THINK INDIA JOURNAL

ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

Agricultural Indebtedness in India: Causes & Consequence

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Introduction

The question of indebtedness in the context of rural India has always been viewed as a problem rather than as a precursor of prosperity. This is so mainly due to the transcendence of the deficit nature of rural family budgets especially the small holding agriculturists and all other farmers having poor means of income. The unpredictable weather, the burden of old debt, a long time gap between expenditure and income from farming activities, the small size of land holdings, unproductive spending on social-ceremonies, a high rate of illiteracy are some of the important factors responsible for the agricultural indebtedness in India. If debt is used only to meet the deficit in family budgets and is not utilize for productive purpose, it will entail a dangerous outcome. The amount of indebtedness will go on increasing beyond one's repaying capacity, which will be detrimental to the interest of both, the lender and the borrower.

At the time of independence, the most important source of agricultural credit was the money lenders, large landowners, traders, relatives and friends. In 1951 money lenders accounted for as much as 71.6 per cent of rural credit. The predominant position of the money lenders was due to the reason that there was no other source for farmers for borrowing. This total dependence of the farmers on the money lenders enabled lenders exploit the farmers in a number of way. Money lenders used to charge high rate of interest ranging from 18 to 50 per cent or even more. They often manipulated accounts for their benefit by not entering the money returned and interests paid in to the account and also forced farmers to sell the agricultural products at low prices. Long term loans were often advanced against the securities of land and money lenders often manipulated in such a way as to grab the land. This number kept on increasing and at the dawn of independence a majority of rural farmers was caught in an unending debt trap which further increases poverty and mounting burden of

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ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

indebtedness. So, the government had, therefore, undertaken various steps to regulate the activities of money lenders. For this purpose various legislation were enacted.

Causes of Agricultural Indebtedness

Broadly there are several factors responsible on account of which an Indian agriculturist incurs debt and remains indebted forever. It is the very socio-economic structure of the rural area which compels him to borrow more and more. There is nothing wrong to borrow. He needs money to cope up his needs but his earnings from the farm are low. He has to face many problems in his day to day work. Borrowing is very common phenomenon in the world but the fact is that Indian farmers are totally unable to return the amount of debt out of his meagre income. Thus, indebtedness goes on multiplying year after year. Some of the causes of agricultural indebtedness are mentioned in brief as follows:-

- **Poverty:** The main cause of the indebtedness of the farmers is his poverty. Low income of the cultivator from farm business is insufficient to cover domestic expenditure, production need and illness and weakness compel him to borrow. He is unable to save anything out of his present earning. So; he is compel to borrow for various purpose like consumption, crop failure by monsoon, floods, drought and hailstorm, make some improvement on his land like construction of wells, purchase of cattle, machinery and for distress circumstances. It is true that he is poor because he is indebted. The vicious circle resulting in poverty, debt and high interest rates hold the small cultivators in tight trap. Poverty forces him to borrow again for paying off his old debt.
- **Ancestral debt**: This is another cause of indebtedness which is handed over from father to son, generation after generation without any equitable restrictions. He takes loan for repayment of inherited debt from moneylender. Thus, the burden of loans taken for this purpose and for fulfilling his needs goes on increasing. As Agriculture Commission in India remarks, “The Indian peasant born in debt, lives in debt, dies in debt and bequeaths debt.” The debt of deceased person only passes on to his heirs when they succeed to the debtor’s property and only to the extent of such property; therefore, it is ignorance of law that compels peasants to repay the debt of their ancestors. Peasants take it their social and religious obligation to take the ancestral debt and consider important duty to discharge such debts.
- **Litigation**: The passion for litigation is another undesirable trait of Indian peasant which adds to his poverty and unproductive debt. The cost which uneducated farmers occur on

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ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

litigation is very high. Moreover, long duration of law battle involve time emerge and money.

- **Moneylenders:** Moneylenders are also responsible for agriculture indebtedness. They are the only source of credit to the farmers in the rural area. In the absence of other agencies moneylenders enjoy monopolistic position and try to keep farmers in to their clutches. Farmers lend money from the moneylenders for inevitable marriage and for equally inevitable law suits. They encourage the farmer to borrow money from them charge high rate of interest, keep false accounts and when the farmer's debt accumulated to a sufficient amount, they take away the land of borrowers. He is all time resource for the needy agriculturists and the consequence is that he is never out of the moneylender's grip because village money lending is like a cobweb.
- **High rate of interest**: The high rates of interest also compel the cultivators to borrow. The debtor pays the creditor but due to high rates of interest charges the debt usually soars up. It is not that the agriculturist repays too little; he often pays too much. The method of charging high rate of interest and the malpractices followed by the moneylender that tends to perpetuate his indebtedness.
- **Attitude towards life**: Most of the rural people lack the requisite urge for going ahead. They have no past, they have no present and they will not have any future. Mostly this kind of attitude to be found in most of the rural people. Farmers give more weight age to the present than the future and want to tide over their difficulties through loans from any sources. They have seen that their father have lived a life like this and they do not consider that they should change the style of living in the absence of any bright prospect for them in the near future.
- **Absence of adequate marketing facilities and low hoarding capacity of the farmers:** Lack of storage capacities, pressure for payment of interest from moneylender, land revenue demand compels farmer to dispose their produce at a cheaper price and in a restricted market and poor peasant buy his food in times of need at a very high price. Farmers are compelled to diehard their produce at the time of harvesting because they can't wait for long. When they need to money they are compelled to borrow at a high rate of interest. This results in heavy burden on them.
- **Commercialization and rising cost of cultivation**: After the green revolution, globalization and liberalization have in fact led to a shift in cropping pattern from staple crops to cash crops like oilseed and cotton requiring high investment in modern inputs.

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ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

Due to rising cost of cultivation and instability in food grain yield, diminishing net return, commercialization indebtedness is increasing. Commercial farming also increases indebtedness.

- **Sub-division and fragmentation of holding**: When the holdings are small, margin of safety is so narrow and the cultivator's yield from land becomes insufficient from the maintenance of the farmer and his family. On account of this reason farmers must go in debt. In the bad years like death of the cattle may led to debt while in best years surplus produce is so small farmer paid interest with difficulty and for the principal there is no scope.
- **Rural mind:** Most of the rural people believe that their image before their neighbours will be lowered if they fail to spend during social and religious functions and ceremonies. This encourages fellow neighbours to take loans during such times. It is almost believed that there is nothing wrong in talking loans during such ceremonies. These kinds of expenditure are unproductive. Farmers take loan without carrying about its payment and used in these functions and ceremonies. They think there is nothing wrong in taking these kinds of loans then this tends to increase in indebtedness.
- **Excessive pressure of population on land:** With the rapid growth in population especially in the rural area the burden on land is increasing day by day. This has resulted in reduction of per capita income. Their income is not enough for meeting their family needs. Thus farmers are force to borrow.
- **Political parties and rural credit**: Now a days; in some states political parties appear to encourage rural people not to pay back government loans in order to gain popularity and this results their increasing desire for having more and more loans specially for unproductive purpose.
- **Illiteracy of the farmers:** The illiteracy and ignorance of farmers are the big obstacles in the overall improvement of the cultivators. They do not bring permanent improvements on their land to increase production. They don't know the law of the land. They are easily cheated by moneylenders and private agencies which provide loans. Interest goes on accumulated because they don't know the consequences of compound interest. The amount of interest accumulated even exceeds the principal amount. This is the biggest obstacle in the way of progress of the cultivators.
- **Lack of Supporting Incomes:** Most of the rural people live in agriculture which is backward in many cases. It does not generate enough income to most of these people who

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ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

need to supplement their incomes through subsidiary incomes like fishing, diary, poultry, bee-keeping etc. but the scope and nature of these incomes have not been extended adequately to meet their growing demand for more and more these opportunities.

- **Failure to Provide for Deficiency:** Agriculture is subject to the Law to Diminishing Return and in absence of manures and fertilizers to check constant soil exhaustion, improved seeds and methods of cultivation. The extreme poverty of the cultivators and low yield of his tiny plot prevents him from put aside funds for depreciation of cattle and for improved seeds. In fact taking into account uncertainties of weather, the frequency of cattle mortality and the fickleness of the prices, agriculture, especially cereals growing is not a paying business and if the Indian ryot sticks to it, it is not because it is profitable but because it is a mode of life with him.
- **Unfavourable Climatic Conditions:** Another cause of agriculture indebtedness is that Indian agriculture is subject to frequent failure of rains and the resultant famines. The vagaries of monsoon are proverbial. This makes agriculture extremely precarious industry. The frequency of failure of crops due to drought or floods, hailstorms, raids of locusts, fire and high mortality of the livestock, all these damage agriculture show poor results. It is only in good year that the small holder can possibly keep himself out of debt but in the bad years he will borrow for everything he wants for seed, for cattle, clothing and even for his food.
- **Land revenue and rent:** Land revenue payable to the government and the rent on land under tenancy are not only excessive so that small farmers, find it difficult to pay them but these dues fixed have to be paid even when production suffers during flood and drought. Peasant forced again to take loan to make these payments.
- **Extravagant and Improvident Borrowing:** The improvident borrowing is another fruitful cause of his indebtedness. Although the Indian peasant leads a miserable and abstentious life, he is undoubtedly apt to carry on his expenditure to extravagant limits. They spend more money extravagantly in unproductive consumption like social ceremonies, upon marriage, ornaments, funeral, sradh, and kathas, as well as caste dinners stimulates family extravagance. They do not foresee and account for their future. They are still not care full about the future especially when they reap good crops. All these have played an important role in fostering improvement in the amount of debt.

Consequences of Agricultural Indebtedness

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ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

There are harmful economic, social and political consequences of heavy agricultural indebtedness effects on the lives of farmers of India. The consequences of mounting indebtedness on farmers are very serious indeed. Some of the effects/consequences of agricultural indebtedness are mentioned in brief as follows:-

Economic effects:

i. Agricultural indebtedness creating a class of landless labours in the place of independent farmers. It results in the transfer of land from cultivator to non-cultivators. The farmers lose their property for which he has deep love and affection. This again curtails production since non-agriculturists can't put the required amount of labour in farming. These landless farmers have to depend upon others for their living. Most of the farmers who are in possession of small farmers, lowering their incomes and standard of living. The landless labours are called to do free serve to their creditor especially when the loan has been taken from landlords. This slavery and economic independence of the farmers who are majority of the population of the country is not healthy for the progress of the country.

ii. As a result of debt, the income of farmer is mostly spent for repayment of old debt and agricultural improvement tend to get neglected. Thus there is little scope for the farmers to improve their economic status.

iii. In India, small farms also became unviable as they do not have access to crucial inputs like credit and irrigation. If the small and marginal farmers are in debt they can't adopt modern farm practices and can't increase their income level. Then they can't repay the loan taken. Mostly the small farmers lose both way gets a low price for their produce but pay high price when he buy inputs.

iv. The terms of trade moves against the farmers. Due to heavy debt farmers are enabling to market their produce and farmers are called by their creditor to sell their produce through them alone at lower prices. Since farmers are indebted, they are compel to do so and compelled to purchase seeds and other requirement at higher prices from the creditor.

Social and Moral effects:

i. It has lowered down their morale and made them fatalists and also responsible for low standard of living, instability in family and worsening poverty amongst in cultivating classes.

ii. There is no incentive for his load work because his entire production will be taken by moneylender at lower prices against agreement of borrowing/loans. A cultivator is tied

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ISSN:0971-1260
Vol-21-Issue-4-October-December-2018

with such bondage that he finds it difficult to escape. He knows that he will be "easily shorn of his gains a sheep of its fleece."

iii. It causes frustration in the minds of the cultivators. Mental frustration results in their moral degradation, as a result they become fatalist and suicide cases are increasing day by day.

Political effects:

i. The indebtedness has influenced the political status of the small and marginal farmers. Votes or commodities which the money-lender uses as their private property. In a sense they loss their political freedom to cast votes against their wishes. For these farmers freedom of vote is mirage. In a fact their political status is nothing but a reflection of their economic position.

ii. Big landlords/moneylenders involved in dirty practices in order to attempt to squeeze the debtor. Because of this position the political atmosphere of rural areas turns into social tension.

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