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THE HUMAN COST OF THE EMPIRE (RURAL CREDIT, PEASANT INDEBTEDNESS AND INSTITUTIONAL CHANGES IN 18TH AND 19TH CENTURY INDIA)

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Abstract
In an agrarian setting characterized by strict social and economic hierarchy and where, as a result of the land tenure system, overwhelming numbers of rural poor lacked access to land and many other economic opportunities, tenants had little bargaining power and many landlords exploited them by using their positions of social and economic privilege, leading to acute peasant indebtedness. In India, the hunger and poverty experienced by the majority of the population during the colonial period and immediately after independence were the logical consequences of two centuries of British occupation, during which most peasants were put into serfdom (after the British modified the agrarian structures and the tax system to the benefit of the Zamindars - feudal landlords) and cash crops (indigo, tea, jute) gradually replaced traditional food crops. Britain's profits throughout the 19th century cannot be measured without taking into account the 28 million Indians who died of starvation during the British rule.

Keywords: Economic History of India, Land Revenue System, Rural Credit, Peasant Indebtedness, Institutional Change.

Introduction
Given India's vastness, diversity and various political, economic and social influences from a history of various rulers and even foreign conquerors, it is not surprising that throughout much of the 18th and 19th centuries, tenancy in India was cast in the role of an exploitative institution, charged with negatively impacting socially optimal equity and productivity outcomes. In an agrarian setting characterized by strict social and economic hierarchy and where, as a result of the land tenure system, overwhelming numbers of rural poor lacked access to land and many other economic opportunities, tenants had little bargaining power and many landlords exploited them by using their positions of social and economic privilege, leading to acute peasant indebtedness.

The Revenue Structure
The British rule in India extended from 1757 to 1947 and during this two-hundred-year period land revenue or land tax was an important source of government revenue. However, the land revenue system was not uniform across all Indian states. Different areas had different systems for revenue collection: in some areas there existed landlord-based systems wherein landlords were responsible for collecting revenue in their specific regions; in another set of areas, there was predominance of individual-based systems. Under this system, the British government officers collected revenue directly from the actual cultivators without the intermediation of a landlord; and finally, in yet another set of states existed village-based systems, whereby a village community body bore the responsibility of revenue collection (Kumar and Desai et al., 2005).

Prior to British rule, there was no private property in land and hence no one owned land as their private property. It was a communal property and was held commonly by the entire village population, under the care-taking of the village community. The self-governing village community handed over, each year to the ruler or his nominee, a share of the year’s total produce. The rest was then distributed and shared

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amongst those who tilled the land. With the onset of East India Company, this practice was discontinued. They introduced a new revenue system that superseded the right of the village community over land and created two new forms of property entitlements on land - landlordism and individual peasant proprietorship. The former was the class who was bestowed with ownership rights over the land. The latter on the contrary only has operational rights, earned against the revenue paid by them to the owners (the landlords). The colonial government made institutional changes in agriculture by transforming traditionally circumscribed property rights into something more closely resembling the unencumbered private property characteristic of Western capitalism (Sharma, 1983). The beneficiaries of these new rights varied in different parts of India (based on different forms of land revenue systems put in place across differing states).

The top layer of Mughal property, the jagir, was abolished (except in the autonomous princely states), and the bulk of the old warlord aristocracy was dispossessed. Their previous income, from land revenue and that of the Mughal state, was now being appropriated by the British as land tax. However, in the Bengal presidency (i.e. modern Bengal, Bihar, Orissa and part of Madras) the second layer of Mughal property rights belonging to tax collectors (zamindars) was reinforced. All zamindars in these areas now had hereditary status, so long as they paid their land taxes, whereas their judicial and administrative functions disappeared. In the Mughal period the zamindars had usually kept a tenth of the land revenue to themselves, but by the end of British rule their income from rents was a multiple of the tax that they paid to the state.

As against the zamindari system, the ryotwari system, introduced in 1792, recognized the individual cultivator as the proprietor of his lands, with all legal rights associated with occupancy. Hence under ryotwari, the proprietary rights of the state eventually came down to the actual tiller of the land and thus intermediary- in the form of zamindari- was actually abolished. Revenue was directly settled with the ryot. The tenure of a ryot ranged between 20 to 30 years with revenue being, initially, 50% of gross produce, and, after 1864, 50% of the net produce. Around 40 years hence, in 1833, Mahalwari system was introduced where-in the village community was collectively and individually responsible for payment for revenue. Ownership of land was communal and settlement was with the community as a whole (Kumar and Desai et al., 2005).

These institutional changes- from Zamindari system to ryotwari system and then the introduction of mahalwari system, seems to be a welcoming step by taking away the exploitative intermediary and infusing rights to those who till the land. Thus, at least on the face of it, it seemed that the institutional changes made the decision-making rest with those who were entrusted with the implementation of these decisions for the betterment of their land-holdings. But the reality was too contradictory and way very strict and exploitative for our men than what it appeared to be.

Rural Credit, Peasant Indebtedness and Institutional Changes

The nature of the land tenure systems introduced by the British in India (zamindari or permanent settlement, ryotwari and mahalwari), was such that there was very little incentive and ability on the part of the farmer to increase productivity. The requirement that land revenue be paid in cash, and in full each year (i.e. a relatively inflexible demand) and the introduction of private property rights in land as well as legal procedures introduced by the British gave landlords and moneylenders, mechanisms to draw away everything but a bare minimum from the peasant to keep cultivation going. Zamindari system was the most exploitative of all. It is no accident that the area where this system prevailed (mainly eastern India) was also the area where agricultural performance was most disappointing (Bhattacharya, 1972).

All through the description of the three systems, consolidation of lands in hands of a few individuals and rampant sub-infeudation of the settlement process, with as many as fifty or more intermediary interests having been created between the zamindar and the actual cultivator, were chief drawbacks of Indian agrarian structure. Sub-infeudation was also observed in Ryotwari and Mahalwari areas, which steadily migrated towards temporary settlements.

This created an army of intermediaries who were paid directly by the labour of the peasants and this class became parasites on the goodwill of the Zamindar and the sweat and toil of the peasants. Illegal extortions of revenue, rack-renting and arbitrary evictions of tenants became the law of the period. While poorer zamindars took to cultivation, and richer ryots consolidated more and more land in their occupancies, and the village community came either under the control of the chief, or broke away into individual proprietorships. It was the peasant who was the perpetual sufferer. All this has massive consequences, unfortunately negative- not only for the tiller but even for the country as a whole. With farmers having to pay most of their incomes to meet the government's revenue requirements, agricultural growth, land improvement and food security suffered tremendously. The situation soon deteriorated into famine. There is incontrovertible evidence that rising agricultural debts were forcing farmers to commit suicide and severely affecting Indian Agriculture. Not until the beginning of 20th century did revenue officials came fully to appreciate the connection between revenue assessment and agricultural distress. And regrettably, by then it was too late (Blyn, 1966).

This created massive push effects in the rural agricultural areas, as the destitute and associated low income of the farmers was forcing them to migrate to other areas and shift to alternative occupation(s). Further, a rapid increase in the population, especially in the rural areas and the absence of any large scale process of urbanization and industrialization, led to intense rural and agricultural overcrowding which in turn led to growth of small, fragmented and uneconomic holdings, sub-infeudation, exorbitant land rents etc. All of this drained away the will and capacity of the peasants. In 1792, some of the peasants had to sell their bullocks and flee from villages. The rates of revenue became so high that in eastern India, by 1801, even subsistence became unaffordable.

Another reason for rural indebtedness was increasing cultivation of cash crops like indigo and opium. What worked as oil to the already burning fire was an abrupt fall in agricultural prices. Following the disastrous famines at the end of the nineteenth century and the consequent reports of the famine commissions appointed to look into their causes, the colonial government enacted two laws that formed the basis of rural credit in the country. These were the Land Improvements Loans Act, 1883, and the Agriculturists Loans Act, 1884. Actually, direct government agricultural finance can be traced as far back as 1793, when British government framed various regulations for the issue of direct loans known as taccavi to agriculturists. But this, along with average annual magnitude of loans under 1883 and 1884 acts was less than Rs.10 million and formed a very small part of total agricultural credit (Bhatia, 1985).

The term rural credit normally refers to the lending and borrowing of funds to carry on operations connected with agriculture. Agriculture- dependent on monsoons, being an uncertain activity, farmers being poor enough to not arrange for artificial means of irrigation under disastrous vagaries of nature and in wake of highly exploitative land revenue systems put in place, rural credit holds a place of utmost importance. In the rural environment of India, finance was required not only to assist the operations of production but also to bolster a chronically deficit economy. The official credit policy sought to tackle the problem of rural indebtedness through a three-fold approach involving debt legislation, grant of government loans and advances and setting up of rural credit co-operative societies. But, the bulk of these loans, were made to large farmers and merely touched the fringe of the need of long-term agricultural credit. Thus, those who had received more and thrived, and those who were in need, and remained deprived. These credit policies remained highly monopolized by the large landowners (Meena, 2015). Small and marginal farmers could not make use of these policies for their betterment. This increased the gulf between the rich and the poor in rural India.

Nothing better testified the failure of the government's credit policy than the fact that private agencies (excluding commercial banks) supplied 93% of total amount borrowed by the cultivators and that the private money lenders continued to dominate the rural credit scenario. This was due to the following reasons.

Firstly, the institutional (state owned and state operated) credit agencies remained out of reach of rural populace, who had no option but to turn to existing credit facilities, primarily the moneylenders. The reason for this was information asymmetry between the borrowers and the lenders. The lenders had no idea about the borrowers, their creditworthiness, the actual use the borrowed funds would be put to and the capability of the borrower to earn returns on the borrowed money. Since the risk of default was too high, they were willing to give loans only against a collateral. On the borrower's side, their poor asset base constrained them in terms of collateral. The only asset that they had was their land. However, since agricultural land was of absolutely no use for the banking sector, institutional credit was not forthcoming to the poor peasantry (Blyn 1966).

Secondly, the socio-economic structure in rural India, largely based on caste, implied that specific caste groups (marwaris, gujratis etc.) would continue to wield power in the field of rural credit. Also, since institutional credit was not available, these private money-lenders made full use of this opportunity to charge exorbitant rates of interest from the borrowers. This made the situation even worse and significantly exploitative.

Thirdly, the moneylenders, through various cunning measures, evaded the laws passed to control them. Since, through various illegal ways, they could always supersede in exploiting the poor farmers, they had even higher incentives in keeping the rates too high in comparison to the institutional rates.And finally, considering that much of the loan taken by the peasants were for unproductive purposes including domestic consumption, the moneylender continued to reign near-supreme, due to sheer aversion of the government and credit co-operative to provide consumption credit to cultivators.

Thus, the official credit policy ultimately failed, and thus, could not produce credit sources, which could pose a decisive challenge to the moneylenders, and save peasants from a situation of indebtedness in the hands of merciless moneylenders. The money-lenders thus emerged and continued to be the lenders of the 'last resort'. While the absolute weight of revenue demand might not appear unreasonable in certain cases, its fixity irrespective of violent seasonal variations in the harvests and area sown undoubtedly drove the petty proprietor still more decisively into the moneylender's grip. And since given the vagaries of nature, it was difficult for borrowers to return their loan- in full and on time, most of them found themselves in a debt spiral. Borrow fresh to pay the older loans- moneylenders' grip kept getting tighter with the passage of time, and unfortunately nature becoming amicable to them (Meena, 2015).

Even the worst famines in the country's history that occurred during British rule could not bring about even a temporary suspension of revenue collection. The colonial administration thus wanted its pound of flesh whether its victims were living or dying. Even in the best of times the lot of rural peasants was far from enviable and during such famines its misery was compounded manifold. This led to other problems of perpetual indebtedness, small size of individual holdings by sale of a part of land to the Zamindars and moneylenders, fragmentation of land, etc (Bhatia, 1985). As a result, the British period witnessed an unprecedented and continued growth of rural indebtedness due to far reaching economic changes, which accompanied the establishment of the pax brittanica. There was lack of adequate and cheap credit in agriculture and a bulk of the same came from the moneylenders, who charged very high rates of interest. They forged or used other such methods to keep the peasant indebted for generations. Thus, on one hand there was an ever tightening of the debt spiral, and on the other landlessness was gaining momentum. This was so as those who found themselves absolutely unable to service their debt, ended up selling their lands to the moneylenders and hence ended up losing the only asset that they had (Bagchi, 2015).

An important question to discuss here is that even if the peasants were debt ridden and thus could not invest back in land, why didn't the landlord do so. Since the land as a property belonged to the landlord, the losses were all his in case the productivity of the land suffered owing to non-investment. In spite of this, landlords had no incentive to invest in land. The answer to this question lies in the dual nature of the landlords. Since landlords were the richest households in the rural India, they were the ones who held huge sums of money. Thus, they acted as money-lenders whenever the peasants were in need. This explains why land was never taken care of, by them. If they would have done that, land would have been productive enough to provide peasant a good crop. In such a case peasant would have been able to pay their loans back and may climb up to a financial situation where there is no more need to borrow. This would bring down lender's gain. Since rates of interest were high and landowners themselves were moneylenders, they never wanted to lose their gains from their latter identity. Hence, despite the affordability, they abstained from investing in land to enhance its productivity (Kumar and Desai, 2005). According to Famine Commissions of 1880 and 1901, at least four-fifths of the cultivators were in debt and were fast losing possession of their lands. The Government of India, therefore, initiated some measures to tackle the problem by passing the Land Alienation Act, 1901. But the laws were too complicated for the unsophisticated peasants to understand and they gave a further decisive advantage to the moneylenders. The Act could hardly ameliorate the lot of indebted peasants.

Bengal Famine

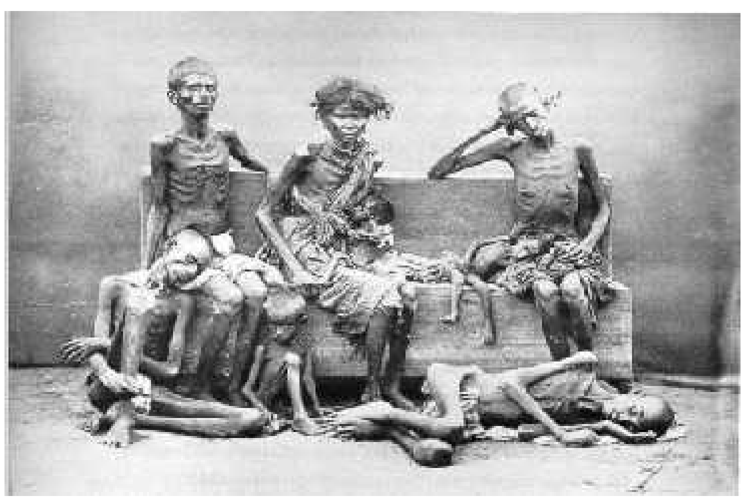

Photo Credit: Bengal Famine, India. Devastating Disasters

Darling's statement, that "the Indian peasant is born in debt, lives in debt and bequeaths debt," remained true for the great majority of working households in the countryside during the 18th and 19th century. Rural credit gave three sources of control to the moneylenders: one via extracting a large part of produce as rent, second through peasant surrendering a large part of produce to creditors for loans taken and thirdly by acquisition of land in case of defaulting peasants. So, the new form of appropriation was distress sales of peasant holdings. However, the general debt situation and the kinds of creditors' appropriation inevitably affected the economic performance of the indebted or the dispossessed peasants, where, they were not driven out of their lands by the creditors (Meena, 2015).

Thus, rural indebtedness was pervasive. According to the Bengal provincial banking enquiry (1930), total burden of debt was 41% of peasants' gross produce. Another official enquiry said that out of 71% of rural families involved in debt, 17% were nearly solvent.

Conclusion

In India, the hunger and poverty experienced by the majority of the population during the colonial period and immediately after independence were the logical consequences of two centuries of British occupation, during which the Indian cotton industry was destroyed, most peasants were put into serfdom (after the British modified the agrarian structures and the tax system to the benefit of the Zamindars - feudal landlords) and cash crops (indigo, tea, jute) gradually replaced traditional food crops. Britain's profits throughout the 19th century cannot be measured without taking into account the 28 million Indians who died of starvation during the British rule.

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