CHAPTER - 3  
GENESIS, SIGNIFICANCE AND ROLE OF MARKET INTERMEDIARIES AND FINANCIERS

This chapter makes a quick review of the history of market intermediaries and indigenous financiers in India. The presentation is based on the review of literature in banking and marketing with reference to the policy decisions or major laws enacted by the governments from time to time relating to rural banking and marketing.

3.1. Financing Market Intermediaries in India

In the modern competitive economy, the implicit significance of marketing and finance is almost identical and has been the key factors in determining the rate of development. In India, there have been several persons, Joint Hindu Families and business houses who were simultaneously engaged in trading and banking business. They include Saucar, Bunniah, Chetty, Nanavathy, Nattukottai chetti, the Multani, the Arora, the Rathy, Mahajan, Tharakan and the Shroff. The well-known indigenous bankers like the Mahajan, Chetti, Banniah or Saucar were an indispensable figure in the social organisation and a crucial factor in the agricultural economy of the country. Their position in the financial circles of the Presidency Towns was unique, and they were referred to as the shroffs. Primarily, they were providers and facilitators for the local production and trade, who offered credit in simple terms for varied purposes on personal security, refuge of land, produce or other tangible assets. They engaged in trade and money lending simultaneously against the concepts of modern banking. They created and circulated indigenous credit instruments; procured, graded, stored and processed primary produce; facilitated export and import trade; catered the long term development needs of producers; financed the government during emergencies and acted as the local force in bargaining for price. There are different types of middlemen or intermediaries in the primary markets of the country. Some of them are known as adatias or commission agents; whereas the others are
known as dalals or brokers. Adatias are again of two types, namely, the katcha adatias and the pacca adatias. Kutchadatias are generally concerned with the assembling of the produce in the villages. They confine themselves mostly to vegetable and fruit markets. Pacca adatias act on behalf of the out station buyers as also on their own account. Many of pucca adatias also advance money to the Kutchadatias to make purchases on behalf of their clients.

3.2. Significance of Market Intermediaries  Marketing has been the venue of aggressive and concerted efforts for competitive selling of goods and services, which are normally available to any buyer in his vicinity. The American Marketing Association defines a market as the aggregate demand of the potential buyers for a product. P. Kotler believes a market as an area for potential exchanges. Therefore, negotiation is a prime factor in market. There arises the importance of market intermediaries, without whom, exchange with consistency and economy becomes tiresome. The market intermediaries are managers of the primary markets. Marketing management signify marketing concept in action, which involves planning, implementation and control of sales programmes. This is an area of specialisation and expertise and nobody can expect the producers and consumers to take up these functions and meet in the market to exchange their supplies and demand. We need experts who can make better bargains for us, otherwise our products will remain unsold and on the other hand we cannot get the most suitable ends for our wants. This is the real situation prevailing in many countries, where, due to the lack of judicious finance and realistic management of marketing, many productive occupations have to stand still or even face extinction. In this era of globalisation, third world nations like India will have to face severe competition from the global giants in marketing. Any redundancy on our part to take up this challenge with expertise and strategy would bring disasters, resulting in economic slavery, unemployment and ultimate poverty and starvation. Thus, we require a factual review of our concepts and approaches to market organisation and financing to equip ourselves take up the challenges ahead. For sustenance and promotion of
agricultural and industrial development credit is essential. An elastic credit system that fits the productive requirements of the community is undoubtedly the springboard of economic growth. A healthy money market is the result of a fully coordinated system of credit, possessing different types of complimentary institutions with total commitment to growth. In India, this function of managing primary markets and financing primary sectors were undertaken by these market intermediaries and still continues to occupy a prominent role in the rural economy.

3.3. The precedent of Financing Market Intermediaries  

The structure of the ancient markets of our country was simple and predominantly handled by private traders. A group of financing middlemen were holding the banking and marketing functions simultaneously. Many of them issued coins and bills of exchange for the kingdom and operated a credit market for financing the rural occupations and at times even the governments. Evidences are forthcoming in abundance that the business of trade and banking were perfectly understood by the people of ancient India and fairly practised by them. Dr. S. V. Ketkar speaks of eighteen guilds of different trades and the Mahasethes arbitrated in matters of dispute between the different guilds, who issued coins as well as credit instruments. Dr. Pramathanath Banerjee quotes from Gautama, Brihaspati, and Baudhayana verses which regulate the rate of interest. The institutes of Manu give us rules regarding the rate of interest and the policy of loans. Kautilya offers some interesting advises on this point. Sir W. W. Hunter gives us valuable information as to the manner in which a private banker sets up his business. The range of business practices of the village banker of the early part of the 19th century are dealt with in detail by Mr. A. F. Tyler. Mr. Thorburn describes colourfully the “greed of gain” on the part of village “banias” of the Punjab and the method of operation which tended to lessen the agriculturists into a state of abject slavery. Some glimpses of the indigenous system of money lending and trading can be obtained from Mr. Malabari’s account of Guzerat (Gujarat). Sir Richard Temple testifies to the fact
that banking business were carried on by our ancients beside other trade. He estimated the number of bankers to be one hundred and eighteen thousand, of which several are money-changers. There were half a million villages with about two bankers to every village. The Census of 1931 estimated the number of financiers to be about 14,61,000 including bank managers, moneylenders, exchange and insurance agents and money-changers. Speaking of their locale it remarked that "banks and moneylenders are plentiful in the Punjab, their number exceeds the general average in Bombay, the Central Provinces and Berar and the United Provinces while in Assam it is only one per mile." Epigraphic evidences regarding the prevalence of banking in Ancient India can be cited from the pages of The Indian Antiquary. Dr. Radha Kumud Mukherjee cites both literary and epigraphic evidences as regards the popularity of mixed banking in ancient India.

3.3.1. Financing Market Intermediaries of Medieval India Much has been known from the historical inscriptions and research works about the state and society in ancient India. The description regarding the function of state and its impact on the society, by and large, emphasises on the economic conditions of the people. But very little is known about such ideas in medieval period. However, the movement of trade and banking in this period can be studied with reference to the administration of Delhi Sultans, Mugal Dynasty, Vijaynagar Kingdom and the rule of Peshwas in Maharashtra. Some literature on the internal and external trades during these periods is available as studied by the historical researchers. The trade in the medieval period was dominated by the financing intermediaries and exports of various commodities were carried out by them, strengthening the state revenue. The prices of most of commodities were settled by the ruling authorities on the basis of the prices of preceding periods and their response in the exporting countries. The products were collected by the commission agents, who financed the producers by giving loans as advance price. These goods were later placed in the weekly markets by these merchants who had arrangements for grading at town markets, from where the commodities were exported or redistributed in the
state after processing. Many of the indigenous financiers held high political authority at the Mugal Courts, especially towards the last years of the Mugal rule. The political influence of Jagat Seth and Omichand during the Plassey days is well-known, to students of history. The Seths of Madhura exerted much influence on the political history of South India. Historians have recorded that these bankers granted loans to rulers and financed their long protracted wars. Every Native State had its banker who took an active part in the financial administration and trade management of the Princely territories.

3.3.2. Role in Colonial Period The British regime, through East India Company penetrated in to an India, well-off with a prosperous banking system, marketing network, flourishing handicraft and cottage industries using relatively advanced techniques, with a distinguished social structure based on the surpluses from farming. The colonial administration converted the traditional payment to the state, in the form of a proportion of actual produce in kind, into a fixed payment of land revenue in cash. The land revenue was calculated to be five percent of the gross produce per acre in Central Provinces, seven percent in Berar, seven to thirteen percent in Delhi and Bombay and twenty percent in parts of Gujarat, according to soil and irrigation availability in the respective regions. The conversion of traditional share of the state into fixed money terms made the farmers more dependent on the market, both for the sale of crop and for borrowing credit. Although the share of the state declined over the years because of the fixed land revenue and increasing agricultural prices, the financing intermediaries and the zamindars were paid in the form of return in kind. The returns were allowed to be determined by market forces without any social and legal checks. The colonial administration did not care to use the surplus from agriculture for the industrial development of the country, which would have laid firm foundation for sustained economic growth. Instead, they used their political power to take away the essential raw materials to their country to produce goods that are to be brought back to India for sale. The
advent of the British Rule dispossessed the financing intermediaries of their political significance and prestige. The traders began to specialise themselves and the indigenous bankers continued to play their usual economic role in financing trade. Some of them financed the wars of the East India Company. Till the European Agency Houses and Merchants successfully settled in the country, the coastal trade of Bombay with Arabia and the South African territory was financed by the traders of Surat. Many of these old trade houses were replaced by the modern indigenous bankers, financing the internal trade of the different provinces and played an important part in the financial organisation of the money markets in the different cities during the British Rule. They became the recognised moneylenders, money-changers, bullion merchants and financial middlemen.

3.3.3. Results of Contact with Western civilisation With the advent of Western business methods in British India, the cultural supremacy of the indigenous bankers and market intermediaries began to decline. New institutions such as the Civil courts, the Laws of Contract and Limitation and the service of legal practitioners soon gave scope to the indigenous bankers or the wicked moneylenders to exploit the peasants and artisans, who did not know how to make a fair use of the rights of occupancy and ownership conferred on them by the law. Moneylenders soon degenerated into land grabbers and their pristine honesty and scrupulous regard for truth soon became dimmed by the more materialistic tendencies that have been introduced of late into the calm and placid atmosphere of our social life. Noticing this deterioration, Sir R. Temple rightly remarked that “the passing of English law of bankruptcy has demoralised the native bankers of the Presidency Towns.” Throughout the nineteenth century and in the first two decades of the twentieth century new rival financial institutions were being created and the indigenous bankers found their field of business restricted. Though they were fast losing their prominence, they were making no efforts to adapt themselves to the altered circumstances of modern banking. Instead of developing into modern
bankers pioneering corporate financial activity, they preferred to conduct mixed banking business in the same old traditional style. Solidity and economy were the prominent features of their banking business, but they were lacking adaptability and initiative, the characteristics that a sound banking system should possess.

3.3.4. Prevalence in Nineteenth Century The markets dealing in farm and non-farm products had only a slow growth after the peace of World War I. Following the war, the economy had a severe setback in terms of production, income generation and employment. This situation reflected largely in poverty and seasonal cycle of dispersed production system. These two factors dominated the structural changes in the market conditions in India. The uncertainties in agriculture prevented the growth of uniform commercial opportunities and the possibilities of centrally controlled marketing system in India, as assessed by the American trade consuls during the early recession period of Indian economy. The growing indebtedness of small and marginal peasants and the poor output of crops increased dependence on outside traders across the country and seasons. As a result, the markets were divided in two hierarchical tiers: (i) village markets which held periodically, and (ii) the town markets, where the wholesale trade was organised by the arhatires (commission agents). The Indian peasants had orientation only in production and management of crops and not in the processing or adding value of products like jute, cotton, sugar cane, tobacco and other plantation crops. The European business community exploited this opportunity and developed Indian markets as subordinate to their capitalistic mercantilism. The market intermediaries adopted themselves to the situation and most of them transformed to financing middlemen, booking their right to sell the raw materials to the European industrialists through forward sales.

3.3.5. Increasing Role of Middlemen The colonial regime brought many changes in the structure of money market, land holdings, farm organisation and cropping pattern during the last century of their rule in India. Traditional indigenous
money market was transformed into joint stock banking under a central bank; small and medium sized farms were converted into large plantations; farming practices were brought under organised industrial sector, etc. Indigo, the traditional plantation crop had been substituted by jute, on exhaustive market demand by the British in West Bengal. Besides, the genuine plantation crops, tea and coffee grown mainly on the hills have been under British control from the stage of production to shipment to London. However, the Indian capitalistic enterprise was also passing through a vulnerable phase, during the mid-colonial period as the economic pressure in terms of increasing debts of small peasants and cottage industries entrepreneurs. However, only the bazaar, the rural market could deliver the goods from the bottom to the top because of the spatial inter-working with complex financial arrangements. The informal financial markets were functioning in the country in large scale which extended credit support for agricultural operations during famines and seasonal uncertainties. These markets were largely dominated by the shroff and commission agents. Despite seasonal variation in input costs, market prices and cropping pattern, the food grain production showed significant growth. However, during the period of economic recession, from 1925 to 1937 the exports suffered considerable setback.

3.3.6. Emergence of a New Market Economy The indigenous informal bazaar based money markets of colonial India operated through twin instruments of hundi (bills) and arhat (commission). The Finance provided by them was used for assembling, distribution and financing production of as much as 36 million small and marginal farmers. The imports and exports operations were carried out through the principal ports located at eight trade terminals, namely, Karachi, Bombay, Cochin, Tuticorin, Madras, Visakhapatnam, Calcutta and Chittagong. Besides, 76 million tonnes of food grains were moved through railways and 85 million tonnes through carts between the market towns during mid-1930s in the country. The mobility of goods and services formed a three-tier marketing hierarchy
viz. (1) the financial and commercial centres at the terminal level (top of pyramidal structure), (2) town markets at intermediate level establishing link between the top and bottom level markets in the hinterland and (3) rural periodical markets spread widely at the grassroots of the India’s domestic economy of India. The terminal markets located in two big cities of Bombay and Calcutta largely catered the international economy of India during the early twentieth century. However, the nodal points for promoting the domestic economy invariably vested with the numerous market towns, locally known as mandi. They had regional specialisation in commodities, e.g., Layalpur for cotton and wheat in the Chenab Valley of Punjab, Hapur for wheat in Uttar Pradesh, Khemgaon for cotton in Berar (now in Maharashtra) and Guntur in canal irrigated Krishna Valley (now in Andhra Pradesh). Mandis were the market places where produce in primary stage was assembled for despatch to main distributing centres in intermediate hierarchy. The produce used to arrive from various rural markets held periodically or fairs organised seasonally. The more regular rural markets, known as shandis in southern parts of India, peths in central and northern India and haats in the Bihar and Bengal, played vital role in assembling agricultural and urban manufactured products for retail transactions. The method of direct purchases from mandis to reduce the arhat or commission on the transactions was systematically initiated as a policy by Ralli and Volkart before World War I, which continued till mid-1930s. They were large international trading concerns in India’s agricultural produce market, principally in the sale of groundnuts, cotton, oil seeds, tobacco, tea, coffee, etc., send to the London market. However, the great depression of 1930s hit at the foundations of these widespread export houses and led to closure glutting the grain supplies in the local markets. Overcoming the consequences of depression, the financial and commercial transactions were set to networking in Indian economy at all levels of market. The terminal money markets of Calcutta and Bombay had gradually notched the top of economic system. Table 3.1 depicts the growth of the general and financial markets in India during mid-1940s.
### TABLE 3.1. MARKETS NETWORK ACROSS INDIA DURING 1943

<table>
<thead>
<tr>
<th>Region</th>
<th>International Markets</th>
<th>Shandis &amp; Financial Markets</th>
<th>Mandis in Main Provinces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assam</td>
<td>4</td>
<td>1,213</td>
<td>54</td>
</tr>
<tr>
<td>Bengal</td>
<td>61</td>
<td>5,862</td>
<td>174</td>
</tr>
<tr>
<td>Calcutta, Chittagong &amp; Bihar</td>
<td>348</td>
<td>2,535</td>
<td>74</td>
</tr>
<tr>
<td>Bombay</td>
<td>36</td>
<td>961</td>
<td>198</td>
</tr>
<tr>
<td>Ahmedabad &amp; CP</td>
<td>13</td>
<td>2,307</td>
<td>64</td>
</tr>
<tr>
<td>Madras</td>
<td>113</td>
<td>906</td>
<td>237</td>
</tr>
<tr>
<td>Madras, Cochin, &amp; Tuticorin</td>
<td>127</td>
<td>23</td>
<td>157</td>
</tr>
<tr>
<td>All India</td>
<td>1,733</td>
<td>22,080</td>
<td>1,718</td>
</tr>
</tbody>
</table>


#### 3.3.7. Changing Nature of Agency Business

The emerging market economy came out with a new manifesto of economic integration through amalgamation among various levels of markets dealing in commodities and finance. The network of 1,718 mandis and 22,080 shandis was connected with infrastructure and communication system. The agricultural and commercial crops still continued to transact through the arhatiyas and shroffs, the traditional financing intermediaries. The mechanism through which the grassroots, intermediate and terminal level markets operated, took some structural changes giving way to some lucrative styles mainly in the form of:

1. **Goladani** (retention or storage)
2. **Badli ka satta** (forward trading through speculation)
3. **Teji aur mandi** (boom and depression in commodity trade)
4. **Arhat** (commission agency)

This usurping intervention of middlemen continued till independence, which raised the dominance of private traders to the extent of severe exploitation of small farmers. Consequently, the state intervention to regulate the market operations was felt necessary and policy towards ‘agricultural produce marketing’ was thought of. The coincidence of speculative trade and financing by the
intermediaries, created a sense of unruliness in the traditional money market and the public opinion went in favour of the government decision to curb their activities. This situation favoured the institution and growth of co-operative and commercial financing houses, which later refused to sponsor the role of intermediaries.

3.3.8. Impact of Government Policy

In the beginning, the administration felt a need to investigate the economics of primary occupations and changes within it, the credit operation and the trends in output and marketing behaviour. In British India, the imperial rulers mostly depended on the village for revenue, which guaranteed their political severity. Thus, the peasant’s interest regarding high production and remunerative prices was kept in abeyance all over the period of imperial ruling. This imposed insoluble constraints in the extent of agricultural production for the market. The fundamental problem outlined during the British period towards agricultural production and marketing is the ‘glow level trap’ model, consisting of purely institutional pull backs such as credit, agricultural extension, price trend, taxation, etc. The main cause for the low marketable surplus was found to be the high level of taxation over the land and production. The situation endangered the peasant’s long-term security by damaging his productivity. India as the ‘paradise of middleman trade’ was a frequent image presented by contemporary western commercial interests. For example, within the British cotton industry it was often alleged that the existence of mass intermediaries between the peasant producers and the foreign buyers raised costs and undermined the competitiveness of Indian raw cotton. The regulated markets in India after the medieval period are found to be at par with the legislation in Britain. The state control over the squalid urban markets in Britain was imposed through the Victorian predilection for Municipal Order and Hygiene Acts. By 1920, there were 32 such Acts, mainly concerned with the sale and slaughter of cattle, and with transactions in wheat in the local markets run by sheriffs or stewards. A committee to investigate and comment on the prevailing legal chaos on British agricultural markets was set
up in 1922 and since Lord Linlithgow held the posts as chairman of the committee, Royal Commission on Agriculture (1928) and Viceroy of India simultaneously; the recommendations of the committee in 1922 became worth mentioning. The committee deplored the dearth of information on markets, and suggested the control of free trade in agricultural commodities at all stages, from production to consumption. It observed that in Madras, Bihar, Central Provinces and Berar, the markets were easily and efficiently run by the local authorities. But, with an expanding market economy, local autonomy had to be canalised to ensure the standardisation of exchange aspects such as weights and measures, fees, charges etc. The Royal Commission on Agriculture recommended commodity surveys to determine the imposition of similar controls as in England over India. In early 1930s the provincial legislation to regulate markets were drafted. In 1933, the Madras Commercial Crops Markets Act appeared.

3.3.9. Effects of British Laws on Primary Sectors  The marketing conditions varied during the colonial period from province to province and in respect of different products. Nonetheless, in spite of the diversity of the system under which agricultural produce is marketed in different parts of the country, there are certain broad generalisations which can be made for India as a whole. It has been established that where the cultivator is in a position to dispose of this produce in a market, however limited its scope and badly organised its character may be, the cultivator obtains a better price for it. If cost of transportation and other factors like indebtedness is high, he disposes of this produce in the village to the moneylender. This was a very highly observed characteristic of produce marketing in British. The farmer was compelled to sell his produce so, either due to lack of transport facilities or indebtedness, which compelled him to rely on to the village traders and accept the term dictated by the latter. Another reason argued in several studies were the dissatisfactory communication with the nearest market. The Punjab Communication Board, in 1923 elicits that in some districts of the provinces,
e.g., Karnal, the bulk of crop was sold to the village traders at the dictated price of
the buyer. In the adjacent district of Rohtak, where the cooperative movement had
a good impact, the proportion was one-half and in Layalpur market the mandi
(regulated market) had influenced the sale and procured almost all produce. The
citation indicates that during the British period the cooperative movement had
made some progress and the regulated markets were also in existence. In the
British period, the state agriculture departments used to promote a useful means
of selling to the cultivator, an adequate premium for the super quality of the
produce. The system thus developed was auction, particularly during the early
stages when the quantity available was small and the trade was without an
organisation to enable it to be taken up at its intrinsic value. But, as regards the
cereals and other food grains, the village traders were predominant. The business
efficiency was adversely affected due to lack of standardisation of measures and
weights. Needless complications and unevenness in practice between markets
tended to prejudice the interests of the cultivators. In the sixteen markets of the
East Khamdesh district of Bombay Presidency, the mandi had thirteen different
values. In the Jhelam district of Punjab province six different measures were used
by which grain was bought and sold. The Berar and the Bombay market legislation
provided the regulation of the kind and description of scales, weights and measures,
in 1913, on the recommendation of the Committee and Standards and Regulation.

3.4. Continuing Role of Middlemen There had been the transaction of
commodities through brokers in most of the markets who acted for both buyers
and sellers. The Government of India had imposed the prohibition of brokers from
acting in a dual capacity. The regulated markets were functioning for the wholesale
trade of selected goods. The local markets were established for retail as well as
wholesale trade. The authorised markets within the radius of regulated markets
were prohibited. The existence of multitude of intermediary links in the marketing
of primary produce during the colonial period speaks for itself. The commodity
transfer network, the system of trade throughout the country was managed by a variety of middlemen, each of whom absorbing a share in the sales proceeds. These middlemen had also an agency for noninstitutional credit supply to the various producers. The extremely high degree of regional demarcation by the merchant cum-moneylenders was noticed. A characteristic feature of the middlemen was that the overwhelming majority of them belonged to semi-feudal landowners. This behaviourism led to the exploitation of the peasantry in many ways.  

3.4.1. Lucrative Practices The business practices of the moneylenders and merchants were diverse. At the onset of the market working, the price was decided by the buyer or his agents. If the buyer was not present in person, the negotiation took place between the middleman and the agent of the buyer. The middlemen were engaged more in the transaction of the cash crops than food grains e.g. cotton. Buyers, after verifying the quality of the products, settled price through extensive bargaining. In this process, the produce is weighed, quality is listed and heaped. Since the grower had to depend totally on the middlemen for getting his produce disposed, it was difficult for the cotton grower to take back his produce despite an unfair deal. Academic attention focused on the economic behaviour of indigenous traders and merchants in India during the period of British ascendancy. The late eighteenth century was a period of crucial importance for merchants, middlemen and the trading structure in Bengal. Here, a century or more of European commercial penetration assumed a different character, with the political advantage firmly in the grip of one corporate body of foreign traders - the English East India Company.

3.4.2. The positive Role The local trade, which possessed the closest connections with the system of primary production, received little attention on its merits. The existence of innumerable intermediaries between the primary producers and the merchants stationed in the great cities gave the general impression that:
(i) local trade derived its existence solely from servicing the upper strata, and (ii) it was a somewhat 'shadowy' sphere people by a medley of intermediaries- beopairs, paikars, goomastahs, etc.- the functional differences among whom are not always recognised and whose activities seem to converge in a confused tangle of 'petty' dealings. The view that the function of local trade was to draw goods and commodities out of the production zone, away from the localities and towards urban centres was true to some extent. The networks of local trade formed little microcosms in themselves, each with its own tiny substructure, which became a component in the general structure of Indian trade as a whole. At the base of the structure of local trade stood the petty traders, who occupied a predominant position in the complex of agrarian relations that existed at the village level. These were often moneylenders and rich peasants, who had their goals and stores, where grain was often kept for five or six months, and they put their affluence to good use by lending to poor farmers in grain and money, sometimes in a very big way, as in Shahabad. Thus, the group of dominant peasants used its position within village society to branch out into trade. Buchanan describes them as 'trading farmers'. They purchased the produce of their neighbours at harvest or by means of advantages even before the crop standing in the field was ripe. Part of this grain usually found its way to the market. The people with whom the local traders came into contact in the stalls and market towns were the mahajans- usually men of substance and considerable merchants. Those dealing chiefly in grain (very often in combination with articles called kirana, i.e., salt, betelnut, iron and sometimes sugar, oil, tobacco, coconut, sackcloth, and a wide assortment of other articles) formed the case of the general trade. Those big wholesale merchants very often carried on money lending side by side with their other trading activities. Usually, these big merchants and mahajans possessed direct trading connections with big cities. The rural towns were also the base of operations for non-local merchants or their agents, and paid employees who were interested in buying grain from the interior. This role of the middlemen ought to have measured as the most positive
factor, since in their absence, the primary sectors would have not sustained. Similarly, Dalals or brokers, who had no capital engaged in trade but earned their living by bringing together buyers and sellers, were also to be noticed in the grain trade of the market towns and gunjes. If a predominant aspect of local trade was the conveyance of goods to nodal points for transportation to cities, catering to the needs of local consumers comprised its other side. Thus, a variety of retail dealers were to be found at the level of local trade and grain was an article in which practically all of them dealt.

3.5. The Structure of Market and Hierarchy of Middlemen The hierarchy of the financing middlemen and traders during the colonial period was in the form of a pyramidal structure, whose broad base supported the activities of small traders or petty traders at the village level. The middlemen, locally called as dalal in north and eastern India, occupied just above the base level group status, who were in direct contact with the large urban centres and cities, which were sustained by goods and services flowing up from the countryside. These middlemen were connected with the big merchants who were also money lenders. What further strengthened the ties between urban centres and their widely dispersed hinterland was the system of forward purchase which enabled the big merchants located in cities to stake a claim on the crops still standing in the fields. This was also in the case of fruits and vegetables as the big merchants, though the intermediaries, used to assess the value of the crop in the field and pay money much less than its post-harvest value to the cultivator. There is evidence that large quantities of grains entered in the trade nexus had already been spoken for in advance. These advances ensured the moneylender-cum-merchant of an assured supply of larger quantities of grains at lower prices that what could be procured in the open market. However, the ready money transactions and forward purchase coexisted between the primary producer and purchaser of grains, irrespective of their territorial demarcations. The seasons also gave the grain trade a particular fixed time for its
purchase from the villages and its consequent sale at rural markets. Thus, between the seasons and the nature of grain as a commodity endowed the grain trade with the character of a water-borne commerce, operating usually in a short-term market in keeping with the rhythm of the seasons. In fact, it was also the seasons which determined the amount of grain which the advances filtering down from above could secure. The quantity of grain in relation to the advance depended on the time when the latter was made, that is, on the distance of the advance from the harvesting season. During famine conditions, merchants in deficit areas would send their agents far and wide to procure grain as the prevailing level of prices would compensate for the exorbitant transport costs. The whole mechanism of local trade functioned within the parameters of a structure of control and domination. Almost all the groups who worked together to keep the mechanisms of local trade in operation possessed a substantial degree of power and influence over the other men in the same profession. Rural markets, whether permanent like gunjes or periodic like hats, owned their origin and their continuance to the activities and to the support of zamindars, revenue officials, and other officials associated with the administration. The income from markets went to the government and the nominee who collects the revenue respectively. But markets situated on malguzari and zamindari lands were officially recognised as 'belonging' to that particular zamindar, and the income from the market was included within the latter's jama as 'saving'.

At the market towns, local trade was exposed to the exactions of the zamindars. These were primarily of three kinds: ground rents on houses and shops of settled inhabitants, duties on all goods carried into and out of the market.

3.5.1. Entry to Agency business In the earlier days of the East India Company, the native manager of an English agency house and of a ship captain was called 'Mutsaddi' by the natives and 'banians' by the Europeans. The banian was really a market intermediary, as the factor of houses and captains. Due to the absence of any European banking establishment, they had the sole charge of
monetary transactions. A native agent was necessary, as the goods of the Company’s officers could not be sold directly to the natives, on account of the ignorance of the native language. High-caste Hindus refused to act as banias as the commodities usually included wines, liquor, non-vegetarian food products and other provisions which could not be touched by the high caste Hindus. A washer man (doby) or Colootolah was entrusted with the duty of selling the goods. These dobys gradually set up partnership with other friends to manage the business. Seeing the lucrative nature of their business, legions of high caste Hindus started to act as dobys to the captains of ships and the name dobys was changed to banianship. After the withdrawal and abolition of the company’s monopoly, several of the identical banians served them again as their merchants and agents. (See the Selections from The Calcutta Gazette.)

3.5.2. Hereditary Business and Inherited Tactics

Money lending and intermediary business was purely a family concern and had been a hereditary vocation among particular castes and classes of society, such as the Marwaris, the Jains, the Multanis, the Nattukottai Chettis, Tharakans and the Kallidai-Kurchi Brahmins. Almost all members of this caste or class possessed fairly good business knowledge. They were remarkably judicious and thrifty in their habits. They had a special natural aptitude for earning and saving money. Generally no new ideas were acceptable to them. Their conservatism and traditional resourcefulness were undoubtedly strong assets and saved them from many a bad debt. While the small moneylenders can be considered as a set of low usurers, and the wealthier of these indigenous financing middlemen were private capitalists holding magnificent sums, and though they are often averse to the principles of modern banking. They formed private partnerships under the management of a senior partner or were organised as Joint Hindu Families. They seldom revealed their transactions to the public and it was only when these firms occasionally failed that the general public came to know the real magnitude of their operations. They were most courteous to
their customers. They entertained their visitors with great intimacy and much friendliness but were very reticent to maintain strict secrecy regarding their business affairs. Very often in the old days they were appointed as trustees for village endowments and the management of these lines of property tended to increase their business knowledge, pecuniary resources and social status.

3.5.3. Lack of Perpetuality But the one greatest defect of their business of was that it lacked perpetuality, due to hereditary nature of the family. A founder of a financing trader concern may be a good banker, financier and business man, but it does not always follow that his son, who in all likelihood and certainty inherits the business, will be capable of running it. The concern wanted continuity of able talents in the family. It was difficult to find that all these factors, satisfactorily available in an agent’s family. The efficiency and driving power which are found in joint-stock banks were seldom visible in these private banks. The joint-stock bank is not handed down by the deceased father to his son, but is always under efficient and capable management. This was the basic problem that told heavily against the indigenous middlemen financiers.

3.6. Government Policies to Avoid Middlemen The government’s direct interest in the income of farmers, prices of food grains and the market rose up from the assumption of the bimani system in 1765, when the crucial importance of the harvest and grain prices to the total economy forced its attention towards the grains scarcity. The situation was aggravated by establishing the grain monopolies of the government through the countryside agents of big merchants. The cultivated area under cash crops was too small to affect the peasant economy. But the British trade policy favoured the proliferation of indigo, sugar cane and opium which resulted the reduction in food crops since 1790s. During the colonial period, there were many restrictions on the movement of grains as the zamindars who were also agents of administrators, used to collect the tax at the innumerable
check posts. The decision of the East India Company to initiate a scheme of state granaries had brought the state power directly into the gunjes or regulated markets, as a very big buyer and seller of grain. Such direct participation on one hand brought profits to some merchants and on the other panic and suspicion among the rest, due to the uncertainty of their forward market stocks.

3.6.1. Government Intervention in Primary Markets Primary marketing is a process which starts with a decision to produce some saleable commodity and it involves all aspects of market structure or systems, both functional and institutional, based on technical and economic operations like assembling, grading, storage, transportation and distribution. Under the ancient economy, characterised by isolation and self sufficiency of villages, the marketing occupied an insignificant position, since the producer or his household effected the exchange with his neighbours. The commercialisation of production opened scope for private trading channels, cooperatives and regulated markets, but due to ignorance, illiteracy and lack of enterprising ability, a large group of producers, consisting of small and marginal farmers, fishermen etc. could not strike a profitable bargain in dealing with their products. As such they were forced to seek the assistance of middlemen. A study in this respect revealed that about 35 percent of the total production of farmers is sold by the cultivator, of which 24 percent to the traders and commission agents, 15 percent is disposed in kind of wages and nearly 8 percent is kept reserve for seeds. The result is that the private traders, through speculative activities, create imperfections in the market and exploit the producers on the one hand and consumers on the other. On this account, a plea for state intervention was usually made.

3.6.2. Legal Steps to Regulate Market The first attempt to regulate markets in India was made in 1897. An Act passed in that year authorised the then British Resident in Hyderabad district to declare any place within his jurisdiction a market for sale and purchase of agricultural produce and to constitute a committee
to supervise and regulate the markets. The law helped to improve the buying and selling of cotton. But it suffered from one of the major limitations, viz., the market committee consisted solely of traders, and this defeated the declared objective of benefiting the cultivator-seller. In practice, the law was applied only to cotton, the main crop of the region. Income derived from the market was explicitly stipulated to go to the local municipal authority, instead of being ploughed back into the market for further development. Thirty years later, with the passing of the Cotton Markets Act, 1927 in Bombay, once again, the law was concerned only with a single crop. However, in an important departure from the Berar law, it gave the cotton growers a majority on the market committee. The Royal Commission on Agriculture, reporting a year later, urged that all provinces should establish regulated markets to help orderly marketing of all agricultural produce. It criticised the practice of treating regulated markets as a source of municipal revenue, and insisted that surplus incomes, if any, must be used solely to develop and improve the facilities and services for the benefit of the producers in the markets. Hyderabad, Central Provinces and Madras promptly acted on the Royal Commission’s recommendations and passed appropriate legislation. Similar steps were taken by other states also; Punjab and Mysore in 1939, Madhya Pradesh in 1952, Kerala and Orissa in 1957. At the beginning of the Third Plan, the legislation for establishing regulated markets was in force in nine states.

<table>
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<th>Year</th>
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<th>Sub-markets</th>
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<tr>
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<td>2045</td>
<td>3534</td>
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3.6.3. Approach of Five Year Plans

During the First Five Year Plan, priority was given for initiating steps to eliminate market intermediaries and money lenders. Regulated markets were established in Bombay, Madras, Punjab, Hyderabad, Mysore and Madhya Pradesh, where the management of these markets were vested to committees in which growers also represented. Some of the states like Uttar Pradesh, West Bengal, Bihar and Orissa, despite promulgating the Agricultural Produce Marketing (APM) Act, could not enact in large number of unorganised markets in the countryside. Moreover, the states gave priority in implementing the APM Act in all the regions. Apart from the imposing regulations in agricultural produce market, the main thrust was laid on the development of 'cooperative marketing'. The plan envisaged that the cooperative marketing linked with production, finance and cooperative ownership of processing industries, will be a useful instrument in increasing production, reducing costs and introducing a system of crop planning. An important development during the First Plan was the passing of Forward Contracts (Regulation) Act, 1952 and the setting up in the following year the Forward Markets Commission. The Second Plan also proposed that the trade association may adopt the standard contract term devised by the Ministry of Food and Agriculture for wheat, linseed, groundnut, etc. A specialised training in agricultural marketing was introduced for better market information service. Several steps were taken during the First Plan period aimed at regulating the marketing practices, standardising weights and measures, developing suitable infrastructural facilities in assembling markets etc. Though, the legal framework has been provided through APM Act in most of the States, the progress in the development of markets and in the enforcement of Act, however, has been uneven.  

The primary consideration for the development of agricultural marketing in the Second Five Year Plan was to reorganise the existing system, so as to secure for the farmer his due share of the price paid by the consumer and serve the needs of planned development. It was estimated that the cooperatives may be able to handle about 10 percent of the marketable surplus by the end of the plan period. Rest of the surplus was suggested to pass through other marketing channels. The
Second Plan also stressed the enactment of APM Act in the states covered other than in the First Plan period. The plan also recommended implementing the legislation passed under the APM Act on grading and standardising farm products. The total number of agricultural produce markets in the country at the end of Second Plan was about 2,500. Of these, the number of regulated markets was 725 as compared to the 425 in the First Plan.  

The Third Five Year Plan proposed to bring the remaining markets to regulation and to expand the programme for grading the commodities and the APM (Grading and Marketing) Act. Till the Second Plan 500 markets were covered under the Market Intelligence Service. It was further proposed to strengthen the services in the following plan periods. An increasingly important aspect of agricultural marketing found during the Third Plan period was the development of cooperative marketing with due weightage.

By and large, the Fourth Five Year Plan was aimed to improve the marketing system in the interest of the producer. The objective was to see the imperfections in the marketing system and to overcome the constraints. Under the Fourth Plan period, 1,300 additional markets were proposed to be covered. The development of infrastructure was identified as one of the major tasks to be carried, and roads, market yards, grading units, including other common amenities, were stratified for immediate attention. As regards the grading centres, 600 more units, apart from the Third Plan achievements, were planned during the Fourth Plan period. It was observed from the plan document that the plan envisaged the development of infrastructure as first hand job and gave priority in construction of roads, building and grading units. The development of agricultural marketing was planned through the ways and means of cooperatives during the Fifth Five Year Plan. The plan envisaged to set up various cooperative marketing unions for the commodities and also boards to regulate trading systems of cash crops.

The main thrust of the Sixth Five Year Plan was therefore on (a) further expansion of regulated market system in terms of both move markets and
commodities to be brought within the scope of regulation; (b) strengthening and streamlining the arrangements for enforcement/inspections to ensure a regulated system of open auction, trading practices, and margins of intermediaries; and (c) development of rural markets and periodical markets and establishment of such methods in area where such facility is not available within a reasonable distance.

During the Sixth Plan period, the progress and development of markets was intensified with the emphasis on survey, research and grading of notified commodities. The main thrust of the marketing programmes during Seventh Five Year Plan period (1985-90) was towards further expansion of regulated markets, both in terms of area and commodity coverage. The grading centres at the producer’s level, intensified surveys to assess the marketable surplus, the post-harvest losses and strengthening of various organisations in the states as well as at the centre for meeting the rising requirements of training for market functionaries were other important sectors attended during the Seventh Plan period. In the plan document, it was recommended to amend the Agricultural Produce Grading and Marketing Act, 1937 with reference to the new scheduled commodities and more items of mass consumption, viz., suji, maida, etc. The targets contemplated for the Seventh Plan were the development of 200 regulated markets, 50 terminal markets for fruits and vegetables and 1,500 primary rural markets with enactment of suitable legislative measures, survey, planning and design and engineering cells.

The document of Eighth Five Year Plan (1992-97) envisaged strengthening of marketing infrastructure with special reference to the perishable commodities. It was one of the major prerequisites for the success of diversification efforts and enabling primary producers to realise a fair share of the price in consumer’s rupee. The plan document endorsed the need of developing marketing linkages within and outside the country to promote diversification. It was found necessary to develop marketing infrastructure besides improving the logistics in the movement and storage of goods in view to cut down losses at various stages of handling the produce. The role of cooperatives in setting up new horizons for domestic marketing
was also argued in the Eighth Plan. The commercialisation of farming systems and the new seed policy for promoting non-conventional commodities like flowers and export-oriented vegetables has made considerable impact on the agri-business in the recent past. The document stated that the procurement and support prices for important crops will be fixed by considering cost of production, change in market prices, input-output parity, inter-crop price parity, industrial demand of food and non-food crops and related factors.

3.6.4. Price Regulation The state intervention is justified mainly because of the market imperfection in different regions and at different temporal points. The popular view in the low income countries has been that the traditional markets do not effectively perform the function of price signalling and that there are huge differences between prices paid by the consumers and those received by the producers, both over time and space that are caused by monopolistic profits in a private trade which necessitate the provision of alternative marketing channels in public and cooperative sectors. But, the cooperative marketing has not made much progress in the country. To understand whether the food grain marketing policies of the government have been effective in alleviating the shortcomings of the traditional marketing system, it is necessary to understand the factors which led to such interventions and to assess which of these factors have been effective. Of these, ensuring urban supply to meet with the overstated requirements of the deficit states, and in the drought conditions etc., have the important bearing over the state intervention phenomenon. The price instability reduces farm investment and supply and that large levels of instability may be associated by farmers with large risks. The government may reduce the level of instability by announcing the floor and ceiling prices within which prices may be allowed to fluctuate. When they decline, the government may purchase and when they increase beyond ceiling it may release domestic and imported stock.
3.6.5. Cooperative Marketing  The need for cooperative marketing in India arose from a number of factors. Of these, the first factor was to discourage the malpractice involved in the existing marketing system. The cooperative movement towards marketing activities accorded considerable importance in the First Five Year Plan but activities remained at the low level of progress. The stress has been given to reorganise the marketing cooperatives to make them more viable during the Fourth Five Year Plan. The two-tier organisational pattern of the cooperatives was recommended with an ‘apex’ organization at state level and primary marketing societies at the mandi level. The branches of ‘apex’ level societies were recommended at the district or regional level. The states where three-tier structure was existing no modification was recommended. FAO, earmarking the contribution of the cooperatives in regional economical development, states that there are some factors which have direct involvement on the promotional policies of the commercial sector with reference to small farmers. The farmers’ marketing cooperatives have been chosen as instrument for development of the commercial sector of small farmers provided leadership is vested with the cultivators without state intervention.

The marketing of agricultural produce by the cooperatives received a setback during recent past because of

1) Inadequate coverage of grower members,

(2) Low volume of marketing service societies,

(3) Inadequate link between marketing and processing cooperatives and of the state federations, and

(4) Inadequate financial resources.

The marketing cooperatives at the primary level do not have adequate resources either to undertake marketing operations at massive scale or to absorb the losses. Apart from these institutional constraints human factor is also equally important which affects the growth of the marketing cooperatives. Of these, (1) lack of loyalty of members towards organisation and understanding of cooperative
principles, (ii) shortage of efficient management personnel and lack of training, and (iii) low levels of salaries, absence of promotional prospects and poor communication, are the basic factors which influence the negative growth of marketing cooperatives. On the whole, commodity-wise marketing and processing of agricultural produce by the cooperatives has not made any significant impact in the marketing network. However, there are few exceptions like milk, sugar cane and cotton where cooperative sector is dominant and has shown tremendous dynamism in the western region. This is due to vertical and horizontal organisation linkages established by the cooperatives through integrated approach. Despite few success stories there are certain issues which yet remain as pillar to withhold the growth in the cooperative sector. The most important question to be asked is: will cooperatives be able to withstand the scorching heat of an oppressive capitalism.

3.6.6. Monopoly Procurement Policy  Indeed, the grand evidence on agricultural marketing has had a confirmed impact on the policy formulation which is depicted by the decisions of the Government of India in 1973, to nationalise the wholesale trade of wheat and subsequently following a year of intense debate and early reverse in the implementation of the policy, to abandon the course. Those decisions were on the lines of the well-known pattern of state intervention in the food grain trade has had along history of British times. For a number of decades compulsory procurement of grain, fixation of ceiling prices, zoning of surplus and deficit regions, movement control, fair price distribution, and statutory rationing of food grains etc. are being used as the tools of intervention. During the British period, the mobilisation of surpluses at non marketed prices was undertaken, admittedly for the maintenance of urban demand and with a view to a long-range development planning.

3.7. Present Position  In the democratic India also, the governments tried to keep away the indigenous banker cum trader from the main stream of development through the establishment of wide spread branch banking, development banking
etc. Several schemes and programmes were drawn out to ease the burden of rural indebtedness and to regulate sale of commodities in the primary market. These efforts found their success and to a great extent, the rural sectors were released from the clutches of moneylenders. Surprisingly, the final decade of the century witnessed the regeneration of the usurers in the form of a new class of private bankers in the trade centres and cities of India. Today, it is estimated that they hold and control about half of the resources of the country and it is asserted that in India, there is a parallel economy sponsored by them.

3.8. Functioning of Intermediary Turned Indigenous Banker In India, the market intermediary cum indigenous banker was also a dealer and broker in capital. His main business was to lend money. Mostly, personal security of the producer was enough to get his financial help. Since some of the loans were normally for performing social functions or other unproductive purposes, he cared to take collateral securities to balance the amount of his loan. He sometimes deducts interest beforehand and pays the outstanding balance to the customer. He collects the debts in instalments. His rate of interest is often very high, ranging from 18 to 120 percent and he is so merciless in his exaction, that he has been termed the Indian “Shylock.” But there has been a marked fall in this rate of interest due to the competition of the co-operative credit societies and the increase in the economic stability and peaceful conditions of society under the democratic rule. But for the worthless security of the ryots, who may merely be tenants with no title to land and the difficulty of collecting the original sum loaned out which has also to be reckoned, the rate of interest would have been reduced to a lower level than existed. The financing of agriculture was largely dependent on the monsoons. As farming was a seasonal occupation, offering only half-time employment for the money supplied by the banker, he was forced to charge a high rate of interest, when it was employed. The same was the case with the shroff, who was forced to charge high rates in the bazaar during the busy season, when he has to earn enough profit to enable him to repay the deposits that lie idle in his
hands during the slack season. Undoubtedly there has been a weakening of the position and he was able to prosper only in the limited area of his business. As the co-operative societies gathered strength and began to work successfully, the mahajan or the banniah were drawn into the vortex of the society. Later, he became the promoter of cooperatives and supplied the capital, since he found better security and no risk in it. The co-operation of the mahajan was to be enlisted on a wide scale, because he was the only educated person knowing something about banking and if his services were enrolled in the cause of the co-operative movement, it would have not only resulted in the elimination of a dangerous competitor and rival, but would have brought the service of his expert knowledge to a socially just cause. But the political nexus with the bureaucracy tried to keep them away from the co-operatives and made the cooperation a pasture of governments.


In the present rural economy of India, there are different types of persons or concerns engaged in financing and occupying the role of trader or intermediary. They include money lenders; indigenous bankers; commission agents; dalals or brokers; wholesalers; processing intermediaries etc. in the unorganised sector and commercial banks; credit and marketing societies; development banks; development and marketing organisations etc. in the organised sector. To understand the difference in approach and business practices between the organised and unorganised sectors, an analysis of the difference between money lenders and commercial banks will be useful. The primary difference between the moneylender and the indigenous bankers should be noted initially.

3.8.1.1. Sources of Funds

Money lenders, as a principle never go for other’s funds. Their source of funds include the savings of their family members or some close friends over and above own purse. They attempt to finance consumption
loans also and charge higher rates of interest than the indigenous bankers who attract deposits, charge lower rates and grant loans for productive purposes alone. Whereas, the indigenous as well as the modern commercial banks accept deposits for deployment of the same in loans and investments.

3.8.1.2. Difference in Period for which Money is Lend  As a principle, commercial banks cannot grant loans for long period and lock up their funds in unrealisable assets as they are using others’ funds accepted in the form of deposits. They never forget that all the assets of a bank should be within the quick and easy control of the bank. But the indigenous moneylenders do not conform in their business to these principles. They lend money on every kind of security preferably land, real estate and jewellery. As most of the working capital is their own, they are not afraid of any run. But the mistake lies in the fact that they do not create any tangible instrument, which would enable them to pass it on to the commercial banks. The lack of such an instrument precludes or disqualifies them to act as an intermediary between the primary borrower and ultimate lender, viz., the joint-stock banks of the country side where they operate. Any liquid paper backed by the endorsement of the indigenous banker should comply with the joint-stock banks. By this method the indigenous banker could have easily become an indispensable link in the banking chain connecting the farm or the factory with the modern bank. Lack of adaptability and initiative must be the sole reasons of his short-sightedness in this respect.

3.8.1.3. Securing Loan  The commercial banker weighs each debt by itself. Generally speaking he grants loans on sufficient collateral security placed in his hands and the indigenous moneylender balances good against bad debts. He distributes his risks among his various clients. When a higher and more tempting rate of interest is offered, he willingly hazards the risks, but of course, he has the prudence to take some kind of security. So, the necessity to write off bad debts is
less urgent than in the case of the commercial banker and though the native banker does not lose his capital, as he gets it locked up in real estate or other properties. So, at least for some time, there is a temporary diminution in his working capital. The rural moneylender and the indigenous bankers do not understand that “the banker should be a livery stable keeper, who must keep his horse always ready for the hire.” He should realise that “banks are made to make capital circulate and not lock it up” as P. Leroy Beaulieu has said.  

3.8.1.4. Objective Behind Lending  

It is often stated sarcastically that the Indian moneylender’s motive in granting loans is not a laudable one. It is the small moneylender who generally trades on the misfortune of his clients, pampering them with fresh loans, till they are over head and ears in debt. The only way to rescue oneself from the moneylender’ clutches is to bid farewell to the mortgaged property. The Moneylenders Acts are mere sedatives to the situation. The Usurious Loans Act of 1918, the Punjab Regulation of Accounts Act 1930, the Deccan Agriculturists’ Relief Act of 1879 and 1907 and the Bengal Money Lender’s Act of 1933, Land Alienation Acts and the Civil Procedure Code etc. have made the position of the usurious moneylender very unsafe and risky, as the uniform and praiseworthy tendency of all these Acts has been to afford legal protection to borrowers. It lead to the adoption of new features on the part of moneylenders, but it has not improved their fortunes in any way. The strengthening of their position would have been a better line of useful reform, for they are still an integral part of the real economy of our country. The education of the rural borrower is a better remedy and such educated (borrower) should borrow from real credit agencies. Moneylenders should have been allowed to join the co-operative societies or act as agents of organised joint-stock banks so that the “missing link” between the different money markets could have been provided. Censure cannot be extended to the village banker of the better class, who generally refuses to grant loan, if there is no proper credit behind the borrower. The above description applies to the low set of usurers who
are rapidly springing up everywhere as the deceased products of a deceased society. They consider that money lending is the easiest way of adding to their capital.

3.8.1.5. Maintenance of Reserves The commercial banker will not allow his gold or cash reserve to remain permanently higher than what he considers necessary for the purposes of his business. To do so, would amount to neglecting his business aims and making profits. When the banker’s reserve is in excess of his requirements he lowers the rate of discount, issues credit to a greater extent and see his reserve gradually reduce to that amount, below which, he considers it is unsafe to allow it to fall. Owing to the ebb and flow of his business, there may be at times, a superfluity of gold at the banks or the reserve may fall below the safety limit. But the guiding principle is that the reserves should be fully utilised. The indigenous banker on the other hand keeps no reserves and lays much importance on the rate of interest.

3.8.1.6. Taking Deposits and Creation of Credit The joint-stock banks are more borrowers than lenders. They attract “other’s money” in the form of deposits, which they employ in granting loans and overdrafts. Even while discounting bills of exchange or making investments, the joint-stock banks gives the right to draw on them and this takes the shape of a book credit with them. The customer exercises this right by drawing a cheque to meet his tangible needs or may allow the amount to lie idle in his current account balance, in order to draw on it at a later date. Thus, in advanced societies, where banking is fully understood and practised, deposits arise in three ways: (a) by actual deposit of cash paid across the counter, (b) a bank loan makes a deposit, (c) the discounting of a bill of exchange or the making of an investment by the bank may lead to a deposit on the part of the bank. The loan of one bank may also become the deposit of another. Thus, the banker succeeds in making the members of the community lend their savings either willingly or unwillingly and it is with such borrowed resources that he conducts his banking business. This function is referred as creation of credit.
3.8.1.7. Position of Indigenous Bankers  

The rural indigenous bankers attract very little resources in the shape of deposits. This was partly due to the fact that the banking habit has not taken hold of the rural people yet. Nor do these people possess lucrative savings to be deposited elsewhere. He makes no attempt to attract deposits, but he certainly keeps the funds that poor people generally entrust to him for safe custody. Usually he pays a slightly higher rate than the current rate of interest that the savings bank of the joint-stock banks or cooperatives of his locality offer to pay. He also stands ready to honour the cheques with ready payment, in case of current accounts. So far as their fixed deposits are concerned, the depositors generally consider it a moral obligation not to embarrass the bankers, by making a call at any inconvenient time. The custom of paying fixed deposits before time whenever so required by the depositor might be seen in the case of the ordinary joint-stock bank, but not among village money lenders.

3.8.1.8. Approach to Deposits  

There were some indigenous bankers who in the beginning of their career took much care to attract deposits but as soon as they build up a safe and lucrative business, they no longer cared to burden themselves with the onerous duty of attracting deposits and accept a position to pay them at call. These people deem deposits more a cause of hindrance than aid as much so that it has been asserted that some of the indigenous bankers have advised their successors never to take up the irksome business of attracting deposits. The Chettiyar bankers of South India received current accounts as well as fixed deposits accounts. They paid promptly the cheques (hundies) issued by the customers and they adopted the practice of clearing cheques drawn on them. Many Banks were also given access to the clearing facilities provided by the then Imperial Bank of India.

Again many of the shroffs, i.e., indigenous bankers of Central and North India preferred to receive deposits from friends but not from businessmen. They know that money from business people is liable to sudden, frequent and untimely calls. So the indigenous banker made it a policy on his part to not to advertise for
deposits and attract them by paying a stipulated rate of interest agreed to at the beginning. Yet it would be quite wrong to assert that he did not make use of 'other's money.'

3.8.1.9. Sources of Funds To a very great extent the Moffusil banker depends for money on his own purse and if he was in need of money, he went to a fellow banker who lends him money at two to six per cent rate of interest. It was only in the last resort that they go to the joint-stock banks for additional funds. Some of them viewed with hostility the rise and progress of these institutions, but many of them had realised that they were a source of great help to them. Though, in one sense they were rivals, they confer tremendous advantages to the indigenous bankers. They rendered unnecessary his keeping of a large stock of silver rupees. They facilitated his remittances from place to place. It might pay him to deposit his idle cash and obtain the banker's deposit rates of interest. They helped him by discounting his hundis. The endorsement of the indigenous banker makes the hundi doubly strong and such this bill of exchange was a perfectly ideal security for the joint-stock banks to discount. Sometimes also a big line of overdraft was granted by the joint-stock banks which would aid him largely in all his operations. Thus the starting of more joint stock banks and the extension of their branches in the interior of the country and at the different agricultural centres directly benefited him. In many places the indigenous bankers were coming forward to help the starting of new joint-stock banks and extending branches of banking institutions. Undoubtedly it was in the interests of the country, that progress in this direction should have been accelerated. The Co-operative Banks afforded the best solution and if this movement were encouraged on proper lines the usual credit needs could have been supplied on more sympathetic lines than at present.54

3.8.1.10. Social Reasons The deficiency of the banking habit cannot be attributed to the indifference and apathy of the indigenous banker towards the deposits of the people. Nor is the want of security in the past the sole cause for the
absence of the banking habit. The absence of savings banks or other institutions to store up savings, the frequent occurrence of famine and the poverty of the people must have retarded the actual growth of capital in India. The absence of a well-secured paper currency commanding the confidence of the community must also be held responsible for the absence of the banking habit.

3.8.1.11. Non-credit Functions  The private banker and the small moneylender generally combine business with trade and shop-keeping or hold land and do commission business and very often in order to get rich quick they speculate heavily in all kinds of produce. They do mortgaging business that often involves them in litigation.

3.8.1.12. Speculation  The indigenous banker especially the shroff speculated in Government paper during the off-season but very rarely held it or lends money on it. Some of the most desperate gamblers in the market of speculation were found among the native bankers of Western India. Their hard businesslike qualities are thus grossly alleged to be misused and the community believed that it received no benefit out of their business energy. These traders, bankers and commission agents cannot be considered as modern bankers. But it would be interesting to probe into their activities, since; their acts rendered some sort of an assurance of market to many primary products.

3.8.1.13. Bill-Broking  It was the shroff’s business which consists of bill-broking business and in addition to it lending and borrowing on a large scale that can be reckoned at the nearest possible approximation to modern banking business. His position can be likened to that of the bill and acceptance houses in the London money market. His main business was the hall-marking of bills for purpose of currency and getting the same discounted or rediscounted at the hands of the joint-stock banks and the Central Bank of Issue. Rediscounting was a cheaper
source of financing his operations but there was no reason for depriving him of the privilege of attracting deposits that he was holding in the money market. It is stated that this forced him to charge a higher rate for discounting hundis in the busy season when he found work and as he was saddled with heavier deposits attracted at a high competitive rate. He was forced to pass it on to the clients in the shape of high discount rate he charges during the days of employment. Joint stock banks felt the pressure of this competition and it was suggested that it would be better to deprive the shroff of this privilege of attracting deposits and compensate him by giving greater rediscounting facilities.

3.8.1.14. Commission Agency At Kanpur the native bankers or the moneylenders were trading in money, cotton, grain, flour, and other articles. Some of them managed the sugar and the flour mills. At Delhi the indigenous banker financed the goldsmiths and skilled workers. The bankers of the East adhered to the practices of the guild that were comparatively neglected by the great moneylenders of Europe and counts jewels among their means of trade and not as objects or ornaments to be kept in their safe. He made systematic advances to the goldsmiths and sold the finished product himself. He tried to efface the maker of the goods he sells and posed as the genuine producer. Thus he appeared to be both a jeweller and a banker. In Bombay the Marwari bankers dealt with cotton seeds and shares and did much speculation in the value of these things. The export promoters and commission agents of erstwhile Travancore port of Alleppey conducted “Satta”, a type of speculative forward sales and funded the producers. The Natukottai Chettis of Madras who invested their capital in Burma and who developed the indigenous banking system of Burma financed agriculture on a large scale and promoted habits of thrift and economy by the insistence of prompt repayment of both principal as well as interest. This combination of trade with banking business became indispensable on the part of the rural indigenous banker of this country. Full-time utilisation of their money as well as energy would have otherwise become impossible.
3.8.1.15. Hazards of Mixed Banking  In several other countries also, the private bankers did not subject themselves to any official regulations to pursue an elementary form of banking business, in addition to other and more lucrative forms of business. But, the main defect of this kind of business was that the depositors of the private banker stand to lose their money, if the private banker suffers on account of his outside activities.

3.8.1.16. Present Position of Mixed Banking  In spite of this disadvantage attendant on private bankers’ mixed banking, we find that in almost all countries country banking is admittedly of a mixed nature. Before their organisation is discussed, it is convenient to summarise their functions under lending money or cash credit, receiving deposits, discounting bills, financing small-scale industries and agriculture and, internal trade of country. They do not finance large-scale industries or foreign trade of the country. A few of them act as Government Treasurer and disbursing agents of Railways and the Native States.

3.8.1.17. Organisation and Management of Business  Some of the bigger indigenous bankers had their own caste men employed as agents at all the important trade centres of the interior. The agents or “Gumasthas” were often changed from centre to centre to enable them to understand the local conditions of these several places. When once the agent was made permanent he served his employer the whole of his lifetime and devoted the whole of his energy to the success of his firm. Although the pay given generally ranged from Rs. 30 to Rs. 50 a month dishonesty on the part of these officials even during days of economic pressure and rising standard of living was of rare occurrence. These agents sent weekly accounts of their work to their head office and occasionally received instructions from the command centre. Their books and accounts were written in the local vernaculars of the country and the indigenous banker himself carefully audited them. This efficient and economically conducted personal supervision prevented fraud on the part of the officials and it also gave a close mastery of facts and
figures relating to this business. But acting independently with no sort of teamwork amongst themselves they were unable to withstand the competition of the joint-stock banks, the co-operative banks and the Exchange Banks. Later, the government, the law and the public opinion went against them.

3.8.1.18. Their Public Spirit  Every year on the “Depavali” day, the Marwari and Gujarati bankers worshipped their books and distributed alms to the deserving people on that particular day on a most lavish scale. The Brahmins were fed with sweetmeats and other delicious dishes and given a hand ‘Dakshina’ or present on this New Year’s Day for them. Some new account books were placed on the same pedestal as the goddess “Lakshmi” and worshipped. Some of the indigenous bankers set aside a small moiety of their gains in a small charity box on each and every profitable business. In the big cities where a number of these bankers transact business, these gains were pooled and their general association determined the best manner in which it was to be spent. They were well aware of the old adage which says, ‘Charity begins at home’ but are not forgetful of the saving clause that “it does not end there”.

3.8.1.19. Indigenous Bankers’ Association  In all the big commercial centres of modern India, where a number of these indigenous bankers transacted business, they formed associations to protect their mutual interests, decide financial claims and arbitrate on social disputes even. Their spirit of social co-operation, their sense of mutual economic interest and the high degree of mutual trust was so great that they submitted all their commercial disputes to their arbitration courts and their decisions were virtually carried out, thus, resulting in great organic and functional solidarity. It also tended “towards the development of commercial law in the country on a strictly democratic and ethical basis”.

3.8.1.20. Policy of Developed Nations  The bill brokers of the London Money Market were used to attract funds by paying a slightly higher rate, viz., 1.25 % more than what the joint-stock banks pay their depositors. This fund formed the
nucleus out of which they accrued the needed finance for their bill-purchasing operations. They constantly borrowed money at a low rate from the commercial banks to carry out stock-in-trade. Similarly, the shroff's business should have been of dealing, buying and selling bills and hundis, with the help of borrowed funds in the shape of deposits. The joint-stock banks should have pursued a more vigorous policy in the matter of attracting deposits. This would have solved the problem of stabilising the rate of discount all the year and reducing it to a lower rate, through providing larger resources for discounting or rediscounting. During those days, there were very few agencies who could buy the bank acceptances. Hence, a bill market was not created in this country as it was done in the USA. within a short span of thirteen years of their planned growth.

3.8.1.21. We should have a Policy on Local Bills Although Shroff had to pay heavily for any failure of the bills he had rediscounted, he preferred to run the risk, for unless there was a big turnover of bills through his hands, he would not have earned much profit than what he could get with the greater resources he attracted as deposits. Again, if bills were drawn for a longer period than three months, the bill broker must have ready funds to enable him to sit tight, till the bill comes within the period of time, for which the banker would discount. It was not compulsory that the whole of the capital and deposits should be employed in the form of discounting, but a considerable part of his business should have been in this direction.

3.8.1.22. The End of the Elastic System of Rural Credit The quadruple role played by the indigenous bankers, especially the rural bankers and the smaller moneylenders in our economy is noteworthy. They were the purchasers of the rural produce and sometimes, the local agents of the European mercantile firms, the wholesalers, village shopkeepers and moneylenders. Thus, the more general practice was that the indigenous moneylenders and middlemen, who were styled
bankers, as soon as they attain a decent stage of opulence and wealth, have brought the real sedate and pains taking bankers like the shroffs into great disrepute. By the concentrating of too many jobs, or as the old saw says "too many irons in the fire," such as banking, agency, commission, brokerage and middlemen's profits, most of them failed to develop into modern bankers. Besides acting as an intermediary and accountant as the western joint-stock bankers do, the indigenous moneylenders miscalled bankers, generally wished to take unfair advantage of their business habits, greed for gain, education, wealth and social position. The ignorant, short-sighted, extravagantly minded and long-suffering agriculturists too often fall a prey to the crafty moneylender. The main problem here was to reduce the high rates of interest, which range from 30 to 100 % and deprive the moneylenders or the low set of usurers of their power to squeeze the improvident, helpless borrowers. Moneylending for productive purposes, to solvent borrowers is indispensable in the economic organisation of any society. Timely, seasonal and regular lending of financial resources, at low rates by sympathetic agents to needy agriculturists or industrialists is an essential element in economic growth.

3.8.1.23. What went Wrong? Much improvement cannot be vitiated in rural economic organisation, so long as the commercial banks that displaced the moneylenders grant loans for unproductive purposes to the improvident borrowers. One school of opinion wishes to exonerate the Indian agriculturists from the charge of improvidence. The advocates of this school pointed out that the indebtedness of the Indian peasant is generally of a cumulative character. Secondly, about 50 percent of the money is borrowed for agricultural purposes, i.e., improvement of land and purchase of livestock. Although, there was much truth in this remark, lack of foresight and knowledge made them incur improvident expenditure. Wasteful social expenditure on religious and family ceremonies, like social customs, seasonal feasts and caste dinners lead to lavish spending quite out of proportion to the actual income. Unaware of the utility of keeping family budgets, these ignorant
peasantry contracted debts, which they found impossible to repay. Even during days of prosperity, the previously contracted debts were not extinguished. This gradually led to more stringent situations of grave indebtedness and social harassment.

3.9. Other Quasi-Banking Institutions The other indigenous classes of institutions included the kury-chitty and the nidhis of Madras, who have been performing money lending business since 1850.58

3.9.1. Kury-Chitty In the kury-chitty system, a certain number of subscribers unite to put some specified sums in identical instalments, equal to their strength. The whole sum is drawn in corresponding periodical lots and the previous winner is excluded. This process is continued till all subscribers have received their lots once. The sum is repaid through the regular payment of instalments. The chance of winning an earlier lot is open to all the subscribers. There is a second form of chitty called 'lela-chitty' In this modified form of kury-chitty, the subscribers who are in urgent need of funds can take part in a bid, where the subscriber offering the highest discount will get the sum in the turn. The discount so received will be adjusted towards the instalments of the other subscribers. This rebate in instalment amount is the 'veethappalisha', the return to the subscribers in lieu of interest. The Government of the Native State of Travancore did well in embodying the legislation with reference to these provident funds and benefit funds in a clear and concise form. Today, Chit funds are popular all over India. The endeavour ought to have been in the direction of developing chit funds into village banks, encouraging the deposit habit on the part of the rural population. The linking of these with the co-operative banks or the organised money markets has prevented the unproductive investing of the chit funds in land or jewellery.
3.9.2. Nidhis  The nidhis originated in or about the year 1850. The
etymological meaning of the word nidhi is treasure. These are associations for
mutual credit funds registered under the Indian Companies Act. The main object
with which they were started was to facilitate savings, relieve members from old
debts and grant loans for all purposes on good security. Outsiders were also given
loans at a higher rate of interest. Generally, there were two kinds of nidhis, viz.,
permanent and temporary. Although these societies were started at about the
same period as the co-operative societies in Germany, they have had no such
brilliant career as the latter. This is partly due to the fact that frauds were committed
at the early stage of their existence. Want of supervision must have had its effect.
Even now there are no proper outside control. Prior to 1872 the loan funds or
nidhis were not registered under the Indian Companies Act and had to be wound
up involving a loss of 20 lakhs. Since 1872 they were started in increasing numbers
and 269 nidhis failed during the years 1872-92. In March, 1929, there were roughly
228 nidhis in the Madras Presidency. Madras, Tanjaore, Madura, Coimbatore and
Chengalput have a large number of them. Arising from that of an independent
audit, there was no publication of balance sheet. The charging of the same rate of
interest given to depositors on loans also led to uneconomic results. The method
of monthly instalments and the paying of them with clock like regularity
consequently proved unsuitable to the agricultural population. In spite of these
defects these nidhis flourished, says the Banking Bluebook, but no statistics of
their number, capital and shareholders are available. Religious and local agencies
were running this type of investment houses.

3.10. Merits of these Indigenous Funds  Sir Frederick Nicholson who
made a special study of the agricultural problem of Madras during the last decade
of the 19th century comments on the good features of the nidhi system as: “They
are the introduction of co-operative principles and habits, the stimulation of thrift
and providence, the creation of business habits and punctuality, the cheapening of
credit, the insuring so long as rules are observed that the members will, if non-
borrowers get back their, money with interest , and if borrowers they are secured from all annoyance so long as they pay their dues punctually. Business is extended by cheapening loans and not by entrapping the unwary and ignorant. Profits are to be sought by the development of cheap credit and not by squeezing the individual debtor. Small savings are cared for and petty capital retained in the neighbourhood.”

3.11. Defects of the System

It is apparent that the nidhi was a good institution for encouraging thrift. So long as they were soundly managed, they worked well, but owing to growth or indifference the management went into bad hands. The system has been perfected more or less and was not capable of any further extension by selfless public workers. Besides, they were mere moneylending societies lacking the fundamental concepts of banking. Their utilities were not enhanced because of the lack of a uniform Act governing the practices of the various kinds of nidhis by the legislature of the country. “There is no concentration of idle hoards for productive purpose,” as Sir Frederick Nicholson puts it. The Co-operative Credit Societies fulfilled these duties more worthily. The nidhis were forced to fell to the background. The Madras Banking Enquiry Committee pointed out “that they have a working capital of four crores and that the nidhis lend on share capital to 90 per cent of the paid-up share capital, to 90 per cent of deposits, to 50 per cent of the value of jewels and 80 per cent of the value of gold ornaments, to 75 per cent of the value of goods stored in godowns and to 90 per cent of the value of Government paper. They lend at a low rate of 6.25%, but fines are levied on overdue.”

3.11. Extent of Rural Indebtedness by the Indigenous Bankers

India has been a predominant agricultural economy, and the rural sector was in a very poor condition and majority of the average farmers in India were not far away from utter poverty. The presence of crushing indebtedness is universally admitted to be one of the major causes of this state of bad affairs. “The country is in the grip of the Mahajan. It is the bounds of debts that shackle agriculture. The existence of
huge volume of unproductive debt, which prevents improvements in any direction, constitutes one of the most serious problems of the Indian agricultural economy.”

3.11.1. Nature and Extent of Debt It is estimated that only 35% of the total rural debt is creative; 42% unproductive and 23% useful but unproductive. The most serious consequence of this heavy indebtedness has been the rapid fall of land using cultivators. In 1931 there were about 5 million ryotwari cultivators paying land revenue of Rs. 100 and below. In 1946 their number was reduced to 3.5 million. The Deccan Riots Commission came to the conclusion that 23% of the occupants were under debt and the average debt per head was Rs. 371 for Bombay. Sir Mac Legan estimated Rs. 300 crores as total agricultural debt in 1911 for British India. In 1925 Darling put the figure at Rs. 600 crores. According to the Central Banking Enquiry Committee the figure was 900 crores in 1911. In 1937 the Reserve Bank of India estimated indebtedness as Rs. 18,000 crores. According to the Reserve Bank, during the Second World War, because of the high price of farm produce; the agricultural debtors were enabled to pay off their debts either out of the increased income or by the sale of a part of their land. Partly this was true but only of the big zamindars. The ordinary farmers have actually suffered from the inflation. Moreover, since 1944 the indebtedness has been again mounting. “The seriousness of the debt lies neither in its volume nor in its rate of growth but in the fact that the greater part of debts consists of unproductive debt.”

3.11.2. Causes of Rural indebtedness The basic reasons leading to widespread borrowing by rural population may be summarised as follows. This review is essential to understand why they go for debts from indigenous sources rather than the credit institutions of the organised money market.

1. Better Position to Borrow The rights of the land-holders have been really ascertained as a result of land settlement policy of the Government and consequent upon the various improvements, the value of land increased taking
the form of a collateral security. The farmer’s credit was more definite and of
greater value. He was in better position to borrow and because of ignorance
and extravagance; he could borrow the maximum that he could. Since the
inception of planning and the consequent village development schemes, there
have been more facilities for them to borrow from the banks. The debt
relinquishing and relaxing policies of the Government during the late 70s
provided much impetus on their unwarranted borrowing.

2. Farmer’s increased Credit The farmer’s credit increased due to rise in
agricultural prices, rents and land values. Thus, in turn, was the result of stable
rule, the new transport and the growth of towns. British Law also gave the peasant
the rights of absolute ownership and free transfer of land.

3. Unremunerative Farming The excessive pressure of population on the
land and the consequent subdivision and fragmentation of land, the decay of cottage-
industries and the lack of subsidiary occupations to supplement farm income; the
ill-health and inefficiency of the farmers; the insecurity of the crops and the loss
of cattle through famine and disease- all these made farming unremunerative.
The peasant, therefore, was forced to borrow.

4. Heaviness of Land Revenue According to R.C. Dutt the heaviness of land
revenue with the rigidity of its collection was one of the causes of rural indebtedness.
Even in periods of famines and depression there was little or no remission of land
revenue.

5. Increased Standard of Living As a part of the general growth of the
society there have been changes in the standard of living of the peasant. There
was a general rise in the standard of living of the farmers without corresponding
increase in their purchasing powers. Hence they resorted to borrowing.

6. Conditions Necessary to Induce the Moneylenders to Lend The
establishment of a strong centralised rule and a judicial system by the British
created the condition necessary to induce the moneylenders to give loans against
proper security and get high rates of interest. Moneylenders could get the debtors
arrested to get their properties attached. Earlier it was not customary for the
creditor to seize the land of his debtor. But with the steady rise in land values and with the facilities available for the transfer of land, it became profitable and easy for the moneylender to lend and realise.

7. **Inconvenience of Taking Loans From Institutions**  It is very difficult to get loans from financial institutions, because the farmer has to fill up many types of forms and to fulfil a good many formalities, which are not necessary in case of loans from mahajans.

8. **Improvident Expenditure**  Another basic cause of rural indebtedness, as discussed earlier, was traditional social expenses on wedding, deaths, dinners etc. The peasants had also to borrow for cultivation expenses and even for domestic expenses, which went up during times of temporary prosperity and remained high and unpaid in bad times.

9. **Ancestral Debts**  It may also be pointed out that the debts were mostly inherited. As it is said the Indian farmer is born in debt, lives in debt and dies in debt, leaving behind debt.

10. **Questionable Practices of Moneylenders**  To all these may be added the questionable and unethical practices of the moneylenders. The moneylenders followed many dubious practices like deducting interest in advance, getting gifts for doing business, taking of thumb impression on blank paper and using it for fraudulent practices etc. There are many instances of manipulating accounts, executing documents for larger sums than those actually given, taking of conditional sale deed, etc. The rate of interest charged by the moneylender was also very high.

11. **Lack of Marketing Infrastructure and Failure in Redeeming Fair Price for Produce**  The rural productive sectors are prone to the risk of being exploited by usurious merchants who never offer a fair price to the farmers’ produce. With the withdrawal of middlemen, it has become almost impossible to sell their produce. This phenomenon has lead to abandonment of land and rural occupations leading to heavy indebtedness.
3.11.3. Government Policy, Regarding Rural Indebtedness

Taking the question of prevalent and mounting debt situation of the rural producers and artisans, the Government of India took up many administrative and corrective measures. Some of the major efforts in this direction were

3.11.3.1. Measures to Avoid Unnecessary Debts

It was felt that the best way of relieving rural indebtedness was not by enlarging the means of credit but rather by accompanying every increase of credit by an attempt to educate masses in thrift and mutual control. Otherwise, the more money they could get, the greater would be the expenditure by the farmers on their customary extravagance. Hence, the greatest need has been on controlling credit. It was also necessary to enable the farmers to take a more business-like view of their indebtedness and to face the moneylender on a more equal threshold. Suspension of land revenue during days of scarcity and the starting of village post-office savings banks to promote thrift have gone some way in avoiding necessary debt.

3.11.3.2. Improvement in Civil Law

To shield the farmer, many alternations were made in the civil laws in the matter of executing the decree against farmers. The implements, cattle and materials of the agriculturist’s household were exempted from attachment or sale. The farmer was exempted from arrest and a decree of the court was given for commission of the repayment of his debt.

3.11.3.2.1. The Deccan Agriculturists Relief Act, 1879

It permitted the courts to go behind the contract and change it in favour of the farmers so as to reduce interest rate, to prevent the sale of land unless specifically pledged and to restore the land to the farmer even when there was a sale-deed between farmer and the moneylender. The Act made it obligatory on the moneylenders to show accounts and has been found positively injurious. It led to abuse of concessions on the part of farmers. Enhanced litigation made the moneylenders more guarded
and resulted in the decline of rural credit. According to the Famine Commission (1901) the more frequent transfer of property had followed the Act by both sale and mortgage. The Bombay Banking Enquiry Committee recommended its repeal and being replaced by a new Act containing a few provisions to safeguard the interest of only small and actual farmers.

3.11.3.2.2. The Usurious Loans Act, 1918  As amended in 1926, it restrained the extortion of moneylenders, by fixing the maximum rate of interest and by enabling the mortgagor to insist on his right of redemption. The Royal Commission on Indian agriculture held that the Act was practically a 'dead letter' But the Central Banking Enquiry Committee supposed that the Act was capable of being worked to the advantage of farmers and should be retained.

3.11.3.2.3. A Simpler System of insolvency  There was an increasing public opinion in favour of a simpler system of insolvency and it received the support of high authorities such as the Royal Commission of Indian Agriculture, the Civil Justice Committee and the Madras Committee on Co-operation, 1940. The Bombay Agriculture Debtors' Relief Act, 1947, empowered the courts to declare the debtors insolvent, if their assets were such that liquidation of the debt in instalments was not possible.

3.11.3.2.4. Legislation Regarding the Licensing and Control of Money lenders  The Punjab Regulation of Accounts Act, 1930, obliged all persons whether moneylenders or shopkeepers who advance loans in money or in kind at interest, to keep an account for each debtor and to supply him every six months a signed statement of the account of principal and interest and detailing all the loan transactions of the past six months. If a separate account was not kept for a debtor, the creditor on suing him was liable to loose his interest and was not to be awarded his costs. The Royal Commission on Indian Agriculture as well as the
Central Banking Enquiry Committee appreciated the principle underlying this Act. A similar Act was to furnish a statement of accounts to his debtor only if the latter asked for it. The Bihar Moneylenders Act required all moneylenders to register themselves. The Bombay Moneylenders Bill, 1938 required to regulate money lending in a more thorough going manner. But this Bill did not become Law. In 1931 the Punjab passed the Regulation of Moneylenders Act. United Provinces, Orissa and Bengal enacted legislation in 1939 towards the same end. These Acts provided for the registration of money lenders regulation of accounts, limitation of the rates of interest and other miscellaneous aspects.

3.11.3.2.5. Measures for Restricting the Alienation of Land

The Famine Commission stated that the increase of debts was due to the full power of alienation to prevent further indebtedness. As a result, the Punjab Land Alienation Act, 1960 was passed. For the purpose of this Act, the population of the Punjab was classified under groups known as farm tribes. A member of the non-farming tribes was not permitted to obtain land from a farmer. He could not take a mortgage for more than twenty years. Transactions between members of the farm tribes were not affected by the Act. The Act, while successful in preventing the exploitation of the peasant proprietor by the moneylender, retarded the flow into agriculture of enlightened outside enterprise and led to contraction of credit and the appearance of the render and the agricultural moneylender. In 1903 Bundelkund Land Alienation Act passed to restrict the right to transfer land. Similar restrictions were imposed on the alienation of land by aboriginal tribes in Central Province and Bombay.

3.11.3.2.6. Debt Conciliation and Liquidation

Granting of some immediate relief to the farmers from their indebtedness became a serious problem during the 1930's because of the heavy fall in the price of farm products. Debt Conciliation Acts were passed in Central Province and Bihar in 1933 and soon in other provinces.
In 1936, Madras passed the Madras Debt Conciliation Act. Some native States like Travancore, Cochin and Mysore also passed many laws. It must be noted that Conciliation Boards have had no coercive power to force agreement. Under the Madras Act, if the creditor did not agree the debtor was given a certificate, which relieved him from paying the expenses of a civil suit, if the creditor went to the Court. The creditor could not get more than 60% interest after conciliation had failed. In 1938 Madras passed the Debt Relief Act providing for the compulsory sealing down of debts. The Central Provinces and Berar Relief of Indebtedness Act, 1939 introduced compulsory methods of lowering down the debts. The Bombay Agricultural Debtors' Relief Act, 1939 was put into force 1941 as an experimental measure. This Act also provided for the compulsory reducing of agricultural debts. The U.P. Agriculturists Debt Redemption Act; 1939 was also passed with the object of effectively scaling down the debt.

3.11.3.3. Organised Supply of Credit As a part of the debt relief measures, the Government implemented various schemes also. They are

3.11.3.3.1. Taccavi Loans Taccavi loans were granted to farmers under the Land Improvement Act (1883) providing for the grant of long-term loans for permanent improvements on land such as well and embankments, etc., and under the Agriculturists' Loans Act (1884) providing for short-term loans for current agricultural needs such as the purchase of seeds, cattle, manure, implements, etc. A fundamental defect of the Land Improvement Act was that no loan could be given under it for the redemption of old debts or consolidation of holdings. Under the amendment Acts passed Madras (1935) and U.P. (1934) loans could be given in these provinces for the redemption of old debts. As a general means of financing agriculture the system was a failure. The Sub-Committee appointed in 1944 under the chairmanship of Prof. Gadgil, in accordance with the recommendation of the Policy Committee on Agriculture, Forestry and Fisheries, to report on the ways in which indebtedness could be scaled down and finance both long-term and short-
term provided, made detailed recommendations. The recommendations covered adjustment, reduction and compounding of old debts, mode and extent of State finance in normal times, cooperative movement, private financial agencies and their regulation and rehabilitation.

3.11.3.3.2. Supply of Controlled Credit  The Mac Iagan Committee, Agricultural Credit Department of Reserve Bank of India and the Madras Committee on Co-operation were unanimous in their opinion that, further credit in the rural sector should be controlled. In their opinion, to extricate the farmer, without guarding against a relapse into debt would be a sheer waste of effort. The only effective means of controlling the debt is to fortify the farmer against future debt. Increasing farm income with the help of more efficient methods of production backed by better marketing facilities and by reducing the expenditure and increasing thrift can attain this. They also suggested that a system of controlled credit can do a great deal in this direction. Co-operative movement is capable of relieving the peasant of existing debts as well as in preventing future debt. The Royal Commission on Indian Agricultural remarked, "We have no hesitation in recording our belief that the great hope for the salvation of the rural masses from their crushing burden of debts rests in the growth and spread of a healthy and well-organised co-operative movement based on a careful education and systematic training of the villagers themselves."64

However, this protection was not of much use, because the ignorant and illiterate farmers were no capable of understanding the provisions of these legislation. Nor have the money to go to the court of law for protection. Further, the social status of the borrowers was much lower than that of the moneylender. Hence, most of the borrowers were afraid to challenge the moneylenders in courts of law. Therefore, the provisions set down in law remained on paper.

3.11.3.3.3. Development of Alternative Markets and Provision for Infrastructure  Along with the measures to ease and release the rural indebtedness, it was necessary to provide necessary market infrastructure to assure
a fair price for all commodities produced by the farmer. The Government as a part of promotion of Co-operative movement, tried to establish as many marketing societies as possible in rural areas. Many apex marketing federations were also organised under central control like State Trading Corporation, Regional processing and marketing centres etc. Still, the primary sectors like farming, handicraft, fishing etc. suffer due to the lack of steady and reliable market.

Thus we can see that the problem of rural indebtedness is twined together with many issues and of which lack of marketing infrastructure is creating a big base for ever increasing indebtedness. It is in this context, that the question of understanding the role of market intermediaries becomes multifaceted.

3.12. Evil Effects of Debts by Indigenous Bankers

1. A major fraction of income of producers goes in repaying dues and so their standard of living is very low.
2. It causes moral humiliation of producers, as they rely on intermediaries and thus they become negligent.
3. It encourages economic slavery and this is why there is unemployment in India.
4. The producer has to sell his land for repaying the loans and they become landless workers.
5. It creates class conflicts between the producers and the financiers.
6. Further development is not possible and permanent improvements are unlikely on lands.
7. It creates psychological disequilibrium and the producer is frustrated for not repaying the loans.
8. The producers is forced to sell his produce to financier at lesser rates and he is incapable to get a fair price.
9. The national income also goes down with the reduction of farmers’ income.

Thus, from the above discussion, it is clear that the financing market intermediaries played a pivotal role in the economy of ancient India. But the Colonial rule side lined these indigenous financiers to establish their organised
houses and to control the economy of India. The usurping practices of these financier
cum traders invited hostility in independent India also. However despite all the
criticism against them and the efforts to replace them, they continue to play a
very important role in the traditional sectors.

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