CHAPTER - I
INTRODUCTION

1. A Prologue to the Study of Rural Indebtedness

Indebtedness has been acknowledged as one of the most infamous stumbling blocks in the way of rural prosperity. It is cancerous; self-perpetuating, malignant and maleficent. It abates agricultural production, abashes social psyche, aggravates inequalities in the distribution of socio-economic opportunities and benefits, arrests social progress and misdirects social efforts.

In spite of appreciable industrial development in the post-independence years, Indian economy remains, largely and fundamentally, an agricultural economy in which about three-fourth of the people depend on agriculture for their livelihood. Under the condition of overpopulation, the economy has too little land to support too many people, unless farming is revolutionised. It has been a point of contention whether such a revolution can realise itself in the circumstances when most of the farmers own and cultivate the tiny plots of land that characterise uneconomic scale of operation and produce hardly enough to meet their subsistence requirements. A substantially large portion of labour force remains unemployed either explicitly or in disguise and its marginal productivity is barely above zero.
Historically, in rural areas land ownership has been the most dominant factor in acquiring power, prestige and privileges. Among the fundamental factors of production, land is the least perishable one and hence it qualifies for being owned, inherited and used as a fundamental source of forces captivating labour. As a result, in the process of historical evolution, the bargaining power of landowners grew stronger and stronger than the bargaining power of the labourers and eventually, land resources started concentrating in fewer hands expanding the size of landless labourer class larger and larger. This process is on and land is continually being concentrated in fewer hands.  

Indebtedness of the not-so well-to-do farmers and agricultural labourers is a natural consequence of the dynamics mentioned above. It also works as a cumulative causation factor as G. Myrdal would call it. Indebtedness accelerates concentration of land in fewer hands and the latter, in turn, intensifies and extends the former.

Within the given institutional structure of the Indian society it is felt that a cure for indebtedness is extremely difficult, if not impossible. It is so because poverty, coupled with unequal distribution of economic
resources, breeds indebtedness which, in turn, consolidates the causes of poverty and distributional injustice. This vicious circle can, of course, be broken, but it requires a strong social will and a manifestation thereof in determined efforts to eradicate the problem of rural poverty and indebtedness.²

There is a pressing need for identification of weaker links of the causal chain that makes the said vicious circle. A prudent strategy to break the vicious circle would attack on these weaker links. The task of identification of weaker links necessitates social research to be carried out.

The problem of rural indebtedness is not a pure economic problem. It is equally a political, a social and socio-ethical problem. It has its roots in the social, political, ethical and economic texture of the society. However, indebtedness of the rural weaker section has not been a central theme of social research work so far, although fact-finding survey reports are available. This problem has, no doubt, attracted the attention of research workers, but it has suffered a superficial, fragmentary and cursory treatment. We acknowledge that in India, for a period, numerous publications appeared that dealt with
marketed surplus of agricultural output and it was dis-
cussed that a large portion of marketed surplus consisted
of "forced surplus" under the impact of indebtedness of
small farmers.° Again, studies have been carried out that
comprehensively indicate that indebtedness strengthens and
consolidates traditional farming and arrests agricultural
development. Off and on research studies have appeared to
point out the bearings of indebtedness of small farmers on
dynamics of land ownership. Effects of indebtedness on
keeping the wages of agricultural labourers at subsistence
level have been acknowledged. Yet, integrated studies on
the causes and consequences of indebtedness have drawn
scanty efforts of research workers.

Reasons of scant research efforts devoted to the
study of rural indebtedness are not far to find out. After
independence Indian scholars were confronted with problems
of rapidly increasing population and stagnant agricultural
output. It was a common impression that such a situation
would lead to the problem of food supply which would arrest
industrial and urban development on which five year plans
had given so much of a concentrated stress. In this milieu
it is easy to explain why the structural problem like rural
indebtedness could attract little attention of the main-
stream researchers. Later when due to technological
innovations the problem of food supply became secondary, the mainstream of research in economics turned towards regional disparities since it was envisaged that this problem was more pressing than the problem of the silent sufferers under debt who were distributed throughout the rural India. The main thrust of the question of regional disparities was industrial development and in the subsequent five year plans this problem was taken care of.

Thus the problem of rural indebtedness is rather a sobbing — not even a cry — in the wilderness which cannot be heard in the atmosphere full of slogans, demands and pressures generated by that section of the society which can speak louder and nearer into the ears of those whose opinion carry weight and influence the public decision-making.

The solution of the problem of rural indebtedness is not easy either; partly because it is structural in nature and partly because it would demand too much of efforts. Because of the limitations of the possibilities of public intervention in matters of the fundamental causes of poverty and indebtedness, this problem may evade solution in the near future. Indebtedness is caused mainly on account of consumption expenditure for which institutional loan cannot be given. The problem of rural
unemployment has no solution that can be found out in the near future. Since indebtedness is largely based on these two cornerstones, it is comprehensible that no short term policy can help to eradicate it.

However, the acuteness of the problem does not pre­empt research efforts from understanding the structure, nature, significance and consequences of the problem. In this study we are mainly concerned to do the same.

2. The concept of Indebtedness

We envisage that indebtedness is a term surrounded by several overtones and the concept of indebtedness must be freed from the penumbra of fuzziness caused by the cacophony. In our context, the cacophony has been mainly due to the discordant overtones, some resulting from the indigenous background and others from the exotic one.

The lexicographic meaning of "indebtedness" is the state (of some person or commercial or industrial enterprise) of being under obligation (more often, financial obligation). This meaning is largely free from overtones; but it is too wide to represent the concept that we intend it to do. We are aware of the fact that many households borrow for enter­prise and repay the debt to the lender in terms of a share of the gains from the enterprise. Depending upon the socio-
economic conditions, the dividend or the tribute paid to the lender has been acknowledged as "a payment or reward for abstinence from consumption", or "a reward for waiting", or "a reward for cooperation that has helped the enterprise to accrue gains", or "a reward for parting with the liquidity that has an opportunity cost of speculative gains - that is, a reward for speculative gains foregone", etc.

When indebtedness has an overtone that reflects any of the meanings noted above, it refers to an enterprising society requiring financial resources for investment. A student of the history of economic thought in the West is aware of the theories of interest that developed after the industrial revolution.

The optimistic hue may, however, be illusive if we forget that under certain socio-economic conditions (quite familiar to us) the tribute paid to the lender is "a payment made by the victim of the socio-economic circumstances to those who command coercive powers and a social sanction for exercising these powers." The Marshallian "quasi rent" has, no doubt, an element of the same in it, but its import have been buried under the gross optimism in the natural providence for the social progress. Thus, when we use the term "indebtedness", we at once are striking two strings - one of the harshness of our Indian experiences and the other
of our learnt optimism imported in effect of the economic theories of the standard economics.

History teaches us the account of the reproach received by the lenders and usurers from most of the religious scriptures and social reformers. Socrates had his last wish that they should not forget to repay his debt of a cock that he owed to pay. Then indebtedness must be a curse, a plight, a desolating experience. The social sanction for lending since the sixteenth century speaks volumes of the change in the socio-economic conditions of Europe while borrowing emerged as a means of financing enterprise and lost the connotation of the plight of the debtor. But the indebtedness of the Indian rural people is yet to lose the said connotation.

In the Indian rural context, therefore, "indebtedness" should be pre-empted of the overtones of optimism. Indebtedness is not a state of being under financial obligation undertaken on account of productive utilization of resources promoting economic achievement of the borrower; rather it is the state of being under the financial obligation undertaken on account of compulsion and being ensnared in the cobweb of usury. He need not repay his debt in terms of a pound of flesh, a pint of fresh blood would suffice.
Indebtedness of an Indian rural household often finds its genesis in the borrowing on account of certain exigencies like accidents or illness of a member of the household or a pressing need for certain social occasions, like marriage, etc. First, because a household hardly saves enough to meet such needs and second, because there is no provision for institutional borrowing in such cases, the only source of loan is the local money-lender who charges exorbitant interest for such loans. Now, the loanee has no enough sources of income to enable him repay the debt, the principal multiplies itself rapidly to ensnare him in the cobweb of usury. More often than not, he makes a provision of repayment by either mortgaging his land or his labour captivating his sources of income to disable him pay his debt off. Very soon he is drowned in debt.

Sometimes indebtedness originates in the loan incurred for productive activities as well. We know well that farming in most of the regions of India is to gamble with Nature. Flood, draught and untimely rainfall is any farmer's experience. A farmer who has financed cultivation through borrowing has a scant chance of repaying off his debt except only when the Nature has favoured him unusually. In general, if he has succeeded in raising some production, he is forced to dispose it off to the lender. In the
literature on agricultural economics in India we often come across the terms like "forced surplus", and "pervasive supply curve of food grains", etc. Indebtedness of the Indian peasantry explains all these "surprises" and "paradoxes" of a "standard economist". If prices of the agricultural produce increase by a growth rate \( r_1 \) (during the period between the current and the next crop season) and the principal (debt) multiplies itself by a growth rate \( r_2 \) such that \( r_1 \) is less than \( r_2 \), the current value of the output \( X \) as a means to optimise the debtor's gain is the optimal one. Hence the farmer sells his produce at the harvest prices and pays his debt off.

We note therefore, that indebtedness in the Indian rural context must be resonant with the following overtones:

(i) Unproductive usage of loan.

(ii) Usurious ensnaring of the loanee.

(iii) Captivation of productive, income-generating resources like land and labour.

(iv) Exercise of coercive and exploitative economic and social powers by the lender.

(v) Compulsion, plight, misery and feeling of guilt and helplessness.

(vi) Erosion of the social status of the loanee.
Thus viewed, indebtedness is not to be taken lightly and certainly not with an optimistic shade portrayed by the "standard economists".

3. Measure of Indebtedness

In dealing with the problem of indebtedness, searching for the causal factors influencing it, analysing the consequences of indebtedness that may be reflected in reduction of productivity, or ensconcing of inequalities in distribution of income and sources of income, we may require to measure the degree or intensity of indebtedness. The intensity of indebtedness must be measured so as to represent the six characteristics mentioned above. It requires selection of some indicators of indebtedness. The following indicators may, in our opinion, serve this purpose:

(i) Amount of unproductive or consumption loans (per capita) observed by a household.

(ii) Per capita interest payment by a household.

(iii) Per capita loan as a ratio to the value of productive assets held by a household.

(iv) Loan per cultivable area of land owned by a cultivator household.
(v) Per capita loan as a ratio to the repaying capacity of a household. The repaying capacity of a household may be defined in terms of savings, that is, the net income of the household over and above consumption expenditure and working expenses.

(vi) Percentage of landholdings/labour days/other productive assets made available to the lender on the mortgage.

(vii) Forced sale of produce when prices are low (i.e. in the harvest season) or working for the lender in the seasons of peak demand for labour as a ratio to the total disposable produce/labour days available with the loanee.

(viii) Appropriate measures of the feeling of compulsion, guilt and helplessness.

(ix) Appropriate measure of the feeling of offence to social status/erosion of social status.

(x) Appropriate measure of feeling about the coercive powers exercised by the lender.

It is obvious that an empirical work on constructing the indicators noted above may face a number of operational difficulties. The last three indicators may invoke the techniques often applied in psychology and attitudinal sociology.
4. **Objectives of the Present Study**

We have remarked earlier that the problem of rural indebtedness is structurally imbued within the social, economic, ethical and political texture of the Indian rural society. As a result a student of this problem finds it very intricate to analyse the extent, causes and consequences of rural indebtedness. In view of the limitations on our part we are not in a position to invest ourselves commensurate with the demand made by this problem. Hence our modest attempt to analyse this problem proposes the following objectives of the study at hand.

(i) To study the extent of the incidence of indebtedness in villages.

(ii) To study the characteristic features of indebtedness in villages.

(iii) To investigate the factors that determine the degree or extent of indebtedness.

(iv) To analyse the consequences of indebtedness as far as it affects productivity and distribution of economic resources in the rural society.

(v) To derive certain policy measures to ameliorate this problem.
5. **Methodology of the Study**

For this study we have selected the North Lakhimpur Subdivision of the Lakhimpur District, Assam. North Lakhimpur is one of the underdeveloped subdivisions of Assam. The subdivision is inhabited by a large population of the scheduled tribes. Their main occupation is cultivation. They are plains tribes and unlike many of the hills tribes they are settled peasants and not shifting cultivators.

We suppose that the scheduled tribes of the North Lakhimpur Subdivision living in the villages are quite unaware and unexposed to the institutional agencies of credit supply run by the public and semi-public organisations. Hence they are more prone to be caught in the cobweb of usury. We suppose that a study of their indebtedness will provide us with a real picture of rural indebtedness.

We are not aware of any source that provide us with the secondary data on the indebtedness of the rural people of North Lakhimpur subdivision. Hence we have to collect data from the primary source. Keeping our constraints in mind we have selected four villages in the subdivision. These four villages are solely inhabited by scheduled tribes and they are located 6 to 7 Km away from the nearest township (North Lakhimpur).
From these villages we have decided to draw sample households to be interviewed. We have covered 50% of the population (households) by the samples drawn. We hold that this coverage will suffice to provide us with enough data which may be analysed to obtain the true picture of indebtedness in the population. We have adopted systematic sampling method for selection of interviewee households. One household is chosen randomly and after that every alternate household is chosen for interview. Pretested questionnaires have been filled in by the direct interview of the head of the household.

The filled in questionnaires thus obtained have been used to tabulate data on different characteristics of the sample households. The tabulated data have further been subjected to relevant statistical analyses to draw conclusions and test relevant hypotheses.

6. Organisation of the Work

In Chapter II, we have introduced the study area, that is, the North Lakhimpur Subdivision of the Lakhimpur District, Assam. Following this introduction we have given an account of the methodology by which we have chosen the villages for our study and selected samples from these villages.
In Chapter III, we have studied the extent of the incidence of indebtedness and its characteristic features as reflected in our sample data. We have tried to find out whether indebtedness has any systematic distribution and pattern or not. We have also ventured into the possibilities of measuring the degree of indebtedness and finding out the best representative measure of indebtedness. We have tried to construct a composite index of indebtedness.

In Chapter IV, we have made an attempt to analyse the consequences of indebtedness. Although we acknowledge the social and psychological consequences of indebtedness, but we have not been able to go in for such an analysis. Hence we have proceeded to analyse the consequences of indebtedness so far as it affects productivity and distribution of economic resources in the rural society. We have gone in to carry out a causal chain analysis to understand how indebtedness affects productivity and distribution of economic resources.

In Chapter V, we have made an attempt to search out the factors that determine the degree or extent of indebtedness. Our main motivation for doing so is to help enable us to derive certain conclusions that may be suggestive to formulate certain policy guidelines for eradication of the problem of rural indebtedness.
In Chapter VI, we have concluded our analysis and made certain suggestions for formulating the policies for eradication of the problem of rural indebtedness.

7. Limitations of this Study

We concede that the problem of rural indebtedness is at once an economic, social, political and ethical issue. But in view of our limitations we have not been able to carry out the study to the depth it calls for. Our approach has mainly been economic. We acknowledge that such a study is partial and may provide only a partial view of the issue.

From the viewpoint of methodology also our attempts have been limited. We have gone in for statistical analysis of data collected from only four villages and these data pertain to a point of time. We concede the limitations of statistical analysis. We are aware of the fact that the process of ensnaring in the cobweb of indebtedness, captivation of productive resources, and dynamics of distribution of resources under the influence of indebtedness cannot be studied properly unless we analyse data for a considerable length of time. Further, the generalisations made on a study of four villages have their limitations in their own right.
However, we hold that our humble attempt to analyse the problem of rural indebtedness has its own worth so far as it may provide us with the first approximation of the truth and thus may motivate us for proceeding into a more in-depth study which ultimately may be fruitful. It also provides us a basis on which a methodology of analysis of the problem of rural indebtedness may further be developed and enriched. It attracts our attention to the problems that one may face in dealing with the issue. We hold therefore that our attempt to analyse the problem of rural indebtedness has been fruitful in spite of all limitations put on it.
NOTES AND REFERENCES


