

# Some Aspects of Dynamics in Rural Labour Market: Interface between Credit and Labour Markets

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When a large proportion of population in India have been living in the countryside, improvement in their socio-economic conditions have larger implications for the country's development, hence the rural development or social transformation in rural areas has been a great concern for policy and research. The problems in rural transformation and issue related to the livelihoods of the rural poor (including the peasants and labourers) have been continued to haunt the development policy/strategy of the country. Attempts have been made in understanding the social organization of production and production relations in rural areas which are considered critical for such transformations. Change in socio-economic structure and production relations that are considered to be obstructing the growth of rural economy and social transformation has been the focus of debate in research and policy discussions.

Undoubtedly, over a period, particularly since independence, there has been changes owing to internal dynamics of village economies themselves, impact of external forces and the policy initiatives. But what extent they have improved the socio-economic conditions of the rural labour, what is their relative position in the socio-economic strata of the village economy, if improved how they achieved it and in what dimension of their objective conditions, and how one has look into these changes is a matter of debate and discussion based on evidence of their present situation.

## **The Problem**

Inequality in the distribution of productive assets or resources in general and agricultural land in particular at their disposal among different sections of the society and social hierarchy of the caste system leading to the multiple deprivations of people living in poorer (productive assetless / landless) households and those of the lower castes. As the agriculture has been remained a mainstay of their livelihood for a large proportion of the rural population, land ownership has become critical and has been making the difference in their livelihood conditions. Ironically, most of the resource poor / assetless or landless are belonging to the lower castes at the bottom of the social strata. The relations of production involving the terms and conditions between the parties<sup>1</sup> - the dominant landlord / employer and the subservient tenant / labourer – have been inimical to the socio-economic development of the labour class and hence has been the cause of concern.

In any agrarian economy, seasonality along with other adversities<sup>2</sup>, uncertainty in availability of work/employment and thereby the resources to meet their basic consumption needs of the household members and production purposes leading the laboring poor surrender themselves to the terms and conditions of their employers or landlords. Inadequate employment opportunities and

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<sup>1</sup> In order to meet the basic consumption needs of the household members, the asset/landless households and those with resources / productive assets / land but insufficient to engage themselves self-employed and/or meet their basic needs, have to depend on the labour market and on the asset / land owned classes / castes. Some of them work as wage labourers for the rich/big farmers (or those who cultivate land by hiring labour) and some other as tenants.

<sup>2</sup> given the seasonality in agricultural operations, variation in labour intensity in different crops cultivation and adversities of crop failures/damages associated with the rainfall (i.e. drought or flood)

necessity in smoothening the consumption needs in the lean period, access to credit becomes critical. In a village economy with close contact of people within it, unbalanced power relations between the employer/landlord and labourers have been embedded in its social relations through such production relations using the former's leverage<sup>3</sup> over rationing of land, labour and credit (with high rent, low wage rate and high interest rate) to the latter. These power relations have determined, many a times even denied, the laboring poor and lower castes their access to common property resources and public provisions. The higher land rents, lower wage rates and higher interest rate have further increased the dependency of labourers on the employer/landlord and, many a times, leading to perpetual bondage. It is due to such kind of production relations that leading to backwardness of agrarian economy<sup>4</sup>. Such a kind of organization of production in the villages economy in India and production relations are considered as, by neo-Marxists, semi-feudal in nature and are due to inter-linked factor markets (land, labour and credit) and for the market economists it is due to imperfect factors markets (See Bharadwaj, 1987, Bhaduri, 1983, Bardhan, 1989).

There is a wide range of literature appeared at theoretical and empirical level based on the structure and functioning of rural labour markets in India and other developing countries. A few of much discussed aspects of rural labour market in India are as follows: inter-locking of labour market with other factors market particularly that of credit, labour bondage - bonded and unfreedom nature of rural labour relations, contractual arrangements and changes over time, and casualisation of rural labour<sup>5</sup>. Along with differences in resource endowments, risk and uncertainties are observed to be basis for various forms of contractual arrangements between the employer and labourer that have been observed in the rural areas, reflecting a phenomenon the inter-linkage nature of factor markets (credit and labour).

However, the structure and functioning of the labour market in India has been influenced by the changing structure of the Indian economy at different points of time, such as initially after the adoption of green revolution technology and subsequent commercialization process of agriculture, and later on with the liberalization of the Indian economy since early 1990s. The changes in the structure of the economy and integration of village economy with wider one (urban, rest of the rural and even the global economy), have a significant bearing on the rural labour market too. Recent studies have shown that rural incomes in general and those involved in agricultural in particular are growing (Binswanger, 2012). In respect of rural labour, agricultural wages in India in the recent past have witnessed a rapid growth (see Binswanger, 2012; Gulati et al., 2012, Jose, 2012). The growing rural non-farm activities while providing alternative income/employment opportunities or supplementing the agricultural incomes/employment, reducing the pressure to urban migration and

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<sup>3</sup> The leverage of rationing in land, labour and credit facilitated landlord/employer fixing the prices of land (rent) labour (wage) and credit (interest rate).

<sup>4</sup> The important factors one can highlight are unequal distribution of resources (such as land and other productive assets including livestock), concentration of land in the few hands, lack of access to land and credit markets for many poor households, power relations embedded in production relations, lack of alternative employment opportunity (in rural or urban), lack of mobility (due to constraints in communication facilities including road and transport), lack of access to public provisions including health and education (either lack of facility itself or denial of their access to it) and the most important one is caste factor (which has been determining the lower caste's access to all the above). Thus inequity, inadequate employment opportunities and access to credit market, lower wages, poverty, caste, and inadequate access to public provisions are leading to backwardness of rural areas.

<sup>5</sup> See Bardhan and Rudra, 1978; Sarap, 1991; Srivastava, 1989; Jodhka, 1994; Rao, 1999; Brass, 2000; Breman, 1993; Sarap, 1991; Dreze and Mukherjee, 1987; Chandha, 2003

contributing significantly in reducing rural poverty (Binswanger, 2012). There is a certain kind of emancipation of rural labour classes taking place (see Byres *et. al.*, 1999; Byres 1999). Nevertheless, some of the recent studies have shown some remnants of credit-linked work contracts that still exist for those working in agriculture and rural areas and rural migrant labourers working in non-agricultural activities outside the village (migrant labourers) getting into precarious work contracts<sup>6</sup>. Here lies the present research interest in changing nature of contractual arrangements in rural labour market in India.

With respect to policy, recognizing the need for improving the conditions of rural poor there have been several policy initiatives<sup>7</sup> since independence. They, particularly the green revolution package, have improved the production, productivity of agriculture and rural income. Expansion of access to institutional credit through Nationalisation of Banks has helped in this process. But not much improvement in many laboring poor households. Thereafter there are the second generation, poverty alleviation programme, including Food Security through Public Distribution System; various self-employment schemes and other Employment Generation programmes. In fact these later programmes have touched the lives of some of the laboring poor in rural India but the lack of effective implementation of these programmes largely resulted in poor outcomes. The third generation initiatives on the lines of inclusive growth, such as initiatives related to financial inclusion and women empowerment (i.e. Self-Help Groups) and first ever large scale universal coverage employment programme (Mahatma Gandhi National Rural Employment Scheme – MGNREGS) along with many livelihoods initiatives and social security / safety net measures including the very recent trinity of JanDhan, Aadhar and Mobile (JAM) are there for helping the laboring poor in rural areas as a fall back mechanism or safety nets.

When we look into the high growth trajectory of Indian economy during the post-reform period and its impact on the laboring poor in rural India through its trickle-down effect, the judgement is diverse as different scholars assessing it differently (for instance see Bhagawati, 2014; Dreze and Sen, 2015). It is observed that, overall, rural incomes and per capita consumption expenditure are increasing along with increasing rural non-farm employment. One of the important factor is that integration of village economy with that of the outside one with improved communication facilities (road, transport and other ways) that facilitated the easy mobility/movement of the rural labour that lead to out-migration to distance places and commutation to nearby rural or urban growth centres . Definitely, the struggle for square meal a day and incidences of hunger have largely been reduced. The real wage rates in rural areas have shown a sharp rise especially since 2005.

Notwithstanding the above, the growing aspirations and needs beyond square meal a day, meeting educational needs of children and health care exigencies of family members in the absence of adequate access to institutional credit, leading them to fall back on informal credit sources that in turn leading them to be vulnerable to many forms of consequent adversities. In fact it is reflected in national level survey estimates<sup>8</sup> wherein one-third of the rural labour households are indebted and

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<sup>6</sup> For instance, see Guerin, 2012, Pattedan, 2012; Heyer, 2012; Pricherit, 2012; Lerche, 2012.

<sup>7</sup> Some of the important ones in this regard are: Community of Development Programme; Land Reforms including Abolition of Intermediaries, Land Ceiling and Distribution of Land to the Poor, Tenancy Reforms (involving fixation of Tenure and Rent); Green Revolution Technology (GRT) and Package; Initiative to improve access to credit through Nationalisation Banks, and others. Although they have resulted in changes in the rural economy/society, these initiatives, largely, failed to improve the livelihood conditions of the poor as expected.

<sup>8</sup> Rural Labour Enquiry Reports.

the average amount outstanding debt over a period is increasing. Moreover, still a majority of the indebted rural labour households had to rely on informal sources for credit. Inadequate employment opportunities in dryland and drought-prone zones of India have leading to distress-led migration to distance places leaving the some of the family members behind or taking whole family. Plight of migrant Brick Kilns workers case in point to indicate the adversities of the migrant workers.

Moreover, as the most of the rural economic (production/services) activities have been in the unorganized sector, the labourforce that engaged in these activities have been left out of the many social security / safety net benefits that those engaged in organized/formal sector would get. The Government of India's National Commission on Enterprises in Unorganised Sector (NCEUS) reveals the same fact. According to the Commission's Reports, more than 90 per cent of the labourforce in the country are engaged in economic activities which are unorganized/informal sector. In rural India most of the activities and workforce engaged in are of this category.

### **Contractual Arrangements in the Rural Labour Market**

Given the unequal distribution of factors of production, production relations are accordingly emerged and the work arrangements are made in the social organization of production in a village economy. Certain aspects such as risk, uncertainty, transaction costs, moral hazard etc., forces both the parties - the employers and labourers - to get into certain ex-ante work arrangements (contracts). Compelling factors for the employer are: uncertainty in supply of labour and risk of rise in wage rates, especially in peak seasons; for the labourer, uncertainty in availability of work/employment and means to survive especially in slack seasons. There may be time bound (casual/daily, short-term or long-term) or activity bound work/contractual arrangements between the employer and the labourer. Historical annual farm servants or attached labourers and group labour system are few of such contractual arrangements. There have been in-built institutional mechanisms emerged to enforce such arrangements. The personalized transactions and power relations induced by the dominant party ensures that the subservient party obliges the contracts – written/formal or oral/informal ones. Inter-linking of factor market has become an instrument in this process.

### ***Inter-Locking of Credit and Labour Markets***

Inter-linked/locked factor markets have been observed to be one of the problems of and thereby backwardness of the rural/agrarian economy. When the necessity to borrow compels a peasant or labourer family to enter into the transaction in other factors markets (land lease, labour, output/product), it is considered as inter-linked with the credit market transaction. Inter-linked transactions are defined as 'contracts made between the same pair of individuals relating exchange in more than one commodity or services, the contracts being linked in an essential way' (Stiglitz, 1989). Such an inter-linked transactions have far reaching repercussion on the welfare or living standards of labourers families in particular and the rural/agrarian economy in general.

The credit needs are broadly for productive and consumption purposes. Borrowing through credit market/institutions is unavoidable when a households lacks assets or financial resources (regular income or savings) that can be easily and immediately convertible in order to meet day-to-day basic needs, production requirements and/or contingencies as and when arises. In a market economy, the elasticity of demand for loan/credit depends on the availability of the own resources, interest rate

and purpose of loan<sup>9</sup> (contingencies or emergency needs of the households to meet). High and/or usurious interest rates are one of the problems with rural credit market. The interest rate is usually, especially that observed in the rural informal credit market in developing countries like India, depends on the size, duration and purpose of loan (see Sarap, 1991). Interest rate particularly in rural credit market is considered to have four component, they are as follows: (i) opportunity cost of money involved; (ii) premium for administering the loan; (iii) premium for risk; and (iv) monopoly profit. In a market economy, when the rural credit market modelled on the lines of perfect competition, the high interest rate found in rural areas of developing countries is explained through lender's risk hypothesis with a premium of risk related to default of loan (Tun Wai, 1958; Bottomley, 1975). It has, however, been observed that there have not been as many players in rural credit markets as it makes to be a perfect competition model. The rural credit market is very much unorganized and too fragmented (Basu, 1989). Moreover, there are many other factors that play in working of institutions in credit market. An alternative explanation came up on the lines of opposing extreme (monopoly) in the order of imperfect markets, is in terms of monopolist behavior of the lender who sets price (interest rate) of loans that he lends, for (abnormal) profit, in rural areas leading to usurious nature of the credit market (Bhaduri, 1977; Rudra, 1984; Basu, 1984).

When the factors of production and productive assets along with capital are unequally distributed where a few owns the productive assets and the rest depends on them, and power relations are embedded into the production relations (Rudra, 1984). The personalized relations and transactions<sup>10</sup> in the village economy precipitates the additional monopoly power to the dominant player: landlord-creditor or the moneylender. Inability to produce any collaterals due to lack of it and/or unwilling to produce anything worth they have due to fear of losing it in case of default conform their ineligibility for the institutional loans. But the labourers' households (even those who are unable to produce any collateral) would be able get credit from the non-institutional sources given the personalized relationship and transactions with the landlord / employer, either directly or indirectly from moneylender / shopkeeper when their employer gives assurance on behalf them. The threat of ostracise or social-economic boycott of the indebted household from the village society compels them (borrower) to oblige payback the loan, not to be a defaulter. The credit-labour transactions and relationships are dyadic (between employer and labourers or triadic<sup>11</sup> (between employer, labourer and the moneylender / shopkeeper).

The benefits of inter-linked transactions are, as observed in the literature, that they save transactions cost, contract enforcement costs, by internalizing some externalities it try to eliminate moral hazard problem related to work-shirking and thereby cost of monitoring, and they provide way out for the incomplete or non-existence markets (Bardhan, 1989). However, the disadvantages associated with such an institutions of market inter-linkages for the laboring class are many.

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<sup>9</sup> If a households has enough resources to meet their basic needs of the family members and/or manage with it or they can postpone any of their social needs particularly when aware of the given high interest rate and associated burden, the demand for loan is low. But when the purpose of loan is to meet contingent need which cannot be managed with own resources and/or cannot be postponed, the demand for loan is high even if interest rate is high.

<sup>10</sup> In a closed village economy, production relations and transactions in factor markets are based on compact personalized relations particularly between the owners of the productive assets - the employer (landlord for tenants and rich/big farmers for labourers) and the labourers.

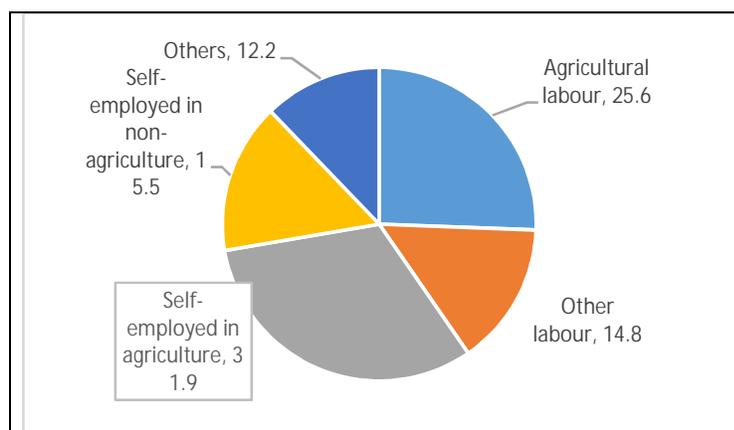
<sup>11</sup> In the dyadic condition the employer directly lends the credit and engages his labour. In the triadic condition when a particular employers those who are not able to provide credit to the labourer he may guarantee the moneylender who lends money or the shopkeepers who provides households provision on credit to the labourer, on behalf of the labourer that he is engaging (see Basu, 1984, Bardhan, 1989).

Labourers (wage labourers and tenants) are economically exploited in terms of their (under-paid) wage and/or usury (high interest), and, many a times, there are extra-economic coercions/exploitation as well. In the process, labourers lose their freedom to act up on and their bargaining power and ultimately leading to perpetual bondage.

### Rural Livelihoods: Continuing Predominance of Labour Households

What are the changes one can observe in case of rural labour markets and households. In India, in 2009-10, more than one-third of rural households are relying on the labour market (of both the agricultural and non-agricultural activities) while making their livelihood. For a large portion of these labour households (for about two-thirds of them), earnings from agriculture labour has been remained the main source of livelihood. It must be noted that a large portion of rural labour households particularly the agricultural ones are belonging to SC and ST communities. Most of the rural households that belonging to scheduled castes are owning none of the productive assets/land other than their own labour power.

**Figure 1: Percentage Distribution of Rural Households in India by the Source of Livelihood, 2009-10**



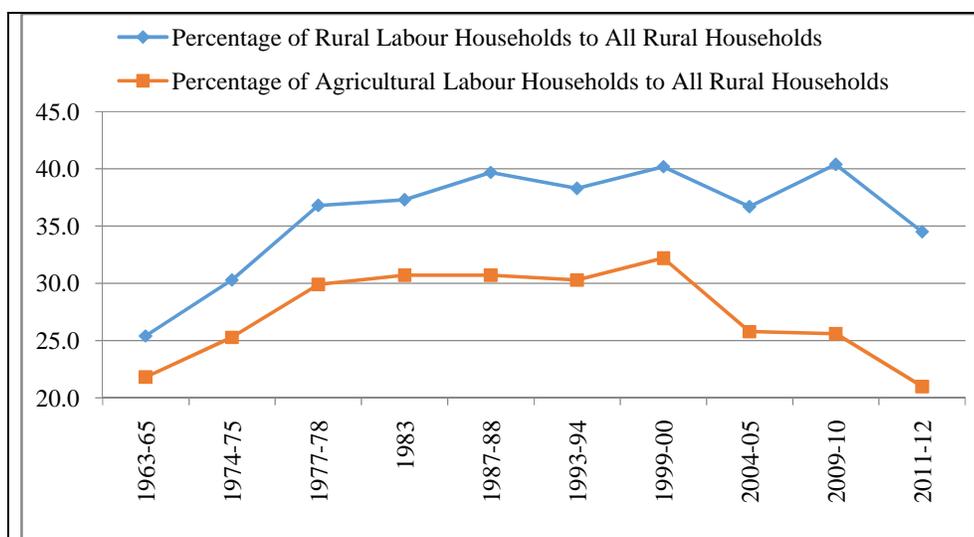
**Source:** NSSO Employment and Unemployment Survey, 2009-10.

It is observed that over a period, particularly since independence till 1990s, the proportion of all labour households (including the agricultural labour households) to the total rural households has been increasing and remained stable thereafter. In case of agricultural labour households their proportion in the total rural households increased till 1970s and remained stable for two decades (1980s and 1990s) and began sharp decline in 2000s. The divergence in proportion of agricultural labour households to all rural households, with that of the rural labour households is indicating the increasing proportion of non-agricultural labour households. It show that the increase in shifting/diversification of rural labour households that have depended on agricultural activities into non-agricultural activities for their livelihood.

In fact the changing structure of labourforce in India and in many other developing countries has not been in accordance with that of grand theories of economic development indicated or the pattern that observed in developed countries during their transition. It was expected that the surplus labour in rural areas / agriculture sector will gradually move to and absorbed in growing urban industry (formal) leading to tightening of the rural labour market. But the failure of theory in reality led to an alternative strategy of developing rural non-farm sector to absorb the surplus labour in the

agriculture sector on the one hand and intensification of labour use in agriculture itself by its intensification through irrigation infrastructure and application of green revolution technology/packages. Although, the increasing mechanization and slow growth of rural non-farm sector and its capacity to absorb the rural surplus labour have become cause of concern, the recent trend especially during 2000s is promising one in respect of growth of employment in rural non-farm sector. However, whether the growth observed in rural non-farm employment is a distress driven (due to lack of employment in agriculture – push factor) or a real growth in rural non-farm activities (pull factor), that has been an issue of debate and discussion. Partly, migration and commutation have facilitated this shift / diversification of labour household from farm to non-farm activities. Still, for about one-fourth of all rural households, earnings from agricultural labour is the main source of livelihood. The livelihood struggle of migrant workers at the distant destinations is also great deal of concern in research and for the policy

**Figure 2: Percentage of all Rural Labour and Agricultural Labour Households to all Rural Households in India**



**Source:** Compiled from Various Rural Labour Enquiry Reports, Labour Bureau of India.

Moreover, when examined the income poverty across economic / occupational classes of households, agriculture labour households followed by those depending on the earning from wage labour in non-agriculture (other labour) are witnessing the highest incidence of poverty (see Table 1). In respect of growth in the rural income and improvements in rural livelihoods, some studies have observed that rural incomes in general and those involved in agricultural in particular are growing (Binswanger, 2012). Agricultural wages in the recent past have also witnessed a rapid growth (see Binswanger, 2012; Gulati et al., 2012, Jose, 2012). It is reflected when the incidence of poverty (HCR) in rural areas has declined considerably during the last one-and-half decade (between 1993-94 and 2009-10). The rate of decline is considerably higher in the recent past i.e. during last half-of the 2000s, as compared to the 1990s, across categories of households (see Table 1). However, the rate of decline varies across categories of households where it is relatively lower among the labour households. Notwithstanding that, still more than one-third of people in agricultural labour households and one-fourth of those in other rural labour households are living with income poverty.

It indicates, the growth of Indian economy and the consequent structural changes have their impact on the rural economy. But the quantum of impact varies across different economic classes of households where the poor and those depending on the wage labour have benefitted less than their rural counterparts. Increase in real wage rates has definitely resulted in considerable increase in labour incomes and thereby sharp reduction in income poverty. Despite these changes many more laboring poor are living in income poverty and associated other deprivations.

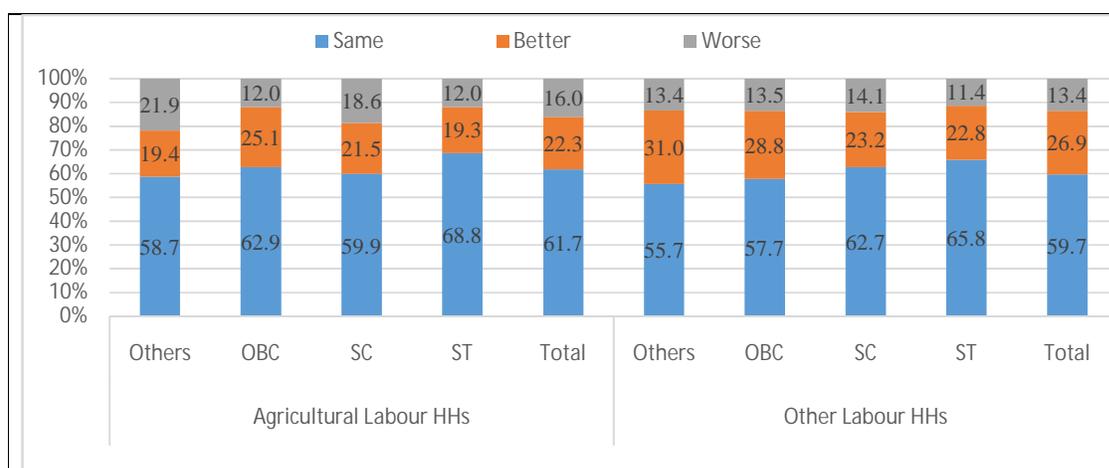
**Table 1: Trends in Poverty Levels in Rural India across different category of Households by their Principle Source of Livelihood**

Year	Households by Principle Source of Livelihood				
	SENA	AGL	OL	SEA	Others
<b>Poverty Level: HCR</b>					
1993-94	32.88	54.42	42.15	29.69	18.11
2004-05	23.78	44.14	32.71	21.45	14.35
2009-10	17.39	34.71	25.50	16.60	8.75
<b>Rate of Decline</b>					
1993-94 / 2004-05	-2.5	-1.7	-2.0	-2.5	-1.9
2004-05 / 2009-10	-5.4	-4.3	-4.4	-4.5	-7.8
1993-94 / 2009-10	-2.9	-2.3	-2.5	-2.8	-3.2

**Note:** SENA – Self-employed in Non-Agriculture; AGL – Agriculture Labour; OL – Other Labour; SEA – Self-employed in Agriculture.

**Source:** Thorat and Dubey (2013).

**Figure 3: % of Rural Labour Households whether they are economically doing the same, better or worse off today than the situation 8 years ago, 2011-12**



**Note:** whether a household is economically doing the same, better or worse today when compared to the situation 8 years ago.

**Source:** Author's Estimations using Sonalde Desai, Amresh Dubey and Reeve Venneman, *India Human Development Survey II (IHDS II), 2011-12* unit record data.

The little impact of the changes observed in the Indian economy in general and that of rural one in particular, also reflected when a majority of the rural labour households, on their own assessment of changes in their economic position, across caste groups they revealed that they are not living in any better condition than they were 8 years ago (see Figure 3). It is observed from the India Human Development Survey II (IHDS II, 2011-12) which has captured the information on this aspect. Around one-fifth of rural agricultural labour households and nearly one-fourth of other labour households have reported that their economic position has improved, they are better-off than they

were. On the other hand, there are considerable portion of rural labour households they felt that their economic position is deteriorated, they are worse-off than they were. Around 16 per cent agricultural labour households 13 per cent of other labour households assessed their position in this way. Among the labour households that belonging Scheduled Castes, the percentage reported worse-off is higher than all other social groups.

### **Expanding Rural Credit Institutions and Growing Access to Credit: Indebtedness and Sources of Credit among Rural Labour Households**

Inadequate access to credit and pervasiveness of dependency of rural households on non-institutional sources credit and its adversities on borrowers has been observed to be associated with the problems of and thereby backwardness of the rural/agrarian economy and hence the cause of concern. In the post-independence when compared to the situation prior to independence, the access to credit has improved. Various credit agencies differed by form and size, have emerged in the organized public as well as in private sector and in the unorganized sector as well. As regards the availability of credit from institutional sources, the presence of co-operative banks/societies ever since its initiation in 1920s by the then British Government, continued and expanded in the post-independence period till now, but their share in the rural credit market is very much negligible in number of loans as well as in amount of debt despite the fact that efforts have gone to expand and strengthening of co-operatives. Two phases of nationalization of scheduled commercial banks (SCBs) that began in 1969 with a corollary policy initiative of expanding the number of branches (including setting up rural branches) and extension of credit to rural areas and households, and the initiatives for establishing Regional Rural Banks (RRBs) with a view to improve the access to credit in rural area have all precipitated into the situation of improvement to some extent in terms of credit from institutional sources. Micro-Credit initiatives of the state and private sector (including Self-Help Groups (SHGs) and Micro Finance Institutions (MFIs)) in the recent past especially during the last two decades, have been furthered the availability of credit in rural areas and to rural households.

However, still the dependency on the non-institutional sources for credit is considerably high in rural India. Undoubtedly, the policy intervention at different points of time in the post-independent India have led to increase in the share of institutional credit in rural areas in terms of outstanding debt with a corresponding decline in the share of non-institutional sources (see Figure 4). A sharp decline in share of non-institutional source of debt has been till 1991. But, thereafter, it is startling to note that, the share of debt from non-institutional source is increasing. The trend is similar either in case percentage of indebted rural household taken any loan(s) from non-institutional sources or the percentage in total amount of outstanding debt in rural areas raised from non-institutional sources.

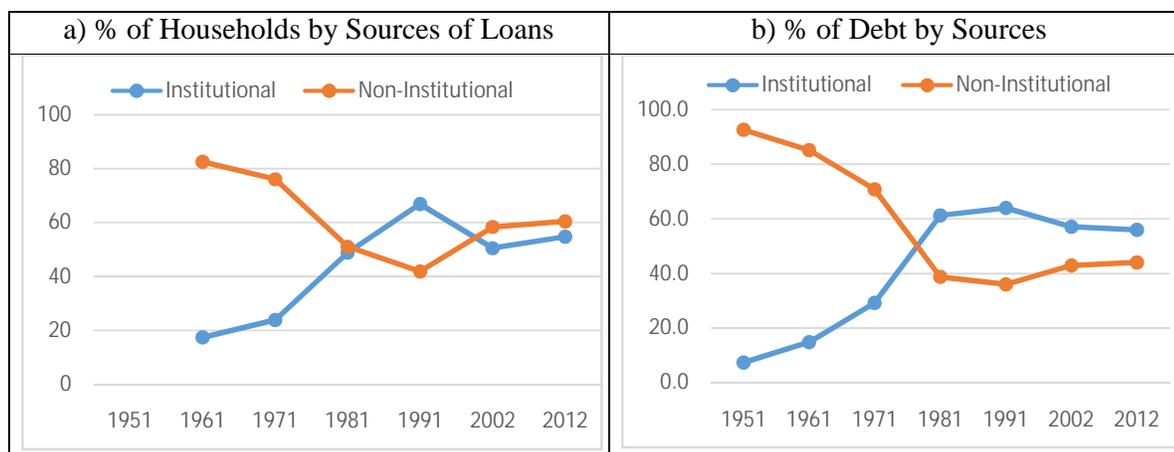
In respect of rural labour households<sup>12</sup>, the dependency on non-institutional sources for credit is more pervasive. In case of rural agricultural labour households it is even more. Most of these rural labour households, other than their labour power, they might not own any productive assets like land or any collateral worth to produce in their credit transactions. Their inability to produce any

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<sup>12</sup> Labour households are a segment of rural households and depending on wage earnings (major sources of income). Agricultural labour households are a segment (major one) of the rural labour households and depend on the wage earnings from agricultural activities.

collateral force them to depend on the non-institutional sources of credit as and when needed. What one can observe from the estimates of Rural Labour Enquiry (RLE) Reports of Labour Bureau is that the incidence of indebtedness among the rural labour households has declined till 1990s, but the recent estimates show a rise from its lowest incidence during late 1990s. Whereas in respect of the share of non-institutional sources in the outstanding debt, it has declined till early 1980s thereafter it began increasing gradually throughout and remained at around two-thirds of the total debt amount of the indebted rural labour households.

**Figure 4: Sources of Rural Credit – Percentage of all Indebted Rural Households in India and their total Debt (Outstanding loans) from Institutional and Non-Institutional source of Credit**



**Note:** Percentage of households by institutional and non-institutional sources when added up it may cross over 100 per cent because sometimes same household might have taken one loan from institutional and other loan from non-institutional sources so that it will cover in both sources.

**Source:** 1. RBI's All India Rural Credit Survey (1951) and All Indian Rural Debt and Investment Survey (1961); 2. NSSO's All India Debt and Investment Survey (AIDIS) for years 1971, 1981, 1991, 2002 and 2013.

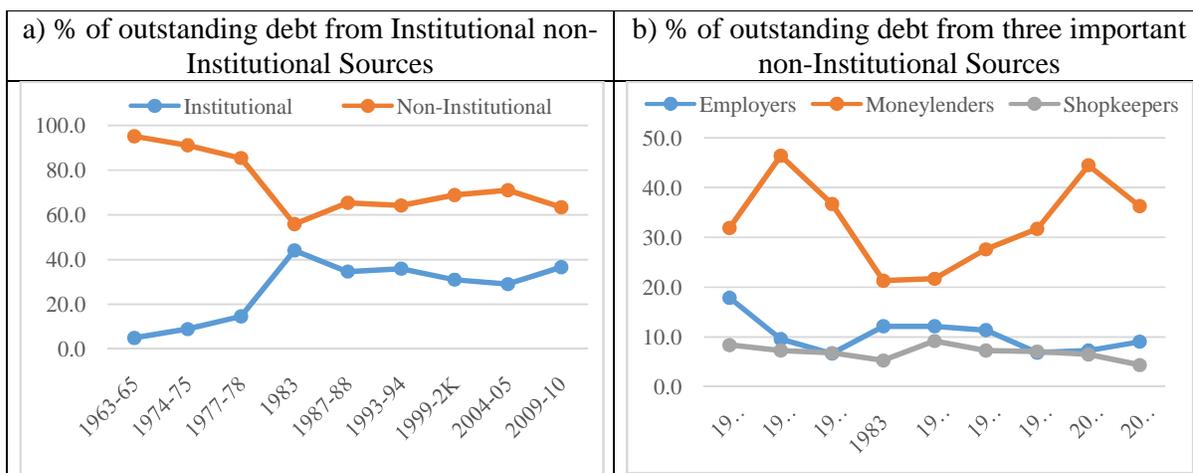
**Table 2: Extent of Indebtedness among Rural Labour Households in India**

NSSO Survey Year	% of Indebted HHs		Average Debt (Rs.)				% of Debt Amount from Non-Institutional sources	
			Per Rur Lab HH		Source Per Indebted Rur Lab HHs			
	Rur Lab HHs	Rur Agrl Lab HHs	Rur Lab HHs	Rur Agrl Lab HH	Rur Lab HH	Rur Agrl Lab HH	Rur Lab HH	Rur Agrl Lab HH
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>
1963-65	59.2	60.6	148	148	251	244	95.1	94.4
1974-75	65.4	66.4	395	387	605	584	91.1	90.4
1977-78	50.5	52.3	348	345	690	660	85.4	84.1
1983	50.4	51.1	806	774	1598	1516	55.9	57.7
1987-88	39.1	39.4	787	769	2014	1952	65.4	66.2
1993-94	35.1	35.5	1113	1031	3169	2901	64.2	64.9
1999-2K	25.0	25.1	1515	1312	6049	5230	68.9	64.3
2004-05	47.3	48.4	4852	3946	10259	8145	71.0	73.4
2009-10\$	35.0	36.9	5473	4692	15654	12718	63.4	69.6

**Note:** Rur Lab HHs – Rural Labour Households; Rur Agrl Lab HHs – Rural Agricultural Labour Households.

**Sources:** Compiled from various Rural Labour Enquiry (RLE) Reports of NSSO; \$ Author's estimations using NSSO 66<sup>th</sup> (2009-10) round EUS unit record data.

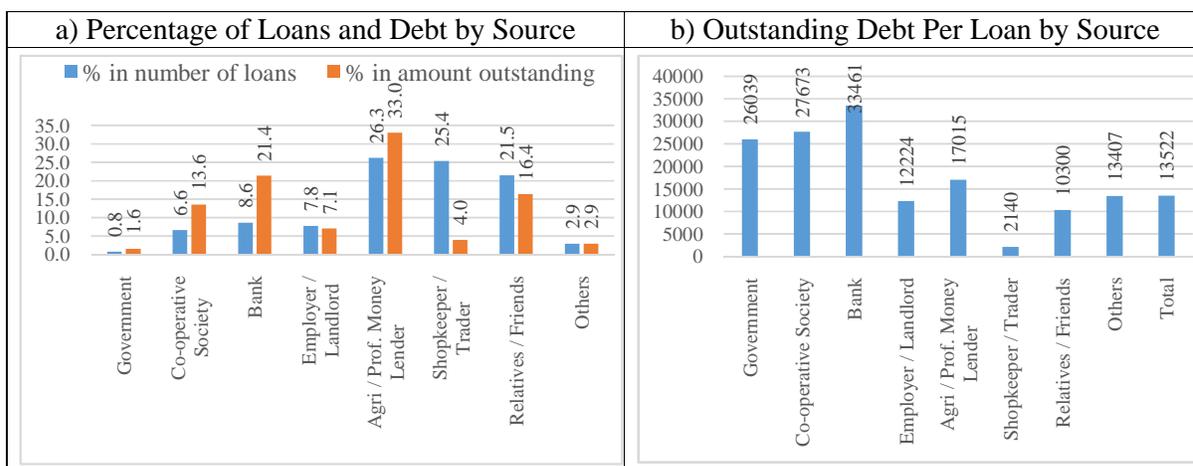
**Figure 5: Trends in Percentage of Debt (Outstanding amount) among the Rural Labour Households in India by Source**



**Note:** Percentage of outstanding debt amount by source.

**Source:** Compiled from various Rural Labour Enquiry (RLE) Reports of NSSO; \$ estimated using NSSO 66<sup>th</sup> (2009-10) round EUS unit record data.

**Figure 6: Distribution of Loans and Debt (Outstanding Loans and Amount) of the Rural Labour Households in India by Source, 2009-10**



**Source:** Author's Estimations using NSSO 66<sup>th</sup> (2009-10) round EUS unit record data.

Among the non-institutional sources of credit there are three important players, they are the employers, money lenders and shopkeepers. Money lenders appears to be dominant players within the non-institutional credit sources. Although the share of outstanding debt from moneylenders has declined to its lowest by early 1980s, thereafter it has been increasing except the recent decline, particularly in the 1990s the increase was very sharp. The other major player is the employers, but their share is around 10 per cent of the outstanding debt. The credit from the third source, shopkeepers, appears to be very minimal. What one has to note herein is that although the share of shopkeepers as source of loan in the total amount of outstanding debt is found to be very low its share in the total number loans is considerable, as it accounts one-fourth of the total number of

loans. Mostly they must be providing household consumption provisions on credit for a month or two so that amount per loan is very low.

The sharp decline in share of debt from non-institutional sources with a corresponding increase in that of institutional sources till early 1980s could be owing the policy initiatives that led to expansion of rural credit through strengthening co-operatives and nationalization of banks followed by expansion of bank branches and credit particularly in rural areas. The aim of the policy was to expand the institutional credit in rural areas and reduce the credit from non-institutional sources to a negligible level or to completely eliminate it. But the gradual increase in the non-institutional sources, particularly since 1990s in the context of economic reforms involving liberalisation and globalization and banking sector reform is a cause of concern. As part of economic reforms, the public expenditure on social sector, subsidies and other welfare programme has cut down. Banking sector reforms emphasized the viability and efficiency of sector through minimising the non-performing assets (NPA). Rationalisation policy (banking sector) has closed down the number of rural branches by showing the cause of unviable business and began issuing loans in rural areas to limited borrowers especially bigger ones while restricting the poor and the smaller borrowers of their access to institutional credit (see Shetty, 20xx). The differential impact of implementing economic reforms, is that rich in general and those in rural areas benefited from it and the poor particularly the rural ones have lost their supporting mechanisms (subsidies, benefits through welfare programmes, and access to institutional credit).

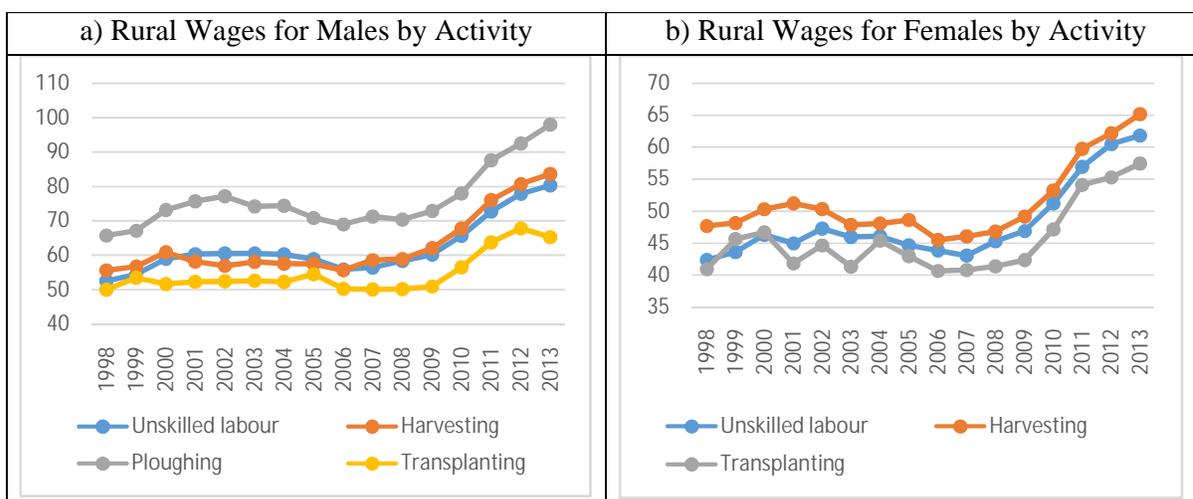
The integration of local village economy with the global one, exposed the rural people (producers and the labourers) to risks and fluctuations in the global economy. The fluctuations in global commodity market prices very often leading to loss of income of poor as buyers or sellers. Also the globalization has imbibed the certain value systems like consumerism, into the local cultures and society. This situation has increased the need for credit among the rural poor but it might have been suppressed with the limited availability of credit from the market especially from the institutional sources. Even the non-institutional sources might not have been ready to fill the gap at the moment. Thus, the decline in percentage of indebted rural labour households during 1990s (see Table 2) could be due to declined access to institutional credit.

However, certain aspects like due to exposition to global culture through media or otherwise, the growing aspirations and associated needs, a culture of deriving social status by having material goods, meeting children's educational expenses and health care expenses of family members with the growing awareness on value of education and health care, all they have raised the pressure and burden on household budget. Growing needs are not matched by the earnings or other financial resources, led to increase in the demand for credit. Changing cropping patterns towards commercial crops and those depending on the purchased inputs, raised the demand for credit from rural farm producers. But institutional sources of credit have restricted their access to poor and smaller borrowers particularly so during reform period. Moreover, for the rural labourers, the rural wages have remained almost stagnant for half-a-decade during early 2000s (see Figure 7).

Taking it as an opportunity, players in the non-institutional credit began expanding their market. The surpluses of rural rich and those benefited from economic growth might have invested it in the rural credit market. Also, the rich and those who have access to institutional credit have re-

channeled that (formal sector credit) money into rural informal credit market. Recognizing usury as a source of additional income, even the urban petty trade/business profits, wage/salary surpluses have flown to rural informal credit market. One can observe that a number of players emerged in the rural informal credit markets. As a result of increasing availability of credit with these developments by early 2000s, the percentage of indebted rural households especially among the rural labour households has increased (see Table 2). A large portion of (more than 70 per cent) outstanding debt among the rural labour households is from non-institutional sources.

**Figure 7: Trend in Rural Wages (Real in 2004-05 Prices) in India**



**Note:** Nominal Wages are deflated with Consumer Price Index of Agricultural Labourers (CPIAL)

**Source:** Author's calculations using Original data from Usami, Yoshifumi (2014), The NSSO/Labour Bureau Series on Wage Rates in Rural India, 1998-99 to 2012-13, Statistics on Indian Economy and Society, at <http://www.indianstatistics.org/wri.html>

Notwithstanding the above, since mid-2000s there are important changes in the rural labour and credit markets. On the one hand, rural wages have increased very sharply (see Figure 6a&b). Also, in the meantime during early 2000s especially the UPA I period, the state also reverted to welfare measures along with carrying out economic reforms. Many welfare measures (subsidies and cash transfers) have been initiated. The implementation of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGS) 2005 is a land mark initiative in this respect. On the other, the role of emerging institutional players like Self-Help Groups (SHGs) and MFIs in the rural credit market has increased. The increase in wage rates and other welfare measures along with MGNREGS might have reduced the need to rely on borrowing to smoothen the households' consumption needs. On the other, the spread of new institutional players such as SHGs have been trying fill the micro-credit gaps in the rural areas. Consequently, one can observe the decline in percentage of indebtedness among the rural labour households and the percentage of indebted households that have borrowed from non-institutional sources (see Table 2 and Figure 5).

It is observed from the recent India Human Development survey IHDS II), 2011-12 that about 60 per cent of rural labour households have borrowed any loan from any source during the last five years (see Table 3). The incidence is considerably higher than the RLE estimates of Labour Bureau. The IHDS II estimates shows that the percentage is little higher among the agricultural labour households (62.5%) than the other labour households. The average number of loans per households among those that have taken loan was three. Of the labour households that have taken any loan

during the last five years, nearly 22 per cent have taken it from micro finance institutions (MFIs). Again, it is also interesting to note that more than half-of the labour households that borrowed any loan had it from their friends or relatives. Within the agricultural labour households among those that have taken any loan, the percentage sourced any loan from MFI is more than one-fourth (29%) of them. These are some of the emerging trends in the rural credit market.

**Table 3: Indebtedness among Rural Labour Households in India: India Human Development Survey II (IHDS II), 2011-12**

Indicators / Sources	Agricultural Labour HHs	Other Labour HHs	All Labour HHs
% HHs taken any loan during the last 5 years	62.5	58.7	60.2
Average number of loans per Labour HH (during the last five years)	1.9	1.7	1.7
Average number of loans per Labour HH that has taken loans (during the last five years)	3.0	2.8	2.9
<b>% of Households that have taken loan by Source</b>			
Bank	25.4	18.6	21.4
Micro Finance Institutions (MFIs)	28.3	14.4	20.1
Money lender	42.0	33.3	36.9
Employer	7.5	7.4	7.4
Friend/Relatives	47.7	54.8	51.9
Shopkeeper	40.3	48.2	45.0
Other	3.8	2.4	3.0

**Note:** 1. HH – Households; 2. All sources put together is found to be above 100 per cent because same indebted household could avail credit from multiple sources.

**Source:** Author's Estimations using **Sonalde Desai, Amresh Dubey and Reeve Venneman, India Human Development Survey II (IHDS II), 2011-12** unit record data.

Changes in the rural credit market particularly with respect to rural labour households, as observed above, might have implications on the rural labour market especially that aspects of the phenomenon of contractual arrangements and inter-linkages between credit and labour markets.

### ***Preliminary Observations on Rural Labour Market: Field Work in Andhra Pradesh***

With a view to understand the production relations and contractual arrangements in the context of rapid changes emerged during the last two decades, field work is conducted in four villages<sup>13</sup>, two each in two districts (Kurnool and West Godavari) of Andhra Pradesh during the last two months (January-February, 2016). In the selected villages, a Census of household listing with information on basic parameters such as caste of the household, land cultivation status, labour activity, primary and secondary sources of income and livelihoods, total land owned, land cultivated, land leased-in,

<sup>13</sup> The selection of two districts is such that one (West Godavari) represents agriculturally developed region and the other represents the backward region. In West Godavari more than 60 per cent of net sown area is irrigated and large portion it is through canal irrigation. The average irrigation intensity the district is 1.5, and in some (western) parts of the district it is almost 2.0. A large part of the canal irrigated area is mono-cropped one, mostly cultivating paddy. Whereas in Kurnool district the irrigated area is less than 40 per cent and the irrigation intensity is not more than 1.2. Unlike the West Godavari, variety of crops including cereals (Maize, sorghum) are grown even in irrigated regions of the Kurnool district. However, cotton is single largest crop that occupied the cultivated area in the district. In some parts of the dry region in the district, more than half-of the cultivated area is under cotton cultivation. Moreover, the difference in per capita cultivated land is much higher between Kurnool and West Godavari districts where the former is having much higher per capita land.

Two village in each district are selected in such a way that one represents the relatively developed region within the district and the other one represents the relatively backward region in terms of agricultural development. To draw a sample village, we have ranked the Mandal (sub-districts) within the district by their agricultural development index based on certain indicators related to agriculture and categorized mandals into two, relatively developed and otherwise. Within each category of Mandals, one Mandal is randomly selected. That is, two mandals in each district are selected. Within the selected Mandal, villages listed by their size of the population. We have considered those villages having number of households above 250 and below 400 for the convenience of survey and multi-caste composition to represent all the social categories. In this list of villages we have randomly selected one village from each selected mandal. That means two villages in each district are selected.

and number of households members, are recorded. Based on the parameters such as land ownership, cultivation status, labour activity and primary sources of livelihood we have categorized households into: landless depending on wage labour, land owned (less than 5 acres) depending primarily on wage labour, landless depending on tenancy, land owned (less than 5 acres) households depending on tenancy (lease-in) to secure their livelihood and the rest of them as separate category. Depending on the size of the village, we have selected 25 to 35 per cent of the sample household from each of the first four categories. We have in principle considered taking into account wage labour in non-agriculture, but none of the labour household in the selected villages have reported it (wage labour in non-agriculture) as their main source of livelihood. Therefore, most of the labour households in selected villages are earning their livelihoods from agricultural activities (major source). The basic characteristics of the sample villages (Julakallu, Thirupadu, Nandamuru and Marellamudi) are as follows.

**Table 4: Basic Characteristics of the Surveyed Villages in Andhra Pradesh**

Sno	Characteristics	Kurnool		West Godavari	
		Julakallu	Thirupadu	Nandamuru	Marellamudi
0	Belong to which category based on relative development status	Backward (Dry)	Developed (Irrigated)	Developed (Irrigated)	Backward (upland/dry)
1	Number of Households: Survey 2016	282	241	366	369
2	Population: Survey 2016	1417	1073	1321	1398
3	Average Size of the Household	5.0	4.5	3.6	3.8
4	Labour Households	155	121	203	238
5	% of Labour Households in Total HHs	55.0	50.2	55.5	64.5
6	Number of Sample Households	68	69	88	86
7	% of Sample Households in Total HHs	24.1	28.6	24.0	23.3
8	% of Sample Households in Labour HHs	43.9	57.0	43.3	36.1
9	% of SC/ST Households	28.4	21.2	31.0	20.6
10	% of OBC Households	59.2	69.3	46.4	21.7
11	% of Others Households	12.4	9.5	22.4	57.7

**Note:** 1. Labour Households defined by their major source of livelihood and nature of activity; 2. % of SC/ST households is mostly consists of SC households.

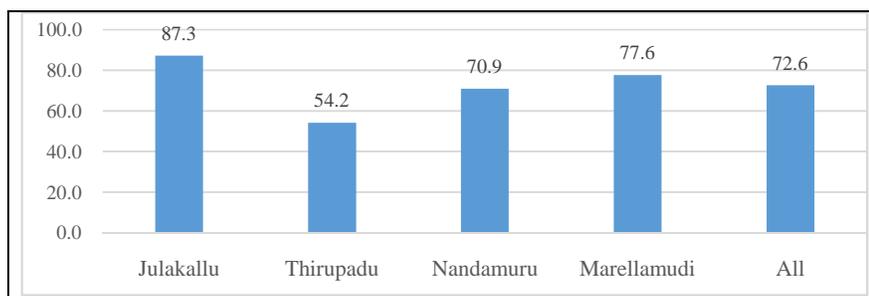
**Source:** Field Survey, 2016.

When we look into the incidence of indebtedness among the surveyed labour households in the sample villages, it is found to be higher (see Figure 8) than that we have observed from the national level estimates of Labour Bureau's RLEs and/or the IHDS II, 2011-12. The two villages from Kurnool district are showing a huge difference in the incidence of indebtedness among the labour households wherein it is very high in Julakallu (dry) and relatively low in Thirupadu (irrigated). The difference must be seen with the differences between these villages in terms of other indicators. The availability of per capita cultivated land and irrigated area leading to number of days employment is available for wage labourers, is higher in Thirupadu and lower in Julakallu. It is also reflected in instance of seasonal migration of members of labour households, that is absent in Thirupadu and it is higher in Julakallu.

In the other two villages from West Godavari district too, a majority of the labour households are indebted. Between this two, it is relatively higher in upland village (Marellamudi) but the difference in the incidence of indebtedness is relatively lower when compared to that of two villages in Kurnool district. Nandamuru of West Godavari is fully irrigated that too with public canal and cultivate mostly paddy and the cropping/irrigation intensity is two (double cropped).

Whereas in the upland Marellamudi variety of commercial crops (including maize, cotton, chilly) are cultivated and it is dependent on ground water irrigation through borewells which requires private investment. The per capita cultivated land in Nandamuru is low but as the intensity of labour use is relatively high because of number of operations in paddy cultivation. In the upland village (Marellamudi), the per capita cultivated land in Nandamuru is high but the intensity of labour use is dependent on rainfall and availability of ground water.

**Figure 8: The Incidence of Indebtedness (%) among Surveyed Labour Households in Andhra Pradesh**



**Note:** Percentage of Households with Outstanding debt as on the date of survey.

**Source:** Field Survey, Jan-Feb, 2016.

An emerging trend observed in these villages is mechanization of agricultural operations. Ploughing, otherwise done by male labourers, has been carried out by tractors in all the four villages. Harvesting, otherwise engages both the male and female labourers, is now being done by harvesters. The point one is to make is that the developments in agriculture (technology, cultivation practices, applications of inputs etc.,) have in fact increased the intensity of labour use but the incremental labour use is being displaced by the machine labour. Undoubtedly, there is a rise in agricultural wages but continuous employment/income sources are missing for those dependent on agriculture. The strategy adopted to compensate the lean season consumption expenditure is either searching for work in non-agricultural activities, seasonal migration to distant place or through borrowings. Thus, in the dry or upland villages where seasonality is critical factor and where opportunities in non-agricultural activities also low, the incidence of indebtedness is observed to be high.

The important source of credit for the indebted households among the surveyed labour households in the sample villages are as follows: Landlord/employer, Money lenders, Banks, friends/relatives, SHGs/MFIs and Co-operative Society (see Table 5). This is an exhaustive list of sources of credit observed among surveyed household that are indebted in the sample villages. What one has to note is that, contrary to expectation, the low share of SHGs and MFIs in number of loans and debt amount could be due to recent Micro Finance Regulation Act enacted by the Government of Andhra Pradesh (before bifurcation) that regulated and restricted the functioning of MFIs that in turn led to shrinking of their business in the state. Many of MFIs have moved away their businesses to other states. Similarly, in case of SHGs, as a part of recent state Assembly Election promise of loan waiving, although it is still pending, those who have taken loans from SHGs they are not reporting it as an outstanding debt. Again, we have not observed any loan sourced from shopkeepers across all four village because, first of all the respondents have not considered it as a debt if at all they owe an interest-free small amount to a shopkeeper when they have taken grocery on

credit for a short period (week or a month). Secondly, the time we have conducted survey (January-February, 2016) was a harvesting (first crop in some villages) and transplanting/weeding (of the second crop in irrigated Nandamuru), so that they are engaged in work for wages. In all four villages, when discussed with wage labourers and their employer, wage payment for the labourers are settled on the same day or within a week, not beyond that. That facilitated them to pay when they purchase any grocery from shop-keeper or settle it within a week.

While noting the point made above, it can be observed that major sources of loans are landlord/employer or money lender across all four villages (see Table 5). Landlord/employers is predominant source of credit among those villages representing dry/upland regions in both the districts, whereas the moneylender is the predominant or the prominent source of loan in the irrigated villages. Banks also emerged as source of credit at a considerable level for the labour households particularly in Thirupadu. Here one has to note that such an access was made possible when that particular owns a piece of cultivated land. We have observed that many of the labour households own at least small piece of land which is worth of a collateral for the institutional credit.

**Table 5: Source of Credit in the Surveyed households that are indebted, across four Sampled Villages – Percentage of Outstanding Loans and Debt by Sources, 2016**

Sources	Julakallu		Thirupadu		Nandamuru		Marellamudi		All	
	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount
Bank	17.6	9.5	27.5	23.6	18.1	18.1	11.0	8.1	17.4	13.4
Co-op Society	2.0	1.8	3.9	3.4	2.5	2.5	1.4	1.2	2.5	2.0
SHGs / MFIs	2.0	4.6	4.0	0.9	1.7	1.7	5.5	5.5	3.1	3.6
Landlord/employer	64.7	63.3	25.5	24.6	39.6	39.6	69.9	74.0	49.2	54.8
Moneylender	7.8	11.6	33.3	37.7	26.4	26.4	0.0	0.0	18.4	15.6
Friends & Relatives	5.9	9.2	5.9	9.9	11.7	11.7	12.3	11.2	9.3	10.6
Total	100	100	100	100	100	100	100	100	100	100

**Note:** Bank – All public sector scheduled commercial banks; Co-op Society – Cooperative society; SHGs – Self-Help Groups; MFIs – Micro Finance Institutions.

**Source:** Field Survey, Jan-Feb, 2016.

When inquired into whom they approach as and when they have to go for loan, a majority of the respondents across all four villages are found to approach landlords or employer (Table 5). Also, considerably high proportion of households prefer to approach banks, neighbours/friends and castemen/relatives. What one can observe from the survey is that, it is also reflected observations made out of the secondary data, traditional non-institutional sources of credit have not lost their role, they still remained as predominant sources of credit for the rural labour households.

**Table 6: Percent of Sample (Labour) Households Approach different sources when they require loan, 2016**

Sno	Sources	Julakallu	Thirupadu	Nandamuru	Marellamudi
1	Neighbours/friends	16.9	36.1	36.0	64.7
2	Landlord/employer	67.6	48.6	75.6	92.9
3	Trader	0.0	9.7	4.7	1.2
4	Micro Finance Institutions	0.0	4.2	1.2	5.9
5	Co-op Society	2.8	0.0	2.3	0.0
6	Castemen/relatives	11.3	19.4	24.4	45.9
7	Money lender/chits	31.0	31.9	31.4	8.2
8	Contractor/Group leader	14.1	12.5	12.8	10.6
9	Bank	46.5	48.6	24.4	32.9

10	Any others	0	0	0	0
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Source: Field Survey, Jan-Feb, 2016.

In this context when examined is there any credit-labour market inter-linkage which is our interest in conducting the survey, the situation appeared to have changed. When we discussed with the labour households in general and indebted labour households in particular about the terms and conditions that the borrower has to oblige to the lender who happens to be landlord or employer. It is interesting to note that many of the respondents from labour households said that the credit transaction is not at all linked to their commitment/obligation to work for the creditor-employer. When we hinted the about the past, they said it was there earlier but not now. Even if they expect, we are not committed to work for our creditor if he is a farmer/employer or landlord. It is confirmed in the discussions with landlords/rich peasant who happens to be creditor. They say now they cannot link their credit transaction with labour supply commitment because labourers empowered and they are not able control them to oblige such transaction contracts.

### Concluding Remarks

In the light of above observations at the all India level and from the field, it can be said that the dependency of the labour households for the credit on the non-institutional sources has not reduced, rather sometimes it is increasing. However, the change that observed from the field is that the kind of inter-locked transactions in the sense of provision of credit to labourers is linked to their promise to supply labour as when require and oblige is not so happening in the field villages. The harsh terms and conditions that made the labourers to pledge their labour supply to the employer at a cheaper wage rate are no longer obliged. Here begins our further research work on what are the factors that brought in such changes in the rural labour market.

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