The bazaar: changing structural characteristics of the indigenous section of the Indian economy before and after the Great Depression

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The Bazaar and Other Segments of the Economy

An integrated and dense web of credit and exchange, which had come to link two separate and yet inter-related tiers of the business world in late Victorian India, came under the strain of conflicting developments during and after the First World War. At the upper tier of this pre-war exchange economy, European managing agencies, international export-import firms and London-based exchange banks had grown big on the profits of the external trade, large-scale industry and corporate business since the opening of the Suez Canal. On the eve of the First World War, these activities formed a separate and predominantly white sphere that had expanded without interruption since the rupee-sterling exchange problems of the 1890s were brought to an end by the establishment of the gold exchange standard around 1900. Below this tier lay the sphere of bazaar bankers and merchants working at inland exchanges which formed an altogether different world. Operating through an older indigenous financial nexus of commission agencies (arhat) and bills of exchange (hundi), they enabled inland produce and credit transactions before and after the war to take place increasingly on an all-India basis. The linking up of wide-apart inland exchanges by means of traditional business devices, now successfully geared to the railways and the telegraph, slowly produced an integrated indigenous exchange system. Finally, the integrated bazaar network broke across the colonial division of

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spheres confining the bazaar bankers and merchants to the financing of crop movements and the marketing of goods, and the white business preserves indicated above could no longer be maintained as a monopoly.

The beginnings of the national economy that emerged in free India in 1947 can be detected none too obscurely in the conflict growing out of this invasion during and after the First World War, and through the troubled events of the 1930s and the Second World War. These years have emerged from recent historical writings as the period when the nascent Indian capitalist class created wider commercial, financial and industrial networks spanning the subcontinent, a process backed by the closer integration of the indigenous produce and credit markets across the land. Indian bankers and merchants, from whose ranks many of the new industrialists emerged, added a corporate industrial and business component to their earlier investments, carrying on at the same time their involvement in the tightly intermeshed inland exchanges they had meanwhile concentrated in their hands. By a common historical consensus explaining these developments, the First World War, the Great Depression and the Second World War have been identified as successive shocks that profoundly shook the colonial business structure.\(^1\) By the end of the Second World War, the Indian capitalists, an articulate class speaking through the Federation of Indian Chambers of Commerce and Industry, were well entrenched in modern business, large-scale industry and external trade, besides retaining their tightened control over the credit flows sustaining the inland trade and the operations of countless country traders, moneylenders, artisans and peasants.

These developments have attracted intensive study by historians of the Indian economy, for it is well known that the modern Indian business class, which controls large-scale industry today, sprang from the merchant communities involved in bazaar trade and banking.\(^2\) The subject first attracted in-depth research between the two world wars, when critical changes in the commodity and credit markets stimulated several contemporaneous economic studies.\(^3\) More recently, the interest has acquired a wider historical dimension ranging from the pre-colonial systems of banking

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The antiquity and complexity of hundi operations, as established by these researchers, have revealed the truly continental scope of monetary flows in pre-colonial India, with the great Mughal money market of Surat stretching out one arm across the subcontinent to Dacca and the other arm over the Persian Gulf and the Red Sea to Mokha. It has also been established that when the crisis of the eighteenth century contracted the volume of trade, the bankers found alternative employment of their funds by financing the growth of the regional powers, and more especially the expansion of the English East India Company, a process that brought the bankers of Banaras into the limelight as the principal element in the Indian money market at the close of the century. The consolidation and reorganisation of the British empire in the 1830s, however, enabled the English East India Company to clip the wings of their native financiers, and to

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create a colonial monetary and commercial order whose function, as ongoing work suggests strongly, was to segregate the native bankers and merchants, and to push them into a subordinate sphere of the exchange economy. As Surat and Banaras receded from their financial prominence and Calcutta and Bombay emerged as the centres of the money market, an export economy backed by cash crop farming was stimulated by railways, steamships, canals and various other colonial inputs, creating burgeoning inland produce and credit markets in which the Indian merchant communities found an expanding field of investment as a subordinate class of 'marketeers'. As long as the expanding inland and overseas traffic in the prosperous decades following the opening of the Suez Canal brought matching gains to the top corporations and the intermediate marketeers, the friction inherent in their give-and-take was kept in check. But when this era of easy commercial prosperity came to an end with the First World War, the tension exploded and, as recent findings indicate, mutual aggressions across demarcated spheres (which had so long been respected in a well-adjusted colonial economy) worked to the ultimate advantage of the Indian intermediaries who had, in a manner unsuspected, got a grip over the supply lines of their European principals.

In view of the wider links laid bare by these explorations, it is now appropriate to view the indigenous system of credit transfers and commodity exchange in the context of the entire country. This essay seeks to bring into focus the integrated indigenous marketing and credit nexus of the 1920s and 1930s with the help of material from the reports of the various banking enquiry committees before and during the Great Depression and the marketing surveys of the Agricultural Marketing Adviser carried out after the depression. This material helps to address certain questions relating to the land as a whole. How was the bazaar, which supplied the basis of capital accumulation by India's industrial capitalists, situated within the wider economy? What was its relation to the dominant European complex of business and industry, and to the local rural economy of pedlars, peasants and artisans? How was the bazaar


organised, and what were its instruments of operation and devices of control? What changes in the bazaar and the wider economy enabled the merchant communities to break into modern business and industry? What operations were the bazaar bankers and commission agents handling during the critical years when their penetration of the European preserve got under way? These are questions of long-term significance: during the period under study and well beyond it, Indian industrialists continued to be heavily involved in bazaar finance and speculation, a factor that explains not merely the origins of the class but many of its characteristics to this day.

The basic argument here is that even before this class established itself in the sphere of the central money market which controlled India's international economy, its progenitors had concentrated in their hands a largely autonomous indigenous money market that had already incorporated distant parts of the land in their credit operations. The bazaar bankers and commission agents had woven a seamless web of credit and exchange by means of older indigenous devices (such as the hundi and the arhat), a nexus through which money moved rapidly and regularly across the length and breadth of India. Before the Great Depression, for instance, the Multani bankers were sending money from Shikarpur in Sind to Madurai in the deep south, or to take another example, the Marwari bankers were remitting funds from the desert towns of Bikaner and Shekhawati to the Brahmaputra valley. This financial and marketing network, tied at two ends to Bombay and Calcutta, emerged from the Great Depression more closely intermeshed than ever, consisting of 12 money exchanges and 1,718 produce markets, all linked to each other by daily transactions operating at telegraphic speed and each pulling into its orbit the local rural economies of its hinterland, linking them by its wide ranging hundi and arhat operations to the European banks and firms at the ports.

It must not be thought, however, that the most important function of the hundi and arhat operations was to feed the requirements of the import-export business managed and financed by modern European enterprise. While the bazaar bankers and commission agents devoted a part of their business to serving the modern banks, managing agencies and import-export firms controlling India's international economy, their operations consisted principally in inland movements of credit and produce. Organised European-style business and industry was a narrow segment of the economy even in the flourishing 1920s when the exchange banks and


agency houses reaped handsome profits. Far greater in size at this time was the sector which the Controller of Currency in his annual reports on rates of money designated by the term bazaar.

The bankers (shroffs) and commission agents (arhatiyas) who constituted this sector used the term in a specific technical sense, meaning the market for indigenous credit they drew upon to sustain domestic traffic in produce, manufactures and bullion. Thus the bazaar rates recorded by the Controller of Currency meant the rates at which inland bills of exchange (hundis) were discounted by the shroffs. The term also embraced the trade itself that this indigenous money market financed by cash and credit. The hundi bazaar run by the shroffs sustained the grain and seeds bazaar, the raw cotton bazaar, the piecegoods bazaar, the gold and silver bazaar, the futka bazaar (futures trading), to name only a few of the most important spot and forward trade transactions of the arhatiyas. In other words, the bazaar in its wider sense meant the system of banking and trade that ensured, through long-tried and tested indigenous methods, the massive flows of money, credit, crops, manufactured goods and precious metals within the domestic commercial economy of India. It was distinct, on the one hand, from the European-dominated organised business and industry above, and, on the other hand, from the small peasant and artisan economy below. The bazaar appeared to be 'unorganised' by the Western standards of organisation which prevailed in exchange banking, foreign trade and factory industry, but it commanded its own complex and sophisticated form of organisation finely adjusted over centuries to the monsoon economy and rural production organisation of India.

The Market: Nature, Size and Hierarchy

The vast and growing population of India could not have sustained its gradual increase through the nineteenth and early twentieth centuries but for the extensive and integrated services provided by the bazaar, which expanded in response to the slow increase of the population—some three hundred million on the eve of the First World War, and growing much faster after the peace. The massive poverty of the enormous population and the seasonal cycle of the dispersed production system were the two dominating factors shaping market conditions in India. In their reports to the US government, American trade consuls in India stressed these factors, the vastness of the country, its diversity, and its teeming population. While assessing its commercial opportunities, they stressed above all the uncertainties which prevented the growth of a uniform, centrally-controlled market in India. A poor wheat crop, they saw, might put the Punjab

peasant into deeper debt, while Bengal jute would fetch the highest prices. Tea in Assam might be depressed, while hides and skins from the Central Provinces would get unprecedented offers from foreign buyers. The lack of two inches of rain in a given region might bring the great mass of peasants to the abyss of famine, yet other and larger masses of population would be unaffected elsewhere. Market conditions, they stressed, were altogether different from those in the West. The expectation of a large uniform market was frustrated by the nature of the production organisation, which hinged on low paid human labour, and which could be harnessed to the rearing and marketing of crops only with the aid of the indigenous trading and credit hierarchy. Dependence on it was unavoidable for outsiders, given the vast number of small units of production and the extreme variability of conditions in which these worked across the country and through the seasons.  

On account of the low purchasing capacity of the people, profit margins on goods sold were small, and large profits could only be made by mass selling at low profit margins: something that required patient effort and, as the US trade consuls never tired of telling American businessmen—'channels'. These channels lay, of course, through the bazaar; there was no means of bypassing it, much as foreign exporters and importers would have liked to do so. The US trade consuls distinguished from this mass market (where the main consideration in selling goods was not how good but how cheap) a small market for high-class goods, catering to about one million people whose incomes and living styles were substantially higher—the European population of merchants, missionaries, civil administrators, and officers and soldiers of the British army, the Indian princes, large land-owners and Westernised merchants, and the Parsee community of Bombay and the Anglo-Indian population, with Western tastes. The department stores and shops which they patronised—and where the same quality of goods were sold as in Europe and America—lay outside the sphere of the bazaar. Selling goods to the mass of the people was a radically different proposition from catering to the limited market for high-class goods. The problem, as one American Trade Consul put it succinctly, was

to sell goods suitable not only for the comparatively small upper and middle classes, but goods cheap enough and simple enough to be within the reach of over 300,000,000 people who belong to the poor and illiterate classes of society. In doing business with the upper classes and middle classes it is possible to secure a rather wide margin of profit, but the sales must be comparatively small. In doing business with the great

masses of the people the margin of profit must be extremely small; however, the sales and collective profits may be enormous.\textsuperscript{16}

The extremely low profit margins at which the bazaar people—even the biggest of the arhatiyas—were willing to work, depending on a very large turnover at huge risks among so poor a people, would have been unacceptable to large western corporations, which perforce had to accept the shroffs and the arhatiyas as their commission agents and guarantors for sales and purchases.

The cost of efficiency of peasant agriculture and several important branches of artisan manufacture, which had been established beyond doubt by the beginning of the twentieth century, implied that colonial interests could not take over these areas of the inland economy. The white plantations being unable to survive on the plains, and the mills being able to command only a part of the crops for processing, the corporate sector was necessarily smaller in size; and the greater part of the Indian work force—the millions of peasants and artisans who by the very nature of their dispersed operations could not be pressed into larger units—remained beyond direct production control by the European business class, which had no alternative but to obtain crops and distribute goods through the indigenous marketing and financing hierarchy that had naturally grown out of the rural production organisation. Hence India could be subordinated to the world capitalist economy only by the concession of a large economic space to the bazaar.

At the beginning of the twentieth century, not a single crop on the vast plains of India was a genuine plantation crop. Even indigo, the crop which white planters in Champaran continued to force the peasants to grow, was produced within the small farm framework. Jute, the great colonial crop that the British developed after the collapse of indigo in Bengal, remained uncompromisingly a peasant crop. Genuine plantation crops, tea and coffee (but even coffee was mainly a peasant crop and only partially a plantation crop), grew mainly on the hills. Tea was about the only crop in India which was exclusively produced on plantations, and which the British managing agencies could control right from its cultivation through its dispatch by rail to its shipment for final sale in London. But leaving aside Darjeeling and the Assam hills, where intensive peasant agriculture had not been previously established and where conditions were favourable for capital-intensive tea plantation, nowhere else could planters compete with peasants in terms of costs. New capital inputs were proportionately small in Indian agriculture, labour and cattle inputs massive and cheap. Systematic

\textsuperscript{16} US Department of Commerce, Bureau of Domestic and Foreign Commerce, Henry D. Baker, \textit{British India with Notes on Ceylon, Afghanistan and Tibet} (Special Consular Report No. 72), (hereafter \textit{British India}), pp. 9, 17.
efforts by Western machinery manufacturers to sell tractors and other
unsuitable machinery to Indian peasants ran quickly aground,\textsuperscript{17} and one
possible means of remote control of Indian agriculture through agricultural
machinery supply was denied to colonial manufacturing interests. Further-
more, peasants not merely barred the way for potential planters; they were
also artisans in their spare time, and employers of artisans in agricultural
work in peak seasons. Peasants who were part-time artisans and artisans
who were part-time peasants were a frustrating combination for the mills,
the reason why neither Manchester, nor Bombay, could accomplish their
long desired objective, namely monopoly of the immense market for
piecegoods in India. Except towards the very end of our period, handloom
production kept pace uniformly with mill production.\textsuperscript{18}

The predominance of small peasant agriculture and cottage industries in
the total Indian output was a factor of vital importance in the development
of Indian capitalist enterprise. Compared to many other colonial countries
where plantation agriculture was fully established, India was able to develop a
larger capitalist class, in fact the largest in the decolonised third world.
Why? Because here the colonial sector could not replace agriculture with
plantations, nor even cottage industries with mills, and to assemble the
produce from so many peasants and so many artisans, it had to leave a
substantial part of the economy to the bazaar, which provided a firm basis
for the growth of an indigenous capitalist class out of the merchant com-

\textsuperscript{17} US Department of Commerce, Bureau of Domestic and Foreign Commerce, \textit{Trade

\textsuperscript{18} S. Sivasubramanian, ‘Income from the Secondary Sector in India 1900–1947,’ \textit{Indian
Economic and Social History Review}, No. 4, 1977.
destined for the market. As the exchange banks were confined to financing the external trade, and the joint stock banks had little capital to spare for the interior, the financing of the massive movements of crops and goods within the country remained the preserve of the shroffs and arhatiyas, assisted by some crucial seasonal help from the Imperial Bank of India. Before the onset of the Great Depression, the railways carried 85 million tons of goods from the inland centres to the ports, and between the inland centres. This, in view of the still marginal volume of road traffic in India, may be taken to be not far short of the total volume of long distance domestic trade in India. Out of this huge volume of goods moving within the country, the overseas ships took to and from the ports of India just about 9 million tons of goods. These figures would set the volume of railway-borne inland traffic at almost ten times the volume of ship-borne overseas traffic. During the Great Depression, imports and exports became even more marginal in the total production and distribution of agricultural produce in India (see Table 1). In view of the fact that the banks had few 

<table>
<thead>
<tr>
<th></th>
<th>Rice (Average 1934/35-1937/37)</th>
<th>Wheat (Average 1925/26-1934/35)</th>
<th>Linseed (1936-37)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Production</td>
<td>28,380,000</td>
<td>9,300,000</td>
<td>4,750,000</td>
</tr>
<tr>
<td>Marketed Surplus</td>
<td>11,500,000</td>
<td>5,100,000</td>
<td>3,800,000</td>
</tr>
<tr>
<td>Exports &amp; Imports</td>
<td>2,000,000</td>
<td>25,000</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>

Source: Report on the Marketing of Rice in India and Burma (Delhi, 1941), pp. 104, 492; Report on the Marketing of Wheat in India (Delhi, 1937), pp. 13-14, 16, 40, 44; Report on the Marketing of Linseed in India (Delhi, 1938), pp. 13, 21, 25, 40.

branches in the interior, the shroffs and arhatiyas financed all but a small part of this great inland traffic. It was these indigenous financiers again who kept the country's production process going by their advances and loans to countless small peasants, artisans, rural traders and money-lenders. Since agricultural produce was the main part of the output, and as large-scale industry was outweighed by small-scale and cottage industries right up to the outbreak of the Second World War, the banks played a

19 Central Banking, p. 721.
20 Figure for 1928-29 in Statistical Abstract of British India from 1922-23 to 1931-32, p. 542.
23 Sivasubramanian, op. cit.
lesser role in financing the economy than the *shroffs* and *mahajans*. The indigenous money market financed much of the production of the country except for the sector of mines, mills and plantations served by the central money market, revealingly described by an indigenous banker as the 'English bazaar'.

No wonder, then, that the Bombay Shroff Association affirmed that the total turnover of cash during a working day in their Bombay exchange far exceeded the corresponding figures of all local banks taken together.

The export-import figures of Indian trade, and the allied volume of exchange bank operations, would, therefore, reveal only the tip of the iceberg. From the tip downwards, Indian trade and finance broadened at each successive level. To take figures for 1928-29, there were, at the peak, 9 million tons of imports and exports, mainly through eight ports—Karachi, Bombay, Cochin, Tuticorin, Madras, Vizagapatam, Calcutta and Chittagong. At the second level, there were these 9 million tons moving along the railway lines from and to the ports, and in addition something like 76 million tons of goods moving along the railway lines without ever reaching the docks, but moving simply between market towns. Finally, at the base of this trading system was the movement of these 85 million tons of goods on carts along roads running to the railheads, plus the indeterminate volume of goods marketed within the locality away from the railheads, perhaps an additional 50 million tons. Thus at the three successive levels of the market, the tonnage of traded goods increased from 9 million to 85 million to 135 million.

Taken together, these levels defined a three-tier marketing hierarchy—the financial and commercial centres, the market towns and the rural periodical markets—which served to structure India's domestic economy and to connect it with the world markets. At the top of the pyramid were the great cities and towns—Bombay and Calcutta towering over the rest—through which the country as a whole was kept in touch with the international economy of the post-Suez era: The two great colonial port cities, the lesser ports such as Madras and Karachi, and the burgeoning inland centres of import-export trade (for instance, Delhi and Cawnpore), were at

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25 *Ibid.* p. 494. The Indian Chamber of Commerce reported from Bengal that out of a total finance of Rs. 46 crore available for inland trade, the merchants themselves supplied Rs. 22 crore, the shroffs Rs. 22 crore and the Imperial Bank of India Rs. 2 crore. *Report of the Bengal Provincial Banking Enquiry Committee 1929–30* (Calcutta, 1930), (hereafter *Bengal Banking*), Vol. 1, p. 186.

26 This figure is based on assuming roughly a ratio of 1:2 between goods never carried to market towns and goods brought there for shipment by rail. That is the ratio given in *Report of the Bihar and Orissa Provincial Banking Enquiry Committee 1929–30* (Patna, 1930), (hereafter *Bihar and Orissa Banking*), Vol. 1, p. 60.
one and the same time the bases of the banks and corporations which controlled India's international economy, and the headquarters of the indigenous banking and commission agency firms which operated the integrated inland economy of the country. These big towns and cities were the financial centres for both the Western and indigenous money markets, one serving the external trade and the other the long distance inland trade. Around these financial and commercial nodal points were arranged numerous market towns or mandis, such as Lyallpur, the cotton and wheat mart of the Chenab canal colony of the Punjab; Hapur, the granary of the canal tracts of western UP; Khamgaon, the cotton assembling centre of the black soil tract of Berar; and Guntur, the rice assembling and milling centre of the canal irrigated Krishna valley. The mandis were the points at which primary produce was assembled for dispatch to the main distributing or exporting centres; they were also the points at which goods were sent up from the main importing or distributing centres for inland wholesaling and retail distribution. Below this urban network of financial centres and country towns was the vast rural hinterland, served by seasonal fairs and weekly or bi-weekly markets dispersed over the countryside. The fairs were annual or seasonal gatherings, one of the most critical functions of which was to enable the peasants to buy cattle from the stock breeders and livestock traders. The more regular rural markets, known as shandies in Madras, painths in northern India and haats in Bihar and Bengal, assembled once or twice a week for retail transactions in agricultural produce and urban manufactures. The typical shandy, which unlike the urban retail market had no permanent market structure, was held on the roadside or in the grove, where the producer brought his produce to sell in small quantities to the shopkeeper or pedlar, and purchased with the cash thus obtained a wide range of articles imported from towns for household use, such as cloth, salt and brass vessels.

Nothing brings out more clearly the distinction between the successive levels of the marketing hierarchy than the respective amounts of produce handled in the shandies, the market towns and the colonial port cities; and the whole amount handled in this manner, and its proportion to the unmarketed produce are indicators of the extent to which the market had penetrated country life. Keeping in mind the diversity of the land, the amounts and proportions would no doubt have varied considerably from one part to another. For a typically poor area pulled into the orbit of world markets by imperial communications, Bihar would be a good example. A backward and famine prone rice producing area, it had developed sugar, lac, oilseeds and other commercial crops exported by the railways to distant destinations.

27 For a description of fairs and markets, see Agricultural Marketing in India: Marketing Series no. 45. Report on Fairs, Markets and Produce Exchanges in India (Delhi, 1943), passim.
Aided by a numerous body of exploited agricultural labourers, 22 million Bihari peasants produced Rs. 47 crore worth of rice before the Great Depression set in. They consumed, without any marketing at all, 60 per cent of the rice, eating the major part of it themselves, storing a part for seed and paying out on the threshing floor a portion as grain wage to labourers and village artisans. The non-peasant rural population, numbering 10.5 million, purchased another 29 per cent of the rice for their own consumption, which they bought at the village shandy. A shandy was to be found every six miles in Bihar. The produce was assembled there by village peddlars (beparis) and by the peasants themselves, mostly for local sales which never reached the mandi, a large mart for storing grain found every fifteen miles, at main road junctions, district headquarters and railway centres. Only Rs. 5.5 crore worth of rice reached the 500 mandis of Bihar, as against Rs. 27 crores worth of rice which was never traded, and Rs. 14.5 crore worth of rice which reached the 2,500 shandies and no further. The other crops were more intensively commercialised. Taking the total agricultural produce of Bihar, Rs. 40 crore worth of crops was handled in the market towns, and Rs. 75 crore worth of crops was consumed or exchanged within the country, either through the shandies or through non-cash crop sharing transactions. Exports out of Bihar, not all of it to foreign countries, were less than half the value of the goods traded in the mandis, the principal items of foreign export being oilseeds, jute and lac. The surplus sugar sent out of Bihar was for distribution in other parts of India, and formed another important component in the business of the bazaar.28

Certain facts stand out clearly from the available figures. While foreign imports and exports never formed a considerable portion of the country produce, the amounts passing into the market towns were many times more, and the produce traded in the country fairs and markets at least one-third more than that handled by the mandi-based bazaar. The proportion of the total produce of the country that never reached the market was well below half, and that reaching the higher commercial world of the bazaar was somewhat over a third. Even the portion of the crop retained by the country entered into a well-established nexus of exchange and credit, comprising both market transactions by cash or barter through the shandies, and important non-market transactions such as crop sharing (batai) between peasant, labourer and landlord, and ritualised exchanges (jajmani) between peasant and artisan regulated by hereditary custom and conducted on an annual basis. The spirit of exchange had undoubtedly penetrated the country deeply, and the marketing hierarchy was arranged in three distinct layers—rural periodical markets, market towns and the financial and commercial centres.

Table 2
Marketing of Produce in Bihar (1929)

<table>
<thead>
<tr>
<th>Name of Crop</th>
<th>Total Value of Produce (Rs. Crore)</th>
<th>Traded in 2500 Haats (Rs. Crore)</th>
<th>Traded in 500 Mandis (Rs. Crore)</th>
<th>Exported out of Bihar (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>47</td>
<td>20</td>
<td>5.5</td>
<td>1</td>
</tr>
<tr>
<td>Gram &amp; Pulses</td>
<td>22</td>
<td>15</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Other food grains</td>
<td>12</td>
<td>6</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>13</td>
<td>8</td>
<td>7</td>
<td>3.5</td>
</tr>
<tr>
<td>Sugar</td>
<td>4.5</td>
<td>0</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Jute</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Tobacco</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>Other crops</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Lac</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>114</strong></td>
<td><strong>61.5</strong></td>
<td><strong>40</strong></td>
<td><strong>19.5</strong></td>
</tr>
</tbody>
</table>


There was a clear distinction between the three levels of the hierarchy in terms of transport systems, credit structure and market personnel and organisation. The shandies were connected to the mandis by kutcha roads, on which peasants and peddlars took their produce on bullock-drawn carts and pack animals to sell through commission agents based on market towns. At the rural level of marketing, hundis were not in use. Peasants and peddlars settled their transactions in exchange of produce or in hard cash. They obtained hard cash from the arhatiyas of the market towns in payment for their produce. Once the produce entered the market towns and reached the hands of the arhatiyas, it entered a different world. The arhatiyas sent the produce on metalled roads to the railheads for transportation to the port towns and the inland centres, using the hundi network serviced by the shroffs (often the biggest arhatiyas being themselves shroffs under the interlocking system of indigenous banking and commission agency). A fraction of the produce moving on the railways reached the hands of the agents of the international firms, either based on port towns or posted upcountry. At this level the produce entered a third and higher world, leaving the ambit of the bazaar. It was processed in mills or presses, and shipped through the ports with the credits, exchange facilities and telegraphic transfers arranged by the exchange banks. The financial structure of each sector was so different that credit did not flow from one sector to the other except through bottlenecks: the banks gave credit for

29 For a clear picture of these differences, see Fairs, Markets and Produce Exchanges, passim.
domestic trade through listed shroffs with definite borrowing limits, while the shroffs in their turn funnelled funds to the rural producers through known beparis (shopkeepers) and mahajans (money-lenders).

The rates at which money could be obtained at each tier of the marketing hierarchy were different, and there was no single money rate. The bank rate, which determined the rate at which credit was obtained by the corporations for import-export trade, and the hundi rate, which determined the cost of credit for inland merchants and commission agents, fluctuated from season to season, but the seasonal fluctuations of the bank rate and the hundi rate diverged markedly from each other. By contrast, the rates of loans to peasants and artisans did not vary, like bank or hundi rates, from season to season, but remained at a uniformly high level through the year on account of the risk involved in such loans. In the UP towns, for instance, the arhatiyas and shroffs charged on average 9 per cent on hundi loans, while in the countryside the most common rate of advances to peasants by Banias and mahajans was 24 per cent.30 Here was a clear break in the continuum of credit from the market town to the village. Though there was large downward flow of credit, the credit assumed an altogether different form and meaning at the bottom. It functioned at far higher interest and on practically no security, and was able to function only because of the close personal connection between creditor and debtor. Rural moneylending was a form of high risk lending which no respectable shroff would touch. Arhatiyas and shroffs could venture to channel funds from the bazaar to the indigent peasant economy only through village traders and rural creditors who knew how to assess credit risks in the village.

The weakness of the link between the rural credit system and the bazaar was responsible for a paradox. During the monsoon there was a slack in the urban money market while the country experienced stringency. From May to August rural creditors needed more funds to make advances to the cultivators for sowing the kharif. The funds lying idle in the bazaar at the end of the grain trading season in June could not find congenial employment in the mofussil precisely when there was stringency there. The reason for this is clear: the whole rural economy lay outside the sphere of the hundi money market. As is clear from the evidence of the banking reports and marketing surveys, nundis did not circulate through the rural economy, and a money market can be said to exist only when negotiable instruments are in use. In the absence of rural hundis, the bazaar money could not be efficiently employed in the country during the sowing season. It moved to

the country through the clumsy device of book credits, which prevented
the expansion of mobile credit—the sort of credit which could have eased
the seasonal stringency in the country. The fault did not lie with the bazaar.
It lay in the very nature of the rural economy—a chronically deficit and
insecure economy in which mobile credit simply could not develop.

Here was a cleavage within the indigenous system of trade and finance.
The distinction was clearly perceived by a British official who said in his
evidence to the Indian Currency Committee of 1898: ‘There are two sorts
of loan transactions upcountry. There is the loan by the bunneah or village
money-lender who deals with his own money and there is the loan by the
mahajan or banker, who deals with other people’s money as well as his
own.’31 The distinction here lay between a rural finance system in which the
lender’s own funds were used, and the bazaar which in addition to lending
money mobilised new credit resources by drawing, discounting and redis-
counting hundis. The two types of loan transactions had separate spheres.
The hundi money, consisting of trade bills, was invested in the movement
and marketing of produce The rural loanable money, consisting of advances
to peasants and artisans, was invested in the cycle of production and
upkeep of producers (especially after food stocks ran out).

The sphere of the bazaar is thus clear: it operated at the tier of the
marketing hierarchy where hundis were in circulation. This excluded at
one end the village shandies which had no sources of mobile credit, and at
the other end the international ports-of-call which possessed the higher but
entirely alien financial instruments of the exchange banks. Its critical
function was to generate the indigenous flows of mobile credit without
which the market economy could not have functioned, and which in turn
generated the opposite flows of produce, manufactured goods, bullion,
currency and revenue, adjusting these two-way flows between town and
country to the highly uncertain seasons and their extremely taxing credit
demands. Shipments of agricultural produce, which were intimately con-
nected with the country’s crop calendar, determined the timing of currency
and bullion inflows and revenue outflows. The exchange banks and import-
export corporations which financed and made these shipments had neither
the information nor the infrastructure to generate the credit movements
necessary to guarantee the timely flows of produce, currency, bullion and
revenue. The crop seasons dictated the interior demand for currency,
credit and bullion, and accordingly there were marked seasonal fluctua-
tions in bullion trade, currency absorption and loan business.32 The colonial
banking and business sector did not possess the necessary sensitivity to

31 Quoted in Bengal Banking, Vol. 1, p. 50.
32 The annual Report of the Controller of Currency made every year an analysis of the year’s
fluctuations and flows, which showed how the economy achieved equilibrium during the year
through bazaar operations.
seasonal variations—it was the bazaar which had its ear to the ground, gathering information and reacting instantly to daily changes in widely dispersed markets.\textsuperscript{33}

The two main crops—the monsoon crop (kharif) and the winter crop (rabi)—provided the time-table for bazaar operations, the agricultural year being divided into two parts, one of rearing and harvesting the successive monsoon and winter crops (July-December) and the other of selling one after the other (January-June). Prevailing conditions in the indigenous money market differed drastically through the seasons, a fact reflected in the fluctuating bazaar rates at its twin centres, Bombay and Calcutta. The rates were high from January to June, a busy season of intensive crop sales when money was tight. They were low from July to December, a slack season when the rain and winter crops were being successively sown and gathered and when there was plenty of money lying idle.

The busy season for trading in grain started around January. It did not, it should be noted, begin at once after the kharif harvest around September-December. The peasant stocked most of the grain for his food and for sale in small lots for periodical purchase of necessities—a stock which ran out only towards the end of January. Heavy trading in grain by means of \textit{hundi} financing began in January, reached a climax with the rabi harvest in March, and sustained itself through June. There were extremely heavy shipments of agricultural products through these months. The vast peasant population used the proceeds of their sales to purchase a massive quantity of gold and silver from January to May, partly on account of the marriage season in May and partly as a means of carrying over the proceeds of a successful harvest until funds were required to purchase seed for planting the kharif on the eve of monsoon.\textsuperscript{34} During the same months, January to March, and also through April, the flow of currency into the country reached its peak. There was great demand for small coins among traders and peasants after the wheat and late rice harvest. The great indigenous money markets of Bombay and Calcutta faced such stringency at this time that they drew on \textit{hundi} finance from the upcountry homes of the \textit{shroffs}—on Multani funds in Shikarpur and Marwari funds in Rajputana. From December to March money flowed from the Marwari \textit{shroffs'} branches in the native states of Rajputana to Calcutta and Bombay for more profitable employment. Delhi, the third great indigenous banking centre, relied on its own funds to send in April (immediately after the rabi harvest) a great quantity of silver coins to upcountry grain \textit{mandis} like Hapur for the purchase of wheat from peasants.

From the next month the pumping of funds from the banking centres to the upcountry \textit{mandis} ceased. The onset of the monsoon brought on the

\textsuperscript{33} UP Banking, Vol. 1, p. 60n.
\textsuperscript{34} Don C. Bliss, The Bombay Bullion Market (US Department of Commerce, 1927), p. 7
slack season in the mofussil money market. This was a time of intense agricultural activity associated with the sowing of the kharif crop (May-June). The kharif seed, however, was cheap at this time. The cultivator had already stocked his grain and there was little need to borrow till mid-September. He used his funds to pay the revenue instalments, which were so heavy from May to July that the flow of silver coins was now reversed. In June, July and August there was large return of silver from the interior. No profit was to be obtained from the employment of funds in the mofussil and in August Hapur traders who had borrowed silver coins from Delhi would return the money through hundis. Funds were invested in the big urban markets during the slack season to pay for imported goods. The bullion import through Bombay, however, was sluggish, for the cultivator had large expenses to meet in connection with planting and watering his crops. Even after the kharif harvest, he could not afford to buy ornaments, for the rabi crop was planted at this time and he had to take advances for that in October. Such advances for planting had no connection with the hundi market which was sluggish.35

This was clear evidence of the distinction between rural credit and urban finance referred to earlier. The involvement of the big merchants and bankers in the cycle of agricultural loans was, as already mentioned, indirect. They seldom found it feasible to finance the peasants directly as the credit risks were too great. The village mahajan, who was in closer touch with his peasant client, could risk loans which the shroff could not. He could draw if necessary on the town sowcar, who, in turn, being of greater credit, received accommodation from the big hundilawal when he ran short of funds. The total sum which was thus invested by mahajans, sowcars and shroffs in agricultural advances around 1930 was estimated by the Central Banking Enquiry Committee at roughly Rs. 900 crore, of which at least Rs. 400 crore were short-term seasonal loans for seed, cattle, and so on.36 The kharif advance was taken from June onwards and was repaid after harvest in December or January. The rabi advance was taken in October and repaid after marketing in April.37 This entire agricultural credit was extended through book entries, and not by means of hundis.

35 This account of seasonal flows is based on numerous scattered references in UP Banking, Vol. 1; Bihar and Orissa Banking, Vols 2 and 3; Madras Provincial Banking Enquiry Committee 1929-30 (hereafter Madras Banking), Vol. 1 (Madras, 1930); Report of the Banking Enquiry Committee for Centrally Administered Areas 1929-30 (hereafter Central Areas Banking), Vols 1, 3 and 4; Report of the Controller of Currency (various years); and Bliss, Bombay Bullion Market.

36 Central Banking, Vol. 1, Part I, p. 70.

The Bazaar and the Colonial Trade

If the sphere of the hundi did not penetrate downwards to the cycle of agricultural operations, it did not extend upwards to the marketing of agricultural produce abroad either. The trade of the colonial ports, with its lines running through the Suez Canal to England, Europe and America and eastwards to China and Japan, was under the regime of the Western money market. Indian finance and trade were dominated in the upper reaches by the City of London, and by 18 foreign exchange banks formed into an association under the leadership of the Chartered Bank of India, Australia and China.

The close connection with London meant that there was no uncertainty regarding values, since the Government of India maintained a fixed basis for converting silver rupees into gold sovereign. Its financial and monetary policies offered excellent security to international trading corporations operating through the sterling exchange, a strong inducement for American and Continental firms to move into India through the London money market. The US trade consuls in India, in fact, warned American exporters against trying to sell direct to unreliable native houses, and recommended that the task be left to London indentors. A long chain of intermediaries arose in the import trade on account of the low credit of native merchants: exchange banks, indent firms, guarantee brokers, and so on.

Of the 18 exchange banks operating in India, eight were British, the rest—which had their operations mainly outside India—were American, Japanese, Dutch, French and Portuguese. The Chartered Bank of India, Australia and China, with its head office in London, operated mainly on the London-India-Straits Settlements-China run. The National Bank of India, also London-based, concentrated on the London-Aden-East Africa-India run. The Eastern Bank, another London-based British exchange bank, operated on the London-Mesopotamia-India line. The Hongkong and Shanghai Banking Corporation, a Hongkong based British exchange bank, was concerned with the China-India-London line. Among the non-British banks, the National City Bank of New York concerned itself with foreign exchange transactions between America-London-India; the Yokohama Specie Bank was concerned with Japan-India-London; the Netherlands Trading Society with Holland, Belgium, Germany, London and India. The Tata Industrial Bank, which operated for some time in foreign exchange transactions, was soon forced out of existence. All these exchange banks had access to the vast resources and connections of the London money market, which enabled them to offer important assistance to the foreign manufacturing corporations, and to European managing agencies, export-import houses and indent firms.39

38 Baker, British India, p.160.
The role of the exchange banks in the import trade expanded perceptibly in the 1920s as their number increased from 10 in 1918, with Indian deposits worth £46,392,000 to 18 in 1922, with Indian deposits worth £55,038,000. This was accompanied by a considerable expansion of inland activity by the exchange banks, as 6 new upcountry branches were opened by Chartered, Lloyds and Mercantile Bank after the First World War in addition to the 13 upcountry branches already in existence before the war. Their activities no longer stopped at the ports but extended to the principal inland centres for the distribution of imported goods. In Delhi, for instance, Chartered, National, Mercantile and Lloyds each had a branch and were engaged in financing the import of piecegoods, bullion, metals and machinery, negotiating the foreign shippers' drafts on native importers in Delhi. When the goods arrived in port, the banks cleared the goods from the port and charged the Delhi merchants 10 per cent for the clearing service. On arrival of the goods in Delhi, the four banks made advances to the importing merchants by opening loan accounts against hypothecation of goods stored in their godown. The total margin of the invoice value of the goods consumed by the big four was estimated at 40 per cent in 1930, including clearing charges and customs duties. The role of the exchange banks was critical in the import trade because, in the absence of a regular machinery of open credit ratings as in Wall Street, American and other foreign manufacturers were reliant on the British exchange banks for information regarding the credit of Indian importers. There was a general feeling in the bazaar that the British banks gave poor references to foreign manufacturers regarding the credit of Indian merchants, undermining the whole position of the latter in foreign trade.

Because of the uncertain financial standing of Indian importing merchants, a peculiar type of business organisation—the indent firm—had sprung into existence. The indent firm was an international mercantile house which brought Indian buyers in touch with foreign manufacturers by receiving indents from Indian merchants, passing them on to foreign manufacturers, and charging a commission on the transaction. But it was more than a mere international broker between buyer and seller. The smaller bazaar dealers who distributed the imported goods had no credit, and upon arrival of goods they would sometimes refuse to take all the packages, though willing to take a part which they needed immediately. The indent firms would in such cases clear through customs the goods they had already sold on commission, place them in warehouses and release them in small lots, thus minimising the credit risk of the foreign manufacturers in dealing

with the bazaar dealers. The indent firms were thus a dominant factor in the import trade: they would take indents from small dealers, land the imported goods, store them in their own godowns, charge 9 per cent in interest and godown rent after 30 days of landing the goods, and release the goods to the dealers in small lots as and when demanded. The indent firms were mostly non-Indian (ordinarily British) export-import houses engaged in trading on their own account as well.43

The importing houses used another device to minimise the credit risk in import trade: the 'guarantee broker' of Bombay and the Banian of Calcutta. A native merchant of standing, the guarantee broker or Banian brought in orders and financed and guaranteed the bills. For about 1.5 per cent commission be undertook to guarantee that the bazaar merchant would pay in full the bill for the order which the broker had brought in and financed. 'When business is done through a strong guarantee broker,' the US Trade Consul advised American businessmen, 'there is little danger to the seller, as the former pays the bill if the buyer does not.'44 Some of the Banians or guarantee brokers were big merchants of national standing. The big Marwari banking firm of Calcutta, Tarachand Ghanshyamdas, were Banians to Shaw Wallace, guaranteeing their oil and fertiliser imports everywhere in India. Ramdutt Ramkissendas, the big Goenka firm of Calcutta, were Banians to the house of Ralli in jute supply and piecegoods distribution, besides being jute balers and traders on their own account. The European importing houses, financed by the exchange banks, dealt—through guarantee brokers—with big bazaar merchants who bought the goods on commission at the port, using hundis and other indigenous credit; the bigger merchants in turn passed the goods on directly to mofussil shopkeepers or through the intermediary of a wholesale bazaar dealer.45

While the financing of the import trade was done entirely by exchange banks by means of discounting of sterling import bills, the financing of the export trade was shared by the exchange banks with the London money market. The exchange banks provided the cash for the purchase of goods for export until the sterling export bills were received in London and discounted there, from which point onwards the funds were furnished by the London market. The foreign bills of exchange—invariably sterling bills for both imports and exports—were of the two kinds: (a) D/A drafts, which provided credit on acceptance of the draft by the importer, and (b) D/P drafts, which meant delivery only on payment and no credit. If an Indian

43 Palekar, Trade of India, pp. 206-7; E.A. Chapman, India as a Market for American Goods (US Consular report, 1925), pp. 8-9; Madras Banking, Vol. 4, pp. 57-68.
44 Chapman, India as a Market, p. 8
importer dealt with a foreign manufacturer on a D/A basis, he would obtain possession of the bill of lading as soon as he 'accepted' the draft drawn on him by the foreign party through an exchange bank. As such drafts did not become due until 30, 60, or 70 days after the date on which they were accepted by the purchaser, the Indian purchaser would obtain possession of the goods on arrival by producing the bill of lading, and would get time to sell the goods and pay the accepted draft out of the proceeds of sale. This was acceptance credit and it was usually given only to 'first class' Indian parties with which a foreign manufacturer had long dealings. In the D/P contract, on the other hand, the Indian purchaser would have to pay in order to get possession of the bill of lading, without which the steamship company would not deliver the goods to the consignee.  

The low credit ratings which the exchange banks generally gave to Indian merchants undermined their position in this entire bills of exchange business, which came to be so structured as to force the Indian merchants to participate in import-export trade on systematically adverse terms. R.G. Saraiya, a Bombay businessman with a large stake in the cotton trade, gave a critical but balanced analysis of these terms in his evidence to the Central Banking Enquiry Committee. When the Bombay cotton merchant shipped raw cotton to London, he gave credit to the London buyer for three months. In the meanwhile, he took an advance from the exchange bank against the shipment at the rate of three months' sight bills. His bill was a D/A draft payable by the London buyer only after three months from the time of shipment, and the Bombay shipper did not make the London buyer directly responsible for payment, but released the bill of lading to the buyer's bank simply on the basis of the buyer's bank accepting the bill. But when the Bombay merchant imported merchandise from London he did not get the same acceptance credit for three months. The bill which he had to pay was a D/P draft, which meant that he would get the bill of lading only when he paid up to the exchange bank which presented the bill. The bank stipulated as a matter of practice that the draft would be on the Bombay merchant and not on the bank itself. Furthermore, he would have to pay interest at 6 per cent from the time when the London exporter sent the draft to Bombay to the time when the remittance reached the hands of the London exporter. In short, as Saraiya pointed out, interest was paid by the Indian merchant both ways, whether he was buying or selling.  

Further, the risk of fluctuations in the rupee-pound exchange rates fell on him while the merchandise or money was in transit either way, and to cover himself against the risk he had to pay for exchange risk and brokerage to the exchange bank, something which would not have been necessary if

46 Central Banking, Vol. 2, p. 743; Chapman, India as a Market, pp. 9-11.
the bills had been rupee bills instead of sterling bills. The big international trading corporations buying and selling in India through London in sterling did not have to pay these foreign exchange charges. Trading in sterling value, they set off the values of exports against imports, while their puny Indian rivals lost something both in exports and imports by way of commission in exchange. Again, the international trading firms were invariably accommodated by the exchange banks both when they made purchases and shipments from India and when they accepted bills for their imports into India—an accommodation not so easily given to Indian traders. The Andhra Chamber of Commerce, stressing these disadvantages for Indian merchants, stated:

In the Andhra districts, the whole of the foreign export business in groundnuts, cotton, oilseeds, etc., is done by Messrs Volkart, Rally (sic) and Gordon and Woodroff, who have established their agencies in all the centres of production. As these rich foreign firms are backed up by the exchange banks in India and supported by their business relations and banking connections in foreign countries, no Indian can undertake the export and import business unless he had equally good facilities as mentioned above which he had not got now.48

It is not surprising, then, that large international trading concerns—like Ralli, Volkart, Shaw Wallace, Sassoons and Mitsui Bushen Kaisha—dominated the exports of India's agricultural produce and her imports of piecegoods, kerosene oil, sugar and other manufactured goods. Among these international firms, two giants stood out from the rest: the Greek firm of Ralli Bros. and the Swiss firm of Volkart Bros., both operating through the London money market. Both maintained the most extensive purchasing organisations in the main assembling centres of agricultural produce, but while Volkart Bros. operated in the Bombay Presidency, Madras Presidency, Central Provinces, and Punjab and Sind, Ralli operated in these places as well as the Gangetic valley. In buying wheat, grains, seeds and cotton, Ralli and Volkart were close competitors in southern, central, western and north-western India, but Ralli was in addition the biggest exporter of raw jute and jute fabrics from eastern India, a considerable exporter of shellac and hides and skins from the Indo-Gangetic valley, and the greatest importer of cotton piecegoods in the country as a whole. Together these two overshadowed the rest. Ralli's major operations were through Calcutta port, through which it imported piecegoods and yarns, and exported raw jute, jute fabrics, lac, hides and skins, wheat and oilseeds. Volkart Bros., which had its headquarters in Winterthur in Switzerland, was another great international firm with branches in London,

Bombay, Karachi, Calcutta, Madras, Cochin, Tellichery, Tuticorin, Colombo, Singapore, Shanghai and Osaka. Its main imports into India were steel, iron bars, and sheets and its exports were all kinds of Indian manufactured goods and produce, with cotton and cotton goods as a speciality. It owned cotton gins and cotton presses throughout the interior for export through Bombay, Karachi and Madras. Along with Ralli it figured as the main buyer in practically every major upcountry cotton assembling mandi.49

Naturally, Indian merchants who banked on the lucrative business of purchasing and railing of export produce to the ports as the commission agents of the international exporters regarded the setting up of the upcountry buying organisations by Ralli, Volkart and others as an economic invasion of the interior. The method of direct purchases from the mandis to reduce the arhat or commission of the arhatiyas was initiated as a systematic policy by Ralli and Volkart before the First World War, and they carried on the policy after the war by pushing still further into the interior during the 1920s. They set up a number of agencies at key points for the purchase of grains, seeds and cotton, which in turn supervised the buying operations of a large number of sub-agencies staffed with the exporter's own personnel. Whereas Ralli Bros. staffed its agencies with its extremely numerous Greek personnel, Volkart Bros., in addition to its German (Swiss) personnel, also appointed trusted Indian agents at key points. English, Japanese and various other foreign firms followed similar methods. These firms set up smaller versions of the purchase machinery maintained by the big two in the buying of cotton from upcountry centres such as Nandyal, Guntur, Tuticorin and Coimbatore in rural Madras.50

Native commission agents, who, with the credit supplied by Marwari, Multani and Natukottai Chettiar bankers, had long played a key role in the Kongunad cotton market in Madras, would no doubt have perceived the posting of a Greek agent by Ralli in Coimbatore in 1919 as an intrusion in their customary sphere of operations. Of course such intrusions took place only in the more lucrative spheres of inland buying and selling, and not always even there. To take the instance of rural Madras again, Natukottai Chettiar bankers had an assured hold over the financing of the heavy shipments of rice exported by the mirasdars of the Kaveri valley to inland Coimbatore and to Ceylon. But significantly big international firms (like Ralli and Volkart) maintained elaborate purchasing machineries in the Arcot plains, which enabled them to monopolise the highly lucrative export market in groundnuts from rural Madras.51

51 Baker, An Indian Rural Economy, passim.
The Great Depression hit at the foundations of these widespread upcountry buying organisations of the international export houses. As exports fell, costs had to be reduced. Consequently much of the upcountry buying organisations folded up. An alternative method of purchase, which had been less in vogue in the pre-war and early post-war years, gained ground in the 1930s. This was the system of using arhatiyas based on upcountry mandis as 'guarantee brokers'. These commission agents guaranteed at a pre-arranged rate of commission the due fulfilment of all contracts for supply to the export houses brought in by them from the mandi merchants. The big arhatiyas were keen enough to win the valuable position of 'guarantee brokers' by putting in a security deposit of substantial cash with the great export houses. After 1930 the export houses closed down a large number of sub-agencies as uneconomic: direct sub-agency buying in small lots from producers who were represented by smaller commission agents (kutcha arhatiyas) was no longer profitable. The volume of direct small-unit purchases, which had formed a large portion of the total purchases in the 1920s, fell to insignificant proportions in the 1930s and were practically replaced by 'port pass contracts' with big commission agents (pucca arhatiyas) acting as guarantee brokers. Under the port pass contract the inland arhatiya received an advance of 80 to 90 per cent of the value of the consignment railed by him to the shipper. In return he undertook to accept without question the shippers' analysis and weighing of the produce at the port of loading. After analysing the quality of the produce and weighing it with his own weights the shipper paid the balance of the value of the consignment with such deduction as he thought fit. Wheat exports were practically eliminated after 1930 and such exports as still continued were consigned, to the extent of not less than three-fourths of the total, under the popular port pass contracts entered into by the guarantee brokers with their principals.52

The Integration of Indigenous Capital

As the whole grain business turned inwards, the colonial relationship between the international trading corporations and their guarantee brokers ceased to be the key economic relationship. This is not to say that while the foreign corporations lost out, the Indian marketeers profited at their expense. Indian grain merchants suffered, too, as the total volume of domestic trade in wheat declined perceptibly in the 1930s. But they were willing to continue trading within the contracting domestic market at far lower profit margins than the giant export houses would work on in their reduced international operations. Furthermore, Indian merchants had the means of reducing their losses by greater industrial investment at a time

when the domestic prices of industrial products were holding up better. It should be stressed that the financial and commercial infrastructure for a rapid domestic integration of the Indian economy already existed. Also the nodal points of this domestic integration were the very port cities, Bombay and Calcutta, which had played the key role in integrating India into the international economy.

It is not adequately appreciated that on the eve of the Great Depression, Bombay and Calcutta were already controlling an enormous volume of financial transactions which had nothing to do with export-import trade. At one time, presumably, indigenous financial and banking for trade between any two mandis must have been provided mostly locally, i.e., by bankers on the spot. But this was no longer so. A large part of the inland trade between different upcountry mandis which never touched the ports at all was now financed by Bombay and Calcutta. Such inland inter-mandi commercial transactions had always, of course, formed the overwhelming proportion of Indian trade. What was new by 1929 was that Bombay and Calcutta had moved into key position as hundi bankers to this trade.

The point may be illustrated by a striking instance which the Bihar and Orissa Provincial Banking Enquiry Committee recorded in 1930. Coconuts were grown extensively in Puri district, which exported annually about 30,000 maunds, almost entirely to confectioners in the Central Provinces. Four coconut dealers at the railhead, one Marwari and three Oriyas, bought up the coconuts from local Brahman agriculturists who collected the produce of other ryots and moved the nuts by road to the railhead. The four coconut dealers financed one quarter of the nuts by advances which carried no stipulation of exclusive right of purchase and they paid cash down for the other three-quarters. When the mandi merchant at the railhead filled an order from a CP confectioner by railing the ordered coconuts, he telegraphed the buyer, who wired back that he should draw a hundi on a particular merchant in Bombay or Calcutta. The coconut merchant drew a hundi accordingly and sold it locally in Puri to a merchant willing to remit money to either Calcutta or Bombay. He usually got a premium for a hundi drawn on Calcutta, to which plenty of merchants wished to remit. By contrast, he had to sell hundis at a discount in Bombay where fewer merchants wanted to remit money. ‘This,’ observed the Bihar and Orissa Banking Enquiry Committee, ‘seems to us to be a fairly typical account of business carried on in a local product for which there is a distant sale, and there must be a great many similar enterprises going on throughout the province in other commodities . . . . Remittance is put through by means of the indigenous system of hundis, and no use whatever is made of banks of a western type.’

Thus the indigenous money markets of Bombay and Calcutta and the
inland railway network had already created the infrastructure of a national
economy in which the bazaar occupied the key position. As the great
export houses began to withdraw their agencies from the interior, and the
inland trading in grains came to represent practically the entire grain trade
of India, the bazaar established an independent command over the Indian
economy in the Great Depression. Not only did it occupy the void created
by the withdrawal of Ralli and Volkart to the ports, it also penetrated
deeper into the country to compensate for the falling profits of the grain
trade. A series of investigations by the Punjab Board of Economic Enquiry
in the marketing of wheat in nine markets of Lyallpur, Ferozepore and
Attock showed that the grain arhatiyas in the mandis were now buying
between 66 to 77 per cent of their wheat purchases direct from the peasants.
Direct dealings between the peasants and the commission agents had been
pushed up by the Great Depression, which had all but eliminated the
pedlar who had hitherto mediated between the mandi and the peasant
homestead. At the same time the organised modern business sector had
been compelled to effect a partial withdrawal from the mandis. In the nine
mandis surveyed, arhatiyas numbered 438, European firms 25 and flour
mills 12. 54

When the Indian economy emerged from the Great Depression and
commercial activity once again entered into the upswing merging with the
speculative boom of the Second World War, the market network in India
had achieved a fuller articulation, exhibiting in clear outlines the shape of a
pyramid. The knitting together of financial and commercial transactions at
the higher levels of the network had created a national market in which
indigenous capital was the integrating factor. At the base of the pyramid
were the weekly or biweekly markets and seasonal fairs dispersed over the
countryside and serving the peasant population. There were in all 1,733
main fairs, about half of which assembled annually along a strip of plain
stretching from central Punjab to north Bengal along the Gangetic valley,
and 22,080 shandies, haats and painths, which dotted the countryside at
intervals of six miles or so from one another. At the middle tier of the
structure, there were 1,718 mandis, among which closer relations had been
established by constant movements of goods and credit. These regularised
interchanges, that were made possible by the hundi facilities provided by
Bombay, Calcutta and ten other exchanges on the coast and inland, had
integrated the commercial economy of the country. The growth in the
number of the foreign exchange and hundi transactions of the 12 money
markets headed by Calcutta and Bombay had gradually lifted them to the

54 F. A. Shah, and L. R. Dawar, Finance and Marketing of Cultivators' Wheat in the Punjab
(Lahore, 1934), pp. 50-54.
top of the structure. In 1929 they provided the nodal points of an all-India economic system (see Table 3).

Table 3

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<th>Number of Produce and Cattle Fairs and Markets in India, 1943</th>
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<tbody>
<tr>
<td><strong>Fairs</strong></td>
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<td>India</td>
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<td><strong>Main Provinces</strong></td>
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<td>Assam</td>
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<td>Bengal</td>
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<td>Bihar</td>
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<td>Bombay</td>
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<tr>
<td>CP &amp; Berar</td>
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<tr>
<td>Madras</td>
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<td>Orissa</td>
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<td>NWFP</td>
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<td>Punjab</td>
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<td>Sind</td>
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<td>UP</td>
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Among these 12 centres of monetary and financial transactions, Bombay and Calcutta stood out from the rest, forming the axis of the entire system. They were the twin financial and commercial capitals of the country, capitals not merely of the colonial enclave but also of the indigenous sector of banking and commerce. There had emerged in addition 10 more financial centres dependent on the Bombay and Calcutta exchanges and giving clearer definition to the system—Madras, Karachi, Delhi, Cawnpore, Amritsar, Lahore, Ahmedabad, Cochin, Tuticorin and Chittagong. There were, of course, other large and important towns, but long distance financial and exchange facilities were overwhelmingly concentrated.

These 12 nodal points of the Indian trading and credit systems have been identified after a close reading of Handbook of Commercial Information (1937), and the voluminous evidence of the Central and Provincial Banking Enquiry Committees of 1929–31. Criteria for selection are: (i) centres of exchange banking (and therefore of external trade); (ii) the big hundi markets with inter-provincial connections; (iii) the great inland emporia.
in these 12 nodal points of the Indian commercial system in the late 1930s. Excluding Ahmedabad, the other 11 towns and cities were the centres of exchange banking in India, and hence also the centres of import-export trade. Naturally most of these were port towns. However, Delhi, Cawnpore and Amritsar were upcountry centres for the distribution of imports (especially piecegoods) and the assemblage of exports. Together with Ahmedabad, these three inland emporia were also important centres of the indigenous money market, with the largest volume of *hundi* transactions outside Bombay and Calcutta, and possessing solid financial connections with the *hundi* exchanges of these two cities. Thus 12 towns and cities in India had come to represent by the 1930s not merely the points of concentration of the import-export trade and exchange banking, but also the critical financial centres for the indigenous money market and the long distance inland trade.

The bazaar thus emerged from the Great Depression as an integrated system of inland business transactions between distant market towns moving through the key financial exchanges. The network of 1,718 *mandis* with its 12 nodal points was connected visibly by the railways and the telegraph, and invisibly by the dense web of *hundi* and *arhat* arrangements. All-India surveys of a wide variety of crops—rice, wheat, gram, barley, potatoes, linseed, groundnut, coconut, cashewnut, castor seed, rapeseed, mustard, lac, hides and skins, and tobacco—showed that a new concentration of the marketing and financing of agricultural produce had been effected through the *arhatiyas* and *shroffs* based on the *mandis*. It may be argued that the financial integration of the inland produce trade was still not complete. The instance of the coconut trade between the coconut merchants of Puri and the Central Provinces confectioners which we have cited may be taken to indicate that the bill market in *hundis* between upcountry centres had been insufficiently developed, so that remittances between the Central Provinces and Orissa had to move through Calcutta and Bombay. But imperfect as this financial integration was, it was a step further from long distance peddling and itinerant trading between Orissa and CP which would have been the only means of trade between the two regions had there been no mediation by the *hundi* markets of Calcutta and Bombay.

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*See the series headed *Agricultural Marketing in India. Marketing Series*, published by the Agricultural Marketing Adviser to the Government of India. The series came to contain as many as 60 reports on different crops by 1947, for a list of which see Marketing Series no. 60. *Agricultural Marketing in India. Report on the Production and Marketing of Cardamoms in India* (Delhi, 1947). I have seen all these reports, which convey in their totality an unmistakable sense of the market integration of India through *hundi* and *arhat* operations. See especially *Report on the Marketing of Rice in India and Burma* (Delhi, 1941); *Report on the Marketing of Wheat in India* (Delhi, 1937); *Report on the Marketing of Barley in India* (Delhi, 1945); *Report on the Marketing of Linseed in India* (Delhi, 1938); *Report on the Marketing of Tobacco in India and Burma* (Delhi. 1939).*
Bombay. The instruments through which the bazaar operated in order to achieve this imperfect degree of integration were basically four: goladari (storage), badni ka satta and teji mandi (futures trading and speculation), arhat (commission) and hundi (inland bill of exchange). It is time now to survey these four instruments of the bazaar in some depth.

Bazaar Devices—Storage and Speculation

Goladari, which meant the business of storing and trading in grain, was the basic factor which distinguished the bazaar from the pedlars and the peasants. Facilities for storage existed of course in both the country and the bazaar and differed in degree rather than in kind. The market khatti was an underground pit like the villagers', only larger. The kotha or market warehouse was simply a large enclosed space in which grain was stocked in bags or sacks, which replaced the peasant's earthen pots or bins made of matting, mud and wickerwork. Contrary to general notions, peasants and pedlars did hold on to crops by means of the primitive facilities available in the village, and substantial villagers, such as the mirasdars of Madras and the jotedars of Bengal, made a regular business of storing grain by such means. But for the mass of ordinary peasants, caution bred by generations of experience was a pressing indicator to dispose of their crops in the mandi as quickly as possible, for prices were as liable to fall as to rise. Investigations by the Indian Central Cotton Committee into the finance and marketing of cultivator's cotton in eight widely dispersed cotton tracts in India (Berar, Khandesh, north Gujarat, middle Gujarat, Sind, Punjab and the northern and western areas of Madras) showed that villagers sold off early as much for fear of a falling market as on account of financial pressures. When pedlars or richer peasants wanted to store grain for commercial purposes, they would as often as not use the professional services of a goladar or arhatiya, storing with him for short periods against advances. Price fluctuations were a complex and dangerous game and those who did not have proper sources of information ran a high risk of being altogether finished in it.7

Only the big merchant could play the game effectively and he was, not unexpectedly, contemptuous of smaller fry in these unpredictable operations. O. Krishnamurti Rao Garu, a big cotton merchant of Adoni in the Madras Presidency, had this to say of smaller village dealers who traded with the market towns:

Most of these petty dealers who bring a large number of carts to the principal markets are being financed either by the big landholders of the village or by the dalals of the principal markets. They do business headlong and in most cases do not watch the trend of the market and consequently wind up their business themselves being in debt either to the prominent moneylender of the village or dalal and leave the place for good.  

The real man who benefited from storage through the rapid fluctuations of the agricultural cycle was neither the village Bania nor even the small commission agent (kutcha arhatiya) in the mandi, but the wholesale dealer in big markets like Delhi, Bhagalpur or Lyallpur. In fairness to him, it should be said that he was not profiting much, if at all, in the 1920s, and he suffered much in the 1930s. With a harvest price of Rs. 4 a month, it was estimated by the British Cotton Grower's Association in the Punjab that it would not pay to hold wheat over the monsoon (in view of the cost of storage), unless the price rose to Rs. 4-6-0. Only in two years (between October 1924 and March 1929) did it pay, in these terms, to hold cotton and wheat for any length of time in Lyallpur. According to a graph prepared by the Punjab Provincial Banking Enquiry Committee showing the seasonal fluctuations in the wholesale prices of wheat and cotton, the net result upon wholesale dealers over the period was a loss, though occasionally, as with wheat in 1928, large profits were made. A similar enquiry for Bihar and Orissa showed that no fortunes could have been made in Patna, Bhagalpur, Muzaffarpur, Ranchi and Cuttack from fluctuations of grain prices in the 1920s. Indeed, in 1929, a dealer who bought an equal quantity of paddy in January at all five centres and held for sale either in June or August would not only have made no profit, he would have lost his interest as well as his warehouse charges.

Goladari was thus a risky business which required the special skills and facilities of the bazaar. The business was of ancient standing, and Buchanan Hamilton had noted and commented upon it in Bihar in 1811. Substantially the same structure was revealed by the Bihar Banking Enquiry of 1930. The function of the goladar or grain merchant and warehouse-keeper was three-fold: (a) to store grain for his client (who could be a pedlar, a peasant, a mandi merchant. or zamindar) or on his own account, (b) to sell

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grain on commission basis (arhat) for his client, and (c) to make advances against the grain entrusted to his warehouse to the extent of 85 and sometimes even 100 per cent until the goods were sold off. The warehouse charge was minimal and the main profit came from his acting as commission agent in exports to the ports or the big distributing centres. The advances were made at an interest of about 9 per cent, which was low compared to rates prevailing in the country.

The Bihar goladars financed their exports by drawing hundis on the port consignees or commission agents in Calcutta, the hundis being negotiated through Barabazar. As the goladars were also large importers of cloth and other goods, ordinarily from the same commission agents and hundi bankers of Barabazar, most of their transactions were settled by contra account. Goladari was commonly combined not merely with cloth business but, in the case of the biggest goladars and cloth merchants, with hundi banking. In Bhagalpur town the grain and seeds business was worth 4 to 5 crore rupees and piecegoods import was worth one crore. There were ten big goladari firms which stored grain and oilseeds, and all their warehouses were located in one street, which served as the grain wholesale market where samples were displayed and sales were arranged. The same firms were involved in the cloth business and had a stake in urban banking and rural money-lending too. Khaliram Kedarnath, one such leading goladari firm which held at the same time an agency of Esso for selling kerosene oil, bought grain through agents who operated in different parts of Bhagalpur district. The owner, Seth Kedar Nath, employed 30 servants to collect grain for him. Normally he waited three or four months after purchase to sell off the grain bought on his own account. He also stored grain for his clients, to whom he advanced money to a limit even of 100 per cent depending upon the credit of the borrowing party. He charged 8.5 per cent on these advances, and sold the grain of his clients at a commission of 12 annas per cent. He refused to accept grain for storage when he had no more money to lend against the grain, but there were other goladars in Bhagalpur who borrowed money to oblige customers when their own loanable capital ran out. Seth Kedar Nath charged no warehouse rent if the period of commission storage did not exceed a month and a half, after which he charged a nominal rent of one rupee per month 100 bags (each bag containing two and a half maunds of grain).

In the more flourishing grain trading centres, grain storage was used as a means of raising credit. Having stocked his khatti (grain pit) or kotha (grain warehouse) with grain purchased on his own account or taken on commission from clients, the grain merchant would pledge the goods to a financier and formally transfer possession of the godown to him. If the financier was a bazaar banker he would simply content himself with the key

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61 Bihar and Orissa Banking, Vol. 1, p. 77; Vol. 3, pp. 146-48, 150, 151, 158.
of the godown, but a bank would put on its own lock and signboard. The banker would make the advance to the grain merchant, not so much on the security of the grain in the godown, as on the borrower’s reputation for personal integrity, for he could not be certain that the goods shown in the invoice (beejak) were the same as the actual contents of the godown. A kotha or khatti could be sold along with the invoice several times before it was finally emptied and its contents sold for consumption or export; and if on opening the store a discrepancy was discovered between the actual weight and quality of the grain and that described in the invoice, the responsibility for making good the difference fell on the original warehouse keeper.\(^{62}\)

As may be imagined from the fact that a khatti could change hands as many as twelve times during a season, grain storage was used not merely for raising credit, but for speculation as well. This brings us to an important feature of the bazaar which distinguished it from the rural economy—i.e., the presence of produce exchanges. The produce exchanges in the port towns and the big grain marts of the Punjab and western UP were mainly for speculative transactions, as distinct from spot and forward transactions. Two basic types of speculative transactions had been traditionally known in India: (a) futures transactions known as badni ka satta, and (b) options known as teji ka satta (put option), mandi ka satta (call option) and teji-mandi or nazaran (double option). A futures contract, like a forward contract, carried a stipulation for delivery at a future date, but was distinguished by the fact that it could be liquidated by payment of differences at any time during the currency of the contract. In the produce exchanges in India, very few transactions were genuine spot or delivery transactions. Purchases and sales were cancelled against each other before the actual date of maturity—and on most exchanges throughout the months of futures trading only an insignificant number of transactions remained to be settled by means of actual delivery. In addition to futures trading, an enormous volume of teji-mandi gambling went on in the produce exchanges. Mandi or call option was an option to sell a certain commodity at a specified future date and price. Teji or put option was in converse—a right to buy at a given future date and price—while teji-mandi combined the right to buy and sell on the same terms. A report on the produce exchanges during the Second World War described the operation in detail:

The buyer of an option has to pay some money to secure an option to buy or sell during a specified period a specified quantity of produce at the current rate. The money is commonly known as nazaran or premium. The party which takes the premium is known as the ‘eater’ (khanewala or khanar) and the party which pays the premium is known

as the 'supplier' (laganewala or lagandar). The buyer of a teji option is a 'bull' i.e., he believes that the prices are likely to rise. If he finds that the price has not risen, he does not demand delivery of the produce purchased by him and forgoes the consideration money paid by him. The buyer of a mandi option, on the other hand, is a 'bear,' i.e., a person who expects the price to fall. If he finds that the prices have not gone down, he keeps quite and allows the premium paid by him to be forfeited. The buyer of a teji-mandi option secures the option to buy or sell as it suits him. The buyer of a double option is both a 'bull' and a 'bear'. In other words he expects the market to fluctuate appreciably.

The volume of the speculative transactions can be estimated from the fact that wheat was traded in futures to the extent of 70 million tons, though 10 million tons were produced in India. An enormous amount of futures trading and teji-mandi gambling went on in India in the inter-war period. Such speculative transactions had long been a part of the Indian commercial scene, but their volume had been far less before the First World War. Law court records showed that teji-mandi gambling had been in vogue for a very long time; so were futures. But formerly their volume had been kept down by the fact that till a few years after the First World War, the greater proportion of the export trade in grains and oilseeds and a considerable part of cotton and jute export trade had been in the hands of a few international trading houses, especially Ralli and Volkart. These two firms maintained direct contact with the producing areas through their upcountry buying organisations and quickly gathered in the saleable surpluses for quick export out of India. They needed price stability to sustain these large international operations and their impact was to stabilise or at least coordinate prices in different markets. During the First World War, the normal channels of trade were disrupted. The war-time uncertainty produced a wave of speculation in the bazaar which spilled over into the post-war years. Extensive gambling in wheat, seeds, cotton and gunnies in Barabazar to the detriment of 'legitimate business' so alarmed the organised European business and industry that the Bengal Chamber of Commerce contemplated ways and means to check it. But to no effect. Even before this, futures trading in cotton and some other agricultural commodities had taken a kind of organized form in Bombay, where indigenous traders had indulged in it before the First World War. But now this widening activity was threatening to disrupt the supply lines of the dominant European business in Calcutta too.

Soon the activity extended beyond Bombay and Calcutta. The first step

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63 Fairs, Markets and Produce Exchange, p. 79
64 Ibid., pp. 78–79.
65 Bengal Chamber of Commerce Committee, Minutes of Proceedings Commencing from 7 August 1919 (manuscript minute book preserved in the committee room of the Chamber).
towards organised upcountry futures trading was taken in 1920 with the formation of the Sugar and Grain Merchants Association of Amritsar, which was later converted into the Indian Exchange Ltd. During the Great Depression, as European control over the trade in agricultural commodities collapsed, bazaar speculation in the upcountry mandis galloped. During 1932 and 1933 more than 60 speculative produce exchanges were formed in the Punjab alone. Their main business was trading in wheat futures, with some marginal speculation in gram, barley and rapeseed. By 1934 many of these badly organised produce exchanges collapsed. The better organised exchanges in Bombay and Calcutta, though fewer in number, showed greater tenacity. In Calcutta a small jute futures trading association had been formed in 1912. The authorities suppressed it on charges of pure gambling in 1927, and two more such associations in the next two years. In 1927 the Birlas took the lead in organising the much bigger East India Jute Association, which gradually secured control of the jute futures market in India. In Bombay, where the indigenous business element had always been much stronger than elsewhere, there had been several cotton produce exchanges before the First World War. These were replaced in 1922 by the more organised East India Cotton Association established by statutory authority. A few years afterwards a smaller and more 'indigenous' cotton produce exchange, the Shree Mahajan Association, sprang up, operating a smaller unit of transaction and giving formal recognition to teji-mandi gambling, which gave rise to great discord between organised business and the bazaar in the Bombay cotton trade.  

It was not merely the supply lines of the international trading firms and the industrial managing agencies that the bazaar threatened by its rampant speculation. In active trade seasons or times of political uncertainty, violent fluctuations were produced in the market by badni ka satta and teji-mandi. Such fluctuations, besides involving the speculators in losses, forced many consumers and shippers to withdraw from the market, so that peasants found their markets narrowing at such times. However, in normal times such speculative transactions had a more positive effect. They were controlled by a particular group among the grain traders who specialised in undertaking commercial risks and who were aware of the seasonal and world movement of prices. Their business tended to make the daily market prices correspond to the movements in supply and demand as they varied from season to season. Not unexpectedly, the bandi ka sattas in upcountry markets, such as Hapur, Meerut, Muzaffarnagar, Hathras and Agra were concentrated in the hands of that important group among the grain dealers which controlled the warehouses—pucca arhatiyas.  

66 Fairs, Markets and Produce Exchange, p. 67.
Arhat—An Important Bazaar Device

This takes us to *arhat*, a central lever in the mechanism of the bazaar. In various forms the root word occurs in many Indian languages: *arhat* in Hindi and Maithili, *arat* in Bengali. Gujarati and Sindi, and *adat* in Marathi; whence *arhatiya* (Hindi), *aratdar* (Bengali), *adatya* (Marathi), *adathi* (Tamil), *arti* (Punjabi), and so on. The word was presumably of an indigenous origin, unlike the Arabic *sarraf* (money-changer) from which the Anglicised form *shroff* (indigenous banker) derives. The word was well in use in commercial parlance during Buchanan Hamilton’s survey of the Bengal and Bihar districts, and he gives instances of the various inter-related uses of the term in his account of Patna:

Here are several merchants called Aratiyas, who receive goods from merchants at a distance, and dispose of them by commission, taking upon themselves the responsibility for the purchaser, on which account they are men of property or credit. They also purchase on commission, and transact business at the custom house for merchants at a distance.

[There were also] Aratiyas, who keep commission warehouses; they receive various kinds of goods, according to their different inclinations, and dispose of these on commission.

In the sense used here, *arhatiya* is synonymous with the *goladar*, the warehouse owner and stockist of grain, who was destined later on to take to wheat ‘futures’ (badni ka satta) trading in western UP and the Punjab. Finally, Buchanan Hamilton also mentions bankers known as *aratiyas* in smaller towns like Gaya and Daudnagar, who granted *hundis* for cash on Patna and Banaras, obviously acting here in the capacity of correspondents to the *kothiwals* (bigger banking and trading houses) of the major centres of the money market. Three separate roles are mentioned here by Buchanan Hamilton; (i) commission agent for sales and purchases on behalf of others, (ii) warehouse keeper dealing in stocking and commission sales of grain, and (iii) correspondent of the Banaras and Patna bankers on whom they could grant *hundis* (obviously because they were selling grain to them on commission and were realising the dues in this manner—taking cash from local merchants who had to send remittances to Patna and Banaras). These three roles were inter-related, and one business may have arisen from the other. There were other possible uses of the term: in the Madras Presidency in the 1920s there were *adathis* who were brokers in *hundis* to

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and from Burma—bill brokers as distinguished from banking correspondents and commission agents in hundis for other bankers. But whatever the specific contextual sense of the term, all traders were agreed on the root meaning of arhat: it meant ‘commission,’ and by derivation, the warehouse where goods were stored on commission.

In Bikaner, in Punjab, in UP, in Bihar, in Bengal, in CP and Berar, in the Bombay Presidency—in practically every province of Northern and Western India surveyed by provincial or native state banking enquiry committees in 1929–30, the arhatiyas formed the crucial link in the marketing chain from the producer in the village to the exporting firm in the port. In the deep south, where the arhatiya did not figure in agricultural marketing, his place was taken by the dalal. The enquiries of the Central Cotton Committee into the marketing of cotton in eight different tracts in Berar, Khandesh, Gujarat, Sind, Punjab and Madras during 1925–28 revealed the same dominance of adatyas, arhatiyas, artis, dalals or dalalidars as they were known in different cotton tracts. The Bengal Jute Enquiry Committee reports in the 1930s showed the importance of the aratdars in the supply of jute to Calcutta for milling and export. Finally, a marketing series issued by the Agricultural Marketing Adviser to the Government of India in the period 1937–45 showed that the marketing and export of practically every agricultural commodity in India would have collapsed but for the crucial link supplied by the arhatiya in the assembling and distribution of crops within the country.

The arhatiya figured mainly as a mandi-based commission agent through whom the pedlar or the producer from the country sold his crops, or conversely as a commission agent through whom Manchester, Bombay or other manufacturing centres sold its piecegoods to millions of retailers. The cultivators' crop passed through four middlemen according to a survey made by Malcolm Darling in the Punjab in 1929. The village shopkeeper or a pedlar, variously known as bepari, faria or dalal, brought it to the mandi and sold it through a broker (dalal) and a commission agent (arhatiya) to a mandi merchant, a port buyer or a mill. The arhatiya was the critical link in the chain. In the 408 shops surveyed by Darling, there were 231 kutcha arhatiyas and 40 pucca arhatiyas. Darling distinguished the two categories in terms of size and function: ‘The agent with limited resources usually acts as an agent for the seller and does not buy on his own account, and does little, if any, storage. But the agent with ample resources acts as an agent for the buyer, often buys for himself, and stores freely.’ Most of the arhatiyas in the surveyed mandis belonged to the merchant communities.

70 Madras Banking, Vol. 4, pp. 244–47.


Before the Great Depression, they faced tough competition from agents of European, Japanese, Karachi, Bombay and Calcutta firms posted in the bigger Punjabi mandis. The onset of the depression, however, left the arhatiyas in possession of the field.

In the princely state of Bikaner, the system of marketing revealed by a banking enquiry committee appointed by the Maharaja corresponded to the system found in the Punjab by Darling, except for the fact that the place of the Karachi, Bombay, Calcutta and European and Japanese firms was taken here by the big Bikaner whole-sale merchant and banker with a wide network of branches in the main trade centres of the Indian empire. Here, too, the grain dealers in the villages, who were also the money-lenders to the peasants, sold the produce through dalals or brokers to kutcha arhatiyas in the mandis who usually financed the village Banias and enabled them to make advances to the peasants. Having bought the produce by cash payments either on his account or—as was more usual—on account of another merchant, the kutcha arhatiya transported the grain or cotton to the pucca arhatiya in other Indian cities. When the kutcha arhatiya sent his goods to the pucca arhatiya in another city, he drew 75 to 90 per cent of the face value of the produce through hundis on the pucca arhatiya, who in turn discounted his bills either with exchange or joint stock banks in the ports or with shippers like Ralli Bros., E.D. Sasoos & Co. and Andrew Yule & Co., till the goods reached the foreign markets.71

E.A.H. Blunt's enquiries in UP in connection with the provincial banking enquiry committee of 1929–30 showed that while the kutcha arhatiya operated in small as well as big markets, the pucca arhatiya was to be found usually in the bigger and organised markets, such as Hapur, Ghaziabad, Meerut, Muzaffarnagar, Deoband, Shamli, Secunderabad, Dankaur, Hathras and Agra, where the volume of trade was large enough to stimulate the development of grain futures markets. The kutcha arhatiya was basically an intermediary, whose function was to introduce the bepari to a purchaser, and to arrange a bargain, usually with the help of the purchaser's dalal or directly with the purchaser. He did not buy on his own account; he was merely the commission agent of the village dealer, and his aim was to secure the custom of as many village dealers as possible by making them advances for produce. The pucca arhatiya, on the other hand, was a true commission agent, who bought on behalf of some wholesale firm in another city. Thus the purchaser to whom the kutcha arhatiya introduced the bepari was usually a pucca arhatiya. In the bigger mandis of the prosperous canal tracts of Western UP, valuable crops were produced in large quantities, communications were good, mandis were small in number and well organised, and the traders were rich. The pucca arhatiya predominated

here: a financier who made advances to village dealers to make sure of his produce, a commission agent of buyers in ports and flour mill centres, a grain stockist and a speculator and trader in 'futures'.

The *pakka arhatiyas* at such a market as Hapur are in close touch with the foreign markets through their head offices at the ports; and thus the movements of world prices govern the Hapur prices, which in turn govern the prices of the small market and the village. But the *arhatiyas'* sales are not only to the export and wholesale trade, but to the retail trade too. He is the primary distributor of agricultural produce, and so stands at the apex of the structure of Indian marketing, with the *kachcha arhatiya* and the dealer in the small mandi in the middle and the village *bania*, beopari and cartman at its base. 75

In Bihar the same system of commission agency prevailed in the marketing of grain and oilseeds; and the system also operated, as we have seen, in reverse gear. because the *arhatiyas* who dispatched rice and seeds to Calcutta were also the commission agents for piece-goods sent from Calcutta for distribution in the Bihar countryside. The *arhatiyas* supplied on commission to the distributing merchants in the town and country. A Patna *munsif* gave a neat description of the reverse operation of the *arhatiya* to the provincial banking enquiry committee:

Even a big merchant arranges to get goods from big trade centres through the local *aratias* or brokers. The merchant deposits some cash with the brokers and brokers who are also bankers discount their customers' *hundis* or grant them credits in their books, purchase goods from the wholesale dealers of their towns and consign them to their customers. The *aratias* generally make a good profit out of their business for they charge brokerage as well as interest on book credits allowed or discount on the *hundis* discounted and in addition receive trade discount from the wholesale dealers on the goods purchased for their customers. The brokers generally employ their own funds in the business but in busy seasons they have to raise money by endorsing their customers' *hundis* and rediscunting them with the joint stock banks. 76

It must not be thought that the *arhatiyas* as a class consumed high profit margins as intermediaries or made their living by fleecing the cultivators. In the Punjab, where dealings between *arhatiyas* and peasants were becoming increasingly direct in the 1930s, the *arhatiya* generally acted in

75 UP Banking, Vol. 1 pp. 60, 152, 155, 159.
76 Bihar and Orissa Banking, Vol. 2, pp. 246–47
the interest of the cultivator as the volume of his business with the peasant sellers depended on his reputation. The same group of peasants would employ him year after year, showing their confidence in him, though of course there were individual cases of complaint that the arhatiya was cheating the cultivator. But this was not a structural characteristic of the commission agency system, for the system earned its commission not on high margins but on large turnovers. The rate of commission (arhat) in Delhi and Punjab after deducting expenses, was no more than 1 per cent. That he still earned a large profit was due to the great volume of his business—a volume which could be sustained only by low rates of commission. The business was highly competitive and depended on the terms offered by the arhatiyas to the country folk. In Delhi alone—the largest grain mart between Amritsar and Cawnpore—the arhatiyas numbered 200 in 1935; and in the Punjab—the granary of India—not less than 4,000. Their average annual earnings from commission business were estimated by Darling to range between Rs. 1,100 at Toba Tek Singh to Rs. 2,165 at Gojra (see Table 4).

Table 4
The Structure of the Commission Agency Business in the Punjab

<table>
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<th>Market</th>
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<th>Annual income from Commission business (Rupees)</th>
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<td>Gojra</td>
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<td>1,325</td>
</tr>
<tr>
<td>Toba Tek Singh</td>
<td>6</td>
<td>818,000</td>
<td>55,00,000</td>
<td>69,000</td>
<td>1,647</td>
</tr>
</tbody>
</table>


The arhatiyas employed several market personnel—dalals (brokers), tolas (weighmen), hammals and palledars (market labourers, usually dependent, who attended to cleaning and handling produce), sweepers, water carriers, munims (salaried employees of the arhatiyas) and shagirds (arhatiyas' apprentices). Besides his own commission, therefore, the arhatiya made other charges for the market services provided by him. The various market charges were (a) arhat (commission), (b) dalali (brokerage), (c) palledari (handling charge), (d) tulai (weighment charge), (e) charges for other market services, (f) dharmada, gaoshala, etc. (charities),

77 Marketing Cultivators' Wheat in the Punjab, p. 62.
79 Marketing of Wheat, p. 133.
(g) karda (quality deduction) and dhalta (weight deduction), and (h) miscellaneous. The unique item among these were the charity charges which, as Darling observed, were 'characteristic of the way religion and business in India often join hands'. The rates for dharma and gaoshala were fixed by the arhatiyas' market panchayat, but the income was spent at the discretion of the individual arhatiya, who was not accountable to any one. Some arhatiyas devoted the amount to schools, orphanages and other charitable institutions, but others—the majority—spent it on religious ceremonies, feasting of Brahmans, pilgrimages to Hardwar and Banaras, bathing in the sacred waters of the Ganges, the upkeep of temples, and the maintenance of alm houses for old and infirm cattle. The merchant communities of India were deeply religious; and in these mandi charges levied by them on millions of peasants (including, indiscriminately, the Muslim peasants), and their own substantial contributions, lay the financial basis of the pervasive rural religious culture of India and the enormous infrastructure of Hinduism—its priesthood, its temples, its pilgrimage centres, its festivals and ceremonies, and its enormous and debased cattle population.

The form of commercial organization in India, the arhat or indigenous commission agency system, was peculiar to the country, and it took the place of wholesale trading. Firms operating on the scale of wholesale trade were almost invariably commission agency firms which bought and sold not so much on their own account as on behalf of other buyers and sellers, whom they financed to the extent of three-quarters or more of the goods and produce which they handled on their behalf. Under the commission agency system, losses in transit would never fall on the commission agent, but would be borne by the consignee. On the other hand, bad debts would fall on the commission agent. Funds had to be pumped into a chronically deficit economy which could give no guarantee of repayment of loans. The only safe form of credit was an advance against a crop, or against goods in transit. The Indian merchant, who was at the same time a mahajan, sowcar or shroff, was in a position to locate exactly the produce which could be used to secure a loan. Yet, while trading in the located and financed amount of produce, the wholesale merchant might run into an unpredictable monsoon fluctuation. The risk had to be shared with the producer, and this implied that the producer had to be given a share in ownership of the produce. Thus wholesaling was substituted by commission agency, a far safer form of business.

The producer or the village dealer retained under the system ownership of the crop entrusted to the arhatiya. While the crop was being held in the

80 Fairs, Markets and Produce Exchanges, pp. 53, 59, 60.
82 Ibid., p. 214.
**arhatiya's khatti**, the producer took the risk that it might not fetch a higher price even after three months. Of course the *arhatiya* whose storage space was taken up by the produce faced the same risk, but he could share it with the *bepari* or the *kisan* customer who had carted the produce to his *khatti*. Once the goods were sold to a *pucca arhatiya* who was consigning it to a wholesale firm in another town, the consignee at the other end bore the risk of transit, not the *arhatiya*. The commission agency system was a system of distributing and sharing risks and it extended from the top to the bottom of India's monsoon economy.

The intermeshing system of commission agencies through which the commercial centres of India were linked to one another was a complete system of market intelligence. This indigenous system of commercial intelligence integrated the vast economy of the subcontinent and linked it to the world markets. The telegraph in the nineteenth century, and the wireless in the twentieth, quickened the flow of information on prices through the invisible wires of the commission agency system. Intelligence moved through these wires with speed and accuracy. The older rulers of India had always relied on this market network for the passing of strategic intelligence. News of the Maratha debacle at Panipat in cryptic language, for instance, had apparently been conveyed in 1761 through the commercial network. The British government similarly found it necessary to rely on the commission agency system for the market intelligence essential to economic administration, especially during war-time. E.A.H. Blunt, when he was serving as Director of Civil Supplies in 1918–19, was kept regularly informed of prices in all the principal grain markets of Upper India by some Cawnpore wholesale grain dealers, who obtained the information by wire from their *arhatiyas* in those markets. The more enterprising commission agents were by now making systematic use of the wireless to carry out their operations, and Darling recorded the case of an *arhatiya* in Okara who had set up a wireless at his house to obtain market quotations from Bombay. The *arhatiya*, in his capacity as a banker, served as a correspondent to other bankers who had no branch in a particular city. Rates of money were regularly telegraphed from one money market to another by the *arhatiyas*. They thus facilitated flows of money to take advantage of differences in *hundi* rates. Arhat and hundi were the two crucial binding factors in the vast Indian market.

**Hundi—The Central Device of the Bazaar**

This brings us to what C.N. Cooke identified in the mid-nineteenth century as 'the most perfect portion of the Indian commercial system,' namely the

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circulation of *hundis*. Like Tavernier, Cooke, too, was impressed by a system in which, ‘although millions were invested, the loss by bad debts, arising out of the dishonour of the instruments at maturity, was a most insignificant fraction per cent.’ The system, found by Tavernier in full articulation in the seventeenth century, seems to have been older than the establishment of Muslim rule in India. The word *hundi* is used in every modern Indian language, and is derived from the Sanskrit word *hundika*.

The UP Banking Enquiry Committee refers to current stories of the use of *hundis* as early as the twelfth century, without naming the sources; the reference is possibly to a legendary story recorded by L.C. Jain that the architect of the Dilwara temples, which on epigraphic evidence was built by two Jain bankers of Gujarat between 1197 and 1247, drew a *hundi* of 10 crore on the Nagar Seth of Ahmedabad for his operations.

Jain uncritically repeats Cooke’s unfounded speculation that the word *hundi* was a corruption of the word Hindi or Hindu. The word is undoubtedly a derivative of the Sanskrit *hundika*, and is derived from the root verb ‘*hund*’, i.e., ‘to collect’. Professor Vaman Shivaram Apte in his Sanskrit-English dictionary gave the meaning of *hundika* alternatively as a bill of exchange and as an assignment (for the maintenance of soldiers). The word is used in the latter sense in the *Rajatarangini*, a history of the Hindu kings of Kashmir composed by Kalhana between 1148–50. A group of infantry called the Tantrin had formed a league in Kashmir which, like the Praetorian guards, made and unmade its kings.

In that realm whose kings had occupied Kanauj and other territories the livelihood of kings depended upon the delivery of hundikas to the Tantrin . . . . That man became acceptable to the ministers who by selling the subjects in that plight was in a position to honour the payments due on the hundikas to the Tantrin . . . . In Pausa of the same year having failed to pay, through lack of funds, the sum due on the hundikas to the Tantrin he [i.e., King Chakravarman of Kashmir] fled in fear and tribulation. (*Rajatarangini*, verses 266, 275, 302).

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85 Haricharan Bandyopadhyay, *Bangiya Shabdakosh*, S.V. hundi.
89 Ranjit Sitaram Pandit (trans.), *Rajatarangini* (New Delhi, 1977), pp. 208, 209, 211.
The reference by Kalhana is apparently to assignments which were used as negotiable instruments falling due at specified dates.

The system, which must have worked through bankers, continued to be in use in the Delhi Sultanate. In the reign of Firuz Tughlaq (1351–88) soldiers at Delhi were paid by cash orders (itilaq) on outlying places which were locally discounted by financiers in Delhi who made a regular business of it and earned a good income. The oldest surviving firms in Bikaner and Sekhawati had traditions of having been hereditary treasurers and ration suppliers to Mughal troops. The soldiers of the Mughal army were paid by cash orders on different treasuries of the empire which were realised through the Marwari bankers attached to the regiments. "Hundis" thus seem to have originated from the discounting of revenue assignments for the army by bankers. The discounted assignments had fully developed as trade bills used for remittance and accommodation in the heyday of Surat in the seventeenth century. By that time "hundis" were also serving in foreign exchange operations as import and export bills, and such bills of exchange could be bought and sold—and moneys transferred—between any two ports of the Indian Ocean where Gujarati Bania Shroffs were firmly established. While the great Gujarati houses of Surat developed "hundis" to finance India's overseas trade, and also serviced an inland market of trade bills extending to Dacca at the other end of India, the house of Jagat Seth increasingly centralised the business of remitting the revenues of the Mughal empire through "hundis" between Delhi, Patna and Murshidabad.

By the end of the eighteenth century these great controllers of the "hundi" market—the Surat Banias and the Jagat Seths of Patna, Murshidabad and Delhi—were in irreversible decline. The great banking houses of Banaras led by Gopaldas Manohardas came to provide a centre for the "hundi" market in the late eighteenth and early nineteenth centuries. The regular postal services of the British in the 1820's led to an increase in speculative transfers of money through hundis on account of the greater facility of obtaining knowledge of the state of the money market in all the principal commercial cities. Telegraph and railways still further swelled the volume of "hundi" traffic in the later nineteenth century, and Bombay and Calcutta replaced the declining Banaras as the centre of the "hundi" market. At the same time the use of "hundis" in overseas trade declined and their circulation was restricted to the inland trade. Although the Natukottai Chettiars extended "hundis" to South-East Asia in the last quarter of the nineteenth.

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90 L.C. Jain, Indigenous Banking, p. 10; Tapan Raychaudhuri and Irfan Habib, eds, Cambridge Economic History of India (New Delhi, 1984), p. 86.
91 Bikaner Banking, p. 97.
92 Ashin Dasgupta, Indian Merchants and the Decline of Surat c.1700–1750 (Wiesbaden. 1979), p. 86
93 C.A. Bayly, Rulers, Townsmen, Bazaars, passim.
94 Quoted in CP Banking, Vol. 1, p. 334.
century, they did not build this business as an independent exchange
business, but operated through the Presidency Banks and the Chartered
Bank for effecting the *hundi* transfers between India, Burma and the
Malay Peninsula.\(^95\)

The *hundi*, according to a short definition given by the Bengal Provincial
Banking Enquiry Committee, was an inland bill of exchange and was in
effect an order signed by the drawer addressed to the drawee to pay to the
person named in the *hundi* a sum of money either at sight or at a certain
period after presentation. The sight bill or *darshani hundi* was usually
drawn by a seller of goods on the purchaser requesting him to pay on sight
the banker or the merchant through whom the bill was negotiated. Used
sometimes as accommodation bills to raise short-term credit, such *darshani
hundis* might pass through many hands during their currency. The *muddati
hundi* or usance bill was used more specifically to borrow funds. The
period of usance was normally three months, and for longer term credit it
might be renewed at the end of the period, sometimes more than once. The
*muddati hundi* was thus an important instrument of credit in the hands of
the *shroffs*. A *hundi* was employed for three distinct purposes: (a) to make
remittances, (b) to raise a loan (i.e., a finance bill), and (c) to finance
movement of goods (i.e., a trade bill, but not necessarily accompanied by
documents of title, since *hundis* were given purely on personal credit).\(^96\)

The holders of *hundis* raised money from the bazaar by discounting it in
the market with their own endorsement, and a *hundi* might come to bear
many such successive endorsements. There was brisk buying and selling of
*hundis*, aided by brokers or *dalals* who brought the buyers and sellers of
*hundis* in touch with each other. All *arhatiyas* drew *hundis*, and discounted
their bills with other merchants and bankers; but those among them who
specialised in discounting *hundis* might set themselves up as *shroffs*. As
evidence from grain and cloth merchants and bankers before the Bihar
Provincial Banking Enquiry Committee makes clear, the bigger Marwari
houses throughout the Gangetic valley combined *goladari* and cloth selling
with the discounting of *hundis* and money-lending and would shift their
funds to buying *hundis* whenever they found it more profitable than
investing in cloth or grain. The highest group among these traders and
financiers were known in the Upper Gangetic Valley as *kothiwals*, an
honorable title to which every prosperous merchant or financier aspired. He
operated through a network of branches of *kothis* (literally warehouses) in
different centres, and almost invariably though not always specialised in
*hundi* business—buying *hundis*, meeting *arhatiyas’* bills and writing *hundis*

95 Madras Banking, Vol. 4, pp. 157–67, 244–47; Compton Mackenzie, Realms of Silver:
96 Bengal Banking, Vol. 1, pp. 188–89; UP Banking, Vol. 1, pp. 260–70; Fairs, Markets and
Produce Exchanges, p. 52.
on himself to raise money in the bazaar. The smaller financier who dealt in bullion and ornaments and discounted _hundis_ was known in the Upper Gangetic Valley as _sarraf_ (whence _shroff_). When the holder of a _hundi_ was a _kothiwal_ he would often send the _hundi_ for sale or discount to a branch where it would fetch the best price. Smaller _shroffs_ who had no branches would take advantage of the same facilities through _arhatiyas_ or correspondents, to whom they would pay a small commission for selling the _hundis_ sent by them. 

Despite such movements of money, the _hundi_ bazaar was a fragmented market. Important differences in rates prevailed between Bombay, Calcutta and the various inland centres, which would have been flattened out had the flows been sufficiently great in volume. The main indigenous money markets—Bombay, Calcutta, Delhi, Madras, Rangoon, Cawnpore, Amritsar, Ahmadabad, Shikarpur, Ajmer, Bikaner, and the Shekhavati towns (to name some of the most important in terms of flows)—formed no single bazaar. Furthermore, at each main centre there might be several markets with different rates of money: in Bombay, the Gujarati, Multani and Marwari bazaars; in the towns of the Madras Presidency, the Natukottai Chettiar, Marwari and Multani bazaars; in Rangoon, the Natukottai Chettiar and Multani bazaars; and so on. The evidence of Multani, Chettiar and Marwari bankers before the various provincial banking enquiry committees suggests that the greater part of the flows of money from one centre to another passed through the Multani, Chettiar and Marwari networks of branches, partnerships and correspondents. Thus in addition to regional money markets, there were inter-regional community markets. While the inter-regional Multani, Marwari and Chettiar bazaars played an important role in linking up the different regional bazaars, they obviously hindered integration within each centre.

Small panchayats of leading merchants and bankers existed in many of the towns of India—Sarrafa Panchayat in Agra, the Gyarah Panch in Indore, the Naupatti Mahajan in Banaras—but the influence of these traditional institutions on market practices was small, confined usually to certifying the dishonour of a _hundi_, acting as insolvency courts and dealing with liquidation. 

A few modern associations of _shroffs_ had made their appearance as well: the Bombay Shroffs' Association (an association of Gujarati _shroffs_ formed in Bombay city in 1910), the Multani Shroffs Association in Bombay (of uncertain date, supplemented by the Shikarpur Shroffs' Association formed in 1929 to give evidence to the Bombay Provincial Banking Enquiry Committee), the Marwari Chamber of Commerce in Bombay, the Ahmedabad Shroffs' Association, and the

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There was once an association of shroffs in Calcutta but this body—which seems to have been principally an organ of Barabazar Marwaris—ceased to exist by the 1920s. The Multani Shroffs’ Association was more active. B. Ramachandra Rau refers to it in 1922 as a body of 200 to 250 members with a small committee of five seniormost bankers who regulated the hundi rate. The rate fixed by the committee, however, did not operate outside the Multani bazaar. The Ahmedabad Shroffs’ Association was perhaps the only body which had succeeded in completely integrating the local money market under its centralised control. The Ahmedabad shroffs met regularly in the Manikchowk bazaar which served as a clearing house. They had an excellent system of clearing house among themselves without any charge, dating back to the time before the English clearing system was introduced in India. Barring such exceptions, however, the shroffs and kothiwals acted alone, did not meet together, and came into contact with each other and with the bazaar only through hundi dalals who went round from house to house collecting information about the day’s financial requirement and communicating this intelligence to the financiers.\(^9\)

The rates thus determined through the informal mechanisms of the bazaar bore—for the greater part of the year—no relation to the rates in the modern money market. Only in the busy season was there a perceptible, but by no means pronounced, sympathy in the movement of rates. The link between modern banks and the indigenous bankers was through the endorsement of hundis by shroffs which were discounted by banks. A trader who drew a hundi to avail himself of bank funds had to get a shroff’s signature on his paper for the bank to discount it. The endorsing shroff had to be on the bank’s approved list of shroffs, and each shroff on the secret list had borrowing limits beyond which the bank would not accept paper endorsed by him. This was the only connection between the banks and the bazaar and it was tenuous. In the off season the shroffs did not go to the banks at all, and might even underquote them by as much as 2 per cent if money was easy. But in the height of the busy season for jute and the season when oilseeds and other winter crops were exported, money in the bazaar became tight and the bazaar rates climbed well over the bank rates. Unable to meet all the hundis drawn on them, the listed shroffs resorted to their defined borrowing limits with the banks. They borrowed at bank rates and lent out on higher hundi rates, deriving their profit from the difference. But if the bank rate rose much above 8 per cent they stopped borrowing. During the busy season, the banks might influence the bazaar rates to some extent, but not during the rest of the year. The difference between the

bank rate and the *hundi* rate was inevitable in view of the fact that the *shroffs* controlled in the aggregate a greater volume of mobile credit which was channelled into the internal and not the export trade.100

The Penetration of the Bazaar into Modern Business

Beyond the operations of the bazaar lay the sphere of high international finance and trade, the structure of which was completely different. Since the First World War a movement of penetration from the bazaar into this sphere had begun but it was still European at the highest level. This level accommodated twelve international giants, including three international produce exporting firms101 and nine exchange banks (see Table 5). The exchange banks played the key role in the import of bullion, distribution of foreign piecegoods, and financing of produce exports. In addition to mobilising deposits in India to finance the exports, they obtained further sums from re-discounting their bills with the Imperial Bank of India, by sale of sterling drafts on London, and by importing sovereign and bullion. The international export houses provided themselves with funds in India by selling sterling bills of exchange and telegraphic transfers to the exchange banks, and also used the proceeds of the sale of imported commodities to finance their exports. Their upcountry buying agencies were financed in two ways—by sale locally of *hundis* drawn on port headquarters or by telegraphic transfers through exchange banks. In some cases local *shroffs* and *arhatiyas* were authorised to finance the upcountry agencies, and they were reimbursed by drafts or cheques.102

Clearly, the financial structure of this sector was so different as to make it difficult for Indian houses based on the bazaar to penetrate the export-import trade. A description of the widespread and interlocking operations of Ralli will make it clear why Indian houses had such a small share in this overseas business. But equally, the contraction and alteration of Ralli business at the end of the period under review will afford an insight into those structural changes in the Indian economy during the 30s and the 40s which enabled Indian houses rising from the bazaar to seize important sections of business, industry and foreign trade. It should be noted, in parenthesis, that Ralli Brothers was in some respects not so different from the *kothiwals* of the Indian bazaar: it was a Greek family partnership which trained up virtually all its personnel from the teens, filled in the managerial

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101 Ralli Bros, Volkart Bros and David Sassoon & Company. These were the biggest in the Indian produce trade.
Table 5
International Giants on the Indian Business Scene in the Inter-War Period

<table>
<thead>
<tr>
<th>Name</th>
<th>Headquarters</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ralli Brothers</td>
<td>London</td>
<td>Manchester, Liverpool, Dundee, Calcutta, Bombay, Madras, Karachi, Shanghai, Egypt, Sudan, Uganda and upcountry branches all over India.</td>
</tr>
<tr>
<td>2. Volkart Brothers</td>
<td>Winterthur, Switzerland</td>
<td>London, Karachi, Bombay, Madras, Calcutta, Cochin, Tellicherry, Tuticorin, Colombo, Singapore, Shanghai, Osaka, and upcountry branches all over Southern, Western and North Western India</td>
</tr>
<tr>
<td>5. National Bank of India</td>
<td>London</td>
<td>Calcutta, Bombay, Madras, Rangoon, Karachi, Lahore, Amritsar, Delhi, Cawnpur, Chittagong, Mandalay, Tuticorin, Cochin and Aden</td>
</tr>
<tr>
<td>7. Eastern Bank</td>
<td>London</td>
<td>Calcutta, Bombay, Karachi, Madras and Bagdad</td>
</tr>
<tr>
<td>8. P &amp; O Banking Corporation (a Chartered subsidiary)</td>
<td>London</td>
<td>Calcutta, Bombay, Madras</td>
</tr>
<tr>
<td>9. Lloyds Bank</td>
<td>London</td>
<td>A British bank with Indian branches in Bombay, Calcutta, Karachi, Rangoon, Delhi, New Delhi, Simla, Lahore, Amritsar, Rawalpindi, Muree, Srinagar and Guilmarg</td>
</tr>
<tr>
<td>10. Hongkong and Shanghai Banking Corporation</td>
<td>Hongkong</td>
<td>Indian branches in Bombay, Calcutta and Rangoon</td>
</tr>
<tr>
<td>11. Yokohama Specie Bank</td>
<td>Yokohama</td>
<td>Indian branches in Calcutta, Bombay, Karachi and Rangoon</td>
</tr>
</tbody>
</table>

Source: Thacker’s Indian Directory 1926 (Calcutta, 1926), passim; Handbook of Commercial Information (Delhi, 1937), p. 114.

level with family members, relations and friends trained in this manner, dealt purely in agricultural commodities and piecegoods on an international scale and appeared to distrust anything industrial. However, this international house started working from the nerve centre of the British empire, London, with all the connections, facilities and resources available in the
world's leading money market which possessed at the same time a crucial political dominance over India.

The firm started between 1818 and 1826 as a partnership between five Ralli brothers located in London, Marseilles, Constantinople and Odessa trading in grain and silk and dealing in Manchester piecegoods. It entered India in 1855 by setting up an office in Calcutta, which was followed in 1865 by two branches in Bombay and Karachi. It became in the course of time the leading importer of piecegoods in India. But even more impressively, as the largest exporter of cash crops, it built up an unparallelled upcountry organisation for buying raw produce. Large quantities of wheat and other grains from the Punjab and groundnuts, linseed and other oilseeds from western, southern and eastern India formed its principal item of business, the destination being the ports of England and the Continent. Second in importance was the cotton it purchased from Punjab, Sind, the Central Provinces and the Madras Presidency. It prepared the cotton at its own ginning and pressing factories in Sind, CP, Madras Presidency and Bengal for export through Karachi, Bombay, Madras, Tuticorin and Calcutta. The cotton exports went in different directions. The bulk arrived in Liverpool, where Ralli had an office for landing and supervision of all deliveries to Lancashire and a Sample Room where a staff of expert selectors examined and graded the cottons for re-exports to the Continent. Some of the cottons took the other way to the Far East, especially to Japan where, before the Second World War, the Ralli subsidiary, Showa Menka Kabushiki Kaisha, figured among the principal importers of Indian cottons in Japan. The third most important item of Ralli export was jute through Calcutta and Chittagong, for which it had built up, since 1872, a wide organisation in Bengal with five principal pucca building premises in the principal jute marts of Bengal. Ralli had an office, two warehouses and a showroom in Dundee to attend to jute sales to the Scottish mills, and extensive arrangements for marketing jute and jute goods in America and the Continent. It pioneered the export of shellac through Calcutta, took a large part in the export of raw hides and skins collected in Cawnpore, Lahore, Karachi, Bombay, Madras and Calcutta, and handled consignments of Indian, Central Asian and Afghanistan wool to the Liverpool auctions on behalf of Indian merchants. It had arrangements and connections in New York which developed into Ralli Brothers New York Inc., for large exports of jute, gunnies, cotton and shellac. Finally, it balanced these exports by importing Java sugar through Calcutta and other ports.

This extensive international export-import business was controlled by the Ralli head office in London, which chartered vessels on the Baltic Exchange, arranged marine insurance through its subsidiary Orion Insurance Company (first started in 1931) with Lloyds' underwriters, and controlled the costing of all its operations. These world-wide operations
consisted of (i) buying, collecting and taking delivery in certain world centres of production—Lancashire, India and Java; (ii) processing of Indian crops by ginning, grading, cleaning, bagging and baling according to manufacturer's or consumer's requirements and packaging according to transport requirements; (iii) arranging movement of goods by rail, road or inland waterway to port of shipment; (iv) insurance of goods on land and sea and booking of sea freight; (v) arrangements for delivery to overseas buyers, for weighing, invoicing and settlement of quality problems and for collection of payment; and (vi) making advances to suppliers and giving credit to buyers, arranged through a series of forward purchases and sales. From start to finish these operations had to fit into the ever increasing complexities of international trade and finance and called for careful disposition of financial and foreign exchange dispositions, which no Indian house could carry out on a competitive basis for lack of international connections and access to the London market.

The Ralli empire reached its climax in 1920 when its turnover reached the record figure of £63 million. Though prices were then high, the tonnage was greater than anything handled in later times. With the fall in prices in the 1930s, the annual monetary turnover came down from about £40 million to the region of £25 million. After the Second World War it again rose to £30 million but the tonnage was irreversibly lower. The composition and direction of trade also underwent matching changes. Depressed international prices reduced Ralli exports of grain to negligible proportions and increased internal consumption ruled out a resumption of exports at the end of the Great Depression. In Punjab and Sind, Ralli had to abandon the vast shipments of wheat and concentrate on exports of the spreading long staple cottons. But in the part of the country which came to form the Indian Republic, massive increases in mill consumption of cotton reduced the quantities available for shipment. The logic of the same process reduced the Ralli import of cotton piecegoods into India. To sustain its declining business in raw cottons and piecegoods, Ralli entered Africa in 1933 where it resorted to large scale purchases of Uganda, Sudan and Egyptian cotton. In 1947 it formed Dehns (Africa) Limited in order to augment, by means of cotton piecegood exports to East Africa, the activity of its now oversized Manchester office and packing establishment. Already, however, the war with Japan had led to the loss of its Japanese subsidiary, and its large raw cotton shipments to Japan. Within India, Ralli took a rearguard action: as exports of oilseeds practically ceased due to increased oil milling, it entered this new line of business by acquiring several oil mills with a crushing capacity of 100,000 tons. Its imports of Java sugar had wholly stopped with the rapid growth of sugar milling in India in the 1930s. Instead of importing such consumption goods as yarns, piecegoods and sugar, Ralli turned to importing increased quantities of agricultural
machinery and diesel engines for the growing needs of Indian agriculture. But despite these adjustments, its business in India after the Second World War was but a fraction of its former turnover.103

Bazaar-based Indian houses steadily advanced into foreign trade as the international trading houses declined. While Ralli and Volkart were dwarfed towards the end of our period, the Sassoons pulled out of India altogether in the late 30s. In the meanwhile, according to figures supplied by the Exchange Banks' Association to the Central Banking Enquiry Committee, the percentage share of Indian merchants in the import and export bills negotiated through the exchange banks increased perceptibly between 1925 and 1929 at all the major centres of foreign trade: Calcutta, Bombay, Madras, Karachi, Delhi, Cawnpore and Amritsar (See Table 6).

<table>
<thead>
<tr>
<th></th>
<th>Export Bills</th>
<th>Centre and Nature of Banks</th>
<th>Import Bills</th>
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<tbody>
<tr>
<td></td>
<td>Indian</td>
<td>Non-Indian</td>
<td>British</td>
</tr>
<tr>
<td>1925</td>
<td>19</td>
<td>35</td>
<td>81</td>
</tr>
<tr>
<td>1929</td>
<td>42</td>
<td>56</td>
<td>58</td>
</tr>
<tr>
<td>1925</td>
<td>25</td>
<td>29</td>
<td>75</td>
</tr>
<tr>
<td>1929</td>
<td>28</td>
<td>40</td>
<td>72</td>
</tr>
<tr>
<td>1925</td>
<td>44</td>
<td>43</td>
<td>56</td>
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<td>1929</td>
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<td>1925</td>
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<td>84</td>
<td>80</td>
<td>16</td>
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Source: The Indian Central Banking Enquiry Committee 1931, Volume II, Evidence (written), (Calcutta, 1931), pp. 858-59.

Note: The table does not indicate the size of the total non-Indian share in the foreign trade of India, since some import and export bills of major international houses were adjusted against each other and did not move through the exchange banks.

103 In Pakistan, however, Ralli continued for some time to have a flourishing cotton baling and export business. Ralli Brothers Limited, 1951 (author and place of publication not mentioned, 1951), passim.
Many of the new Indian houses which began to push into the sphere of overseas trade rose from the bazaar. There was a connection between the earlier migrations of merchant communities and their later participation in the trade through the ports.

Two examples will make this clear, both arising from long distance migrations to Calcutta and extensions of community financial and commercial networks from inland to the port city. One was a Marwari Maheshwari family migration from Bikaner down the Gangetic valley to Calcutta. The other was an Iranian Muslim merchant family migration to Madras and then to Calcutta. The first movement gave rise to the house of Birla, closely connected to Gandhi and destined to play a large role in the economy of independent India. The second movement gave rise to the house of Ispahani, closely connected to Jinnah and poised to play a key part in the economy of Pakistan. The Birla family, which came from Pilani in Bikaner, rose to a commanding position in Calcutta during the First World War by speculative activities which formed the base of commercial and industrial expansion. The Ispahani family, which started trading in indigo in Madras around 1867, set up a permanent office in Calcutta in 1900 and soon emerged as one of the leading Muslim merchant families in Calcutta.

By 1927, as Thacker's Directory indicates, Birla Brothers and M.M. Ispahani & Sons were already firmly established in the bazaar as well as in the sphere of external trade. In 1917 Birla Brothers started jute shipments to Europe and its expanding produce trade was carried on through its correspondent in Europe, East India Produce Company. The firm was organised into five main departments, each of which conducted a principal component of its multifarious business: Produce Department, Jute and Gunny Department, Piecegoods and Import Department, Cotton Mills and Insurance Department and Jute Mills Department. It was also involved, as a member of the Bombay Bullion Exchange, in importing large quantities of bullion through Bombay. It figured as an exporter of jute, oilseeds, tea, rice, shellac, hemp, myrobalans, mica and gunnies and as an importer of piece-goods, precious metals, hardware, automobiles and sugar. It was the managing agent of several cotton and jute mills and in addition it owned the Govind Rice Mills. The firm acted as jute supply agents, jute and gunny brokers and cotton agents. M.M. Ispahani & Sons, with headquarters in Calcutta, had branches in Madras, Bombay, Rangoon, London and Tehran and agencies in Ispahan, Ahwaz and other towns of Persia. It exported tea, indigo, hides and skins, shellac and oils, imported Burma rice and coral, and dealt in Persian products. It was a large factor in the rice trade of eastern India, and it exported from Madras hides and skins to Europe, Japan and America. It also purchased large quantities of tea in the Calcutta auctions, and was reckoned as the third largest tea exporting firm of Calcutta.104

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The transformation of the Indian bazaar was well on the way. The intersectoral relations within the Indian economy must be understood in terms of these structural changes in the bazaar, and its changing relationship to the rural economy, on the one hand, and the modern capitalist sector, on the other. High risk and low profit margins—these were the twin conditions of Indian finance and trade, bred by the rural production organisation. These conditions impeded the deeper penetration of foreign capital and enabled the bazaar to survive by using its indispensable connection with the country to finance, assemble and distribute the enormous quantities of goods required to feed, clothe, house and entertain a huge and growing population. The total volume of mobile money invested in these trading and financing operations expanded with the increasing population and achieved greater mobility over time through a better concentration and organisation. Its circulation at the higher levels of the economy had been inhibited by the domination of foreign capital in international trade and large-scale industry, but the narrow channels of contact between the bazaar and the central money market enabled the bazaar to conserve and augment its strength within its own isolated but vast sphere until it could seek to broaden these channels of contact on its own and better terms at the end of the period under review.

Summary and Conclusions

To summarise briefly the main developments of the period, the bazaar underwent major structural changes between 1914–47 as a result of the three dominating events of the age—the First World War, the Great Depression and the Second World War. The First World War slackened the grip of the British capital on the economy, and gave rise to extensive speculation in grain, seeds, jute and cotton in the bazaar. Speculation by Indian traders was sufficiently intense to threaten the supply lines of the mills and the exporting firms. The organised sector—both European and Indian—took counter action to ensure supply lines in export and milling. A systematic attempt was made in the 1920s to bypass the bazaar. Export firms vastly extended their buying organisation in the interior, the mills sought through combination and government legislation to control the raw material markets, the Imperial Bank and the exchange banks opened a large number of branches in the interior. The attempt by the European-dominated organised sector to reach the upcountry economy received a serious check with the onset of the Great Depression. The export and import firms had to fold up much of their upcountry buying and selling organisation as it was found too costly. They reverted once more to the

Committee of the Bengal Chamber of Commerce. Minutes of Proceedings commencing from 7 August 1919 (manuscript), proceedings dated 25 November 1919.
system of relying on Indian commission agents for obtaining produce from the interior and for distributing goods upcountry. Inland trade, like overseas trade, suffered greatly from the depression, but the reversal of the bullion flow shored up inland markets to some extent. Indian merchants and bankers also steadily increased their participation in mill industry and export-import trade during the inter-war period. The process quickened during the Second World War, at the end of which the organised sector was itself substantially composed of men who had risen from the bazaar.

Certain general conclusions may be drawn from the material presented in the foregoing. The economy of India in the late colonial period was not a dual economy, cleaved between a capitalist international enclave on the one hand, and a primitive, pre-capitalist, peddling sector on the other. If we take the different prevailing rates of money as an indicator of the true divisions within the economy, then three distinct conglomerations would emerge: (i) the predominantly white enclave of corporations, banks, managing agencies, mines and plantations, governed by the bank rate; (ii) the indigenous network of commission agencies linked by mobile hundi credit and governed by the fluctuating bazaar rates; and (iii) the subsistence economy of peasants, artisans and pedlars, governed by the high and inflexible rates of moneylenders. In other words, it will not do to dismiss the indigenous part of the economy as a subsistence sector in which all trade was of a peddling variety and where mobile bankers' credit had not developed. The colonial enclave was not the only 'organised' sector in the economy. On the contrary, it secured export produce and distributed imported goods through a network of hundi bankers and commission agents who had achieved an integrated organisation over the subcontinent and whose business was only partially directed to serving the white import-export sector, being concerned mainly with the much larger movements of raw produce, manufactured goods, precious metals, money and credit within the country.

The growing awareness of the importance and sophistication of their functions has resulted in several in-depth explorations with reference to Bombay, Tamil Nadu and Hindustan. I have sought to emphasise the wider dimension of these regional studies by bringing into focus the integrated credit-and-agency nexus in operation between the distant parts of the country. Using traditional devices, such as satta, teji-mandi, goladari, arhat and hundi, Indian bankers, speculators and merchants generated increasing commodity and credit flows along the lines of a long distance network between 1,718 market towns with 12 nodal points, the whole nexus being centred on the twin headquarters of Bombay and Calcutta. The purpose of this essay has been to bring this trans-Indian bazaar network into focus.

because it forms the necessary background to the rise of the modern Indian capitalist class.

Before the indigenous bazaar nexus penetrated the white preserves of industry and external trade, it was engaged in facilitating along the long lines of its distant connections the essential flows of India's monsoon economy: the outflow of agricultural produce, the inflow of manufactured goods, and precious metals and hard cash, the reverse flow of revenue, and the circular flow of money and credit which kept the whole system functioning. After it penetrated the more modern spheres of business, the bazaar still continued to assist the seasonal flows, pumping in and pumping out the commodities and the credits as the seasons dictated. The bazaar thus remained at the pulsing heart of the country's economy, each throb and each pause marked by the alternating cycle of the 'busy' season and the 'slack' season. The flows generated by the pumpings of the bazaar reached the distant corners of the country's economic organism, and over time the ever widening operations of the bankers, speculators and commission agents created a more sophisticated and integrated nerve system, until an all-India capitalist class, sprung from and strongly linked to the bazaar, worked its way into the heart of the economy.