Sahibs, Babus, and Banias:
Changes in Industrial Control in
Eastern India, 1918–50

OMKAR GOSWAMI

The history of industrialization of many developing countries in Asia is related to conflicts between foreigners and a growing local bourgeoisie over industrial ownership and control. This article analyzes one such country—India—from the end of World War I until a few years beyond independence.

At the time of independence in 1947, India's manufacturing sector accounted for a mere 17 percent of the national income (Sivasubramonian 1965) and employed barely 10 percent of the country's work force (Krishnamurty 1983). The modern factory sector was even smaller in size. Concentrated largely around Calcutta, Bombay, and to a lesser extent Ahmedabad, Kanpur, and Madras, it accounted for 9 percent of net domestic product.¹

In spite of its relative smallness, the factory sector witnessed impressive growth, especially after World War I until 1947. Between 1900–1901 and 1918–19, its real value added grew at a compound rate of around 1.7 percent per year. After World War I the growth was more rapid: between 1919–20 and 1946–47, output from factories grew at 5.3 percent per annum (Sivasubramonian 1965 and Heston 1983). Arguably the base was low. In 1900–1901 modern factories accounted for merely Rs. 298 million at constant 1938–39 prices (Sivasubramonian 1965: 256). Nevertheless, an overall annual growth of 3.4 percent per year over forty-seven years was impressive enough, for it contributed to a more than sevenfold increase in output.

This growth in the factory sector induced a boom in research on India's industrial development and systems of industrial organization. In the 1930s, P. S. Lokanathan published his classic work, Industrial Organisation in India, which demonstrated the immense power, prestige, and influence of European managing agency houses (similar to holding companies) in India's commerce and industry. Since then successive works

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¹At constant 1938–39 prices, the factory sector produced an average value added of Rs. 2.33 billion per year between 1940–41 and 1946–47. Over the same period, national income was Rs.34.74 billion per annum (Sivasubramonian 1965:256, 338).

on business history—such as Buchanan 1934, Gadgil 1944, Hazari 1966, Bagchi 1972, and Ray 1979—have concentrated on explaining the wide-ranging power and presence of managing agencies throughout the first half of this century.

It would be foolhardy to deny the important role of colonial managing agencies in shaping the process of industrialization in Eastern India. However, this emphasis on the managing agency system in general and Anglo-Saxon colonial firms in particular has obscured our understanding of the evolution of other important corporate entities. Thus, we know relatively little about the growth of native Marwari entrepreneurs in eastern India after World War I. We know still less about British and American multi-national companies (MNCs), which entered in the late 1920s, 1930s, and early 1940s. And we know even less about many nationalistic, swadeshi forays into manufacturing—notably Bengali enterprises that rose in the first few decades of the century but were outcompeted by the 1950s.

At the risk of oversimplification, the extant strands of colonial business history may be summarized as follows. Eastern India was a British business enclave with colonial managing agencies exercising total control over the three major industries of the region—jute mills, collieries, and tea plantations. In western India things were rather different: here the entrepreneurial abilities of Parsis, Gujaratis, Cutchi Memons, and Sindhis came into being by the late nineteenth century. Consequently, they occupied the commanding heights of Bombay and Ahmedabad’s corporate sector. In the north and the south, too, Indian enterprise tended to dominate, especially after World War I.

Why was there such an obvious spatial diversity? Conventional discourse attempts to explain this in terms of the differential entrepreneurial abilities of various groups as well as the characteristics of different industries. Europeans prospered in eastern India because Bengalis, Biharis, Assamese, and Oriyas were indigent, feckless, and devoid of entrepreneurial drive. Moreover, most industries in the eastern region were export-oriented where the British, with their more advanced knowledge of and contacts in foreign markets, had a clear comparative advantage. Analogously, almost all industrial activity in other parts of India was geared to supplying the domestic market. Because Indians there possessed a superior knowledge of markets and trade, they dominated. Finally, Indian entry into industry in the colonial era is explained in residual terms: “As the importance of exports and imports in the commerce of India decreased, the scope of Indian entrepreneurs who were primarily oriented towards supplying the domestic market expanded” (Bagchi 1972:195). Implicit in this statement is the belief that Indians could not and therefore did not expand otherwise.

Elegant at first blush, this schematization has several problems. If entry and dominance are to be explained in terms of market knowledge, we would be unequipped to explain the growth of MNCs, which catered exclusively to the domestic market and had no prior knowledge about the intricacies of marketing in the Indian subcontinent. This approach also overlooks the significant Indian entry that occurred after World War I in two industries that were hitherto dominated and controlled by British managing agencies: jute (which was an exportable) and coal (which was not).

In addition, the argument tends to make 1947 a much greater divide in business history than it was in reality. The standard argument runs as follows. By erecting formidable barriers to the entry of “natives,” colonial firms maintained an oligopolistic position in eastern India right up to 1947. These barriers were created and efficiently maintained because of a milieu that allowed Anglo-Saxon businessmen to reap the benefits of their bonds of racial affinity with the rulers of the land. With the snapping of such bonds in 1947, the colonial firms fell from grace and beat a hasty retreat from India.
Unfortunately, this argument has factual problems. Although some British managing agencies packed up after 1947, many others remained. Even in 1960 Calcutta had Bird and Company, Andrew Yule, the Inchcape group, Shaw Wallace, Gillanders, and others that were still under British control, and the expatriate community continued to enjoy the privilege of sunbathing in exclusive whites-only swimming clubs, even preventing Indian entry into the hallowed premises of the Bengal Club right up to the late 1960s. More important, this hypothesis cannot explain the growth and proliferation of the "new sabibs"—those who ran wholly British-owned MNCs such as Lever Brothers, the Imperial Tobacco Company, Britannia Biscuits, Brooke Bond, Guest, Keen, Williams, and many others.

The fact is that after World War I there was a substantial influx of Indian entrepreneurship in eastern India, starting in the 1920s and intensifying in the 1930s and 1940s. This occurred not merely in virgin areas but also in some industries where Europeans had hitherto held the upper hand, notably jute mills and collieries. Much of this entry was due to the Marwaris, who set up new units and steadily bought up shares of many European companies to a point where they were poised to take over such firms. Second, since the 1930s there was an enormous growth of MNCs—popularly known as India Limited Companies—which were wholly or largely owned by British and American parent companies. Very much the part of a global trend, these transnational firms catered entirely to the domestic market, had little to do with the older expatriate colonial agencies, and introduced new products as well as novel marketing methods. Finally, there were firms that prospered and then failed, notably some important swadeshi (nationalist) Bengali companies. They catered to the domestic market but in course of time were outcompeted by the MNCs.

This article looks at these four interrelated themes: the problems of the old expatriate managing agencies, the rise of Marwari entrepreneurship, the growth of MNCs, and the rise and fall of a few nationalistic Bengali firms. Our focus is on eastern India for a simple reason: this region has been depicted as a classic European enclave with an unrelenting hegemony of British managing agencies throughout the colonial era. Is this a correct description of industrial development across forty-odd years? This article explores the changes in the fortunes of the four major actors: the old sabibs of the expatriate managing agencies, the new Marwari banias, the new sabibs of the MNCs, and the Bengali babus who ran the swadeshi firms. In the process I hope to present a richer and more realistic view of the tensions, contradictions, and changes that accompanied the process of industrialization.

2 In the late 1960s, it needed a maverick Marxist minister called Ram Chatterjee to put an end to the whites-only rule at the Calcutta Swimming Club. He walked in with four dozen loin-clothed tribals carrying bows and arrows, who promptly jumped into the pool. Thereafter, he demanded equal entry failing which he threatened an encore. A significant point worth noting is that the club could maintain this apartheid in spite of being located less than a mile away from Writers' Building, the seat of power of the Government of West Bengal.

3 Sabibs are the white men, often meant for the bosses of companies. The most correct translation of banias would be traders, people of commercial caste groups, or moneylenders. In this context, it would mean commission agents, brokers, short term moneylenders, and compradors of European managing agencies. Babus mean the upper-caste Bengali gentry, often used by sabibs in a derogatory way.
The Decline of European Managing Agencies and the Growth of Marwari Firms, 1918–57

The British mercantile presence in eastern India on the eve of World War I was truly staggering. Of 849 tea plantations, 729 (86 percent) were managed by Britons. The larger of these were organized along joint-stock lines, and 96 percent of 682 such companies had boards that were exclusively British (Census of India, 1911, part 1:446). All fifty jute mills were under the control of European managing agencies, and 97 percent of the directorial positions were held by Britons (Investor's India Year Book [henceforth IIYB], 1918). At first glance, matters seemed somewhat different in the coal industry: only 47 percent of the firms were managed by non-Indians. However, as in the tea plantations, the major collieries—commanding greater capital and larger mining rights—were joint-stock firms, and 89 percent of these were controlled by European, mostly British, managing agencies [IIYB, 1918].

In spite of such obvious British dominance, an environment had been created that helped Indian entry in the jute and coal industries in the interwar years. The Marwaris were very closely involved in raw jute procurement, trade, and export. They owned most of the baling houses and commission agencies in major up-country raw jute markets such as Sirajganj, Narainganj, Madaripur, and Goalundo and were the largest traders in the terminal markets of Calcutta. By 1903 the Calcutta Baled Jute Association—a body affiliated with the allegedly anti-Indian, European-controlled Bengal Chamber of Commerce—had 45 Marwari firms among its 133 members (Calcutta Baled Jute Association [hereafter, CBJA]. Report of the Committee 1903/04). By the end of World War I, the Marwaris accounted for 63 percent of the association’s membership. Among its members were personalities like Ghansham Das Birla, Sarupchand Huckumchand, Surajmull Nagarmull, and Badridas Goenka—people who played important roles during the interwar years (CBJA, Report of the Committee, 1918/19). Perhaps the most significant evidence of Marwari dominance was the meteoric growth of fatka, or futures trading and hedge transactions in raw jute. Introduced by six Marwaris in 1905, fatka allowed Indian traders to make profitable futures trades and hedge contracts and undercut trading competition from European firms. For a long time fatka was considered illegal; however, such legalities could not prevent its growth, and by 1911 futures trade and hedging had come to stay. In jute, therefore, Indians were extremely familiar with the nuances of trade.

In coal too, much of the internal trade from pitheads to the consuming centers was carried out by Marwari and Gujarati traders. There was already an Indian presence in mining. At the end of World War I, N. C. Sircar, a Bengali, managed seven collieries that accounted for more than Rs. 3 million in paid-up capital (IIYB, 1918: Section on coal; Simmons 1976:189–90). In addition there were the proprietary or partnership firms of R. N. Bagchi, N. M. Choudhuri, S. B. Raha, B. K. Roy, Kumar Roy, R. B. Sircar, K. B. Seal, and others—all Bengalis who, although occupying a subordinate position vis-à-vis the European managing agencies, still accounted for roughly a fifth of pithead output (Simmons 1976:193–95). Thus, well before World War I Indians had become familiar with the workings of two major European controlled industries. There were hardly any technological bar-

4The correct translation of fatka is a cross between “speculation” and “gambling.” For details on how fatka came into being, see Capital, a Calcutta weekly, January 16, 1930, pp. 139–40. For the initial reactions of the European-controlled Jute Mills’ Association, see Indian Jute Mills’ Association (IJMA), Report of the Committee 1911, pp. 19–22.
riers to entry. The process of converting raw jute to gunny was extremely simple, almost rudimentary. The technology of strip mining was cruder still: all it needed was shovels, pails, and gangs of low-paid tribal laborers. The point is best illustrated by a quotation from the Annual Report of the Chief Inspector of Mines: "The richness of the deposits on the surface in Bengal has made it possible for mining to commence without much scientific knowledge, with total lack of experience, and yet with a considerable amount of financial success" (Simmons 1976:204).

For Marwaris, who were traditionally involved in trade and moneylending, there was also no shortage of funds either for setting up industries or for working capital requirements. In the period 1901–14 and during World War I, people such as Birla, Hukumchand, Mungeeram Bangur, Nagarmull, Goenka, Bajoria Bajoria, and Onkarmull Jatia had made fortunes in raw jute trade, share trading, and fatka—fortunes that were now available for investing in industries. For example, in the decade 1910–20 the average annual value of raw jute arrivals in Calcutta and Chittagong was Rs. 5.86 billion (computed from data on IJMA, Report of the Committee, 1949:98–99, 116–17). Conservatively assuming that the Marwaris accounted for half this trade and that the trading profit was 15 percent, profits accruing to Marwaris on account of raw jute trade alone were around Rs. 440 million per year. This estimate excludes profits from fatka and from trade in jute bags and cloth.

Quite simply, as far as the Marwaris were concerned there were no barriers to entry in two major colonial industries, jute and coal. They were familiar with the trade, manufacturing techniques were rudimentary, there was no dearth of funds, and setting-up costs were not all that high. What remained was proof that manufacturing profits could be at least as much as those from trade, commerce, and moneylending.

Such proof came in abundance during the second half of the war. In the coal industry, purchases rose by 36 percent between 1909–13 (average) and 1914–18, leading to a 30 percent hike in prices. High colliery profits were made all around: the average net-profit rate, as a share of paid-up capital, was around 65 percent; for many firms it surpassed 100 percent (IYB, 1938–39; IYB, 1918). For jute mills the situation was spectacular. In 1918, for instance, thirty out of thirty-five joint-stock public limited companies declared net profits that were greater than 100 percent of paid-up capital; of these, ten earned upward of 200 percent; the modal dividend rose to 150 percent of the face value of ordinary shares, and shares were quoted at ten times their par values (Goswami 1982:147–48; Goswami 1985:231).

In these bullish years Marwaris started moving from trade to industry in two ways. The first was fairly straightforward and has been noted by all business historians of the period: the establishment of new jute mills and collieries. What has been overlooked by researchers is the second form of entry: steady purchases of shares in companies controlled by European managing agencies, to a point where Marwaris could first force their way into the boardrooms and then take over the firms. To understand how this came about, one needs to start with a brief outline of how firms were set up by European managing agencies.

A managing agency was either a privately held joint-stock company or, more frequently, a partnership firm. On the strength of its past managerial performance, the agency would float the shares of a new jute mill or a colliery company in the Calcutta Stock Exchange. Given the "imprimatur" of the managing agency, the stock was invariably oversubscribed within a day or two of the prospectus issue. Oversubscription and the existing share-market regulations made it simple for a managing agency to

"This phrase is taken from Lokanathan 1935:23: "The imprimatur of a managing agency . . . was essential for the successful flotation of any public limited company in India."
split up shares in such a way that it could control the company in spite of owning as little as 10 percent of the stock. All it had to ensure was a large percentage of relatively small stockholders, friends or otherwise, who would gladly give their voting rights to the managing agency for an assured annual dividend.

The success of this modus operandi is brought out by Lokanathan's data for 1927–30. In seven of the ten jute mill companies controlled and managed by the Bird and Heilgers group, the parent companies held less than 25 percent of the ordinary shares—a matter that vexed the chairman, Edward Benthall, to a point where he later ruled that a minimum of 25 percent had to be held to prevent takeover bids (Lokanathan 1935:187; the data are for 1927). For many other managing agencies control was achieved through a smaller ownership base. In three of the four jute mills managed by Jardine, Skinner, and Company, the managing agency's holdings were between 6 percent and 20 percent of equity; McLeod controlled five jute mills owning between 1 percent and 18 percent of the stock; and Begg, Dunlop controlled four with an ownership that ranged between 10 percent and 13 percent of equity (Lokanathan 1935:187).

Assured of a majority, the new company would have its first annual general meeting where it would (1) declare a board of directors constituted largely, if not entirely, of the partners of the managing agency; (2) appoint the managing agency to look after the managerial functions of the company; and (3) decide the annual payments to the managing agency for managing the company—usually a cut in the profits and a commission on sales. In short, the managing agencies had perfected a way of controlling companies and reaping benefits with minimal outlay.

There was a snag. With such narrow ownership bases, support through proxies was an essential for control. Everything hinged on the dividends. In the best of times, dividend is a poor instrument to maintain control over the small shareholders. If a concern declares low dividends, share prices tend to dip, and the uncommitted middle often chooses to sell out instead of taking further anticipated losses. On the other hand, if a company does exceptionally well and declares greater than expected dividends, share prices shoot up and many sell in order to make large capital gains. Corporate control requires a policy of declaring the expected dividend year after year and simultaneously minimizing variance: dividends must be just enough that shareholders do not sell either out of fear or greed.

It is easy to appreciate that such a strategy is extremely difficult to follow in theory and virtually impossible to sustain in practice. Proxy votes are advantageous in attaining control with minimal ownership, but they are also Damoclean swords, ready to drop whenever there are sharp oscillations in share prices. In the tumultuous interwar years it would have been a superhuman task to control share prices through dividends, and the failure to do so led to a growing presence of Marwaris on the boards of hitherto “whites-only” companies.

The extent to which Marwaris entered the industry through stock market trading is best appreciated by a detailed examination of the records of jute-mill and colliery companies from 1920 to 1955. In 1918 only three out of 114 directorships of jute companies were held by Marwaris (IIYB, 1918: Section on jute). Six years later 16 out of the 46 jute mill companies controlled by expatriate managing agencies (41 percent of the European firms) had at least one Marwari on their boards, and 5 had two Marwari directors (IIYB, 1926: Section on jute).

Two factors explain this sudden influx of dhoti-clad, turbaned, “unsophisticated” Marwaris into the rarefied atmosphere of European boardrooms. First, Marwaris rapidly purchased enough equity through the Stock Exchange to demand seats. The sellers were clearly smaller shareholders, more Europeans than Indians, who sold for windfall
profits. During the last few years of the war and the period 1918–21, the industry made phenomenal profits, declared massive dividends, and saw share prices shoot to as much as ten times their par value. European officers in these companies were often given small lots of shares in the company they managed. In these halcyon years many sold their shares at the Stock Exchange for huge profits. The buyers were Marwaris.

The other method of boardroom entry is even more revealing, for it shows how strong the Marwaris were vis-à-vis colonial firms in spite of the seemingly subservient postures of the former in the presence of the latter. Starting with the late nineteenth century, certain Marwari families had developed close commercial links with expatriate managing agencies. The Jatias were the banias of Andrew Yule and Company (and their patriarch, Onkarmull, was a close friend of David Yule), the Kanorias of McLeod and Company, Rameshwar Nathany of Jardine, and the quartet of Baldeodas Bajoria, Mungeeram Bangur, Sohanlall Doodwawalla, and Badridas Goenka did business for Bird and Heliggers. During the inflationary years of the early 1920s, many European-managed companies found themselves undercapitalized, strapped for funds, and needing cash to expand capacity in their jute mills. Marwari banias offered them loans at interest rates a point or two lower than the going rate of return on company debentures. As collateral they took blocks of jute mill shares. Through the 1920s most managing agencies had cash shortages, and the Marwaris continued to refinance these companies, held on to the shares, and got themselves onto boards.

Trends were somewhat different in the case of collieries. The 1920s were years of relative prosperity for the jute industry: the real value of burlap export rose 44 percent during the decade, and average gross profits were in the region of 55 percent of paid-up capital. Jute attracted funds in the 1920s. Coal did not. From 1924 on, this industry started experiencing a nasty downswing that went right into the depression. Railway budgets were cut and demand fell sharply, leading to a fall in prices. In 1925–29, the average pithead price was Rs. 6.25 per ton, 52 percent lower than the 1920–24 average (IIYB, 1938–39: Review of the coal industry). The slump spelled bankruptcy for many small Indian-owned proprietary collieries. By 1928, three hundred small mines and leased collieries in the Jharia-Raniganj belt had closed down “never to open again” (IIYB, 1928–29:71). As many as thirty of the forty-five new joint-stock companies floated by Europeans as well as Indians during the bullish 1918–24 period had to be liquidated. N. C. Sircar, the largest Indian coal baron, failed to raise the funds needed to meet his losses and working capital requirements, was forced to transfer all his assets to H. V. Low and Company, and then spent the rest of his life as a repentant mendicant in the holy city of Banaras (for details on Sircar, see Simmons 1976:194–95). In such a climate most Marwaris stayed away from coal.

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6This is best illustrated in Edward Benthall’s diary. In 1920, a senior Scottish technical manager at a jute mill advised a younger officer thus: “Don’t worry about your pay, son. Any time you want to make money, cross the street [to the stock exchange] and you can double your income in an hour.” Harrison 1964:133–34.

7This was noticed at the time by an astute civil servant called R. N. Gilchrist, who, unlike other mandarins, had little sympathy for European commercial houses. For Gilchrist’s detailed noting, see Government of Bengal, West Bengal State Archives, Commerce Department, Commerce Branch, File 2-J-1, September 1932, Proceedings 87-134B; and also Goswami 1982.

8Simmons (1976) has argued that the slump in the coal industry from 1925 and the depression thereafter “irredeemably scared off a great deal of Bengali capital and entrepreneurial talent” (p. 196). However, there were cases of Indian entry, although in far smaller numbers than in jute. For instance, during the financial crisis of 1925–28, N. C. Sircar first took massive loans from a Marwari trader called Sukhlall Karnani. Subsequently, Karnani applied the screw and Sircar was forced to sell to H. V. Low, which also could not meet its debts to Karnani and
The coal industry saw far fewer shares of European-controlled companies change hands during the 1920s, in part because most of the collieries that collapsed were proprietary firms having no tradeable shares. More important, European managing agencies always owned a much larger proportion of colliery stocks compared to jute mills, which made takeover bids more difficult. In collieries, managing agencies generally owned 35 percent or more of the equity. The two largest colliery interests were Andrew Yule and the Bird and Heilgers group. The former owned more than 35 percent of the share capital in 75 percent of its concerns, whereas the latter owned more than 30 percent of equity in all its collieries (Lokanathan 1935:187).

Why did the ownership pattern in the jute and coal industries differ so strikingly? In all probability the answer lies in the differences in initial capital requirements. At Rs.600,000, the equity needs of an average-sized colliery was about a fifth of what was required to set up a jute mill (IIYB, 1919). With the same absolute outlay—say, Rs.200,000—a managing agency could own a safe 33 percent of colliery stock but only 6.6 percent of the shares of a jute mill, which made the latter more prone to takeover bids.

In addition to getting elected to boards through share purchases, Marwaris also opted for direct entry in jute and coal. In 1922 G. D. Birla and Sarupchand Hukumchand used a part of their World War I speculative profits to set up two wholly Indian-owned and Indian-controlled jute mills. Because of the profits in jute and by Birla’s encouragement, seven Indian mills appeared in the 1920s—six near Calcutta and one in Kanpur, set up by Juggilal Kamlapat Singhania. These mills accounted for just a little more than 10 percent of the total capacity, but their existence and growth in what had heretofore been a European preserve gave them both numerical strength and confidence in handling the sahibs (see Goswami 1982:152–55).

Although the economic outlook of the coal industry was bleak, new collieries were set up, largely by Gujarati and Marwari traders. By 1925 there were at least thirty such proprietors in the Jharia-Raniganj belt, their combined output amounting to 400,000 tons per year (Simmons 1976:197). The most important were the Agarwalla brothers and Sukhlall Karnani, who had bought the collieries under H. V. Low and Company. Among the Gujarati-Cutchi contingent were K. D. Vohra, Narayan Chowra, the Patel brothers, and Amritlal and N. H. Ojha, who formed several public limited companies in the 1930s (Simmons 1976:198). Whereas Indian entry in jute was structured entirely around joint-stock, publicly held limited-liability companies, in coal it took the form of proprietary or partnership firms. The move from the latter to the former occurred only in the 1930s. Moreover, as shown in table 1, changes in ownership and control during the 1920s were far more modest in coal than in jute.

It is clear that even before the 1930s Indians had a reasonable presence in two major “colonial” industries. Were these directorships mere window dressing, doled out here and there by Europeans to appease nationalistic sentiments? If so, one would not expect the European mercantile community to be paranoiac about Marwaris and make them subjects of nasty racial epithets—which the Europeans did in abundance during the interwar years. As soon as Marwaris started entering Anglo-Saxon controlled industries, they were referred to as “mugs with money”; when they entered they were invariably described as “up to some dirty work”; they were regularly referred to as “pirates,” “outsiders,” “corner boys of our great trade,” and, most politely, “short-sighted industrialists” (Goswami 1982, 1985). Because of his drive and his prestige had to sell all its interests to the Marwari for a song (Simmons 1976: 194–95). The Jatias also bought enough shares to be on the board of four collieries controlled by Andrew Yule and Company.
Table 1. Directorships in the Coal and Jute Industries, December 1930

<table>
<thead>
<tr>
<th>Indices</th>
<th>Jute</th>
<th>Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of IIYB-listed companies</td>
<td>50</td>
<td>73</td>
</tr>
<tr>
<td>Companies managed by Europeans</td>
<td>44 (88%)</td>
<td>62 (85%)</td>
</tr>
<tr>
<td>European companies having Marwari directors</td>
<td>26 (59%)</td>
<td>12 (19%)</td>
</tr>
<tr>
<td>European companies with equality of Marwari directors on board</td>
<td>12 (27%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>Companies managed by Indians</td>
<td>5* (10%)</td>
<td>11b (15%)</td>
</tr>
<tr>
<td>Companies having Marwari directors</td>
<td>30 (60%)</td>
<td>33 (45%)</td>
</tr>
</tbody>
</table>

Source: IIYB, 1931–32.

*a* One non-European company, Agarpara, was managed by an Armenian agency, B. N. Elias and Company.

*b* All under H. V. Low, which was by then owned by Sukhlall Karnani.

in a wide section of the Marwari community, G. D. Birla was singled out as the villain. "He has done more to encourage new mills than anyone," commented "Monty" Thomas of Bird and Company. "If he can't get us out by kicking us out, he will get us out by unfair competition" (BP, Box I, Thomas-Benthall, Dec. 12, 1928). Even Benthall, who was less anti-Indian than his colleagues, was so exasperated that he longed "to see one of the upstart [Marwari] mills going into liquidation... and coming back to British management, whoever it may be" (BP, Edward Benthall to Paul Benthall, Nov. 8, 1937). Given such attitudes, it is unlikely that Marwaris were cordially invited to be puppet directors in European firms. They were in boardrooms by virtue of having bulldozed their way in.

The growing strength of Indian entrepreneurs during the interwar era can also be inferred from the formation of several Indian trade associations. The Marwaris set up rival organizations such as the Bengal Jute Dealers' Association, the Jute Balers' Association, and the East Indian Jute and Hessian Exchange (through which they attempted to legitimize fatka). As early as 1912–13 Bengali mine owners had formed the Indian Mining Federation to counter the European-dominated Indian Mining Association. With the demise of Bengali entrepreneurs in the 1920s, the Marwaris and Gujaratis formed yet another body, the Indian Colliery Owners' Association, which clashed as frequently with the Bengalis as with the Europeans (Simmons 1976:198–200).

Perhaps the most important index of the emergence of Indian entrepreneurship—not merely in jute and coal but in other industries—was the founding of the Indian Chamber of Commerce (ICC). Under Birla's initiative, the Indian Chamber of Commerce was set up in 1926 to "speak for Indian business and political interests"; Birla was the first president. Dominated and energized by Birla, the ICC soon started or-

Many Bengalis, on the other hand, were dummy directors. They were invariably landlords (*zamindars* and self-styled *rajas*), who wore tweed, smoked pipes, knew all about thoroughbreds, and even went to Ascot as guests of earls, counts, and lords. Prominent among these western-educated *babus* were Manindra Chandra Nundy (the *zamindar* of Kasimbazar), Bhupendra Narayan Sinha, Bejoy Prasad Singh-Roy, Lord Sinha of Raipur, the Maharajah of Santosh, and the Maharajah of Burdwan (the last better known as a celebrated party giver, racehorse owner, and dipsomaniac than as a director). Of these directors, one never hears anything abusive—only high praise. That is to be expected. After all, the Bengali gentry knew what "correctness" was all about and never threatened to take over firms run by Britons.
orchestrating Marwari opposition to the Bengal Chamber of Commerce, which was controlled by the European managing agencies. Soon, an All-India Federation of Indian Chambers of Commerce and Industry (FICCI) was formed with entrepreneurs such as Birla, Purshottamdas Thakurdas, Dinshaw Petit, Walchand Hirachand, Lala Shri Ram, Juggilal Singhaniya, M. C. T. Muthia Chettiar, and others (Ray 1979:306–7). The establishment of the FICCI came as a rude shock to the expatriate mercantile community. In the late 1920s and early 1930s strenuous efforts were made by Europeans to dissolve the FICCI and incorporate Indians in their chambers of commerce. By then the rift was far too wide to be healed; and years of racial slander had taken their roll. When the secretary of the Bengal Chamber of Commerce approached Debi Prasad Khaitan, a Marwari industrialist, to help forge an alliance among the various partners in Empire, he was told “that was not to be, as the political convictions of Indians and Britishers (in their present mentality) are quite wide apart” (TP, D. P. Khaitan to Thakurdas, Sept. 9, 1927). With the passage of time, the old expatriate firms grew increasingly nervous about Indian entry. When in October 1935 both Birla and Hu-kumchand threatened to resign from the European dominated Indian Jute Mills’ Association (IJMA), their grievances were immediately attended to. Benthall wrote: “If we get into a position of two Jute Mill Associations, like the Chambers of Commerce, it will be one further nail in the coffin of our industry” (BP, Box IX, Benthall to Mackerror, Oct. 29, 1935).

While Marwaris were in the ascendancy in European-controlled industries, the British managing agencies were going through all manner of crises, mostly linked to cash flow problems. In burlap and gunny manufacturing, raw jute accounted for 45 percent to 50 percent of manufacturing costs, more in short crop years. Cash flow was maximized not so much by technical efficiency (which was conspicuously absent) but by control over raw jute supply and prices. By the late 1920s Marwaris had taken over virtually every aspect of jute trade. Single families had interests in up-country raw jute procurement, fiber trade in Calcutta, raw jute exports, futures markets in jute and burlap, *fatka*, shipping, and manufacturing. The surplus generated for each family through all these interlinked market activities—most of which were part of a huge “bazaar” economy, outside the purview of audits and taxation—yielded cash flows substantially greater than those available to most European firms.

Not only were the colonial firms comparatively worse off in their funds position, but matters were made worse by a series of wrong investments during the bullish years immediately after World War I. The experience of the Bird and Heilgers group is quite revealing. Encouraged by phenomenal wartime profits, the company invested in all types of enterprise, often without any knowledge of the new product lines or its marketing channels. In the process, the firm overextended itself, and many of these “war baby” companies died in infancy. Bird’s venture into tanneries and shoe manufacturing collapsed in the 1920s; the graphite quarries set up in Orissa died by 1925; the Surma Valley Saw Mill in Assam shut shop in 1921, as did the Assam Saw and Timber Company. The failure of these and other post—World War I concerns cost Bird Rs. 9 million plus 1.25 million pounds sterling, no small sum in the 1920s (Ray 1979:269–

10 The racial slurs were manifold. Birla, for instance, was banned from entering the Sale Room of the London Jute Association and had to employ English brokers—any “Tom, Jack or Ragstraw,” to quote Birla—to conduct business on his behalf (TP, Birla to Thakurdas, Nov. 19, 1928). At a lower level, colonialism sometimes meant poking canes at natives who stood in the way of Britons promenading down the Chowringhee in Calcutta. This practice was fondly recalled by J. A. Mackerror, a partner of Bird and Company, as an example of the idyllic life Englishmen had before World War I (BP, Box XIV).
The losses created severe liquidity problems. But more important, they injected into a nineteenth-century organizational system a further dose of commercial conservatism. Realizing that the "firm had bitten off more than it could chew," the partners of Bird decided against further ventures in activities that were "beyond the firm's normal experience" and agreed to stick to well-known, time-honored "sound business" (Harrison 1964:134–36).

Concentrating on "sound business," that is, jute and coal, might have been feasible in the 1920s. In the depression of 1930–35, it was tantamount to sticking with losers. The depression led to an unprecedented crisis in the jute industry. The value of exports slumped from an average of Rs. 549 million in 1925–29 to a low of Rs. 215 million in 1934–35, a fall of 57 percent; the price of burlap and jute bags dropped 46 percent and 45 percent respectively over the same period; and profits fell dramatically into the red (Goswami 1982). Things were just as bad in the coal industry. The average pithead price of steam-grade coal fell from a low of Rs. 6.25 per ton in 1925–29 to a rock-bottom of Rs. 4.25 per ton; gross profits, if any, were rarely above 5 percent of paid-up capital (IIYB, 1938–39).

In such a situation there was an obvious cash shortage. Ideally the jute mills ought to have used reserves built up during the war and 1920s to meet working capital needs and defray losses. However, they did something totally different. During 1930–34 the managing agencies drew down Rs. 30 million from reserves to declare very high dividends that had no relationship whatsoever with true profits; when a second slump occurred in 1937–38, whatever was left in reserve—approximately Rs. 18 million—was totally exhausted to make exceptionally high dividend payments. ¹¹

The clue to this apparently senseless act relates to controlling proxy votes. With the depression, share prices started falling, and by 1932 stocks were being quoted at less than 50 percent of their 1928 values (Goswami 1985:240, chart A). The Marwari banias who held stock as collateral started demanding greater margins or larger stock-holding; moreover, many small shareholders started selling out. Both these actions led to further Marwari entry and additional erosion of the control of European managing agencies over "their" companies. The declaration of extremely high dividends in spite of taking losses was a desperate effort to stave off Indian entry.

This strategy did not pay off. Share prices fell in the mid-1930s and again in 1937–39, and cash positions simultaneously worsened. A few managing agencies, notably Andrew Yule and Bird, were quick to realize that they could not continue for long on the rump of jute, coal, and tea, three classic nineteenth-century primary-product industries. However, diversifying during a depression with serious cash shortages is a difficult task, especially for companies as conventional and ossified as the Anglo-Saxon managing agencies. In 1935 Bird seriously attempted to move into steel making and tried to set up a joint venture with two other firms, Tata Iron and Steel and Martin Burn. Tata, a Parsi enterprise, offered to put up 50 percent of the capital as long as the other two put up the rest. But Martin Burn dropped out, and Bird's share rose from 25 percent to 40 percent, or Rs 8.25 million. Cash positions had become so bad that the largest European managing agency in Calcutta in the 1930s could not raise this sum of money, the proposal came to naught, and Bird remained with jute and coal. ¹²

¹¹Computed from the profit and loss data given for each jute mill in the IIYB, 1930–31 to 1938–39.
¹²All it could raise was Rs. 3 million and even this, if deployed, meant sacrificing the partners' profits for seven to ten years. For details, see Tomlinson 1981:474–77.
This event more than any other shows how things had changed for the older expatriate managing agencies. Most of them were in dire straits. Revenue from their staple products—jute, coal, and tea—had disappeared. They were acutely strapped for cash and working capital. Their seemingly impregnable trade associations were being outdone. They could not establish any cartel-like control over prices, output, or entry. And they were being buffeted not only by unprecedented global events that were beyond their comprehension and reactive ability but also by Indians who were determined to enter their domain directly or via the bourse. Companies like Bird and some ventures of Andrew Yule managed to weather the storm. But other famous firms such as McLeod, Kettlewell Bullen, Begg Dunlop, Gillanders Arbuthnot, Duncan, and Anderson Wright faced serious takeover threats in many of their concerns.

The decline of the archetypal colonial firm and the growth of Marwaris in the 1930s is well illustrated by an almost masochistic cartoon in *Capital*, a European business weekly published in Calcutta. During the depression, many Marwari mills using second-hand equipment were selling cheaper, but substandard, burlap to America—the largest importer of jute cloth. An irate Uncle Sam finds this out and confronts a kilted Scottish partner of a managing agency:

**UNCLE SAM:** [Holding a piece of burlap and roaring] Who did this?

**SCOT:** [Trembling] Please, sir, it was not I. It was my boss. [Points at a pot-bellied, short, obese, dhoti-clad, betel-nut-chewing Marwari standing at the side]

**UNCLE SAM:** [Incredulously] Is that your boss?

**SCOT:** [Still trembling] Yes, sir. I can’t do any business without asking his blessings.

**UNCLE SAM:** [Forthwith whipping the Scot on his kilted posterior] Serves you right, then, you stupid fool, for having such a boss!

(*Capital*, Nov. 16, 1933, p. 797)

In the 1930s there was also a substantial influx of Indians into collieries, and many partnership or proprietary firms were transformed into joint-stock companies. Among the Marwaris, the major entrants were the Jatias, Anandilal Poddar, the Karnanis, and later the Shethias, Bheriwallas, Jhumjhuwallas, Bhuwalkas, and Jaipurias. Within the Gujarati community Amritlal Ojha not only bought up collieries but also transformed many into joint-stock companies with Anadilal Poddar as the other major stockholder (*IIYB*, 1938–39 and 1942–43; Sections on coal). Punjabi entrepreneurs too entered the industry, notably Waliram Taneja and Karamchand Thapar, the latter setting up and acquiring six collieries in the mid-1930s (*IIYB*, 1938–39; Simmons 1976:199). Others continued buying out shares of European collieries when prices were being quoted well below par and thereby got themselves onto the boards.

After 1935 many Marwari, Gujarati, and Punjabi entrepreneurs in eastern India diversified into hitherto unknown and unfamiliar industries, activities in which they had little previous interest but which were also outside the ambit of European managing agencies. With the advent of substantial protection to the sugar industry, seven major refined sugar companies were set up by Indians in the eastern region. By 1939 the
Table 2. Changes in Directorial Positions in Coal and Jute, 1942–47 (percentage)

<table>
<thead>
<tr>
<th>Companies</th>
<th>Jute</th>
<th>Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Companies</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>European companies with Marwari directors</td>
<td>62</td>
<td>82</td>
</tr>
<tr>
<td>European companies de facto under Marwaris*</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Companies controlled by Europeans</td>
<td>75</td>
<td>61</td>
</tr>
<tr>
<td>Companies with Marwari directors</td>
<td>63</td>
<td>80</td>
</tr>
</tbody>
</table>


*I define European companies as de facto under Marwaris if the majority of the board members are Marwaris. These companies were now controlled by Marwaris, but they maintained their old names and registration. Thus, the percentage of companies controlled by Europeans would be 100% - % of Indian companies - % of de facto Indian companies. It should be recognized that these percentages actually understate the Indian presence, especially in coal, because the data used here only take into account publicly held, limited-liability, joint-stock companies whose shares were quoted in the Calcutta Stock Exchange. In coal there were still numerous partnership and proprietary firms that were controlled entirely by Indians but do not appear here.

Marwaris accounted for 43 percent of the total cane-crushing capacity in eastern India, and the largest sugar mill in the subcontinent, Rohtas, was jointly owned by the Dalma–Sahu Jain families (IIYB, 1945–47: Section on sugar). Although the Thapar family kept collieries as its main activity, it rapidly branched out into the manufacture of sugar, paper, and textiles. Birla pioneered entry into the engineering industry as early as in 1928, an effort that was later replicated by Birla when he set up the Textile Machinery Corporation (TEXMACO) and CIMMCO during the 1940s and by Lala Shri Ram when he took over the Jay Engineering Works in Calcutta in 1938. After making money in jute and textiles, the Singhanias of Kanpur branched out into engineering and insurance and then into paper, chemicals, and further acquisition of insurance companies. And Birla as well as Thapar reinvested profits from jute and coal by setting up major Indian banking and insurance companies (IIYB, 1928–1948, Ray 1979, Bagchi 1972).

The growth of Indian enterprise in areas outside the purview of European managing agencies is fairly well documented and need not be repeated. But how pervasive was Marwari entry into “European industries,” namely jute and coal? This is best seen from table 2. One should note that during the mid-1940s Indian families generally opted for one of two strategies: either control by stock purchase or by direct entry. In jute the Bajorias, Bangurs, Goenkas, Kanorias, Kedias, and Jalans slowly acquired stocks until they could effectively control a European firm. On the other hand, Birla, Hukumchand, Surajmull Nagarmull, and Singhania concentrated on direct entry and founded their own concerns. Similarly, in coal Ojha, Thapar, and Agarwalla were builders, whereas Karnani, Jaipuria, Shethia, and Sonthalia were acquirers.

Certain important conclusions emerge from table 2. First, it seems that major changes in the ownership and control patterns occurred in the period 1942–45 and
not immediately, or even a decade, after independence. In jute in 1942–45 there was a 14 percentage-point fall in the proportion of truly European-controlled companies; the size of this fall was not repeated for the next decade. The sellout of joint-stock collieries was more significant: the proportion of European-controlled coal companies fell by 24 percent between 1942 and 1945. This conclusion differs radically from those of other business historians of the period.

Second, a close look at table 2 shows that there were really no cataclysmic changes with independence. If we are to accept the hypothesis that the fortunes of colonial firms overwhelmingly depended on the rise and fall of Pax Britannica, we should then expect a massive retreat of European mercantile forces immediately after independence. Nothing of the sort occurred, at least on a scale worth considering. The companies that survived the 1930s and 1940s and fought off Indian intrusion (such as Bird, some units of Yule, companies under Macneill and Barry, Shaw Wallace, some units of Jardine, and Thomas Duff) remained after 1947 and were reasonably prosperous until the mid-1960s, when they were finally sold to Marwaris. The ones that packed up did not do so because the Raj had come to an end. They were inefficient, cash-strapped managing agencies that had lost the battle in the 1930s and early 1940s in the economic, not the political, arena. Deeply in debt, these companies were bought up by their old baniyas: Kettlewell Bullen was bought up by Bangur, Anderson Wright by Kedia, Begg Dunlop by Bajoria, Duncan by Keshav Prasad Goenka, and McLeod by Radha Kissen Kanoria.

It would be incorrect to ignore the role of independence or to eliminate the importance of colonialism in examining the fate of colonial firms. Nevertheless, it is necessary to recognize that the phrase "forces of colonialism" has its occasional dangers, especially when it is used as a catch-all to explain everything that occurred between 1857 and 1947. In the limited arena of managing agencies in eastern India, the impact of decolonization on European business was not discontinuous and centered on 1947. For many colonial firms the rot had set in much earlier, beginning with 1920s through the 1930s and 1940s; usually the decline had less to do with empire and more with their own inefficiencies and their clinging to an outdated nineteenth-century mercantile view in a world that had become more complex.

The Growth of Multinationals and the Rise and Fall of Babus

In spite of the Bengali's traditional aversion to business, during the first two decades of the twentieth century several Bengali-owned and -managed firms were established. This was largely a result of the nationalistic swadeshi agitation that followed Curzon's partition of Bengal in 1905 but also a response to the slogans of economic nationalism of Jagdish Chandra Bose and Prafulla Chandra Ray. Many of these firms prospered in the 1910s, 1920s, and even the early 1930s but then went downhill. What caused this decline? What were their areas of specialization? These are some of the relatively unresearched areas in the business history of eastern India. Although very detailed company-level research is needed to arrive at definitive answers, one can still give a logically consistent analysis of the rise and fall of such firms.

By the beginning of World War I, quite a few Bengali firms were in operation in eastern India. Two cotton mills had been established: Banga Luxmi by the Nandi family and Mohini Mills, in Kushtia, by a Bengali Brahmin called Mohini Mohan Chakravarty. Like all swadeshi firms, these mills were exclusively under Bengali man-
agement, ownership, and control. However, in comparison to the three major cotton mills in the region—Bowreah, Dunbar, and New Ring, all controlled by Kettlewell Bullen and Company—the Bengali firms were small, accounting for only 19 percent of the total spindleage in 1918 (IIYB, 1918: Section on cotton mills). These two cotton mills were probably the only swadeshi units that opted for a "traditional" nineteenth-century industry. Enthused by science and the strident technocratic nationalism of Prafulla Ray, other ventures went into relatively more advanced lines of manufacture. Calcutta saw the establishment of Bengal Chemicals and Pharmaceutical (specializing in drugs and pharmacy products), Calcutta chemicals (producing soap, toothpaste, and herbal cosmetics), Bengal Lamps (electric bulbs), and Bengal Immunity (vaccines and other preventive medicine). Bengal Chemical was founded by Jagdish Bose and P. C. Ray and, in its period of growth, was managed by an almost-renaissance personality, Rajsekhar Bose. Calcutta Chemical owed its existence to two Bengali families, the Mitras and the Dasguptas, who brought with them the latest techniques in cosmetic and soap manufacture from England, the United States, and Germany. Kiran Shankar Roy, a wealthy Oxford-educated zamindar, set up Bengal Lamps. At the margin, there was also the Bengal Pottery Works owned by Manindra Chandra Nundy, the Maharajah of Kasimbazar.

In addition to these new, relatively advanced units, there were several Bengali-owned collieries and also tea gardens in Assam and the Dooars. The Bengalis had also made a modest beginning in banking when the Dutt family founded the Comilla Bank in East Bengal. Moreover, there was another activity that Bengalis had entered in a big way: newspaper publishing. By 1910 the Ananda Bazar Group (owned by the Sarkars) and the Amrita Bazar—Jugantar—Basumati Group (owned by the Ghosh family) not only commanded a large circulation among the intelligentsia but were also considered by the British as fountainheads of radical political thought.

Most of these enterprises did well right up to the late 1920s and even into the mid-1930s. These industries were supplying products in markets where there was very little competition from the biggest firms of the region, the European managing agents. Goods such as toothpaste, herbal soap, tooth powder, talc, antiflatulents, antipyretics, analgesics, vaccines, and electric bulbs were not yet manufactured in India and were not imported in bulk by European managing agencies. These were slowly becoming necessities among the growing middle class, and the companies appealed to the patriotic, indeed regionalistic and chauvinistic, feelings of consumers. For instance, advertisements of Banga Luxmi cloth heralded the fact that it was Bengali cloth woven in Bengali mills by Bengali weavers and sold through Bengali retail stores.¹³

Yet by the late 1930s and 1940s most of these enterprises had either collapsed, been taken over by non-Bengalis, or fallen deeply into debt. To an extent the fall can be attributed to the Bengalis' almost innate inability to run a business. Partners quarreled with each other and sold shares in a huff (a classic example being the Mitra-Dasgupta divide that almost ruined Calcutta Chemical); close relatives who were given prominent positions turned out to be grossly inept managers; sons squabbled and squandered the spoils in protracted, expensive litigations. Such traits made Marwaris and Britons alike brand Bengalis as hot-headed, litigious, and inept businessmen. However, I suspect there were more fundamental economic reasons for their collapse, related to constraints in raising funds on the one hand and unforeseen competition in the product market on the other.

¹³ These advertisements were bi-weekly, often daily, features in newspapers such as Ananda Bazar Patrika, Jugantar, Amrita Bazar Patrika and the Dainik Bausumati.
With rare exceptions, Bengali firms were closely held, private limited companies with relatively narrow equity bases. They were closely held in order to maintain their Bengali characteristics; they had low paid-up capital because in the 1900s and 1910s funds were hard to come by for non-Europeans unless they were involved in trade, which Bengalis were not. Clearly corporate growth, measured in terms of sales volume, can be financed either through retained profits and loans or by raising fresh equity. Plowing back retained profits year after year meant that shareholders had to live without dividends, a disagreeable prospect for most shareholders. A close examination of the records of most of the swadeshi companies would show that the shareholders were very reluctant to give up their dividends. Yet most of these firms specialized in relatively technologically intensive product lines that demanded constant upgrading modernization, and diversification. The other option—issuing fresh equity to the general public—was rarely used out of a fear that outsiders would control the company and out of a desire to exclude Marwaris at all cost. Thus, a Bengali firm could grow only as fast as its rate of profit; in fact, it grew at a slower pace because virtually all profits were declared as dividends.

There had to be financially imposed limits on such growth. If profits were distributed as dividends and the equity base remained low, then expansion could only be financed by bank loans and debentures. However, every successive loan raised the debt-equity ratio until a point was reached where banks refused further advances. This is what seems to have happened to most swadeshi firms in the mid-1930s. When the depression led to an across-the-board fall in equity values, banks started calling for more cover and finally cut off credit lines. Bengal Chemicals, Banga Luxmi and Mohini Mills, the Bengal Pottery works, Bengal Lamps, and many collieries suffered cash shortages. Some takeovers also occurred. Quite a few locked-out collieries were bought by non-Bengalis; Mohini Mills had to sell a part of its stock to a Gujarati trading agent; and the Bengal Pottery Works was bought by Lala Shri Ram (Ray 1979:282).

Cash shortage was only one of the problems faced by many Bengali firms. An equally serious one was the emergence of multinational corporations (MNCs), many of which opted for precisely the products that were the lifeblood of swadeshi firms: soap, pharmaceuticals, electric appliances, vaccines, toothpaste, and so forth. In December 1937 Hari Shankar Paul of the Indian Soap Manufacturers’ Association bemoaned the fact that powerful, wholly foreign-owned companies with high-scale economies, low-cost technologies, greater capital, and larger market-development outlays were driving small patriotic Indian firms from the market (Hindusthan Standard, Jan. 1, 1938). Paul was right. Unilevers set up Lever Brothers in Bombay in 1931. By the end of the 1930s, Lever Brothers had captured a sizable segment of the Indian soap market and was gearing for further expansion. In the field of electric bulbs, Bengal Lamp was being swamped, first by General Electric Company (GEC) and then by the Dutch-based Philips (India) Limited. Local biscuit manufacturers like Kolay and Sons had to compete with Britannia Biscuits, a wholly owned subsidiary of the Associated Biscuit Manufacturers of the United Kingdom. And Colgate Palmolive was competing with Calcutta Chemicals in the market for toothpaste. We need more research to quantify the scale of such competition, but all indicators point to severe market losses, and by the mid-1940s most swadeshi firms were in serious trouble in the product market.

It is possible to present a tentative hypothesis about Bengali firms. In the early years of the century, these firms had taken the correct decision to introduce new products for the domestic market. The decision helped them in two ways. First, they catered

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14 The racial abuse that Bengalis reserved for Marwaris was (and still is) far worse than what the British had to say.
to a hitherto untapped market, the growing eastern Indian middle class. Second, in doing so, they stayed out of activities that were dominated by European managing agencies. From the 1930s on, they were caught in a pincer. One arm of the pincer was of their own making. Their shortage of funds and their failure to plow back sufficiently for modernization reflect their myopic view of business. But the other arm—entry of MNCs into their areas of operation—was exogenous to the system and beyond their control. Since MNC entry occurred during the 1930s, when Bengali firms were in acute financial trouble, the _swadeshis_ were in no position to make appropriate countermoves and were soon swept by the forces of "the visible hand." Squeezed in the credit market and facing intense competition in product markets, the _swadeshi_ firms gradually became moribund.

This hypothesis needs to be closely tested and, regardless of outcome, promises to be an exciting area of research. One might even pose a stronger hypothesis. If Bengali firms had a degree of freedom either in the credit or in the product market, then they might have survived the 1930s and 1940s. Why, for instance, did Bengali newspapers remain unscathed through the period, even though all publishing was carried out by closely held firms? An answer may be that newspaper owners enjoyed a critical extra degree of freedom—the lack of MNC competition in the product market.

This brings us to the fourth and final development in the industrial arena—the entry and subsequent growth of MNCs. Table 3 shows how important they were by 1950.

This list is by no means exhaustive. For instance, there is no mention of the two largest tea-selling companies, Brooke Bond and Lipton, which entered in the interwar years and introduced a revolutionary concept in consumer-goods marketing: packaged, blended, standardized tea. Nor is there any mention of the major multinational oil companies, Burmah Shell, Caltex, and Stan-Vac (Esso), which soon came to control and cartelize the Indian market (Dasgupta 1971, esp. chaps. 2 and 3). In spite of these omissions, the list is impressive. The firms in table 3 accounted for Rs. 200 million of paid-up capital. The Imperial Tobacco Company alone had equity that could have bought at least eleven medium-sized jute mills. By 1950 the MNCs listed in table 3 accounted for more than 15 percent of the rupee capital invested in all types of industries; if we take the major omissions into account, the share would be upward of 20 percent (computed from data given in Ray 1979:45).

What prompted these firms to move to India? The first thing to note is that, in sharp contrast to the older colonial firms, all these MNCs catered exclusively to the domestic market. Several explanations have been offered regarding MNC entry. It has been argued that the emergence of high tariffs coupled with changes in the government's and railways' stores and purchase policy were the critical factors. Starting with the late 1920s the Indian government and railways moved away from global tenders toward first preference for Indian companies. The entry of British MNCs like Guest Keen Nettlefold and the Westinghouse Brake and Signal Company was induced by these changes (Tomlinson 1982:9). Jumping the ever-increasing tariff wall is stated as the other explanation. The Swedish Match Company set up the Western Indian Match Company (WIMCO) to avoid tariffs on safety matches and by 1945 accounted for 80 percent of the market (Ray 1979:151–61).

In trying to explain entry of MNCs, one needs to recognize that they were engaged in a wide variety of activities from making matches to electric bulbs, drugs, heavy

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15This phrase is from Chandler 1977.
Table 3. An Illustrative List of Multinationals in India, 1950

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Subsidiary Company</th>
<th>Date</th>
<th>PUCa</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEI</td>
<td>AEI (India) Ltd.</td>
<td>1924</td>
<td>25</td>
<td>Elec. Engineering</td>
</tr>
<tr>
<td>Alfred Herbert</td>
<td>A. Herbert (India)</td>
<td>1919</td>
<td>25</td>
<td>Machine Tools</td>
</tr>
<tr>
<td>Babcock &amp; Wilcox</td>
<td>Babcock &amp; Wilcox</td>
<td>1947</td>
<td>25</td>
<td>Boilers</td>
</tr>
<tr>
<td>Braithwaite</td>
<td>Braithwaite (India) Ltd.</td>
<td>1930</td>
<td>39</td>
<td>Mech. Engineering</td>
</tr>
<tr>
<td>British Oxygen</td>
<td>Indian Oxygen</td>
<td>1935</td>
<td>93</td>
<td>Industrial Gas</td>
</tr>
<tr>
<td>Cadbury Fry</td>
<td>Cadbury (India) Ltd.</td>
<td>1948</td>
<td>13</td>
<td>Cocoa products</td>
</tr>
<tr>
<td>Chloride</td>
<td>Chloride and Exide</td>
<td>1947</td>
<td>15</td>
<td>Batteries</td>
</tr>
<tr>
<td>Crompton Parkinson</td>
<td>Crompton Greaves</td>
<td>1937</td>
<td>50</td>
<td>Elec. Equipment</td>
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<tr>
<td></td>
<td>Greaves Cotton</td>
<td>1937</td>
<td>25</td>
<td>Elec. Equipment</td>
</tr>
<tr>
<td>Dunlop Rubber</td>
<td>Dunlop (India) Ltd.</td>
<td>1926</td>
<td>170</td>
<td>Tyres</td>
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<tr>
<td>GEC</td>
<td>GEC (India) Ltd.</td>
<td>1911</td>
<td>50</td>
<td>Elec. Equipment</td>
</tr>
<tr>
<td>GKN</td>
<td>Guest Keen Williams</td>
<td>1931</td>
<td>141</td>
<td>Rly. Equipment</td>
</tr>
<tr>
<td>Godfrey Philips</td>
<td>Godfrey Philips (India)</td>
<td>1936</td>
<td>70</td>
<td>Tobacco</td>
</tr>
<tr>
<td>Goodlass Wall</td>
<td>Goodlass Wall Ltd.</td>
<td>1933</td>
<td>25</td>
<td>Paints</td>
</tr>
<tr>
<td>ICI</td>
<td>Alkali &amp; Chemical Corp.</td>
<td>1937</td>
<td>93</td>
<td>Chemicals</td>
</tr>
<tr>
<td>Imperial Tobacco</td>
<td>Imperial Tobacco</td>
<td>1908</td>
<td>461</td>
<td>Tobacco</td>
</tr>
<tr>
<td>J. Stone</td>
<td>J. Stone &amp; Co. Ltd.</td>
<td>1931</td>
<td>27</td>
<td>Engineering</td>
</tr>
<tr>
<td>Jensen &amp; Nicholson</td>
<td>Jensen &amp; Nicholson Ltd.</td>
<td>1922</td>
<td>33</td>
<td>Paints</td>
</tr>
<tr>
<td>Metal Box</td>
<td>Metal Box (India) Ltd.</td>
<td>1933</td>
<td>105</td>
<td>Containers</td>
</tr>
<tr>
<td>Philips</td>
<td>Philips (India) Ltd.</td>
<td>1931</td>
<td>35</td>
<td>Elec. Equipment</td>
</tr>
<tr>
<td>Turner Newall</td>
<td>Asbestos Cement Co.</td>
<td>1934</td>
<td>60</td>
<td>Asbestos</td>
</tr>
<tr>
<td>Westinghouse Brake</td>
<td>Saxby &amp; Farmer</td>
<td>1923</td>
<td>25</td>
<td>Rly. Equipment</td>
</tr>
<tr>
<td>Unilever</td>
<td>Lever Brothers</td>
<td>1931</td>
<td>88</td>
<td>Soap</td>
</tr>
<tr>
<td>Union Carbide</td>
<td>Hindusthan Vanaspati</td>
<td>1934</td>
<td>105</td>
<td>Vegetable Oil</td>
</tr>
<tr>
<td></td>
<td>Union Carbide (India)</td>
<td>1934</td>
<td>101</td>
<td>Batteries</td>
</tr>
</tbody>
</table>


*PUC refers to paid-up capital, in units of Rs. 100,000.

engineering, cigarettes, and toothpaste. Their entry occurred according to different imperatives. Moreover, jumping tariff walls can only be a necessary, not a sufficient, reason for entry. In the final analysis, entry is contingent on demand; if there is to be a unifying explanation, it must come from the demand side.

Here, standard explanations seem to fail. India was an abysmally poor country that could hardly sustain demands for essential wage goods, let alone packaged tea, toothpaste, and good quality cigarettes. At the turn of the century, India’s per capita national income in real terms was a paltry Rs. 49.63; in 1946–47, it had crawled up to a mere Rs. 59.57, a growth rate of merely about 1 percent per annum (Sivasubramonian 1965:337–38). To cater to the domestic market, the MNCs would have had to survive largely on the rate of population; this alone cannot justify such massive investments in the interwar years and in the 1940s.

The explanation lies in the distribution of national income. From the 1900–1901 until 1939–40, the urban sector enjoyed a steady increase in income terms of trade, which grew at a compound rate of a little under 3 percent per year. By World War II the purchasing power of the urban populace had almost doubled in real terms compared to the 1900–1901 level. In fact, the depression resulted in a sharp fall in agricultural

In 1900–1901 real per capita income of the urban sector stood at Rs. 139 whereas that
prices and the general price level and further increased the purchasing power in the urban areas. Moreover, the urban population grew very rapidly, especially during 1920–50. The net result was that in spite of an overall stagnation in per capita income, there was a growing urban populace that had become fairly prosperous and constituted a large market for consumer goods. A rapidly expanding population in cities and towns now demanded new products: packaged instead of loose tea, cigarettes instead of bidis,17 biscuits, cement and asbestos for housing starts, sugar, soap, toothpaste, and hydrogenated vegetable oil. This growth in wage good demand among roughly 15 percent of the large subcontinental population triggered demands for other capital goods.

A notable feature of the MNCs was that the new non-Indian firms had few if any commercial links with the older colonial ones. Early entrants had tried tentative marketing tie-ups with managing agencies that were supposed to know more about the intricacies of the subcontinent’s markets. But invariably such relations soured rapidly. A good example is Lever’s experience in the 1920s with Boulton Brothers to market its soap and toiletries. Boulton turned out to be exceptionally inept, and eventually Lever had to write off large inventories, which convinced the management of the need for in-house marketing (Tomlinson 1982:10). Like Chandlerian firms, the MNCs in India gradually created their own marketing network. Brooke Bond had a marketing structure that kept in touch with retailers in remote towns; by the mid-1930s ICI had built up 1,500 depots, 15,000 distributors, and an in-house staff of 2,500 (Tomlinson 1982:10). Also the MNCs tended to interact with one another without the mediation of colonial firms. ICI helped Metal Box in its initial marketing; Metal Box supplied containers to the three petroleum companies; and Caltex, Shell, and Stan-Vac placed roofing orders for their depots with Asbestos Cement. Close interconnections plus the fact that the market expanded after World War II and during the 1950s helped to increase MNC presence as well as profitability in India. In fact, the three oil companies made enough profits to set up massive refineries in the 1950s, Shell and Esso at Trombay in 1954 and Caltex at Visakhapatnam in 1957 (Dasgupta 1971:108–9).

By the mid-1950s MNCs had entered almost all major industries: chemicals, pharmaceuticals (which they effectively controlled), baby food, toothpaste, soap, cosmetics, cooking medium, cigarettes, tea, coffee, petroleum and its by-products, chemicals, gases, engineering, and the like. Such entry not only shows the profitability of these ventures but also strengthens our view that independence per se had little effect on foreign business in India. If anything, MNC presence grew after independence in medium- as well as low-technology areas. And the new sabibs did very well in independent India: the profits of British MNCs in India were 120 percent of the world average (Reddaway 1968: table IV.5).

Concluding Remarks

There is an important unanswered question. Tea plantations were dominated by European companies up to the 1960s. Since the Marwaris were so adept at buying the stock of jute and coal companies, why did they ignore tea plantations? Unlike jute and coal, all major tea plantations were sterling companies registered in the London Stock

of the rural sector was Rs. 40. In 1940–41, the per capita income of the rural sector had fallen to Rs. 38, whereas that of the urban sector had increased to Rs. 226. Computed from Sivasubramonian 1965.

17Bidis are the poor man’s smoke—something like cheap, tiny-sized cigarillos—and far cheaper and more humble.
Exchange. By the 1920s the Marwaris were very important players in the Calcutta Stock Exchange and accounted for the majority in every successive managing committee. But whatever their endowments, they were still nonentities in London. In the late-colonial era Marwaris were able to take over European-controlled rupee companies in Calcutta, but it would have been impossible for them to carry out similar takeover bids in London.\footnote{\textsuperscript{18}}

Our knowledge about different kinds of entrepreneurial activity in eastern India still has major gaps. We need to know quite a bit more about Bengali entrepreneurs and the managerial hierarchies that operated among MNCs. We also need to know more about the financial transactions of Marwari firms, how funds moved from one activity to another, and the manner in which cash flows were controlled. It will certainly take a while before one can produce a Chandlerian piece on business practices in eastern India, let alone India as a whole.

Nevertheless, it is clear that entrepreneurial activity was far more complex than has been recorded in the past. These were often different in strategy, in design, in the instruments used, and in implementation. The Marwaris integrated transactions from a massive, geographically wide network of trade, commerce, moneylending, speculation, underwriting, and other constituents of a "bazaar" economy with the modern factory sector—first jute mills and collieries and then activities that were far removed from the bazaar. Non-Indian managing agencies, so successful until the end of World War I, failed to come to grips with the complex postwar era. Bengalis attempted to start out as technocrats and succeeded briefly before being outcompeted by better professionals. And the MNCs continued their expansion in India, as elsewhere, by introducing novel marketing methods and standardized products; they soon overcame their unfamiliarity with the terrain and became major players in India.

Given such a rich diversity of facts, the time has come for economic historians to eschew discourses that speak only of colonial firms to the exclusion of all else. This article is a modest attempt at such a revision. Such revisionism does not imply that the colonial epoch should be explained without reference to colonialism. Ideally, it should do just the opposite: enrich our understanding of the dynamics of capitalist development in the imperial era.

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\textsuperscript{18}In a sense, when the British created not one but three stock markets in Bombay, Calcutta, and Madras, they reduced transactions costs and therefore unwittingly eliminated yet another barrier to Indian entry. Sterling companies, on the other hand, enjoyed the advantages of this barrier to Indian entry until independence.


