

BOOK REVIEW

Mokhzani, Abdul Rahim (2006). *Credit in a Malay Peasant Economy*. Kuala Lumpur: Arus Inteltek and the Faculty of Economics and Administration, University of Malaya

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Anyone who reads the Publisher's Introduction to find the book, originally a thesis written in 1973, and the Foreword's reference to "retrospective insights" can be forgiven for believing that its contents are only a matter of historical interest. After all, Malaysia has moved on impressively over the four decades since the thesis was written. But he will be surprised to find that many of the issues discussed are as prescient today as they were then.

This continued relevance stems from the fact that while the context has changed together with the specificity of the challenges, many of these issues have still to be dealt with in today's Malaysia and for other parts of the world where the plight of the rural peasant population remains an area of major concern. The following remarks: "Despite a perceptible increase in the flow of rural credit from institutional sources, the share of the informal sector, notably traditional moneylenders and traders, in farmers' outstanding debts remains ... high... The interlinked transactions take place largely because the lenders are usually engaged in the marketing of farm inputs, consumer goods and agricultural output ..." could have come from Mokhzani's book, but they were made with reference to India in 2006 (Sud, 2006). Other studies on rural finance also reached the conclusions that Mokhzani arrived at (for instance, Sharma, 2000; Shibli, 1993). Indeed, his analysis also finds theoretical support from studies like Hoff and Stiglitz (1998).

What key findings did the book report? First, and to no one's surprise in the development community, non-institutional credit is an important part of total credit available to the rural population. This is despite the many efforts to increase the availability of institutional credit to these areas. The strength of the former lies in timeliness as well as a relationship that often extends beyond economics. Non-institutional credit has always been part and parcel of the traditional village economy whereas modern banks and credit cooperatives are transplants from outside. The need for the rural folk to master formal borrowing procedures also puts institutional credit at a disadvantage.

Second, the high cost of credit, attracting moralistic labels like "usurious" and "exploitative", reflected to a large extent the realities of demand and supply in rural credit markets. The scarcity of credit as well as lenders, coupled with risks associated with lending for agriculture, the output of which was (especially at that time) heavily dependent on the weather, meant those willing to lend had to price in all lending costs, explicit as well as implicit.¹ Locational advantages and the ability to bundle credit with services like supplying fertilisers and purchasing farm output helped entrench the role of village shops in the informal credit system.²

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Third, and more generally, transition from a traditional system to a modern one involves considerable pain because of the inevitable dislocations it entails. This pain is greater the faster the traditional system disintegrates relative to the consolidation of the new order. Very often this disintegration is brought about ironically by well-meaning policies. Mokhzani highlighted the introduction of double-cropping in addition to the promotion of cooperatives. The need for larger and more frequent outlays under double-cropping strengthened the hands of lenders and exacerbated the divide between the large efficient farmers and the small farmers. The cooperatives themselves³, transplants from outside the rural economy, had little impact, and were “in a poor state and a large number are scarcely functioning at all (p. 106). Rudner (1984, p. 80) cited also financial and administrative constraints, high indebtedness, depressing savings below the threshold for membership and “official attitudes disparaging peasant financial skills” as reasons for their failure. The traditional system, adhering as best it could to Islamic precepts in responding to this transition, contributed to this pain. The evolution of the *jual janji* system, to which two chapters of the book were devoted, is a case in point.

Fourth, even as the cooperative movement has contributed little to the provision of credit, it might have inadvertently added to the disparity in credit access between rural and urban Malays, and between those who earned regular incomes and those whose livelihoods were dependent on the bounty of the land. The dismal performance of rural cooperatives could be contrasted against the much better performance of urban cooperatives which catered to the credit needs of salaried workers. And despite glowing statistics of lending and borrowing in rural areas portrayed in government and other publications, the situation has not improved dramatically (Conroy, 2002; Che Zakiah, 2004).

Fifth, benevolent government intervention in rural credit markets, such as promotion of institutional lending, dislocates indigenous institutions and arrangements, with unintended consequences, sometimes the opposite of what the intervention intended, at least in the short-run. A common occurrence in developing countries is institutional credit being captured by and hence going disproportionately to the better-off, leaving those in real need of credit scrambling for what little is left. In this process, although not highlighted by the book, a common experience in developing countries is that the entry of institutional credit has facilitated alliances between the local elite and the functionaries of financial institutions that exclude the rural peasantry. Instead of facilitating the latter's access to much needed credit, the entry of financial institutions would then have the effect of disadvantaging them further.

¹ Basu (1984, p.145) argued that that a lender bears no risk because of the collateral he holds. This argument, however, fails to recognize that these lenders are part of the village community and social norms would constrain their behavior in dealings with other members of the community. Even in the realm of economics, it is scarcity of credit that allowed interest charges to be high.

² Interestingly, in the 1950s, ethnic Chinese smallholders also borrowed at high costs from Chettiars (ethnic Indian moneylenders) who, when the smallholders defaulted on their loans, ended up owning the defaulters' holdings (Voon, 1978, p. 521). Yet, the role of the Chettiars had been viewed positively by some scholars (see Rowe. 1931, p. 17).

³ Cooperatives were seen as the answer to perceived financial exploitation of the rural population (Rudner, 1994, p. 80).

Finally, the above lessons drive home the point that well-meaning policies to protect a vulnerable group can have the opposite effect. The book showed that in addition to what has already been said, the Malay Reservation enactment successfully preserved land ownership among the Malays, but by reducing the availability of sources of credit as Indian moneylenders and Chinese village shopkeepers withdrew, inadvertently strengthened the hands of Malay lenders who, with the further diminished supply of credit, could have subjected the borrowers to even higher interest charges. That there was no sign this occurred was because some non-Malays were able to lend through Malay proxies to keep their businesses alive, although having to split the proceeds with these proxies. A Malay rentier class was thus created in these areas. The result was loss of land by poor Malays to other wealthier Malays, thus contributing to greater inequality in rural wealth distribution (p. 277).

Insightful as these findings are, academic purists will argue, correctly, that the book's analysis has not been underpinned by theory, specifically those related to rural indebtedness or indebtedness itself (see, for instance, Greenburg, 1980 and references therein), by connecting with the work of eminent scholars of the rural economy of Mokhzani's days like Wilfred Geertz, Gunnar Myrdal and Hla Myint. Had such a connection been attempted, the treatise could have been enriched by inferences and explanations these theories offered that analysis based on direct observations might have missed.

The thesis could also have benefited from framing its research against the larger context of rural development in the newly-formed Malaysia and before that Malaya. This was an important period in the country's development history, with rural development policy seeking to address growing income and wealth inequalities between ethnic groups and between rural and urban residents even as the strategy of import substitution was gradually replaced by export promotion.

These lapses notwithstanding, the thesis on which this book is based is a work that should have attracted careful scrutiny of both scholars and policy-makers alike. It is research underpinned entirely on persuasive evidence, devoid of moral judgments that might, while attention grabbing, compromise the scholastic integrity and credibility of its findings. Regrettably, this has not been the case. Perhaps Jomo's rationalisation that "... Mokhzani's study was ahead of its time" (p. 313) is correct. Nevertheless, for scholars of Malaysia's economy, this work should be recognised as a benchmark of Malaysian scholarship in this very important area.

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