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The 'Great Firm' Theory of the Decline of the Mughal Empire

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Most historians of the Mughal empire currently emphasize economic factors in their attempts to locate and measure the causes of imperial decline in seventeenth- and eighteenth-century India. Recent articles reiterate a standard set of tensions: those between monarch, military and service nobles (*mansabdars*), landholders (*zamindars*), and peasants.¹ Existing theories attribute the Mughal decline to the nature of the monarchy, the breakdown of the *mansabdari* administrative system, and the challenges from newly established regional rulers. One influential analysis points to the increasing burden of taxation and consequent *zamindar*-peasant rebellions throughout the empire as the fundamental cause of decline.² The nobility and the *mansabdari* system have received most attention, however. Historians have emphasized the strains caused by numerical expansion, inflation of noble ranks, and the 'aristocratization' of the *mansabdars* through conspicuous consumption and hereditary control of positions.³ Analyses of the availability and distribution of economic resources neglect

A preliminary version of this article was presented at the Seminar on 'Decline of the Mughals' at the University of Pennsylvania, May 1974; criticism from the other participants, but even more from Dr. John G. Leonard, has helped improve that version.

¹ Peter Hardy has referred to this standard 'diagram of tensions' in his commentary upon two of the most recent articles: P. Hardy, 'Commentary and Critique,' *Journal of Asian Studies*, XXXV:2 (Feb. 1976), 257. The articles upon which he is commenting are M. N. Pearson, 'Shivaji and the Decline of the Mughal empire,' 221-35, and J. F. Richards, 'The Imperial Crisis in the Deccan,' 237-56, both in the same issue.

² Irfan Habib, *The Agrarian System of Mughal India* (Bombay, 1963), argues for oppression and revolt. Two often-cited views focusing upon factions among the nobility are Satish Chandra, *Parties and Politics at the Mughal Court, 1707-1740* (Aligarh, 1959), and M. Athar Ali, *The Mughal Nobility Under Aurangzeb* (Aligarh, 1966). Two regional perspectives are given by Philip Calkins, 'The Formation of a Regionally Oriented Ruling Group in Bengal, 1700-1740,' *Journal of Asian Studies*, XXIX:4 (Aug. 1970), and Karen Leonard, 'The Hyderabad Political System and Its Participants,' *Journal of Asian Studies*, XX:3 (May, 1971), 569-82.

³ See the two articles cited in footnote 1; Pearson argues that military efforts in the south and the defeats inflicted by Shivaji decisively affected the loyalty of the nobles, and Richards argues that policy miscalculations led to artificial *jagir* shortages and inattention to newly incorporated warrior elites in the south.

one group whose relationship to the Mughal state and whose roles in the political system were crucial: the bankers—*sahukars*, *shroffs*, *mahajans*—particularly those in the ‘great firms.’ It will be argued here that the great banking firms of Mughal India played a key role in the decline of the empire.

The ‘great firm’ theory of Mughal decline, which relies on secondary sources for its comprehensive data base, clarifies and extends existing economic theories of imperial decline. Indigenous banking firms were indispensable allies of the Mughal state, and the great firms’ diversion of resources, both credit and trade, from the Mughals to other political powers in the Indian subcontinent contributed to the downfall of the empire. The period of imperial decline coincided with the increasing involvement of banking firms in revenue collection at regional and local levels, in preference to their continued provision of credit to the central Mughal government. This involvement increased from 1650 to 1750, and it brought bankers, more directly than before, into positions of political power all over India. This period of ‘great firm’ partnership with regional powers, among them the East India Company, was followed by political losses for the great banking firms. When in the 1750s the Company began to achieve political dominance throughout India, it turned against indigenous bankers and systematically displaced them, usurping their functions as bankers to the Company and to other political rulers and downgrading their roles in the collection of land revenue. One consequence was the relegation of indigenous bankers to less crucial roles in the political system. A second effect was the diminished historical awareness of the bankers’ earlier importance in Mughal India.

The theoretical literature on historical bureaucratic empire points to the importance of the banking firms to the state. Imperial authority derived from a mixture of charismatic, legal-rational, and traditional religions and cultural factors.⁴ A ruler’s authority was strongest where the political order was closely interwoven with the cosmic, religious, and cultural order, that is, where political legitimacy was based on the maintenance of that traditional order. In Mughal India, with a ruling class which was largely Muslim and initially drawn from outside, economic and political alliances were extremely important to maintenance of the state.⁵

The establishment of the Mughal empire required the conquerors to co-opt indigenous groups and institutions and to counter the opposition of various indigenous elites menaced by the imperial trend towards political

⁴ Useful discussions are by S. N. Eisenstadt, *The Political Systems of Empires* (New York, 1963), and *The Decline of Empires* (New Jersey, 1967).

⁵ The generalization has interesting implications for scholars of cultural and intellectual movements in medieval and early modern India, such as the *bhakti* movements, the development of vernacular poetry, the shifts of artistic patronage to regional courts, and those political movements led by Shivaji or the Sikh gurus.

centralization. Moreover, the Mughal emperors had to achieve some measure of legitimacy in traditional terms through political accommodation with traditional elites. And they had to form alliances with groups in the population which could benefit from the establishment of a more unified polity. Such allies theoretically could come from one of two categories: those (largely urban) economic, cultural, and professional groups who were by origin or interest opposed to the nobility and landholder; and the larger, lower-class groups (for example, peasants) who could at least indirectly benefit from the weakening of aristocratic forces and the establishment of greater order. The Mughals had to find and utilize such new economic and political resources.⁶

The creation of the *mansabdari* system, a new organ of centralized administration directly supervised and staffed by new personnel, was important in establishing the empire. But just as clearly, the Mughals depended upon urban merchants and bankers for the provision of goods and commodities and cash, the latter for direct spending and payment for services. Given the geographic scope of the Mughal empire, the decentralized military forces and their employment in expansionist ventures, these financial resources had to be accessible and flexible. Since there was a monetized market economy and a highly developed system of credit in Mughal India, conditions of political stability encouraged the alliance of the Mughals and indigenous bankers and ensured a continuous flow of trade goods and notes of credit.

Yet the interests of the Mughal state and of the great banking firms sometimes came into conflict. The rulers had a constant need to mobilize extensive resources for military expansion. Such mobilization could either exhaust the available resources or strengthen the groups which produced and controlled those resources, making the bankers less dependent on the rulers and ultimately threatening the basis of the political system. For the banking firms, the conflict of interests was intensified by the practice of short-term loans, increasing the dependence of the rulers on them but possibly undermining the availability of resources in the long run.⁷

The ruler's relationships with diverse groups and institutions had to be carefully balanced, and any disruption could set off a chain of events weakening the empire. External pressures combined with internal tensions could intensify problems of imperial control. When other powers competed with the Mughals for the credit and other services offered by Indian bankers, the imperial bureaucracy was threatened. It became more dependent upon the banking firms and it had to develop better working methods

⁶ The analysis draws upon Eisenstadt, *Political Systems*, particularly ch. 12.

⁷ *Ibid.*, and his *Decline of Empires*, pp. 3–5; and A. L. Udovitch, 'Credit as a Means of Investment in Medieval Islamic Trade,' in *Journal of the American Oriental Society*, 87:3 (July–September, 1967), 60–64.

or offer additional services to maintain the relationship.⁸ The later Mughals, in policy and in practice, do not appear to have placed enough importance upon retaining the confidence of the great banking firms, and this was a critical error.

Most writers have treated bankers and other financial and merchant groups in India as 'segmental' rather than 'strategic' elites, viewing them as outside the governmental structure and not instrumental in decisions affecting society at large.⁹ They have been analyzed as 'hinge' groups, largely autonomous and apolitical,¹⁰ or, even more negatively, as passive and parasitic beneficiaries of the conditions established by a strong imperial government.¹¹ Certainly they do not fit comfortably into the usual contemporary definitions of a strategic elite, seldom being included in the ruling class of nobles and officials; yet they played a very large political role in Mughal India, as has been remarked in the cases of particular individuals. In fact, so little analysis of bankers and banking firms has been attempted that there is considerable confusion about the unit with which historians should be concerned. Should we be examining those famous individual bankers, or caste and merchant guilds in urban centers, or, rather more vaguely, 'banking castes,' assumed to be following traditional occupations wherever they were?¹²

The 'great firm' has already been proposed here as the appropriate unit for historical analysis. This term has been used to describe a business firm engaged in a wide variety of enterprises, with several branches, often based on one 'household.'¹³ For our purposes, a basic functional distinction is

⁸ S. N. Eisenstadt, *Essays on Comparative Institutions* (New York, 1965), 203, suggests this line of reasoning, which is clearly relevant to the Mughal empire.

⁹ For an introductory discussion of 'Elites,' see Suzanne Keller's article in the *International Encyclopedia of the Social Sciences*, Vol. 5 (New York, 1968), p. 28.

¹⁰ This is Michael Pearson's view, particularly in his unpublished dissertation, 'Commerce and Compulsion: Gujarati Merchants and the Portuguese System in Western India, 1500-1600,' University of Michigan, 1971. He has modified his view of their role in politics to some extent in his article, 'Political Participation in Mughal India,' *Indian Economic and Social History Review* IX:2 (April-June 1972), 113-31.

¹¹ See Irfan Habib's three articles: 'Banking in Mughal India,' *Contributions to Indian Economic History*, I (Calcutta, 1960), 1-20; 'Potentialities of Capitalistic Development in the Economy of Mughal India,' *Journal of Economic History*, XXIX (March 1969), 32-78; and 'Usury in Medieval India,' *Comparative Studies in Society and History*, VI:4 (July 1964), 393-423. Also, W. C. Smith, 'The Mughal Empire and the Middle Class—A Hypothesis,' *Islamic Culture*, XVIII:4 (Oct. 1944), 349-63.

¹² For examples of such treatments, see Pearson, 'Political Participation,' *op. cit.*, p. 119-23; D. R. Gadgil, *Origins of the Modern Indian Business Class* (New York, 1959), especially pp. 23-28, and the same author's tentative conclusion that 'mahajans' in Poona were socio-religious organizations for immigrants, 'Immigrant Traders in Poona in the 18th Century,' *Artha Vijnana* I (March 1959), 16; and K. L. Gillion, *Ahmedabad* (Berkeley, 1968), pp. 16-24.

¹³ T. A. Timberg, 'A Study of a "Great" Marwari Firm: 1860-1914,' *Indian Economic and Social History Review* VIII:3 (July-Sept. 1971), 267-68. Gadgil, in *Origins*, speaks of firms based on kinship units: p. 34. Neither defines the unit further.

essential: moneylenders were those individuals or firms habitually making loans, while bankers were those individuals or firms which not only made loans but received deposits and/or dealt in *hundis*, the written orders for payment transmitted throughout India.¹⁴ A further distinction in terms of customers proves useful: moneylenders dealt customarily with agriculturalists; bankers very seldom dealt with agriculturalists.¹⁵ The last distinction directs us away from questions of the degree of monetization of the Mughal agrarian economy and brings us back to the extensive development of credit facilities, not those oriented towards the production of agricultural or other goods, but those oriented towards investment and profit through transactions with the Mughal government and its functionaries. A good working definition of the 'great firms' allied to the Mughal government should specify a certain magnitude of the firm's operations, both in volume of credit and in geographic range through the firm's branches: such specifications must await more empirical data.

'GREAT FIRMS' AND THE MUGHAL STATE: TO 1750

Historians have found scattered evidence of the transactions between the great firms and the Mughal state. Irfan Habib's two articles on bankers and moneylenders in seventeenth-century India include many useful facts, although he places no emphasis on the political aspects of the transactions. Bankers performed important, but, in his view, limited services: they validated and minted money, maintained exchange ratios between different currencies, and issued *hundis*.¹⁶ D. R. Gadgil has also discussed bankers at length, delineating their functions as money-changers and dealers in *hundis* and adding a major role in government finance. Here he mentions bankers serving as lenders of cash and credit, as receivers and remitters of land revenue, and as financiers of tax farmers.¹⁷

Particularly crucial were the bankers' roles as state treasurers. Specific banking firms were frequently appointed by a ruler to provide cash and credit for the payment of salaries and other expenses on a regular basis. Thus the delays and irregularities consequent upon sole dependence on the seasonally delivered land revenues to the capital could be avoided. There are many examples of such appointments.

The Jagat Seth firm gained fame in this treasurer role in mid-eighteenth-century Bengal. The Jain family firm had moved from Rajputana to Patna,

¹⁴ L. C. Jain, *Indigenous Banking in India* (London, 1929), makes this distinction on p. 3. He also gives the best explanation of the *hundi* system which was extremely complex.

¹⁵ V. Krishnan, *Indigenous Banking in South India* (Bombay, 1959), p. 9. In a twentieth-century survey, he found that 80 percent of moneylenders dealt with agriculturalists, while only 3 percent of the bankers did so.

¹⁶ Habib, 'Banking,' pp. 3–8.

¹⁷ Gadgil, *Origins*, pp. 32–34. Hameeda Khatoon Naqvi, *Urban Centres and Industries in Upper India, 1556–1603* (New York, 1968), gives specific instances: pp. 62–63, 127–28, 286.

and from there to Dacca and Murshidabad with the Mughal governors of Bengal. In the seventeenth century, the Mughal Emperor Aurangzeb had personally honored the firm's head, Manek Chand, for his large loans to the government. Manek Chand's nephew was appointed 'imperial Treasurer' and awarded the title, Jagat Seth, by the Emperor Farukhsiyar. Jagat Seth was accorded mint privileges by 1717, and after 1728 the imperial tribute from Bengal was sent to Delhi by draft on this banking house. The house of Jagat Seth had personal access to the Mughal emperor in the 1720s and 1730s, and it could allegedly obtain *farmans* of appointment for high officials.¹⁸

Other great firms served as treasurers to rulers throughout India. Kallidaikurichy Brahmin firms were bankers to the Rajas of Cochin and Travancore.¹⁹ Branches of a single Marwari firm served as bankers to the Nawab of Fatehpur, the Pindari Nawabs, and Ranjit Singh.²⁰ Particular firms were named as bankers to the Nawab of Arcot and to the Nizam of Hyderabad.²¹ Many other examples can be cited and the practice has been generally recognized; its significance, however, has been understated by historians.²²

Other strong connections between great firms and the Mughal state came through the loans and credit extended to individual nobles and officials. Successive attempts by the state to regulate or prohibit these transactions testify to their persistence and to the state's perception of them as weakening imperial control. Nobles borrowed money frequently, using their *jagirs* ('land assignments') as security and giving claims upon the anticipated land revenues to bankers. High interest rates prevailed, but nobles allegedly preferred *jagirs* to payment of a cash salary, since *jagirs* were acceptable security for bankers.²³ The Emperor Akbar tried to establish a royal treasury and avoid reliance on 'moneylenders,' and he tried to advance

¹⁸ J. H. Little, 'The House of Jagatseth,' in *Bengal Past & Present* XX (Jan.–June, 1920), 111–200, and XXII (Jan.–June, 1921), 1–119, is a fascinating history of this firm. The material used here comes from XX, 112–32. Brijen K. Gupta, *Sirajuddallah and the East India Company, 1756–1757* (Leiden, 1962), also documents this firm's closeness to the Mughals, especially pp. 30–31 and 96–97.

¹⁹ Krishnan, *Indigenous Banking*, p. 3.

²⁰ Timberg, 'A "Great" Marwari Firm,' in the footnotes, pp. 272–74.

²¹ For the Nawab of Arcot, Bavany Doss Nanasa Soucar and Dave Boocunji Cashee Dass Soukar were the largest creditors in 1805: Jain, *Indigenous Banking*, p. 21. For Hyderabad, there were the 'Panch Bhai' bankers, which in the early nineteenth century certainly included Seth Kishen Das (now a famous jewelry firm), Makhdum Seth, Mahanand Ram Puran Mal, probably Surat Ram Govind Ram, and perhaps Palmer and Company.

²² Writers on later systems of finance and banking often referred to this prior function of indigenous banking firms, for example, P. Datta, 'Rise of the Calcutta Money Market in Relation to Public Borrowing and Public Credit (1772–1833),' *Calcutta Review* 46 (Feb. 1933), 171–203, and N. Das, 'The Old Agency Houses of Calcutta,' *Calcutta Review* 46 (March, 1933), 317–26. But these and other authors completely fail to deal with the historical transition which the indigenous bankers have undergone, even at a descriptive level.

²³ Habib, 'Usury,' pp. 408–09.

loans from the treasury at an interest below that asked by bankers.²⁴ In the time of Aurangzeb, state officials served as intermediaries to recover debts for bankers from nobles: officials usually claimed one-fourth of the debt for this service, a practice Aurangzeb tried to stop.²⁵

Both the central administration and its individual officials often had to transfer large amounts of money from one place to another, and this was done through banking firms. Habib's impression from the authorities he has seen is that the total amounts transferred on behalf of the Mughal government and individual officials 'rivalled if not exceeded' money remitted for purposes of trade.²⁶ In a similar attempt to estimate the volume and kind of various business transactions, Gadgil contradicts himself on whether the larger banking firms were more likely to be engaged in government financing or in trade.²⁷ These are questions of major historical importance, and while further empirical data are obviously needed, the impressions of both of these scholars emphasize the political potential of the functions banking firms performed in Mughal India.

In addition to investment through the extension of credit to the central administration and its officials, three other types of profitable activities linked bankers to the Mughal state. These activities are often dismissed as examples of wasteful extravagance and dissipation of capital,²⁸ but that assessment must be reconsidered. First, there were the organized units of production and supply to the court, the *karkhanahs*, which Gadgil suggests were the major banking firms' most direct connection with 'industry' at the time.²⁹ Second, contracting for the construction of public edifices in the sixteenth and seventeenth centuries—mosques, tombs, pleasure gardens and so forth—must have been extremely profitable. It was a major type of capital expenditure by the Mughal state.³⁰ Third, dealers in bullion and jewelry played major roles in economic life, and they were often involved in the great banking firms. Habib was surprised to find that *shroffs* rather than jewelers and goldsmiths were the chief buyers of foreign silver in Mughal India,³¹ but in fact most banking firms were engaged in several enterprises and jewelry was a common sideline.³² These court-related economic activi-

²⁴ Habib, 'Banking,' p. 6, and 'Usury,' p. 409.

²⁵ Habib, 'Usury,' pp. 414–15.

²⁶ Habib, 'Banking,' pp. 10–11.

²⁷ Gadgil, *Origins*, p. 34.

²⁸ Habib falls into this category most of the time. See his article 'Potentialities of Capitalistic Development,' p. 69, where he sees the *karkhanahs* as engaged in the 'production of luxury articles. . . . This naturally set limits to their economic significance,' and similar remarks on pp. 57–60.

²⁹ Significantly, Gadgil remarks that by 1750 such *karkhanas* had diminished in importance: *Origins*, pp. 34–35.

³⁰ Gadgil, *Origins*, pp. 35.

³¹ *Ibid.*, 35; Habib, 'Banking,' p. 4.

³² In Hyderabad, a leading early banking firm is now noted as the leading jewelry firm, a business in which it had always engaged as well: Kishen Das, now Vithal Das. See also Qeyamuddin Ahmad, 'An Historical Account of the Banaras Mint in the Later Mughal Period, 1732–1776,' in *Numismatic Society of India*, 23 (1961), 198–215, where 'precious stones' pass through the mint: pp. 209.

ties can no longer be viewed as superficial. Attempts must be made to measure them, ascertain who was engaged in them, and relate them to other areas of the Mughal economy.

Finally, there is the increasingly important role of banking firms in revenue collection. It is abundantly clear that by 1750 it was bankers who controlled access to the actual collection of land revenue, through provision of credit or cash. They, rather than officials of the Mughal or any other ruler, were the people to deal with. The amount of interest set and the securities demanded by bankers were more critical economic conditions than the revenue demand fixed by a territorial ruler. Most of the evidence for this state of affairs is from the eighteenth century and seemingly linked to the practice of revenue farming. Bankers provided the funds which enabled *talukdars* ('contractors') to gain their positions as tax farmers, and bankers sent their own agents into the countryside to collect from the land given to them as security or mortgage.³³

Historical instances of bankers involved in the land revenue system are numerous. In Bengal, the Jagat Seths presided over annual negotiations with leading *zamindars* at their Murshidabad residence, settling accounts and allocating fresh supplies of funds.³⁴ Other bankers in Bengal in the eighteenth century stood surety for landowners and paid the revenue on their behalf. They turned over to the East India Company sealed bags which were not opened, because the bankers were 'averse to the opening and inspection of them, declaring it contrary to established custom of the country and destructive of credit.'³⁵ Shah, discussing the revenue system of eighteenth-century Gujarat, terms moneylenders and bankers 'part of the entire system of state finance.' He notes that urban bankers made loans to rulers for military and other purposes and were in return authorized to collect the revenues.³⁶ Cohn shows many such instances in the Benares region in the eighteenth century, and he traces several bankers into official positions in the political system.³⁷ Lengthy descriptions of the Madras hinterland in the eighteenth century testify to the bankers' control of the land revenue; some of these bankers were based in Hyderabad and sent

³³ Habib, 'Usury,' p. 398.

³⁴ Little, 'House of Jagatseth,' XX, 133, citing Hunter's *Statistical Account*, IX, 256.

³⁵ Jain, *Indigenous Banking*, pp. 18–19, citing Bengal District Records of the eighteenth century.

³⁶ A. M. Shah, 'Political Systems in 18th Century Gujarat,' *Enquiry*, I:1 (Spring, 1964), 83–95, 92.

³⁷ See specific instances in the following articles by Bernard S. Cohn: 'The Initial British Impact on India, A Case Study of the Benares Region,' *Journal of Asian Studies*, XIX:4 (August, 1960), 422–23; 'Recruitment of Elites in British India,' in L. Plotnicov and A. Tuden, eds., *Essays in Comparative Social Stratification* (Pittsburgh, 1970), 128–29; 'Structural Change in Indian Rural Society, 1596–1885,' in R. Frykenberg, ed., *Land Control & Social Structure in Indian History* (Wisconsin, 1969), 80–81; and 'Political Systems in Eighteenth Century India: The Banares Region,' *Journal of the American Oriental Society*, 82:3 (July–Sept. 1962), 319.

their agents out to collect revenue on lands ceded as security by *zamindars* in the Circars.³⁸ It was in the Madras area also where 'customary arrangement' found a rural official collecting funds on the first of the month and then loaning the amount at interest to a banker, who used it as working capital until the official turned it over to the government on the twenty-eighth of the month.³⁹

The banker's assumption of key positions in eighteenth-century systems of revenue collection has usually been attributed to the increasing weakness of the central government, leading to revenue contracting and emphasizing the need for capital to secure initial contracts. But so little is actually known about the operation of the Mughal land revenue system that it is hard to say where and when salaried officials were used, or whether there may have been an intermediate stage when collection was entrusted to private individuals working on commission.⁴⁰ Whether it is a symptom or a cause of imperial decline, the bankers' powerful role in regional and local land revenue system developed during the same period that bankers were redirecting their financial investments from the central Mughal administration to regional and local political powers.

From 1650 to 1750, several historical developments indicate why and how bankers were shifting their support and investment from the Mughals to other political rulers. First, the Mughals failed to protect bankers adequately in the second half of the seventeenth century. Shivaji's famous raids on Surat from 1664 on were far more significant for their impact upon the commercial interests there than upon the loyalties of the nobility.⁴¹ This was the wealthiest port of Mughal India, and it has been shown that the sea trade here and in other Gujarati ports, and the customs revenue going to the Mughals, was far more considerable than has been generally recognized.⁴² Leading officials and relatives of the Mughal emperor were involved in trading ventures.⁴³ Heads of the Gujarati great firms had access

³⁸ See L. Sundaram, 'Revenue Administration of the Northern Circars,' *Journal of the Andhra Historical Research Society*, XIV (1943-44), 22-58, and XV (1944-45), 1-118, for details. The reference to Hyderabad firms: XV, 12.

³⁹ Krishnan, *Indigenous Banking*, pp. 19-20, notes that this was still done in the twentieth century; despite the failure to date its origin, it indicates the complex possibilities the revenue system offered for intermediary profits.

⁴⁰ Even for this commission method, an initial large *nazr* or payment seems to have been necessary.

⁴¹ Pearson argues that the impact upon the nobility was crucial: 'Shivaji and the Decline,' *op. cit.*

⁴² Pearson, 'Shivaji and the Decline,' pp. 227-28, and his 'Political Participation,' *op. cit.*, 118-19.

⁴³ *Ibid.*, particularly the latter article, pp. 124, 129-30. See also Satish Chandra, 'Commercial Activities of the Mughal Emperors During the Seventeenth Century,' in *Bengal Past & Present*, 78:146 (July-Dec. 1959), 92-97, where he argues that the *jagir* crisis may have induced nobles to turn to commerce, and his 'Some Aspects of the Growth of A Money Economy in India during the Seventeenth Century,' *Indian Economic and Social History Review*, III:4 (Dec., 1966), 321-36.

to the emperor in the seventeenth century, and successive emperors responded favorably to requests made by the Surat business community.⁴⁴ Yet Aurangzeb proved unable to protect Surat and other ports from raiders, and merchants and bankers left Surat for other cities.⁴⁵ Many eventually settled at Poona, capital of the Peshwas.⁴⁶

Policies and actions of the later emperors Aurangzeb and Farukhsiyar indicate tensions between bankers and the Mughal state. By 1702, when Aurangzeb attempted to secure interest-free loans to pay troop arrears in the Deccan, he was turned down by banking firms.⁴⁷ Aurangzeb's expectation of financial support must have been perceived as contrary to the bankers' interests at this time, towards the end of the Deccan campaigns. Another indication of conflicting political and economic interests for the state and the banking firms was the emperor Farukhsiyar's need for money in 1712 and his plan to levy contributions on the rich merchants of Patna, including the Dutch and English merchants. His plan was thwarted by the governor of Bihar, who had his own dealings with the Europeans.⁴⁸ It has been suggested that Mughal officials at all levels were increasing their own commercial activities and actively competing with indigenous bankers and merchants at this time,⁴⁹ though without a comparison with the past commercial networks and activities the evidence shows only commercial involvement.

Two other developments from 1650 to 1750 show the changing economic and political orientation of the great banking firms: the migration of bankers from Mughal urban centers to those of other powers, and the banker's extension of trade and credit transactions to newcomers, the Dutch and the English, in contrast to their earlier policies. Where the new commercial relationships have been noted, there has usually been no attempt to reconstruct the commercial networks of the banking firms prior to their connection with the European traders.⁵⁰

⁴⁴ Pearson, 'Political Participation,' *op. cit.*, pp. 122–27; Gillion, *Ahmedabad*, 17–18, 21.

⁴⁵ Pearson, both articles cited above, and particularly 'Political Participation,' p. 128, for emigration.

⁴⁶ Gadgil, 'Immigrant Traders in Poona,' *op. cit.*, p. 16.

⁴⁷ Habib, 'Usury,' pp. 408–09.

⁴⁸ Satish Chandra, 'Early Relations of Farrukh Siyar and the Saiyid Brothers,' *Medieval India Quarterly* 2: 1 & 2 (1957) 142, for Husain Ali Khan's action (the governor of Bihar).

⁴⁹ Satish Chandra, in his articles cited in footnote 43, suggests that Mughal commercial activities were increasing in the seventeenth century and persisted right through the eighteenth century; I suspect that their activities were characteristic earlier as well, and that his evidence supports the line of argument here for interdependence.

⁵⁰ For example, S. Arasaratnam, 'Aspects of the Role and Activities of South Indian Merchants c 1650–1750,' in *Proceedings of the First International Conference Seminar of Tamil Studies* (University of Malaya, 1968), vol. I, pp. 582–96. He prefaces his material on merchants dealing with Europeans after 1650 with these sentences (p. 582): 'After the decline of the great medieval collective enterprises, the mercantile tradition seems to have lived on among certain families with commercial roots in the past. When the European traders . . . came to southern India they . . . soon established firm relations with them.' See also, Susil

Historical research on migration elsewhere has used empirical data to measure the opportunities available according to distance from the source of migration. Lack of systematic data on the movements of great firms in Mughal India prevents such an analysis here, but the information available supports the hypothesis that after 1650 banking firms moved to regional kingdoms and the commercial centers being established by European trading companies.⁵¹ The emigrations from Surat have been mentioned; some of those bankers settled in Poona, where they gained mint privileges and became bankers to the Peshwa.⁵² A Surat Brahmin firm moved to Calcutta through transactions with the East India Company in the eighteenth century, later on opening a Bombay branch.⁵³ The Jagat Seth firm's move to Dacca and Murshidabad was due to its tie to Murshid Quli Khan, governor of Bengal, in the early eighteenth century.⁵⁴ Firms based in the Nizam's capital city of Hyderabad moved into the northern Circars, where they encountered the East India Company agents operating out of Madras. One Marwari firm gave up banking for Indian princes and moved to Calcutta, dealing in opium with the East India Company.⁵⁵

These migrations have generally been attributed to negative factors, such as the Mughal inability to protect commerce or the raids of Marathas, Jats, and Afghans. No doubt the political instability and wars of the eighteenth century were destructive of some trade and commercial activities, but wars also offered positive inducements to many financiers and contractors.⁵⁶ The eighteenth century might better be viewed as a period of expansion and diversification for many banking firms and merchants.

The historical evidence for the process of realignment of leading banking

Chandhuri, *Trade and Commercial Organization in Bengal, 1650-1720: With Special Reference to the English East India Company* (Calcutta, 1975).

⁵¹ B. G. Gokhale starts his 'Ahmadabad in the XVIIth Century' with the statement, 'The history of India in the seventeenth century is characterized by the emergence of various regions as distinct economic units,' *Journal of Economic and Social History of the Orient*, XII:2 (April, 1969), 187; see also B. Ramachandra Rau, 'Some Specific Services of the Indigenous Bankers of Bombay,' in *Indian Historical Records Commission*, Vol. 12 (1929), 54-59.

⁵² See footnote 46; also P. K. Gode, 'Keshavbhat Karve, a Poona Banker of the Peshwa Period and His Relations with the Peshwa and Damaji Gaikwad,' in *Journal of the University of Bombay* Vol. 6 (July, 1937), 87-91.

⁵³ B. A. Saletore, 'A Forgotten Gujarati Brahman Banker,' *Indian Historical Records Commission* XXX (1954), 155-60.

⁵⁴ See Philip Calkin's article (cited in footnote 2) and his unpublished paper, 'The Role of Murshidabad as a Regional and Sub-regional Center in Bengal,' which suggests that the city's importance derived more from its commercial orientation towards European factories even in the seventeenth century than from its administrative orientation to the Mughals (8-14).

⁵⁵ For the Hyderabad firms, Sundaram, 'Revenue Administration,' p. 12; for the Marwari firm, Timberg, 'A "Great" Marwari Firm,' 264-65, 283.

⁵⁶ This has been stated by Jain, *Indigenous Bankers*, p. 17, and Gadgil, *Origins*, p. 32, where he notes that de Bussy in the Deccan and Karnatak obtained a loan from 'a great banker.' Instances of Kanara Saraswat merchants who allied themselves with the British are given in V. N. Kudra, *History of the Dakshinatya Saraswats* (Madras, 1972), 117-18.

firms with the East India Company during this century before 1750 is plentiful and unambiguous. Detailed evidence from Surat and from the Jagat Seth firm in Bengal documents an early and strong transition to doing business with the Company. While early seventeenth-century Dutch records from Surat show that the Mughals failed to protect Indian traders from Dutch and English competition from the sea trade then,⁵⁷ other records show at least eight leading Gujarati firms providing extensive credit to the English at Surat from 1634 to 1677.⁵⁸ Pearson shows that Gujarati merchants at Surat strongly opposed English traders in the 1620s, but by the 1660s they considered European traders to be among their best customers.⁵⁹ One Gujarati firm originally from Surat moved to Murshidabad, then to Calcutta and Benares, proudly claiming to be 'bankers to the Company' by the late eighteenth century. This firm showed a marked preference for the English throughout the second half of the eighteenth century. Its historian asks why that should have been the case and what the wealth of that firm and others like it actually was, when that firm alone lent one lakh of rupees a month to the English Company.⁶⁰

The history of the Jagat Seth firm, already discussed in its Mughal context, is perhaps more fascinating in relation to the East India Company. Most accounts first link the firm to the English in mid-eighteenth-century Bengal, but in fact it had loaned funds to the English factory in Patna as early as 1652. An even stronger tie to the Company existed through the 'real' family of Jagat Seth—for Jagat Seth was the son of Manek Chand's sister, adopted by Manek Chand to continue his firm. Jagat Seth's natal family operated a great banking firm in Patna and Agra in the seventeenth century, the very firm which in 1714 extended credit to the English trade embassy from Calcutta when other leading Delhi bankers refused it credit. Mitra Sen of this firm, real brother to Jagat Seth, represented the East India Company in Delhi from 1712 to 1739, allegedly supervising its interests in all three presidencies.⁶¹ The firm's prominent political role in the 1750s, when it helped the East India Company overthrow Nawab Sirajuddaula, is well known and caused Gadgil to term it 'exceptional.'⁶² The argument

⁵⁷ Karl Fischer, 'The Beginning of Dutch Trade with Gujarat,' unpublished paper, pp. 16–18.

⁵⁸ Saletore, 'A Forgotten Gujarati Brahman Banker,' p. 155, citing early East India Company records which he lists in his footnote; see also Habib's charts in 'Usury,' pp. 402–03, and H. Q. Naqvi, *Urban Centres and Industries*, pp. 63–64.

⁵⁹ Pearson, 'Political Participation,' pp. 125–27. This is also clear in Ashin Das Gupta, 'The Merchants of Surat, c. 1700–50,' in Edmund Leach and S.N. Mukherjee, eds., *Elites in South Asia* (Cambridge, 1970), pp. 201–22.

⁶⁰ Saletore, 'A Forgotten Gujarati Brahman Banker,' pp. 158–60.

⁶¹ Little, 'The House of Jagatseth,' (Vol. XX), 115–16, for the 1652 loan, and 126–29, 136–45 for the Mitra Sen firm.

⁶² Gadgil, *Origins*, p. 32, Little's article, continued in Vol. XXII, and Gupta, *Sirajuddallah and the East India Company*, p. 132, both document the Hindu bankers' new alliance with the East India Company in Bengal by 1760. M. Panikkar, in *Asia and Western Dominance* (New

here is that it was closer to the rule, as further research on banking firms' connections with political rulers will demonstrate.

'GREAT FIRMS' AND THE EAST INDIA COMPANY: AFTER 1750

After 1750, the East India Company brought about major changes which were detrimental to the economic and political interests of the indigenous banking firms. The Company had relied upon Indian bankers as sources of credit, and often as agents for the collection of revenue, as it gained territory. Now the Company displaced them, not only as the Company bankers but as bankers to Indian rulers as well. The Company also displaced bankers as the key intermediaries in the land revenue collection.

Thus, Clive's agreement with the Nawab of Bengal in 1765 specified that all revenues would go to the Company through a newly created board of ministers. This board consisted of the Nawab, the Diwan, and a Seth, the latter from the Jagat Seth firm. The Seth was still termed Company banker, but Clive insisted that all three men keep keys to the treasury, and that the Company be paid before repayment to back debts to the Seths. In 1770, Clive stopped the allowance which the Seths received as ministers of the Nawab. In 1772, the Company treasury was transferred from Murshidabad to Calcutta and the Seths ceased to be Company bankers. A later representative of the firm petitioned Hastings for reinstatement in the hereditary office of 'receiver and treasurer of government revenue,' but he got robes of honor instead.⁶³ In the 1770s, an inquiry began into the whole system of revenue collection in Bengal, with the aim of 'placing the Company as nearly as can be in the stead of the Shroffs.' It was stated that revenue was being lost to the bankers, upon whom the Company was in any case too dependent.⁶⁴

Similarly, the Company in Madras began to investigate *zamindars* indebtedness and the bankers' role in revenue collection in the 1770s. At first, the recommendation was to continue the 'agency of soucars' as 'innovations might be dangerous.'⁶⁵ In the 1780s, however, the Company tried to change the system, arguing that it 'gives the soucar very unreasonable advantage. . . .'⁶⁶ But the reforms attempted encountered difficulties. The provision of security by *zamindars* themselves proved unworkable, and when the Company's inquiries appeared threatening, the principal bankers got together and refused to furnish security.⁶⁷ Noting that the prevalent system helped conceal information from the Company and kept the *zamin-*

York, 1953), carelessly generalizes that the powerful Indian merchant class worked with European traders because of its 'inherited hatred of Muslim rule' (p. 99).

⁶³ Little, 'The House of Jagatseth,' Vol. XXII, 97-103.

⁶⁴ Jain, *Indigenous Banking*, pp. 19-20, citing the Governor General's letter to the Collector of Rangpur, in Vol. I. p. 33 of the Bengal District Records.

⁶⁵ Sundaram, 'Revenue Administration,' Vol. XV, 10-14.

⁶⁶ *Ibid.*, p. 33, citing Macartney. ⁶⁷ *Ibid.*, pp. 34 and 15.

dars indebted to the bankers (who were always paid before the Company's current demand was met), a circuit committee in 1785 proposed drastic remedies. Reforms of the 'vicious system' succeeded in 'suppressing the private interests' and replaced 'commercial ideas by administrative ideas' in the collection of revenue in the Circars.⁶⁸ At this time, of course, the Company itself was still a private and commercial concern.

Not only were indigenous banking firms displaced in Company territories, the Company acted against them in princely states. It did not enforce payment of debts to bankers when Company agents took over from or dealt with ruling princes. This happened in Benares in 1773, in Oudh in 1798, and in the case of the Nawab of Arcot in 1805.⁶⁹ The East India Company's view of bankers was much in evidence in the notorious case of Palmer and Company in Hyderabad State in the 1820s. Here, too, the ruler's debts to the banking firm were overlooked by the Company, and the Resident strongly disapproved of the political power exercised by the Palmers in Hyderabad. He said: '. . . it tends to draw them quite out of their sphere of merchants. . . . I lament the power which they exercise . . . in an authoritative manner not becoming their mercantile character. . . .'⁷⁰

By the nineteenth century, if one compares the functions of indigenous banking firms before and after the advent of foreign traders, a reversal has occurred. Before, bankers had been state treasurers and were often directly involved in the collection of revenue. The financing of external trade before the seventeenth century had been chiefly in the hands of Indian trading firms; then it was taken over by European firms; and, in the nineteenth century, by European banking institutions. With the 1835 imposition of uniform currency throughout British India, bankers lost much of their money-changing business as well as their mint privileges. In the nineteenth century, bankers and moneylenders were most noted for the financing of internal trade and the extension of agricultural credit; the British created government treasuries and a system of European banking institutions in India.⁷¹ But we have come very far from Mughal India, and part of the reason for doing so is to demonstrate how historians have lost sight of the great Indian banking firms of those days.

ADVANTAGES OF THE 'GREAT FIRM' THEORY

The theory proposes that it was the redirection of economic and political support by the great banking firms of Mughal India from 1650 to 1750

⁶⁸ *Ibid.*, pp. 77–78.

⁶⁹ Jain, *Indigenous Banking*, pp. 20–22.

⁷⁰ This was Charles Metcalfe, in a letter to the Governor General, September, 1821: E. J. Thompson, *Life of Lord Metcalfe* (London, 1937), pp. 210–11.

⁷¹ Jain, *Indigenous Banking*, pp. 23–25, makes this comparison. The best coverage of this transition period from the point of view of the Company is by B. Ramachandra Rau, 'Organized Banking in the Days of John Company,' in *Bengal Past and Present* Vol. 37 (Jan.–June. 1929), 145–57, and Vol. 38 (July–Dec. 1929), 60–80.

which proved the decisive factor in the decline of the empire. The banking firms had been crucial to the functioning of the central government and to the functioning of many of its employees' households. It is not being argued that the great firms were directly incorporated into the governmental structure, or that a centrally-directed economic policy was being implemented through them, for the Mughal state *did* not exercise tight control over these firms and their activities. Not only the state 'treasury,' however, but individual *mansabdars*, *jagirdars*, *zamindars*, and *talukdars* were more than likely to be directly dependent upon these banking firms.

The situation of the bankers in Mughal India contrasts strongly with that of bankers in imperial China, and the contrast is an instructive one.⁷² Most historians agree that the Chinese bureaucracy tightly regulated the merchant classes. For example, when Chinese bankers invented 'flying money' (the equivalent of *hundis* in India), the government took over the system as a bureaucratic monopoly. The Chinese imperial bureaucracy was also able to establish control over promissory notes or paper currency, developed somewhat later. But in Mughal India, while there were attempts to regulate some aspects of banking activities, the regulation of *hundis* was never proposed, and other attempted regulations appear to have failed more often than not. The position of the bankers in India was that of an allied support group, one which provided essential resources to the state and had a good bargaining position with respect to it. Contrast their position with that of the *co-hong* merchants at the Chinese treaty ports, closely regulated and acting for their government as they carried out commercial transactions with foreigners.

Banking firms in Mughal India had greater power and autonomy than their Chinese counterparts. The tensions between short-term and long-term aims of the Mughal state and its creditors needed careful and constant attention. This was particularly true when military expansion or defense efforts impelled the state to call for more resources, or when banking firms were presented with alternative patrons or clients. From all indications, the later Mughal emperors did not give sufficient consideration to their relationships with the great banking firms, and many firms relocated and redirected their transaction after 1650.

While further research is admittedly necessary to test and fully substantiate this theory, it offers certain immediate advantages over other theories

⁷² Both Panikkar (*Asia and Western Dominance*, p. 99) and Gupta (*Sirajuddallah and the East India Company*, p. 32) compare the Indian mercantile class to 'Shangahi compradors,' but they do not investigate this comparison further. For China, see the following: E. Balazs, 'The Birth of Capitalism in China,' in Eisenstadt, (ed.) *Decline of Empires*, p. 109; Lien-sheng Yang, *Money and Credit in China, A Short History* (Cambridge, 1952); 'Economic Aspects of Public Works in Imperial China,' in *Excursions in Sinology* (Cambridge, 1969); and 'Government Control of Urban Merchants in Traditional China,' in the *Tsing Hua Journal of Chinese Studies*, new series (2nd) 8, August 1970, 186–206. See also Mark Elvin, *The Pattern of the Chinese Past* (London, 1973), particularly pp. 155, 161–62, 215–25, and 285–97.

of Mughal decline. It brings together the economic factors associated with the decline in a way that emphasizes their interrelationships. It also reorders the causative factors in significance, pointing to the economic decisions made by the great banking firms as the most important cause of irreversible decline, because so many of the other groups and institutions were dependent upon the banking firms. Virtually all government units of income and expenditure required the extension of credit or cash to continue operations. The refusal or diversion of resources by bankers contributed to the dissension among *mansabdars* and *jagirdars*, the impact of a real or artificially produced *jagir* shortage, the flagging zeal of the military, and so on.

Another advantage of the theory is its potential for measurement and testing. The systematic reconstruction of seventeenth- and eighteenth-century networks of great firms and their connections with Mughal institutions and functionaries, with each other, and with lower level firms and moneylenders should be possible. These were urban-based, well-organized and conspicuous institutions, limited in numbers at the level of operation in which we are interested. Changing patterns of trade and investment, relocation of firms and their branches, should provide yet other measures of loyalty, as well as the movements of individual nobles and themes in poetry and prose.⁷³ And there should be fewer units to analyze than in the cases of the *mansabdars*, *zamindars*, and other categories of individuals.

A great advantage of this theory is that it relates the rise of the East India Company to the decline of the Mughal empire in a concrete and cumulative manner emphasizing processes rather than events or individuals. It lends continuity to revenue history, linking territorial conquest with the collection of the land revenue through the agency of indigenous banking firms. It emphasizes the development by the Company of partnerships with the great firms, followed by Company displacement of them. The local and regional participants in that process of economic partnership and displacement can be discovered and compared throughout India.

Like any good theory, this one seems fairly obvious, and the puzzle is that it has gone unperceived and unresearched. There may have been a problem of sources,⁷⁴ but historians are now utilizing new sources and

⁷³ For example, F. Lehmann, 'Shah Ayat Allah "Jauhari" and his Shahr Ashob,' in *Abdul Karim Sahitya-Visarad Commemoration Volume* (Dacca, 1972), and other writing on the eighteenth-century cultural laments.

⁷⁴ Timberg discusses the problem of sources in 'A "Great" Marwari Firm.' In an unpublished paper, 'Speculative Gains and Primitive Accumulation' which deals only with the nineteenth and twentieth centuries, Timberg's problem is the theoretical one of entrepreneurial values; he had no problems with sources. Morris D. Morris, in a recent unpublished paper, 'South Asian Entrepreneurship and the Rashomon Effect,' also deals with the nineteenth and twentieth centuries and emphasizes the significance of indigenous banking and entrepreneurial activities and how little we still know about them (paper presented at a Conference on Colonial Port Cities in Berkeley, June 1976).

methods. Determined collection of data can result in the reconstruction of a grid of great firms and their relationships with the political powers of the time. New analytical perspectives will also be useful. Many who have theorized about merchants and bankers in Mughal India have done so from a Marxist perspective, forcing the data into a fairly rigid framework. Other researchers have seldom ventured beyond description, collecting detailed data on specific individuals, firms, or caste groups, following the traditional emphasis upon the diverse and specialized nature of financial communities in India. But now an attempt must be made to describe and analyze this heterogeneous category according to the organization and volume of their economic activities, focusing on the great indigenous banking firms of Mughal and early British India and their decisive participation in politics.