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# Indigenous Banking Firms in Mughal India: A Reply

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In the April 1979 issue of *CSSH* I proposed a theory: The financial services of leading indigenous banking firms were indispensable to the Mughal state, and the diversion by these firms of resources, both credit and trade, from the Mughals to other political powers in the Indian subcontinent contributed to the downfall of the Mughal empire (p. 152). John F. Richards's article in the present issue takes exception to that theory, challenging the evidentiary basis for my assertions. While stating that further research was admittedly necessary to test and fully substantiate the theory, I certainly offered evidence that these banking firms supplied working capital to the empire and its officials for military campaigns, trade, construction, *karkhanah* (workshop) production, and personal loans. I also discussed the bankers' regulation of the valuation, exchange, and circulation of currency, and particularly the *hundi* system of bills of exchange. The political potential of these financial services – of their performance or nonperformance, and on what terms – is obvious. Indeed, I cited instances of political interactions between bankers and officials.

Richards concedes that my analysis of the eighteenth-century activities of banking firms – their migration from Mughal-controlled urban centers to others; their extension of credit and trade to new regional powers, including the European trading companies; their involvement in the collection of land revenue – is accurate. He attacks the theory, however, by stating that he cannot find “sufficient” evidence to support my assumptions about the services and importance of the banking firms in the sixteenth and seventeenth centuries. He also attacks the theory by stressing the empire's accumulation of permanent capital, although I did not contend that the empire depended upon the private sector for long-term financing in those centuries.

Richards puts forward a “state finance” model of the Mughal economy. In this formal, bureaucratic model, the state somehow controls the bulk of the profits from the expansion of trade, along with other accumulated resources (plunder, tribute, land revenue), and it also controls the minting and circulation of currency. There are three problems with this. In terms of economic

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theory, his model concentrates on the state's accumulation of capital and overlooks the credit system developed and controlled by private bankers and other financial specialists. Just as the eighteenth-century contraction of fiscal resources was accompanied by a tightening of credit facilities, the earlier expansion of the money supply had as its corollary an expansion of the system of credit, and his model does not account for that. In terms of economic practice, Richards simply delineates the state's financial institutions and normative goals: treasure was accumulated, there were treasuries and appointed treasurers, there were mints with designated mintmasters. What does this tell us about the economy, the way money was valued, exchanged, and circulated? Why downplay the nonofficial financial intermediaries who were essential at every level, even in his discussion, to make the model work? Other scholars working on the economic history of India in the sixteenth and seventeenth centuries do not question the existence of a well-developed system of finance and credit and extensive use of it; they, too, assume the existence and economic importance of "great firms" and find examples of them.<sup>1</sup> And, finally, Richards's model does not provide adequately for the integration of the economy and the imperial structure. As his final sentences reveal, to argue that the Mughal state exercised strong centralized control over the economy and benefitted greatly from the seventeenth-century conjunction with its "corporate analogues," the English and Dutch East India companies, does little to explain the state's weakness in the eighteenth century.

Richards's discussion of the system of state finance begun under Akbar considerably overstates the role of the government and is economically and historically naïve. Terming the empire "self-financing," he says (p. 292):

Imperial officers utilized the skills of private bankers and others to assist them in the task of managing the vast funds at their disposal – but did not depend upon investment of funds, nor upon large long-term loans to operate the machinery of the state.

How did officials utilize these private skills, then, and what did the bankers get out of it? What about the provision of working capital and short-term credit? Although he mentions commercial groups and their services, at one point terming them "obviously essential" (p. 289), Richards again and again says that they were not important, and that the empire did not depend on them to any meaningful extent. Direct evidence, that is, official admission of dependence on banking firms, may indeed be hard to find in the sources. But

<sup>1</sup> B. G. Gokhale, "Ahmadabad in the XVIIth Century," *Journal of Economic and Social History of the Orient* XII, no. 2 (April 1969):187-97; S. Arasaratnam, "Aspects of the Role and Activities of South Indian Merchants c [sic] 1650-1750," *Proceedings of the 1st International Conference Seminar of Tamil Studies* (University of Malaya, 1968), pp. 582-96; K. N. Chaudhuri, *The Trading World of Asia and the English East India Company 1660-1760* (New York, 1978), particularly chapters 7 and 8; Irfan Habib, *The Agrarian System of Mughal India* (Aligarh, 1963), pp. 69-70.

what has happened to inference, that valued tool of historians, a tool especially useful when sources are scarce or likely to be reticent? K. N. Chaudhuri, whose careful, empirically based work commands respect, has written:

The high degree of centralization achieved by the Mughals in government had a strong financial and monetary base, which was fostered by a long tradition of banking and commercial exchange. It is inconceivable that the state machinery dealing with even land revenue could have functioned properly without financial intermediaries and an active market mechanism. The loss of Mughal state papers and lack of private commercial records has meant that much of this interaction . . . is hidden from our knowledge.<sup>2</sup>

There is certainly evidence that the Mughal state and its officials utilized the credit facilities of the banking firms, for both short-term credit and the transmittance of funds within the empire, in the sixteenth and seventeenth centuries.<sup>3</sup> The question is, how *necessary* were these facilities to the state? It is hard to imagine that bullion, plunder, and collected revenues were sent by messenger or carted about by bullocks with military escorts when the sophisticated *hundi* system was available, and indeed we have many instances of emperors, officials, and tributary rulers sending official remittances – including funds from Mughal treasuries – via *hundi*.<sup>4</sup> Yet Richards asserts that “most transfers of official funds were carried out by imperial messengers and armed escorts carrying coin or bullion rather than by resort to the private network of bills of exchange offered by associated groups of moneychangers” (p. 297). But Irfan Habib, thoroughly familiar with the primary sources for the period, believes that the total amount transferred via *hundis* on behalf of the Mughal government and officials “rivalled, if it did not exceed, the money remitted for purposes of trade.”<sup>5</sup> And I draw attention again to evidence of the nobles’ indebtedness to bankers in this period,<sup>6</sup> to Akbar’s failure to create government institutions to displace private bankers as chief creditors of nobles,<sup>7</sup> and to Habib’s (supported) belief that the Mughal state, in fact, “extended its full protection to the creditor.”<sup>8</sup>

Richards’s state finance model also overstates the role of the government with respect to currency. The Mughal state was not the monetary authority; its

<sup>2</sup> K. N. Chaudhuri, “Markets and Traders in India during the Seventeenth and Eighteenth Centuries,” in *Economy and Society*, K. N. Chaudhuri and Clive J. Dewey, eds. (Delhi, 1979), p. 144.

<sup>3</sup> I cited some of this evidence in my 1979 *CSSH* article.

<sup>4</sup> Irfan Habib, “Banking in Mughal India,” *Contributions to Indian Economic History* (Calcutta) I(1960): 10–11.

<sup>5</sup> *Ibid.*, p. 11.

<sup>6</sup> Irfan Habib, “Usury in Medieval India,” *Comparative Studies in Society and History* 6, no. 4 (July 1964): 407–11.

<sup>7</sup> Habib, “Banking,” p. 6; *idem*, “Usury,” p. 409.

<sup>8</sup> Habib, “Usury,” pp. 413, 399.

treasuries and mints did not “issue” money in the sense of regulating its supply. Rather, the supply of money was governed by the supply of bullion.<sup>9</sup> The long-time stability of the Mughal silver rupee was not due to the state’s successful maintenance of an artificial value for it; coinage at the Mughal mints was “free,” and the value of the silver rupee was based directly on its weight.<sup>10</sup> Hence the continual need to remint older coinage, including reserves held in imperial treasuries, to produce *sikka*, or current, rupees. This need was clearly dictated by the controllers of the money market, the moneychangers and bankers, who accepted older coins only at a discount, which they set. Irfan Habib’s careful discussion of the Mughal currency system of the sixteenth and seventeenth centuries shows that the officials followed, or reacted to, the market system regulated by the bankers and moneychangers. The latter were closely associated with the Mughal mints; they may sometimes have managed them.<sup>11</sup> “Recognized” Hindu bankers (great firms?) were given the very lowest rate for mint charges (2 $\frac{1}{6}$  percent, contrasted with 2 $\frac{1}{2}$  percent for Muslims and 3 percent for other bankers and moneylenders);<sup>12</sup> the amounts for *hundis* were always stated in terms of current *sikka* (also called *hundwi*) rupees, unlike other amounts and prices;<sup>13</sup> and revenue collectors demanded pure coin “as defined by the moneychangers.”<sup>14</sup> These and numerous other instances cited by scholars show that it was the bankers and moneychangers, and not the state, who controlled the minting and circulation of currency.<sup>15</sup>

Finally, I want to reemphasize the need for new sources and interpretations.

<sup>9</sup> Pierre Vilar, *A History of Gold and Money 1450–1920* (London, 1976), p. 96; Walter C. Neale, “The Market in Theory and History,” in *Trade and Market in the Early Empires*, Karl Polanyi, Conrad M. Arensberg, and Harry W. Pearson, eds. (Glencoe, Ill., 1957), p. 362.

<sup>10</sup> Irfan Habib, “The Currency System of the Mughal Empire (1556–1707),” *Medieval India Quarterly* IV (1961): 1–22; J. Shield Nicholson, “The Indian Currency Experiment,” *Contemporary Review* 64 (1893): 342–43.

<sup>11</sup> Qeyamuddin Ahmad, “An Historical Account of the Banaras Mint in the Later Mughal Period, 1732–1776,” *Numismatic Society of India* 23 (1961): 198–215, says that “in spite of the great importance of the subject [of currency and mints] there are very few references to it in the contemporary Persian chronicles . . .” The chronicles are “characterised by a dearth of information on non-political subjects, [and] are even more reticent on the subject of Currency and Mint” (p. 198). In Ahmad’s eighteenth-century data on management of the Banaras mint, officials alternated with the “farmers” (contractors and bankers, judging by their names) of the mint, and the farmers always carried away their papers (p. 213). Furthermore, farmers sometimes operated the mint during periods when the records showed that an official appointee was in charge, “probably . . . with the permission and on behalf of” the official appointee (p. 203, n. 2).

<sup>12</sup> Habib, “Currency System,” p. 3, n. 5.

<sup>13</sup> *Ibid.*, p. 5, n. 1.

<sup>14</sup> *Ibid.*, n. 3.

<sup>15</sup> *Ibid.*, p. 6, nn. 1, 5; p. 7, nn. 3, 4; p. 9, n. 3; p. 11, n. 10; p. 13, n. 8; p. 19, n. 10; also Chaudhuri, *Trading World*, pp. 183–84, and Gokhale, “Ahmadabad in the XVIIth Century,” p. 193. See also Habib, “Banking,” pp. 7, and 4, where Habib quotes Abu’l Fazl as saying that “the success of the minting department of the government depended” on the moneychangers, or shroffs (citing Abul Fazl, *Ain-i Akbari*, H. S. Jarrett and H. F. Blockmann, trans., 3 vols. (Calcutta, 1927), I: 16).

Richards seems to find the Persian chronicles and official Mughal sources adequate for reaching conclusions about the activities of banking firms. Thus, when confronted with evidence of fiscal services provided by bankers, he regards such activities as "unusual" and "a sharp divergence from imperial regulations" (p. 289). But historians can read the same sources and interpret them differently. When Richards reports (p. 294) that Mirza Raja Jai Singh's army awaited treasury funds for five months without any reference in official despatches to serious distress or recourse to private bankers, I infer that Jai Singh received short-term credit from local merchants or bankers. An army runs on its stomach, not its manuals. The commercial activities of Mughal nobles can be stressed, but agents, brokers, and merchants worked closely with them.<sup>16</sup> Although Mughal officials did impose a centralized system of market organization (p. 299), a local merchant headed the urban tax collection in tandem with those officials. And my reading of the autobiography of the seventeenth-century Jain merchant – the *Ardha Kathanak* of Banarsidas – is quite different from that of Richards, who cites an incident from it to evidence official persecution of merchants and a tense merchant-Mughal relationship. But that incident was followed by Mughal recall and rebuke of the official, and Banarsidas himself once benefitted from official intervention on behalf of travelling merchants.<sup>17</sup>

Surely we can push our knowledge of indigenous banking firms in India back into the seventeenth and sixteenth centuries<sup>18</sup> so that the significant questions now being raised about the historical roles of India's indigenous banking firms can be answered.<sup>19</sup>

<sup>16</sup> Satish Chandra, "Commercial Activities of the Mughal Emperors During the Seventeenth Century," *Bengal Past and Present* 78, no. 146 (July-December 1959):92-97.

<sup>17</sup> R. C. Sharma, "The *Ardha-Kathanak*: A Neglected Source of Mughal History," *Indica* 7 (1970), pt. 1: 49-73, and pt. 2: 106-20. This charming autobiography emphasizes a personal quest for salvation and gives financial details only incidentally; it has startling similarities to the merchant-based *Tales of Ancient India* edited by J. A. B. Van Buitenen and also to Gandhi's *Autobiography*.

<sup>18</sup> I agree that G. T. Kulkarni's study of an eighteenth-century banking firm in Poona is the most detailed and authoritative one available, but Kulkarni obviously assumes that such firms existed before that century. G. T. Kulkarni, "Banking in the 18th Century: A Case Study of a Poona Banker," *Artha Vijnana* XV (1973): 187ff. Two promising efforts are C. B. Joshi's work with seventeenth-century village-level papers: "Indapur Village, A Study in Economic History," *Indian Historical Records Commission Proceeding* 15 (1938):175-81; and P. K. Gode's success in finding Baroda State archival papers which corroborate eighteenth-century family papers: "Keshavbhat Karve, a Poona Banker of the Peshwa Period and His Relations with the Peshwa and Damaji Gaikwad," *Journal of the University of Bombay* 6 (July 1937): 87-91.

<sup>19</sup> I have worked on the more plentiful materials for Hyderabad State in the nineteenth century: "Banking Firms in Nineteenth-Century Hyderabad Politics," *Modern Asian Studies*, forthcoming.