, the development and unification of the protection against distraint and of the protection of the tenant farmers, the facilities given for the payment of interest on agricultural mortgage debts, and lastly the law of June 1933 on the settlement of agricultural indebtedness with a possibility of reducing the debts and lowering the rate of interest."

8. The temporary suspension of the forced sale of property of agricultural debtors was permitted by the Government of Greece. All agricultural debts were compulsorily listed. All of them due both to the State and to the private individuals were reduced by 30 to 50%. Easy repayment of debts was facilitated by the dues being spread over a longer period.

9. In Hungary in order that the result of the productive work of the farmers may not be destroyed by distraint and that the farmers may not easily be dispossessed of their lands as a result of forced sales by auction, the Government granted to the farmers a postponement of four months during which the measures for the recovery of their debts are subject to a certain limitation. Another Decree of 1932 provides for the prolongation by a year of the extension of time granted to farmers whose capacity has grown less, i.e., practically all the farmers. During this period provided the farmer pays the current interest the annual amortisation charges that have become due and the current taxes no further costs of proceedings, or of execution can be charged against him. No

application can be made for the sale by auction of his lands. Moreover the interest payable by farmers on mortgage loans, whatever may be the extent of their indebtedness, is reduced from $7\frac{1}{2}\%$ or 7% to 5% . Measures have also been taken to lighten the charges on short term loans. At the request of the Minister of Finance the Financial Institutions have declared themselves to be disposed, on certain conditions to remit 25% of arrears of interest; for small land owners they would even remit as much as 50% . A general reduction of the rate of interest on all agricultural loans was made.

10. The land credit institutions in Italy are authorised to allow borrowers who are in arrears in the payment of not more than four half-yearly instalments in respect of loans exclusively or mainly guaranteed by rural properties an extension of the time not exceeding twenty half-yearly instalments. The agricultural consortia, whose credits are frozen are put on a sound basis.

11. In Lithuania the rate of interest on mortgage in 1933 was reduced from 7% to $5\frac{1}{2}\%$. The sale by auction of real property is forbidden if the price offered does not reach 50% of the value.

12. The most comprehensive scheme was adopted in Poland. Measures adopted by the Polish Government took three forms. The first took the form of a defence of the home agricultural market against a too sharp fall in prices of agricultural products, a fall which might have completely disorganised the market. To achieve this, resort was made to export bounties and import duties. Secondly reduction of the cost of agricultural production and organisation of agriculture in a better manner were aimed at. To this end the burden of the state and local taxes was lightened and railway freights for the transport of certain agricultural products were lowered. The Government is intervening actively in all branches of agricultural production and is endeavouring by legislative rules and timely financial aid to increase this production. Thirdly, the Government undertook some measures of a financial character. A substantial modification or provisional relaxation of the prescriptions in regard to distraint for the recovery of sums due by the farmer was allowed. By a law dated 20th December 1932 the conversion of long term loans was made compulsory. The rate of interest on agricultural loans and on the bonds issued in respect of such loans was lowered to $4\frac{1}{2}\%$ and the period of repayment was fixed at 55 years, from the date of conversion no instalment of repayment being payable for a period of three years. To deal with the short term debts contracted by the farmers with private individuals Arbitration Offices were set up which were authorised to:—

- (a) reduce the interest to which the creditor is entitled to 4½% annually;
 - (b) spread the payment of debts over a period of 7 to 12 years;
 - (c) suspend the repayment of the capital for a period not exceeding two years;
 - (d) carry the reduction of the credit to the sums exacted in excess by way of interest or in any form whatever;
 - (e) reduce rents;
 - (f) in certain cases, annul a lease before the expiry of the term.
- These officers are further authorised to pronounce their verdicts without taking into consideration whether the matter has previously been judged by a Court of Justice.

13. Coming to our country, the Government both Central and Local and some States, have tried to adopt some measures for agricultural relief. But they have not solved the problem to a large extent. The co-operative movement initiated by the Government has not yet taken deep roots. Debt Conciliation Boards have been appointed in some provinces and in the Bhavnagar State. In Bhavnagar, a majority of ryots and sowcars of the Mahal must apply jointly if a Conciliation Board is to be set up ; since most of the Mahals have asked for it, it is clear that the scheme is popular with the sowcars as well. In the Central Province, the recent Act authorises the Government to set up Conciliation Boards in every district but the concurrence of the creditors to whom 40% of the debts are due is necessary if the case of a debtor is to be considered by the Board. Nor is the award unconditionally binding on the parties. When settlement is obstructed by the obduracy of the debtor or the creditor, the Board may issue a certificate stating who in their opinion is the unreasonable party. The creditor may then resort to the ordinary courts, but he will not then get the costs of his suits, if he is an unreasonable party, and the rate of interest from the date of the certificate will only be 6% per annum.

14. In the same State a scheme of debt redemption has been put through. The liquidation committee is authorised to write off any debt which is more than three times the land revenue assessment. The Government would then advance the compounded amount from the State's share of the produce of each khedut, the lands being held on the Bhagbhatai system. The land revenue and the takkavi advances are first deducted from the State's share and the balance would go to repay the State's advances to the sowcar. Such a scheme of debt redemption has already been carried out in 2|3 of the State which involved the settle-

ment of a debt of about Rs. 60 lakhs. On the whole the liquidation Committee has reduced the burden of debt by nearly three-fourths.

15. Though a Central Land Mortgage Bank was formed in 1929 in the Madras Presidency it has not yet dealt with even 0.2% of the total indebtedness in spite of the increasing number of primary Land Mortgage Banks (63 in 1934). Recently the Central Government has turned to the vital problem of agricultural relief. Though a number of marketing officers have been appointed, the number is not equal to the task. The work done so far is not satisfactory. We have yet to see the full operation of the rural section of the Reserve Bank in accordance with the suggestions of Mr. Darling.

16. An analysis of the methods employed by other countries to meet the problem of rural debt reveals clearly that the chief directions in which action has been taken by the State are reduction of rates of interest, scaling down of debts, liberalising the conditions of repayment, provision of greater credit and even in cases of default minimising and circumscribing the losses due to judicial process by methods such as the institution of colonisation offices to buy up property sold by judicial process and to give it back to honest debtors on a hire purchase agreement, and the creation of Debt Conciliation Boards facilitating settlement without recourse to law courts as well as postponement of sales in order to give time to the debtor to secure the credit he needs. Some have even tried to maintain an artificial price level by the aid of bounties and tariffs. The State has also tried to diminish the cost of production by the organisation of agriculture, by the reduction of taxes and railway freights and sometimes even by the reduction of rents and the cancelling of leases. At the same time production was sought to be stimulated by financial aid at the right moment.

V.

RECOMMENDATIONS.

An effective solution of this problem must depend therefore, on the simultaneous adoption of both preventive and curative measures, the one being the complement of the other. One without the other would be of no use. So a comprehensive scheme of debt relief must include both measures for the removal of the present debt burden and measures for preventing agriculturists from falling victims to indebtedness in the future. Unless there is a co-ordinated scheme of both curative and preventive measures it is beyond any doubt, that no good is going to accrue. Money spent in stray and haphazard measures is a mere waste. Though

it may seem to give relief for the time being yet the position will become worse in a short time.

The crux of the problem is the insufficiency of income of the agriculturists. So every attempt should be made to increase the income of the agriculturists. Besides, early measures should be adopted to lighten the present debt burden. When we discuss the curative measures it would be possible to see the various ways and means of lightening the debt burden. Now let us confine our attention to the other side of the question. Every effort is to be made to provide cheap credit facilities, to reduce the cost of cultivation and to enable the cultivator to receive a remunerative price for his produce.

Under the first item of providing cheap credit facilities the first thing that attracts one's attention is the question of fair interest. Although it is possible to get loans at cheaper rates in our province than in many others yet the real interest rates become high when one takes into consideration the malpractices resorted to by the creditors and the exaction of compound interest. A high premium has been put on the state of illiteracy of the rural population. An analysis of the present debt position will lead us to conclude that not less than 20% of the present debt burden can be attributed to interest charges. There are cases in the villages, though stray ones, of demanding two annas per rupee per mensem i.e., 150% per annum. So what is wanted is a legislative or administrative measure enforcing a general reduction in the rates to be charged, fixing the maximum for bonds, notes and other unsecured debts at 12% and that for mortgages and other secured debts at 9%. In abnormal years the rates may be allowed to go even lower. At the same time compound interest should not be allowed. The total interest charges must not be allowed to go above a certain percentage of the principal.

The effective lowering of interest rates and checking of malpractices can be done as follows. No legal action on any debt shall be allowed unless the debt claims have been registered in either of the following ways. In the case of secured debts there is a registration taking place in the Sub-Registrar's Office. Registration shall be allowed only after the Registrar satisfies himself that the rate of interest charged and other conditions do not contravene the legal limit and conditions. In the case of unsecured loans which generally bear an anna stamp and take the form of promissory notes something can be done to ascertain the magnitude of the debt position and for checking the interest rates and malpractices. Provision should be made for all money transactions to be registered before the Village Munsiff. The Village Munsiff should have

a registration account in which he may keep a detailed account of the money transactions. The interest rate and other conditions of borrowing must be thoroughly scrutinised before the officer registers the debt. No legal action on any debt which is unregistered shall be allowed. The registration charges may be two annas per hundred or two annas for all amounts. Before registering, just as all the promissory notes bear an anna revenue stamp so the registration fees also can be paid in the form of revenue stamps attached to the note. The reason why the Village Munsiff is chosen, is that generally Village Munsiffs are influential and responsible persons of the village. They are already remunerated by the Government. On the other hand, they have got heavy work only during the kist collection season. So they have got the necessary leisure and dignity which every such officer should have. The result of such a registration will be the correct checking of the interest rates, prevention of the demand for compound interest and the illegal activities of the money lender. Moreover it will be possible for us to ascertain still more definitely the magnitude of indebtedness year after year.

In this connection the possibility of licensing money lenders can be studied. First of all, it is very difficult to define who a professional money lender is. It is not uncommon that an influential and rich land lord is at the same time a big money lender. So the best method, if we want to license money lenders, will be the fixing of a maximum number of transactions during the year say fifty or twenty five. The idea of fixing the maximum amount limit, though sound, will lead to some difficulties.

After the question of interest comes the problem of the provision of easy credit. The Land Mortgage Banks are supposed to provide the necessary long term credit. The work of these banks, so far, shows no cause for satisfaction. The Government must enable these banks to lend to a larger number of clients. The percentage of indebtedness taken over by these banks comes to only 0.175%. So they must be made to follow a liberal policy. The loans must be disbursed within a short time after the application is made. The time taken at present, about six months, is too long. A wider publicity to the existence of the Takkavi Loans Act and Land Improvement Loan Act is essential. Throughout the area in which an extensive survey was made, there were only one or two aware of the existence of such Acts. In addition to publicity being given, the Government must disburse large sums of money through this channel on easy conditions.

The Co-operative Societies complain of large overdues. This can be solved to a large extent if they advance further in their operations on

sound lines. Loans on the pledge of crops must be allowed. This, combined with the marketing facilities to be supplied by the same movement in conjunction with the Government would make it possible for the easier recovery of the loans. What is wanted is the pursuit of a progressive and liberal policy on the part of the Co-operative Societies.¹

Next comes the problem of increased income. The Indian Cultivators are not getting even the fair prices for their produce. Leaving apart the questions of increased yield and diminished cost, if the ryots are enabled to get their due share of the prices their conditions will improve much. The observations made by the writers of the "Agriculture situation in 1932-'33" regarding the important aspect of the difficulties of the Indian Agriculturist has been already referred to when we discussed the causes of rural indebtedness. As Mr. Audinarayana Chettiar says "It would be nothing short of mockery to ask the farmer to cultivate his land scientifically, to use chemical manure and to grow economic crops on a large scale when we do not provide him with timely or adequate finance and do not enable him to receive even the ruling market rate for the produce of the sweat of his brow. That the average farmer is unfitted by education, upbringing and by his isolation—not to speak of his want of belief in his own destiny to fight against the organised, clever, and resourceful buyer—is only a truism." The importance of marketing facilities needs no further elucidation.²

Foremost among the measures for the improvement of marketing is the construction of a better system of roads ; the condition of road communication in the rural parts is abominable. The conditions are still worse during the rainy season. So Government must direct the local boards to attend to this question first with the promise of their help and backing whenever necessary. Direct action by the Government must also be taken. The establishment of a warehouse or godown for a group of at least five or six villages is essential. Cheap credit must be given at 6% on the security of the produce stored in the godowns either by the Co-operative Societies or by the Banks. The warehouse receipt must be classed among Negotiable Instruments. An Agricultural Information Bureau and Central Marketing Board for the Presidency as a whole are needed to disseminate information regarding markets and trade conditions.

Coming to the question of curative measures, it is beyond doubt that the present burden must be first of all lightened so that the farmer may

1. See *The Co-operative Movement in the Madras Presidency*. By Dr. B. V. Narayanaswamy.

2. See *Agricultural Marketing in India*. By Dr. B. V. Narayanaswamy.

improve his condition. In conjunction with the measures suggested before the following measures will go a long way in achieving our object. The establishment of Conciliation or Arbitration Boards as in Bhavnagar State or in the Punjab must be aimed at. Though Conciliation Boards may not succeed so well in our Province as in that State where the Land Revenue system and Land Tenure are different and population smaller than our own, yet the Boards, if worked on those lines would at least relieve the burden in many cases. The Board must be authorised to reduce the rate of interest charge, to disallow compound interest and heavy interest demands. Above all it must spread the period of repayment over a period of about twenty years or less as the case may be. In deserving cases these private loans settled by the Board may be paid, in about ten years, to private creditors in equal parts out of a certain fund allocated by the Government for that purpose. The farmers on their part, have to repay their loans to the Government or its authorised institution in the course of fifteen years.

The property of a person to whom agriculture is the sole means of livelihood should not be placed in a state of bankruptcy on the application of the creditor except in certain special cases. The property sold by judicial process can be taken by the Government and given on hire-purchase agreement to the honest debtors to enable them to recover by their labour the ownership of their holdings. In the case of sale of lands for Revenue arrears the property must not be disposed of below 50% of its market value.

At the root of all solutions lies the question of educating the masses. Without a proper background of education, whatever legislative measures are attempted would prove futile. Compulsory free elementary education up to the sixth standard must be introduced. The lessons taught must introduce the pupils to various topics pertaining to rural development.

The activities of the Agricultural Department must be increased. A larger number of demonstrators should tour the village areas and give practical demonstrations and advice. Last but not least, the burden of Land Revenue must be lightened. Resort to coercive measures for the recovery of land arrears should be minimised. Every effort must be made to give the agriculturist all the fiscal aid he needs.

Thus the scope for State action towards ameliorating the condition of the agriculturists is wide. All the above measures, if attempted simultaneously, will go a long way to solve the problem of India's Agricultural poverty.

APPENDIX.

Economic Survey of a few Villages near Annamalainagar

(Adapted from the Tiruvellore Scheme)

STANDARD OF LIVING

1. Village.
2. Serial No. of the family.
3. Caste.
4. Name of the head of the family.
5. Occupation.

I. MEMBERS AND INCOME

No.	Members: (Earners underlined.)	Sex M. or F.	Age	Occupation	Rate of wages or income	Days in the year employed	Annual income	REMARKS
							Rs.	

1. Regularity of employment.
2. Seasons of unemployment.
3. Lands owned by the Family:—

	IN THE VILLAGE			OUTSIDE		
	Extent	Assessment	Value	Extent	Assessment	Value
Dry						
Wet						
Others						
Total						

4. Income from Lands and Houses:—

	Extent	Yield	Value
Lands Owned { Cultivated ...			
{ Leased out ...			
Lands taken on lease ...			
Others ...			
Houses, etc. ...			

5. Other occupations and income.
6. Total family income.
7. No. of months in the year the family is forced to subsist by borrowing grain or money: how much.
8. Other points of interest about income and wages.

II. EXPENDITURE

Commodities	QUANTITY CONSUMED*			COST PER*						REMARKS			
	Daily	Monthly	Annually	Day			Month				Year		
				Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.	
1. Food :													
Rice ...													
Ragi ...													
Cumbu & Varagu													
Dholl ...													
Condiments and Spices ...													
Salt ...													
Vegetables ...													
Sugar & Jaggery													
Oil ...													
Ghee ...													
Milk ...													
Eggs ...													
Fish & Mutton ...													
2. Misc. :													
Coffee ...													
Betel & Nut ...													
Tobacco ...													
Cigarettes and Beedis ...													
3. Drinks & Drugs :													
Toddy ...													
Ganja ...													
Others ...													
4. Fuel & Lighting...													
Firewood or cowdung cakes ...													
Kerosene ...													
5. Clothing†													
Men ...													
Women ...													
Children ...													
6. Shoes & Sandals													
7. Bedding ...													

N.B.—* Fill in whichever column is convenient, and seems to be accurate.

† State whether the article is purchased, got free or grown by the family. If it is not commonly used, state how often it is used.

‡ Mention kinds, and the total number in each kind in use, as well as the number required per year.

EXPENDITURE

Other items of Expenditure	Mention the several kinds in detail, their Value and Cost	Annual Expenditure
1. House Rent: Repairs	...	
2. Maintenance of Cattle	...	
3. Other Agricultural Stock	...	
4. Household requisites: utensils, etc.		
5. Furniture used	...	
6. Jewels; Describe and give value	...	
7. Services: Dhoby and Barber	...	
Padiyals and other servants...		
8. Religious observances:		
Pilgrimages	...	
Feasts and Festivals	...	
9. Amusements and Recreation	...	
10. Medical Charges	...	
11. Interest on debts. Regularly paid?...		
12. Remittances abroad; to whom, and how much	...	
13. Education:		
(No. of literates in the family)	...	
14. Land Rev. Cesses and other taxes paid annually	...	
15. Loans to others and Savings: How invested?	...	
16. Other expenses	...	

Total Annual Expenditure Rs.

III. GENERAL CONDITION

1. No. of meals taken each day:
Meal time and Menu
2. Health condition:
Mention sickness if any
3. State of Domestic Happiness
4. Extravagant or Thrifty
5. Use of spare time
6. Average amount spent upon: (a) Marriage, (b) Funeral, (c) Feasts, (d) Other Ceremonies.

IV. INDEBTEDNESS

Kind of loan*	Property mortgaged	Principal outstanding	Interest due	Rate % p. a.	Duration in years	Creditor	Purpose of borrowing

(*Mention Simple mortgage, Mortgage with possession, Pronotes and Bonds, Hand loans, Pledge of Crops, Jewels, or harveste produce, Padiyal advance, Miscellaneous, etc.)

Total Indebtedness

Total Assets

Chief Cause

How long in debt

V. HOUSING AND SANITATION

No. of families in the house.....

Total No. of persons.....

House: Value Rs.

Accommodation: No. of rooms, verandahs, pials, dimensions.

Construction: Roof: thatch, tile, terrace. Walls: mud, bricks, stone. Floor: mud, brick, cement, grave

Condition: Good, fair, poor, dilapidated, unfit for human habitation.

Light and Ventilation:

Drainage facilities.

Water Supply: (drink and bathing).

Latrine.

Is the house used for other purposes than living

