

## Problem of Rural Indebtedness in India

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Indians live in villages and on their betterment depends the success of our democracy. Apart from banning bonded labour, plan for liquidation of rural indebtedness has been mooted out. We can confer human rights and achieve the human purposes by securing economic freedom for the villagers. We must use the energy of the farmers for productive purposes. Till villagers participate in the working of democracy our political institution would starve for the lack of sustenance. When almost every Indian farmer is born under debt, lives under debt and dies under debt, we cannot hope that they would enjoy political freedom. The increased production, better facilities for irrigation, better seeds cannot go a long way in ameliorating the living conditions till villagers are economically free. In fact instead of aiming at stability we should aim at social mobility; status should not determine the functions rather functions should determine the status.

The financial requirements of the Indian farmers are generally divided into three categories depending upon the purpose. Farmers need funds for buying seeds, fertilizer, fodder and also for supporting their families. This money is needed for a short period. Another purpose of getting loans is the improvement of land, buying cattle and agricultural implements. Lastly they need finances for the purpose of buying additional land and make permanent improvements on land. The main cause of the indebtedness of the farmer is his poverty. The failure of crops due to the vagaries of monsoons or floods drive the farmers to the fold of poverty. He has to borrow to keep himself alive. Poverty incapacitates him to save; the loans go on swelling up every year. The farmers are always anxious to make improvements on land; they would like to use better fertilizer, more irrigation facilities and the latest variety of seeds. The farmer has to borrow for these purposes. This loan is used for productive purposes and is in ultimate analysis useful also. But some type of borrowing can easily be avoided. Their respect for social customs – marriages, religious festivals – account for too much expenditure. Even births and deaths claim quite good amount of unproductive loans. Litigation consumes the bulk of the farmer's income. Sometimes he is dragged into litigation and at another time he himself enters into it. Similarly ancestral debt goes on burdening the farmers. They regard it as their sacred duty to pay off their ancestral debt. Money lender entraps the farmers and never allows them to escape his grip. They encourage the farmers to borrow from them because they charge high rate of interest and mortgage their lands.

According to All India Rural Debt and Investment Survey money lender accounts for 49.2% of the total amount of loans to farmers. Traders and commission

agents contribute 8.8 percentage. Cooperatives and government pay 18.1 per cent. Clearly money lender has been playing an important role in rural financing. Some money lenders combine farming with money lending whereas others are professional money lenders. They account for seventy per cent of all rural credit. The money lender freely supplies credit for productive and non-productive purposes and also for short-term and long-term loans. He is easily accessible and maintains a personal contact with the borrowers. His methods are simple and he has knowledge of local problems. But he is a pest of the society and indulges in various malpractices. They obtain bonds and promissory notes from debtors on false pretexts. They deduct exorbitant premiums and give no receipts for payments. Sometimes they retain liquidated bonds for sums not advanced. They grab land from the farmers and charge very high rate on interest. It is because of these malpractices that All India Rural Credit Survey pointed out, "Private Credit, generally unsuitable is wholly unsuitable in the context of planning for larger production". Some states of India have tried to regulate the activities of the money lenders through legislation. In case of all debts, conciliation boards may be set up to reduce or to liquidate them. Money lenders have to keep accounts, issue receipts to the debtors for amounts received. The states have also fixed rate of interest. Legislation has not ameliorated the conditions. The money lenders carry on their activities as they used to.

Consequences of rural indebtedness are disastrous. Economically rural indebtedness has resulted in the extreme poverty of the farmers. Land has passed into the hands of non-agriculturists and farmers have become landless. Thus it has become a burden upon the society and has resulted in the fall of production. The farmer, buried under debt, pestered by the money lender and overpowered by customs and traditions cannot work properly. As the farmer is to pay debt he is forced to sell his produce immediately after harvesting and generally prices at that time are at the lowest ebb. If money is borrowed from the traders they buy the produce at their own terms. Thus rural indebtedness is both the cause as well as the effect of growing poverty. Socially speaking rural indebtedness has created a class of landless labourers and tenants. It has resulted in bonded labour and many other evils. In a democratic society where majority of the voters live in villages it is necessary to better their lot. The influence of the money lenders extends even to the political field.

The problem of rural indebtedness has two aspects and so the solution is also two-fold. For cancelling old debts some measures may be devised and fresh borrowing should be restricted to the minimum possible. The old debts can be settled through Insolvency Acts. The farmers who find the burden of ancestral debt excessive may get their loans scaled down. Reconciliation boards may be set up representing debtors and creditors. In some states legislation exists for

compulsory reduction of ancestral debt and even for their liquidation. Apart from it the farmers should be made aware of the legislation in this respect.

It is not enough to settle old debt but the fresh loans particularly non-productive loans should be avoided. Only education and propaganda can do something to prevent borrowing. In some states the farmers cannot pass on their land to the moneylenders. But legislation has not gone a long way in removing the scourge of rural indebtedness.

The government has set up cooperative credit societies with a view to provide farmers with cheap and adequate finance. A cooperative credit society can be started with ten or more persons. The society collects deposits from the members; it also gets advances from central co-operative banks. This is the cheapest source of rural credit. The need for long-term loans is being satisfied by land mortgage banks. The Reserve Bank of India satisfies one-fourth of total financial needs of the farmers. The State Bank of India helps the agriculturists in five ways. It has opened branches in small towns, gives remittance facilities to co-operative institutions, advances loans to co-operative marketing and processing societies. Lastly it is helping the construction and popularisation of warehouses for the storage of agricultural goods. Other commercial banks give advances through their branches in rural areas. The government has set up Agricultural Refinance Corporation. It was started with an initial capital of Rs. 500 crores. The Corporation gives loans for bigger projects.

The problem is a serious one and still needs proper handling. In fact economic change is not the logical consequence of institutional changes. Change is a cumulative force and should influence social as well as economic growth. Disequilibrium in society often leads to wrong tendencies which are generally undemocratic. For preserving democracy we should try to better the lot of the people particularly of the villagers. The aim of the welfare states is to devise institutions and norms which may assure economic and social justice. The power of the state should be used to establish, economically expansionist policies within the growing socialized sector of economy, to moderate insecurity and to curb oscillations of economic activity. It is possible, by bringing an end to rural indebtedness, to give a boost to Indian economy.