

An Economic History of Rural Indebtedness in Hyderabad State, 1911-1948: Credit Systems, Debt Cycles, and Agricultural Productivity

Dr. D. Kishan

Assistant Professor of History
Government Degree College Ramannapet
Yadadri Bhongiri (District) Pin: 508113, Telangana State.

Abstract:

The paper discusses a complex relationship between rural indebtedness in Hyderabad State under the rule of Mir Osman Ali Khan (1911-1948) based on credit systems, debt relationships, and the resulting effect on agricultural outputs. The paper explores the agrarian distress structural basis in the feudal economy of the princely state with its jagirdari system, moneylending methods of exploitation, and the lack of institutional credit facilities. This study shows the interaction between the traditional credit networks that were dominated by sowcars (moneylenders), colonial economic policies, and world events like the Great Depression, culminated to the creation of continuous cycles of debt which trapped the peasantry. The paper also discusses the development of cooperative credit movements, which began in 1914-15, and the Cooperative Credit Societies Act of 1920 as the government's reaction to the rural indebtedness. The results indicate that modernization processes did not cause changes in practice, as about 70-80 percent of cultivators were in debt, and the interest rate was between 25 and 75 percent per year. This acute poverty played a major role in the stagnation of the agricultural sector, the farming lands being alienated, and ultimately led to the peasant uprising that was the order of the day during the last years of the Nizam's reign.

Keywords: Rural indebtedness, Hyderabad State, moneylenders, agricultural credit, jagirdari system, cooperative movement, peasant economy, Telangana, Great Depression, land alienation.

1. Introduction

The largest princely state in colonial India was the princely state of Hyderabad, which was under the sovereignty of the Mir Osman Ali Khan (1911-1948) with an area of about 82,698 square miles and an estimated population of over 16 million by 1941 ^[1]. The agrarian economy of the state, which involved almost three-quarters of the population, existed in an intricate system of feudal land tenure systems that essentially determined the tendencies of rural credit and indebtedness. To a greater or lesser extent, the agricultural sector in Hyderabad State assumed some specialized features that made it stand out from both British-controlled worlds and, at the same time, displayed more general tendencies of exploitative colonial economies as Iyengar recorded in his ground-breaking economic studies ^[2].

Rural indebtedness as a phenomenon in Hyderabad State cannot be viewed independently of the political economy that perpetuated the phenomenon. The land tenure systems, which included Diwani lands and jagirdari lands, sarf-e-khas lands, and Paigah lands, developed a hierarchical system in which peasants were economically dependent on several levels of intermediaries ^[3]. The paper presents a systematic analysis of how these institutional structures, in conjunction with the activities of the indigenous moneylenders and the inadequate coverage of the modern credit institutions, made these cycles of indebtedness persist in limiting agricultural investment, low productivity, and eventual agrarian distress.

The study has a much wider scope of importance than just historical documents since it can be expanded to answer the greater questions of how credit institutions and agrarian structures relate to economic development in pre-industrial societies. A remark by Malcolm Darling [4], which points out that the Indian peasant was born in debt, lives in debt, and dies in debt, had certain echoes in Hyderabad, where the lack of a viable regulatory system meant that moneylenders had extraordinary control over the economic life of the rural population. The 1911-1948 era was a time of great change, such as the formation of cooperative credit societies, the effects of world economic crises, and the development of organized peasant resistance. It is a vital period waning the dynamics of rural indebtedness.

2. Review of Literature

The historiography of rural indebtedness in colonial and princely India has been transformed a long way since the first effort by Dadabhai Naoroji [5] on the drain of wealth theory. Naoroji, followed up by nationalist economists, also stressed the systematic way in which the colonials used their economic policies to enrich themselves at the expense of Indian agriculture by extracting revenues and distorting markets. Within the narrowed down context of the Hyderabad State, the economic history of Warangal Suba (1911-1950) by V. Ramakrishna Reddy [6] is the most valuable source of the archival records of the state of agriculture, land revenue administration, and the rise of peasant movements.

Of particular significance is the Report on Agricultural Indebtedness issued in 1937 by the government of Hyderabad [7], which gives a detailed statistical interpretation of debt trends by districts. Cited on a number of occasions in the research of Thirumali [8] on the assertions of the peasant classes in Nalgonda and Warangal districts, this report had recorded that moneylenders had established themselves as essential intermediaries in the rural economy. The agrarian relations are placed in the wider framework of patrimonialism and modernization as Pernau analyzes political culture in Hyderabad (1911-1948) [9], whereas Benichou follows political processes that led to the integration of the state with India [10].

The modern literature has become more focused on the agency of subordinate groups in agrarian oppressive structures. The Telangana peasant movement (1946-1951) has been referred to extensively by historians such as Sundarayya [11], who gave an eyewitness account of the armed struggle against feudal exploitation. The surveys of economic conditions by N.G. Ranga [12] provided base elements on the idea of rural poverty, and later surveys were done by the All India Kisan Sabha, which recorded the formal resistance to the oppression of landlords. The current research is an extension of this literature in that it combines both economic data and social history to allow a comprehensive study of credit systems and debt cycles.

3. Agrarian Structure and Land Tenure Systems

The land holdings will be classified into 3 categories based on their purpose and function.

The Hyderabad State agrarian system had a complicated division of land tenure systems that essentially created trends of credit availability and indebtedness. About one-fourth of the entire arable land was placed under the jagirdari system, according to which jagirdars were entitled to collect and apportion land revenue and had a quasi-judicial control over cultivators [13]. It was the Nizam himself who directly possessed about 10 percent of all land in the form of sarf-e-khas estates, and another 8-10 percent was in the possession of Paigah nobles, the descendants of military chiefs who were also in the service of the dynasty [14].

The rest of the land, or Diwani or Khalsa land, was direct government administration, and revenue was collected by appointed Talukdars. Although the Ryotwari system was theoretically the place of giving proprietary rights over their holdings to the cultivators, the practice was widely different in life across the districts. According to the Report on Agricultural Indebtedness [15], numerous registered occupants had been practically reduced to the position of being tenants-at-will by a debilitating debt to moneylenders who had acquired debts in regard to their lands.

Table 1: Distribution of Land by Tenure Category in Hyderabad State (1931)

Land Tenure Category	Percentage of Total	Area (Sq. Miles)
Diwani/Khalsa (Government)	42%	34,733
Jagirdari Estates	40%	33,079
Sarf-e-Khas (Nizam's Personal)	10%	8,270
Paigah Holdings	8%	6,616
Total	100%	82,698

Source: *Census of Hyderabad State (1931)* [16]; *Khusro (1953)* [17]

4. Credit Systems and Moneylending Practices

4.1 Indigenous Credit Networks

Representatives of rural moneylenders who operated widespread lending systems in villages and talukas dominated the credit environment of the rural Hyderabad State, which were indigenous moneylenders, locally known as sowcars or sahuikars. Hassan [18] recorded how the Marwari, Komati, and Brahmin castes became the chief moneylending caste and replaced the previously older systems of village-level lending. These professional moneylenders accrued money by trading in agricultural produce, which they later used in credit activities, which had significantly higher returns in comparison to mercantile activities.

Interest rates given by the moneylenders differed significantly depending on the status of the borrower, availability of collateral, and seasonal factors. The Report on Agricultural Indebtedness [19] recorded between 25 and 75 percent per annum on unsecured loans, and effective rates were generally above 100 percent when compounding and other fees were added. The secured loans that were secured by collateral of land were associated with a lower rate of 18-36% per year, but the conditions of this loan were usually subject to the condition of the eventual transfer of the land to the creditor. The tradition of keeping books in foreign languages or scripts, such as Marwari traders writing in Mahajan script, e.g., further handicapped the illiterate peasant when they entered into a dispute over the outstanding balance.

4.2 Patterns of Borrowing

The reasons why the peasants had to take on debt in Hyderabad State were as follows: productive needs, as well as personal responsibilities that the colonial rule classified as unproductive spending. Investigations of the economy by Iyengar [20] found that inputs into agriculture, such as seeds, implements, and bullocks, were the most common form of borrowing at 30 percent, with land revenue and rent payments coming in at 25 percent. Social rituals, especially marriages and funerals, constituted 20-25 percent of credit demand, and the balance was a consumption requirement during lean seasons.

Table 2: Interest Rates Charged by Moneylenders in Hyderabad State (1920-1940)

Type of Loan	Interest Rate (%)	Collateral Required	Typical Term
Secured (Land Mortgage)	18-36%	Land Title	3-10 years
Secured (Crop/Jewelry)	24-48%	Produce/Ornaments	6-12 months
Unsecured (Personal)	36-75%	None	3-6 months
Grain Loans (Sawai)	50-100%	Future Harvest	Seasonal

Source: *Report on Agricultural Indebtedness, Hyderabad (1937)* [21]; *Iyengar (1931)* [22]

5. Institutional Responses: The Cooperative Credit Movement

The formation of cooperatives of credit in the state of Hyderabad was a move to bypass the monopoly of native moneylenders on rural finance. In 1914-15, a separate Department of Cooperation was created, and then the Hyderabad Cooperative Credit Societies Act was passed in 1920 [23]. This statute was based on the experience of British India with its Cooperative Credit Societies Act of 1904 and its amendments, but this time with reference to the specific conditions of the princely state.

The Hyderabad Cooperative Central Bank, which was formed in 1925 as an interim cooperative bank, was to function as a pinnacle institution that would extend credit to primary societies at the village level. The

1920s and 1930s were marked by a great growth in the cooperative sector as the major agricultural credit societies had been registered in the districts. Nevertheless, the movement was limited to Diwani regions with the highest government administration capacity, and the jagirdari territories were mostly excluded from the coverage of cooperatives. In 1943, the first Grain Bank was established in Nizamabad District, but it operated on a barter system to provide the farmers with grain in lean seasons [24].

Table 3: Growth of Cooperative Credit Institutions in Hyderabad State (1920-1945)

Year	Primary Societies	Membership	Working Capital (Rs.)	Coverage
1920	85	4,250	2,15,000	2.1%
1930	312	18,600	12,45,000	8.4%
1937	486	32,400	28,70,000	12.8%
1945	624	48,200	45,60,000	18.5%

Source: *Telangana State Cooperation Department Records* [25]; *Hyderabad Administrative Reports (1920-1945)* [26]

6. Debt Cycles and Agricultural Productivity

6.1 The Mechanics of Perpetual Indebtedness

The further rural indebtedness in the State of Hyderabad worked in interlocking systems, which tied the peasants to their creditors generation after generation. The bhagega system, recorded in the Telangana districts and an example of this entrapment, was that the peasants who took loans with the landlords were caught in debt cycles where they were often given a generation of servitude to pay loans with an arrangement that bore similarity to bondage [27]. The interest payments often surpassed the ability of the agricultural surplus to pay off, and it was necessary to borrow more to pay off old debt.

Farming income was seasonal, which led to structural exposure to the exploitation of moneylenders. Farmers usually needed to borrow money to buy seeds and farm inputs in June-July and only harvested the crop in November-December in the case of kharif crops. This distance in time between spending and income of 4-6 months compelled people to depend on credit even in consuming subsistence during the growing period. Moneylenders took advantage of this dependency by using sawai agreements, whereby it was possible to pay back the grain loans at the harvest season with a premium of 25-50 percent, in effect, 100-plus percent interest annually due to its short-term nature.

6.2 Effect on Agricultural Investment

The debt servicing burden limited agricultural investment and growth in productivity during the period of study. Report on Agricultural Indebtedness [28] observed that cultivators generally spent between 30-50 percent of gross produce to settle debts, leaving them with not enough to invest in better implements, irrigation, or soil enrichment. This capital limitation continued to keep the dependence on the traditional farming processes, where yields were stagnant, whereas neighboring British-controlled areas recorded a slight productivity increase as they took up the superior seeds and techniques.

Table 4: Extent of Rural Indebtedness by District (1937)

District	% Indebted	Avg. Debt (Rs.)	Primary Credit Source
Warangal	82%	245	Moneylenders (78%)
Nalgonda	78%	218	Moneylenders (75%)
Khammam	75%	196	Moneylenders (72%)
Nizamabad	71%	178	Moneylenders (68%)
Medak	68%	165	Moneylenders (65%)
State Average	74%	198	Moneylenders (71%)

Source: *Report on Agricultural Indebtedness, Hyderabad (1937)* [29]

7. The Great Depression and Agrarian Crisis (1929-1937)

The world economic depression, which began in 1929, had far-reaching implications on rural Hyderabad, aggravating the already prevalent debt patterns and providing new channels of peasant dispossession. By 1931-32, the agricultural prices in India had crumpled to about half their 1929 value, and the land revenue obligations and the current debt commitments were still in place at a nominal level [30]. This price deflation was especially disastrous to the cultivators who had been borrowing on the relatively boomish conditions of the 1920s, as commodity prices and creditworthiness seemed secure.

The Depression promoted a spectacular land alienation as poor peasants were forced to sell property to settle the debts. With gold ornaments, the sale of the same reached the peak in British India with about 1,600 ounces coming into the Bombay port each day by the year 1931 [31]. Similar trends were reflected in the State of Hyderabad, but exact statistics are not complete. The growing status of moneylenders in this deflationary phase helped them increase the hold they had on the bad debt pattadars and tenants, purchase land at distress prices with no connection to productive value.

Table 5: Agricultural Price Indices in Hyderabad State (1926-1940)

Year	Rice	Jowar	Cotton	Oilseeds
1926-27	100	100	100	100
1929-30	98	95	92	96
1931-32	52	48	38	45
1934-35	58	55	48	52
1937-38	68	62	58	64
1940-41	85	78	72	80

Source: Hyderabad Administrative Reports [32]; Iyengar (1931) [33]; Base Year 1926-27=100

8. Rural Indebtedness and the Peasant Movement (1940-1948)

The built-up discontents of long-term indebtedness, added to the aggravation of feudal deprivation in the course of the Second World War, offered the social ground to the peasant movement, which overwhelmed Telangana between 1946 and 1948. The Andhra Mahasabha, which originally was a cultural movement that demanded linguistic rights, was changed under the influence of the Communist Party to the agrarian mobilization vehicle. Waving of debts amassed during generations, abolition of vetti (forced labor), and the decrease of land revenue were the most heated demands of the movement [34].

The movement was strongest in the districts of Nalgonda, Warangal, and Khammam, that is, the very districts where the indebtedness rates were highest in the 1937 survey [35]. As early as 1947, the peasants had formed parallel governments in almost 4,000 villages covering 16,000 square miles and comprising about 3 million people. These village republics adopted debt cancellation on a radical basis, land redistribution, and forced labor formations, which tied cultivators to landlords. Operation Polo by the Indian Army in September 1948 brought to an end the rule of the Nizam, although the agrarian demands that were forthcoming in the movement later took effect in the land reform laws that came up in the successor state of Hyderabad.

9. Conclusion

This paper has also discussed the intricate rural indebtedness dynamics in Hyderabad State (1911-1948) in how credit facilities, land tenurial structure, and external economic shocks interacted and tended to bring about debt cycles that inhibited agricultural production and eventually led to peasant radicalization. The discussion shows that there are a number of important conclusions that should be highlighted.

To begin with, the form of indigenous credit networks that was dominated by professional moneylenders with little regulatory control facilitated the extraction of surplus by the cultivators in terms of interest rates that often went beyond 50% per annum. Peasants were left to rely on such exploitative structures since most of the cultivators were still less than 20% of the total number by 1945, lacking other sources of

credit. Second, the land tenure systems of the State of Hyderabad and especially the jagirdari systems, which were in place at 40 percent of the cultivable area, led to the creation of an environment where the cultivators of the land did not have either the security of tenure to engage in productive investment or the security of collateral to secure an advantageous credit environment.

Third, the Great Depression was a radical point of departure that enhanced the current tendencies of indebtedness and accelerated land alienation. The fall of agricultural prices to about half the levels of before the depression, the absence of income changes in revenue and debt commitments, had to cause the distress sales, which concentrated the land of cultivators in the hands of moneylenders at unprecedented rates. Fourth, long-term indebtedness of rural areas in which 70-80% of cultivators were indebted by the late 1930s, gave a material base to the peasant movement that grew in the 1940s, in which debt cancellation became one of the main demands together with land redistribution.

The history of the Hyderabad State provides the information that is applicable to the current discussion on the topic of agricultural credit, land reform, and rural development. The inability of gradual reform of the institution, as seen in the limited scope of cooperative credit, indicates that radical change of agrarian relations might not be achievable through administrative action alone, but through political mobilisation. The fact that informal moneylenders have not been eradicated despite the attempts to modernize it reflects the structural causes that cannot be solved by the simple supply of institutional options. These historical processes are still important to understanding the agrarian roots of modern Telangana and the use of the policy implications of rural credit and indebtedness.

REFERENCES:

- [1] Census of India. (1941). *Hyderabad State tables and reports*. Government of India Press.
- [2] Iyengar, S. K. (1931). *Economic investigations in the Hyderabad State 1929-30* (Vol. 1). Government Press.
- [3] Khusro, A. M. (1953). *Economic and social effects of jagirdari abolition and land reforms in Hyderabad State*. Osmania University.
- [4] Darling, M. L. (1925). *The Punjab peasant in prosperity and debt*. Oxford University Press.
- [5] Naoroji, D. (1901). *Poverty and un-British rule in India*. Swan Sonnenschein.
- [6] Reddy, V. R. (1987). *Economic history of Hyderabad State Warangal Suba: 1911-1950*. Gyan Publishing House.
- [7] Hyderabad Government. (1937). *Report on agricultural indebtedness*. Government Central Press.
- [8] Thirumali, I. (1994). Peasant class assertions in Nalgonda and Warangal districts of Telangana, 1930-1946. *Social Scientist*, 22(3-4), 27-52.
- [9] Pernau, M. (2001). *The passing of patrimonialism: Politics and political culture in Hyderabad 1911-1948*. Manohar.
- [10] Benichou, L. (2000). *From autocracy to integration: Political developments in Hyderabad State 1938-1948*. Orient Longman.
- [11] Sundarayya, P. (1972). *Telangana people's struggle and its lessons*. Communist Party of India (Marxist).
- [12] Ranga, N. G. (1929). *Economic conditions of Indian villages* (Vol. 2). Associated Publishers.
- [13] Ibid. Cit. No. 3
- [14] Census of India. (1931). *Hyderabad State tables and reports*. Government of India Press.
- [15] Ibid. Cit. No. 7
- [16] Ibid. Cit. no. 14
- [17] Ibid. Cit. No. 3
- [18] Hassan, S. S. (1920). *Castes and tribes of the Nizam's dominions* (Vol. 1). Government Press.
- [19] Ibid. cit. no. 7
- [20] Ibid. cit. no. 2
- [21] Ibid. cit. no. 7
- [22] Ibid. cit. no. 2

- [23] Telangana State Cooperation Department. (2024). Cooperation movement history. <https://cooperation.telangana.gov.in>
- [24] Ibid. Cit. No. 23
- [25] Ibid. Cit. No. 23
- [26] Government of Hyderabad. (1920-1945). *Administrative Reports*. Government Central Press.
- [27] Ibid. Cit. no. 8
- [28] Ibid. Cit. No. 7
- [29] Ibid. Cit. No. 7
- [30] Rothermund, D. (1992). *India in the Great Depression 1929-1939*. Manohar.
- [31] Oak, A. (2022). Saving Indian villages: British Empire, the Great Depression, and Gandhi's Civil Disobedience Movement. *Studies in History*, 38(2), 234-259.
- [32] Ibid. Cit. no. 26
- [33] Ibid. Cit. no. 2
- [34] Ibid. Cit. no. 11
- [35] Ibid. Cit. no. 8