The Tragedy of Rural Indebtedness in Colonial India

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Abstract: Throughout the colonial period, the administrative and economic policies in India were concerned more with protecting and promoting British interests than with advancing the welfare of the Indian masses. From the second half of eighteenth century there was an unprecedented and continuous growth of rural indebtedness. The factors that accounted for the growth of rural indebtedness can be studied under two heads, namely those which enabled the agriculturists to borrow money and those which compelled them to do so. The new agrarian settlements initiated by the English India Company made land a commodity. The agriculturist now had a tangible asset which he can mortgage against the security of which he could borrow. Furthermore, up-to this time, the value of land increased due to due to phenomenon associated with the growth in population, commercialization of agriculture, etc. This was instrumental in raising the borrowing capacity of the agriculturist. Dealing with the factors which compelled the peasants to borrow, we can attribute it to the British policy of monetizing land revenue payment and the exorbitant rates of land revenue. Apart from this, natural calamities also often compelled the peasants to fall in debt. The early ardent nationalist, especially, Dadabai Naoroji, Ramesh Chunder Dutt and Govind Ranade made minute studies of the drain of wealth and causes of rural indebtedness. They finally concluded that it was all due to the British colonial interests that destroyed the Indian agricultural infrastructure and heavily indebted the villages of India.

Keywords: Famine, Land revenue, Landless labour, Moneylender, Poverty, Tenancy rights

Objectives of the Study: The paper focuses on the economic outlook of British imperial rule in India. While making a comparison in the condition of peasantry in pre-colonial period and colonial period, this study also interprets the course and reasons behind the critical economic structure of villages from the mid of 19th century.

Methodology: An elaborative research methodology was used to investigate and interpret the impact of British rule on Indian villages from the second half of eighteenth century. The researcher has relied both on primary sources as well as secondary sources for collection of data. Primary data has been gathered from archival records; whereas secondary data is based on analysis and discussions.

I. Introduction

Rural indebtedness has always been an important feature of agrarian economy of India, however, it was from the mid of 18th century that the problem of rural indebtedness started becoming noticeably serious. From this time onwards, the British used their control over India to elevate their own interest. The nature of the British rule and its policies, changed with the changing pattern of Britain’s own social, economic and political development (Beer, 1962). Under the colonial rule, land revenue was of notable importance because not only it occupied a very pivotal position as a source of revenue to the Government, but it also played a vital role in regulating the general administration of the country.

After the battle of Buxar (October 23, 1764)\(^1\) the existing Mughal Emperor, Shah Alam II had granted the Diwani of Bengal, Bihar and Orissa to East India Company in 1765 (Habib, 1963; Dahiya, 1994). Henceforth, the Grant of Diwani empowered the East India Company to collect revenue from the occupied territories of Eastern India, which

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\(^1\) Buxar is a town located on the bank of the river Ganga, about 130 km west of Patna. The Battle of Buxar was significant event in the rise and establishment of British rule in India. In this ferocious battle British army, leaded by Hector Munro, defeated the military alliance of Mir Qasim (dethroned Nawab of Bengal), Suja-ud-duala (Nawab of Oudh), and Shah Alam II (Mughal Emperor). The foundation of the British Empire in India, which was led by Clive at Plassey (1757), was strengthened at Buxar.
were well known for their fertility and agricultural production (Bardhan, 1984). For a commercial enterprise like East India Company, extraction of maximum revenue was considered as the higher profit, in comparison to occupy monetary assets through fierce wars. Unparallel to all data related to land revenue collection, the case of Bengal was the worst (Zamindari Abolition Committee, 1948). It is estimated that within a short time span five years, after the grant of Diwani rights, the collection of land revenue accelerated with considerable magnitude. The reality of this statement reflects statistically in below mentioned table 1.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Regime</th>
<th>Year</th>
<th>Collected Land Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Administration of Nawab Mir Kasim</td>
<td>1762-63</td>
<td>Rs. 64.6 lakhs</td>
</tr>
<tr>
<td>2.</td>
<td>Administration of Nawab Mir Jafar</td>
<td>1763-64</td>
<td>Rs. 76.2 lakhs</td>
</tr>
<tr>
<td>3.</td>
<td>Administration of Nawab Mir Jafar</td>
<td>1764-65</td>
<td>Rs. 81.7 lakhs</td>
</tr>
<tr>
<td>4.</td>
<td>First year of Company's Diwani</td>
<td>1765-66</td>
<td>Rs. 147.0 lakhs</td>
</tr>
<tr>
<td>5.</td>
<td>Administration of East India Company</td>
<td>1790-91</td>
<td>Rs. 268 lakhs</td>
</tr>
</tbody>
</table>

British imperialism was more pragmatic than that of other colonial powers. Its primary motivation was economic, where land revenue continued to be the major source of Government (Naoroji, 1901). The East India Company’s conquest of various territories in India typically brought one issue forward i.e., how would land taxes, the principal source of Governmental revenue, be collected? However, taxation was not an independent concept itself; it was multifariously linked with ownership and indeed with the entire structure of land rights (Roy, 2013). For the justification of the land revenue the Government officials tried to support from the Ancient Indian history as remarked by Trevaskis, “The most pressing problem facing the British on annexation was that of land revenue, which had from the earliest times constituted the only material item in the State revenue. The Hindu kings had taken a share of the produce of their domain lands not generally exceeding a quarter, the actual amount being measured by the village accountants and collected in kind by the village headmen.”

Land revenue policy of the British Government was also one of the important ascertained causes of the peasant indebtedness. British Government made it mandatory that all taxes on land should be paid in cash (Patel, 1952). As the landholders had no surplus money, it became inevitable for them to borrow from the moneylender. However, the official explanation behind this phenomenon was that it was mainly due to extension of cultivation and rise of prices. The demand of Land revenue increased consistently throughout the British period. It is estimated that the total land revenue raised by the company stood at 4.2 million pounds in 1800-01 and has risen to 15.3 million pounds by 1911-12. In 1936-37, the figure was 23.9 million pounds. The surveyor of a village in Pune area illustrates the increasing rate of revenue, which increased by 496 percent between 1698 and 1915, while the assessed area of the land revenue increased by 15 percent only (Guha, 1992; Misra, 1942).

The land settlements, whether the Permanent Settlement or the Raijtwari Settlement or the Mahalwari Settlement, aimed to extract as much as possible from peasantry. Every experiment neglected the interest of the peasants and made no provision for development of agriculture (Naoroji, 1901; Roy, 2013). All these settlements were primarily concerned with smooth collection of revenue. Numerous studies show that 18th and 19th centuries witnessed industrial stagnation along with agricultural deterioration. It is aptly quoted that, “When industrialization accelerated in Europe, de-industrialization was going in India.” The introduction of Industrial Revolution compelled the British to find market for finished products (Hartwell, 1971; Gadgil, 1929). Consequently, there was a demand for controlled areas (colony) to get uninterrupted supplies of raw materials for their newly born factories. Asia and Africa proved profitable catchments, both for politics and economy, of Britain. Due to closure of cottage and handicraft Industries, a couple of thousands of artisans and craftsmen lost employment.

II. Discussion

For an agricultural country like India, economic development directly depended upon the improvement of agriculture and prosperity of agrarian class. However, from the initial phase, the burden of taxation fell heavily on the peasants. More to the stipulated land revenue, the peasants had to pay for wars of expansion and for the cost of administration (Stokes, 1978; North, 2005). Up-to a first approximation, all cultivable land in British India fell under one of three alternative systems: (a) a landlord based system (Zamindari/Permanent Settlement), (b) an individual

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2 The East India Company (EIC), initially known as, Governor and Company of Merchants of London trading into the East Indies or United Company of Merchants of England Trading to the East Indies, was an English joint-stock company formed on December 31, 1600. Acting as a monopolistic trading body, the company actively engaged in politics and emerged as an agent of British imperialism in India from the early 18th century to the mid-19th century.
culturator based system (Raiytwari), and (c) a village-based system (Mahalwari). Out of the total cultivated area in British India, the Permanent Settlement, the Raiytwari, and the Mahalwari system covered 57%, 38%, and 5% respectively, as shown in figure 1. Land revenue was the viable source to maximize revenue collection and to make every Indian a taxpayer. Early land revenue policy of British rule had disastrous effects on the peasants, and the experiments of Clive and Warren Hastings (1772-85) compounded their woes (Guha, 1992; Desai, 1948). Even the peasants deserted the villages and gave up cultivation of land due to tax burden.

The worst effect of land revenue collection systems was the growth of rural indebtedness that flooded the entire rural population in debt. In this scenario, the India moneylender worked like a parasite. Whenever the peasants needed money either to pay revenue or to meet expenses of social customs like marriage and other ceremonies, they ran for debt at higher rates of interest from the moneylenders. More often, they mortgaged their land to get the loan with the hope to get back the same. But, it never happened as the peasants found it impossible to come out from the mesh of moneylender (Desai, 1984). On the other hand, the moneylenders charged excessively high rates of interest. In most cases, we found that within a short time span the amount of interest grew more than the principal. Usually, the cunning and thrifty moneylenders used fake methods to cheat the peasants. Anyhow, they managed to get the thumb impressions of the illiterate farmer on the blank agreement papers or loan deeds and later entered larger amounts than the borrowed one. In this process, the loan swelled and went beyond the paying capacity of the peasants. Thus, the peasants were left in hopeless condition from which they never woke up.

The tragedy of rural indebtedness in Deccan was worst in comparison to other regions. In 1851 it was estimated that about 95% of the peasants in Poona district were in debt to moneylenders. On an average, the interest paid by the villagers exceeded the state revenue demands. After 1870 a large number of peasants were working on their own fields as hired labourers. It is a fact that the Deccan revolt witnessed the agitation of peasant communities which collectively rebelled against the moneylenders (Dhanagare, 1983).

The chronic nature of the problem of indebtedness is evident from the fact that probably in no district there were more than one third of the total population was free from debt and in some the percentage it was less than ten. In this reference, the role of moneylenders can be attributed as Indian parasite. M. L. Darling narrates the moneylender as, “the evil genius, who ensnared the cultivators in perpetuity, exploiting and enslaving them.”

In order to meet out the domestic and other necessary needs the peasants were compelled to go to the moneylender who lent them money on high rates of interest and often on compound interest. Petty landowners, once their potential for taking credit on personal guarantee was exhausted, they were often forced to mortgage their small pieces of land and were finally reduced to the status of landless labourers.3 The moneylender also gathered huge profit by performing as a trader who purchased peasant produce at low prices and sold him manufactured articles at high prices (Ghurye, 1961). For the peasant, there was nothing to choose between the two. Both exploited him through usurious rates of interest, compound interest and myriad mal-practices. In 1899, at the annual session of Congress, Lala Murlidhar decribed moneylenders as, “The moneylender is a curious formation of man and beast. Those who believe in the transmigration of souls and reincarnation will agree with me in believing that he has the claws of a lion, the brain of a fox, and the heart of a goat. He is a money-grabber, a contemptible leech, I will say, a man who sucks the blood of the poor agriculturist.”

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3 The landless were often unable to secure loans at all, especially if they were just wage-earners and did not even have the crop to offer as security.
III. Moneylender: The Indian Parasite

Sometimes the agriculturists were also caught in the vicious circle of indebtedness. New loans were often required in order to repay the old debts, either because the earlier moneylender became insistent on recovering money or because, in the case of mortgage, a new mortgage could be made for a higher value. Moreover, expenditure on social ceremonies like birth, death and marriage, which was a necessary part of social existence, necessitated loans from moneylenders. The cultivator’s profligacy connected with expenditure on numerous customs related with marriages and other domestic ceremonies made it obligatory for him to borrow (Ali, 1988). In Punjab, the Famine Commission of 1880 regarded expenditure on marriages and other ceremonies as one of the most important causes of rural indebtedness.

It is ironically to mention that the British administrative mechanism assisted the moneylenders in a direct manner. As we know, that the ownership of land was made transferable, the moneylenders found it suitable to transfer the land of the peasants. The poor and illiterate peasants could not have money and courage to fight a long lasting legal battle against the moneylenders. The shrewd moneylenders took advantage of the ignorance and poverty of the peasants (Charlesworth, 1982).

An important factor which enabled the village communities to borrow was the increased keenness of the moneylenders to lend or offer money to the farmers. In the pre-British period there existed an authoritative and active village representative community which prohibited the mechanism of excessive lending and borrowing (Habib, 1963). It acted as an instrument which protected the innocent individual cultivator from exploitation by the moneylender. In addition to it, state took no attention, direct or in-direct, in assisting the moneylender in the recovery of loans. Thus, the moneylender could not indulge in ruthless exploitation. However, these constraints vanished as soon as the British occupied the apex political position. Henceforth, the village representative community disintegrated and the rural population was handed on the mercy of the moneylenders. In the pre-British period, tradition generally limited total compound interest to 50 percent of the principal amount, in case of cash loans, and to 100 percent, in case of grain loans (Moreland, 1968). Under the British rule, no such limit was concluded by the court and once the farmer borrowed money the interest accumulated endlessly. Besides high tax on the cultivator, many intermediaries exploited the innocent and uneducated peasant by demanding tax at various levels. All this forced the cultivator to approach the moneylender in-order to pay the revenue in time. Consequently, the peasants were indebted and it led to rural indebtedness too as the rural industries based on rural handicrafts were already on the verge of decline due to rapid industrialization in England and the drain of wealth from India to England (Roy, 2013). It is quite ironical to narrate that Industrial revolution led to the collapse of Indian industries. Daniel Thorner rightly guessed that a major shift from industry to agriculture happened between the years 1815 to 1880. R. P. Dutt after a close examination of the census from 1891 to 1921, has calculated the increase in the percentage of the population dependent on agriculture. This data is drawn statistically in table 2.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Year</th>
<th>Population (In percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1891</td>
<td>61.1%</td>
</tr>
<tr>
<td>2</td>
<td>1901</td>
<td>66.5%</td>
</tr>
<tr>
<td>3</td>
<td>1911</td>
<td>72.2%</td>
</tr>
<tr>
<td>4</td>
<td>1921</td>
<td>73.0%</td>
</tr>
</tbody>
</table>

IV. Consequences

Throughout their regime the British East India Company made the entire Indian peasantry impoverished and indebted to unscrupulous moneylenders and bankers. The tragedy of rural indebtedness destroyed the socio-economic base of Indian villages in the long run (Nanda, 2003). The heavily indebted farmers were forced to pledge their own family members to serve as bonded slaves to the landlords and moneylenders. There are enough literary evidences that sometimes their women fall prey to moneylenders’ caprice and vice. This has led to moral degradation of rural society.

In many parts of the country, the small peasants who have lost their land to the moneylenders have revolted against these exploiters in a violent manner. The problem became serious in some parts of Bihar, Orissa and Andhra Pradesh. In such states the high caste moneylenders have exploited the innocent and illiterate advises and have deprived them of their land ownership. In this reference, Dr. Thomas aptly observes, “A society steeped in debt is...
necessarily a social volcano. Discontent between classes is bound to arise and shouldering discontent is always
dangerous." Evaluating the criticality of rural indebtedness, the Famine Commission (1880) remarked that two-third of the land
holding classes were in debt in which one-third were in extreme critical condition. By 1911, the rural indebtedness
was estimated at 300 crore. In mid 1920s, the Central Banking inquiry committee concluded the extent of rural
indebtedness was around Rs. 900 crore. During the great depression of the 1930s, things worsened as agricultural
prices underwent a steep fall. It was the conclusion of the same committee that by 1937, the rural indebtedness
figures swelled to Rs.1800 crore (see fig. 2). Bishwesvar Prasad aptly remarks that, "The prosperity of England
beckoned poverty of India, as imperialism based on a colonial economy thrives on the exploitation of the dependent
subjects." India had become the victim of colonialism and all the evils of imperialism had become clearly visible
throughout 18th and 19th century.

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\text{Fig. 2: Growth of Rural Indebtedness (In crores)}
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V. Measures to control rural indebtedness
In order to placate the agitated peasants and to ensure a reasonable rate of interest the British government passed
Deccan Agriculturists Act (1879), Punjab land alienation Act (1900), Central India land alienation Act (1904), North
West frontier province land alienation Act (1916), etc. These enactments authorized the court to restore mortgaged
and confiscated lands to the debtor, under certain conditions. Moreover, the land Improvements Act (1883) and the
Agriculturists' loan Act (1884) extended government loans to the peasants. To protect the peasants from the clutches
of moneylenders and to control the malaise of rural indebtedness, the Debt Conciliation Acts were passed between
1933 and 1936 by the provincial governments of Assam, Bengal, Central Provinces and Berar, Madras and Punjab.
Similarly, the Punjab Regulation Accounts Act (1930) and the Debtors Protection Acts (1935) were other moves in
the afore-mentioned reference (Chandra, 1966; Kumar, 1982). However, these legal moves did not cover trade debt,
bank debt and government debt.

One important loophole of these burdensome laws was that they buried the moneylender in unnecessary paperwork
and licenses. These laws required moneylenders to meet-out the prolonged terms of licensing and registration and
extensive recording of transaction of their monetary dealings. In spite of extending some relief to the peasants,
however, these laws further spoiled the situation as now onwards police and other inspectors initiated an extortion
racket from moneylenders. A bureaucrat from colonial Punjab, Malcolm Darling (1925) shedding crocodile tears
stated, "The Indian peasant is born in debt, lives in debt and dies in debt" became a by line for tarring the
moneylender while the cause was extractive, colonial revenue practices. Hence, the government credit policy was
not comprehensive in nature. Further, the policy was merely corrective and not preventive in its nature.

VI. Conclusion
The British rule had pronounced and profound impact on India. There was hardly any section of society or corner of
county which could escape the long arms of British colonialism. India being a country with predominance of
agriculture, any impact of government on the people turned out to be essentially the impact of government on the
village. With the initiation of British rule, the new land tenures, new land ownership concepts, tenancy changes and
heavier state demand for land revenue triggered of far-reaching changes in rural economy and social relationship,
particularly in the villages. From their beginning, as political masters, the English Company relied on land revenue
as the principal source of income for the functioning of state. British mercantile interests coupled with Free Trade
principles sought to derive the maximum economic advantage from their rule in India. However, excessive land
revenue demand proved counter-productive in long-term.
References