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# INDIAN MERCHANT/BANKERS TO THE RESCUE OF THE EUROPEAN COMPANIES, EASTERN INDIA, C. 1650 - 1757

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The main thrust of the paper is to show how the local credit market in eastern India, especially Bengal, came to the rescue of the European Companies in the second half of the seventeenth and first half of the eighteenth century. These Companies had to face a major problem in financing their investments, that is the procurement of export commodities, in India in the face of a chronic shortage of working capital. Luckily for them, they found a highly developed and efficient financial system with an excellent credit mechanism, and they readily and eagerly availed of the facilities offered by the local credit market and thus saved themselves from the awkward situation throughout the period under review.

It is common knowledge now that, encouraged by the huge profit earned by the Portuguese *Estado da India* in the sixteenth century, several north European nations formed joint stock companies, in the early seventeenth century, prominent among them being the English East India Company (EIC) 1600 and the Dutch East India Company (VOC), 1602, for trade in the East. Though the original intention of the Companies was to trade in spices from the eastern archipelago, they found to their utter surprise that the only demand in the spice islands was for cheap, coarse Indian textiles, and absolutely no market for silver which the Companies brought from Europe for procuring spices. So they had to turn their attention to India, especially the Coromandel in the eastern coast. There was no dearth of cheap and coarse textiles in the Coromandel but the Companies found to their great dismay that chronic wars, political instability and famines in the region made the trade risky and unprofitable. So they focused their attention on Bengal which was actually the richest *suba* (province) of the erstwhile Mughal empire.

Bengal in the said period was not only one of the most prominent manufacturing centers of textile production in India but had several additional advantages. Bengal silk, though a little inferior in quality to Persian and Chinese silk, was much cheaper than the former varieties and soon there generated a great demand for this silk to feed the silk industries of Europe. Again, Bengal produced the finest and cheapest quality of saltpeter which was in great demand in Europe because of chronic warfare there during the period under review, and which could be profitably used as ballast for Europe-bound ships. As such, the Companies turned their attention to Bengal from around the mid-seventeenth century and gradually it became the main theatre of the trading activities of the Companies, and remained so throughout the period under review. The Companies exported from Bengal three main commodities – textiles, raw silk and saltpeter. Thus it is interesting to note that the Asiatic trade of the Companies which began as a bilateral trade between Europe and the East Indies, changed its character completely in the course of time. From the original bilateral trade, it changed to triangular trade – between Europe, India (for cheap cotton piece-goods) and the spice islands (where Indian textiles were exchanged for spices to be exported to Europe). Finally, it became bilateral again, mainly between Europe and Bengal, with the marked difference from about the 1680s that Bengal emerged as the chief partner of the Asiatic trade of the Companies. In this context one has to remember that Bengal had a very favourable balance of trade throughout the period.

However, the Companies had to face many a problem in securing their investments in Bengal. One of the major problems throughout the period under review was a chronic shortage of working capital. The problem of inadequate funds for investments was accentuated by the poor demand for the European Companies' imports into Bengal. Though the quantity of merchandise imported by the Companies was not generally large, the market for even this small quantity was strictly limited. The only items for which there was steady demand in Bengal were bullion and specie. But as their supply was seasonal and limited, the Companies had to explore additional means of financing their investments in Bengal. Moreover the Companies had to confront some peculiar problems in converting the bullion and specie into local currency.

Before taking up how the Companies tried to cope with the difficulties they were faced with in procuring their investments, it is necessary to explain these problems clearly.

**(a) Chronic Shortage of Capital**

The main problem which plagued the English Company as well as the Dutch, French and other Companies was the chronic shortage of liquid capital to secure their investments almost throughout the period under study. After the ships from Europe had left by February or March at the latest, and it was the best time for giving out the *dadni* (advance) for next year's investment, but then the Companies were left with little money. The problem was aggravated by the fact that these Companies often failed to pay the arrears due to the merchants for the previous year's investment. Almost every year at this time, with the departure of Europe-ships and the time for giving advances for investment approaching, the merchant-middlemen, locally called *dadni merchants*, would clamour on the one hand for payment of their arrears for the previous year and an advance for the next year's investment on the other. The Councils of the different European factories were often in a helpless position.

This is reflected in their numerous correspondence. As for example, the English Company's Calcutta Council noted in 1720 that their merchants were 'very uneasy and daily complaining for want of usual advancement on Dadney besides their last year's arrears due to them'.[1] The situation was sometimes exasperating as is apparent from the Fort William (Calcutta) Council's Consultations of 29 May 1721:[2]

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[1]. Bengal Public Consultations ( henceforth BPC), Range 1, 18 August 1720, vol. 4, f. 274, India Office Records (henceforth IOR), British Library, London.

[2] . Ibid., 29 May 1721, vol. 4, ff. 404vo.- 405

> There being due … [a large amount] to our merchants on balance of past year's account and we having no money to clear off those balances or advance them on this year's contract … they are very clamourous for either money or bills at interest to be given them alleging they cannot perform the new contract without being forced to borrow all the money they can get at interest to send to the aurungs [production centers].

The problem continued to plague the Company. Even as late as 8 August of the same year (1721), the Council noted in desperation: 'We as yet having no news of any ship from England, Our merchants are very clamourous for the Dadney to be advanced them on the goods contracted for this year, and insist upon giving them Bills of Debt for that and the Balance of their last year's account.'[3]

**(b) Timely Advance for Procuring Investmant**

Another difficulty that the Companies had to face was to provide funds for investment in the proper season which generally started after the shipping season was over. As the price of most of the commodities went up considerably. sometimes even by 40 to 50 percent, during the time of shipping[4], the Companies had to start contracting for goods just after the departure of Europe-bound ships, that is. generally from February or March, and hence they always needed a stock to be left for such investments after paying for the previous year's supplies. But as it happened, most often than not, these Companies had little cash to give advance to the merchants for providing export commodities at reasonable rates, decided at the time of contracts. Not only that, they often failed, as we have noted, to pay the arrears of the merchants who supplied goods in the previous year. As a result they had to search for sources in Bengal to meet their financial crunch.

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[3] . Ibid., 8 August 1721, vol. 4, f. 432.

[4]. Despatch Book (henceforth DB), 28 January 1659, vol. 84, f. 411, IOR, British Library.

**(c) Bullion/Specie from Europe**

No doubt the Companies sent from Europe mostly bullion and specie, which actually comprised 80 to 90 percent of the total value of goods sent to India/Asia but this shipment was seasonal and most often did not reach the destination in time. Moreover, the value of the precious metals sent often fell short of the total requirement. But the greatest difficulty in this respect was that the Companies had to face lot of problems in converting the bullion and specie into local currency for payment to the merchants for procurement of export goods. They would have been in a much better position than they actually were, had it been possible for them to sell the imported treasure in the open market or pay for their investments in bullion. But as a result of the virtual monopoly of the mint by the house of Jagat Seth, who were the greatest bankers of India as also of the then known world.[5]

In fact the Seths had established an almost absolute monopoly of the mint, obviously with the support of the Bengal nawab (king/ruler) Murshid Quli Khan. The Fort William Council wrote in 1721: '… Futtichund [Jagat Seth] having the entire use of the mint, no other shroff [money changer/banker] dare buy an ounce of silver'.[6] The Company was trying for a long time to have minting privileges and the Kasimbazar[7] Council was asked to secure the privileges from the nawab. As such, the Council negotiated with some high officials of the *darbar* [court] but 'are informed that while Futtichund was so great with the Nabob, they can have no hopes of that grant, ha alone

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[5] . For the Jagat Seths, see, The Dutch Company's Directors "Memorie", e.g., Sichtermann's 'Memorie', Verenighde Oost-Indische Compagnie (henceforth VOC), vol. 2629, f. 967, 14 1744, Algemeen Rijksarchief, The Hague; Jan Huijghen's 'Memorie', VOC 2763, f. 467, 20 March 1750; Jan Kerseboom's 'Memorie', VOC 2849, f. 128-128vo, 14 Feb. 1755; Louis Taillefert's 'Memorie', VOC 2849, ff. 247vo-248vo, 27 Oct. 1755; Orme Mss. India, VI, f. 1455, IOR, British Library; For the annual income of the Jagat Seths, Luke Scrafton to Robert Clive, Orme Mss. XVIII, f. 5043, 17 Dec. 1757. See also, J. H. Little, *The House of Jagat Seth,* Calcutta, 1956; S. Chaudhury, *From Prosperity to Decline – Bengal in the Eighteenth Century,* New Delhi, 1995, pp. 109-116; S. Chaudhury, *The Prelude to Empire – Plassey Revolution of 1757,* New Delhi, 2000, pp. 117-23.

[6] . BPC, Range 1, vol. 4, f. 462vo, 9 Nov. 1721.

[7] . Kasimbazar was the most important centre for silk production and trade in Bengal.

having the sole use of the mint nor any other shroff dare buy or coin a rupee's worth of silver'[8].

As the minting of coin was a great source of income, the Jagat Seths were determined to maintain the privilege at all costs. As late as 1743 the English factors in Kasimbazar reported: '… but this [minting] privilege they [the English] can never hope while Futtichund subsists and has that weight with the government which his usefulness to them and great influence at Court naturally gives him'.[9] The European Companies were thus most often forced to sell all their treasure – both bullion and specie – to the house of Jagat Seth. And under the circumstances they had no other alternative but to accept the price the banking house offered to them.[10]

The problem for the Companies was accentuated by the fact that the *dadni* merchants were in general reluctant to accept bullion against their supplies, and only occasionally and very rarely agreed to be paid in bullion.[11] In 1746 the English Company offered bullion to the merchants in payment of what was 'due to them on account of the investment' but they refused it alleging that nothing but 'Rupees would pass at the aurungs [and] that they could no ways turn the Bullion into Rupees but by selling it to Juggutseat's house who they were well assured would not buy it of them'.[12] Obviously, the Companies had little choice but to sell the bullion to the Jagat Seths and they had to accept whatever price the house offered which was much lower than the market price. For example in 1718, 240 *sicca* weight of English standard silver produced nearest to 218.75 *sicca* rupees, and the *shroffs* and merchants received *sicca* Rs. 210.7.9 for 240

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[8] . Ibid., vol. 4, f. 438vo-, 28 August 1721.

[9]. Factory Records, Kasimbazar, vol. 6, 16 March 1743, IOR, British Library.

[10]. It has been suggested by Om Prakash that my assertion that the house of Jagat Seth had a virtual monopoly of the mint 'is in need of drastic revision' which I think is unwarranted in view of the evidence put forward here and in chapter 4 of my book, *From Prosperity to Decline, c.f.* Om Prakash, 'On Coinage in Mughal India', *Indiasn Economic and Social History Review,* no. 25, 4, (1988), p.487.

[11]. Coast and Bay Abstract (henceforth C & B), vol. 5, f. 69, para. 14, 4 Feb. 1746; f. 80, para. 66, 30 Nov. 1746, 31 Jan. 1751, IOR, British Library; BPC, vol. 24, f.. 49, 31 Jan. 1751.

[12]. Bengal Letters Received, vol. 21, ff. 49-50, para. 66, 30 Nov. 1746, IOR, British Library.

*sicca* weight of silver after paying 5 percent customs duties. But the house of Jagat Seth generally paid Rs. 203 for 240 *sicca* weight of silver.[13]

The situation was not entirely different for the Dutch, There is no doubt that in principle the Mughal mints in Bengal were open to all, and everyone could coin money by paying the usual seigniorage. But in actual practice, minting was almost an exclusive privilege of the house of Jagat Seth which through its great influence at Murshidabad *darbar* they could easily retain it. The Dutch however coined money at the mint from time to time but often had to face insurmountable difficulties in doing so. As a result they too had to sell their bullion quite often to the Jagat Seths. The simplest way to manipulate things for the Seths was to see that the minting for the Dutch or other European Companies was delayed, something that could be easily done by giving the hint to the mint master. Neither the Dutch or other European Companies could afford the long delay in minting money because of the urgent need for liquid capital for procuring investments or paying arrears to the *dadni* merchants. The Dutch Director in Bengal, Sichtermann noted in his 'Memorie' in 1744, the inordinate delay the Company had to face in minting and suggested selling silver would have been a solution had the price of the market been not so low at the time.[14] Even as late as 1755 the Dutch Director in Bengal wrote of 'unheard of delays in the mint which he suspected was partly because of the intrigues of the house of Jagat Seth'.[15] So the Dutch were also forced to sell silver to the Seths as we find even in 1755 the Dutch sold silver to the Jagat Seth's *gomasta* (agent) in Hughli.[16]

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[13]. C & B Abstract, vol. 2, f. 175, para. 62, 6 Dec. 1718; vol. 4, f. 454, para. 46, 13 Feb. 1744.

[14]. Sichtermann's 'Memorie', VOC 2629, ff. 920, 926-28, 14 March 1744.

[15]. Taillefert's 'Memorie', VOC 2849. ff. 214-15, 27 Oct. 1755.

[16]. Hughli was the premier port of Bengal in the in seventeenth and the first half of the eighteenth century, *c.f.* S. Chaudhury, 'The Rise and Decline of Hughli – A Port in Medieval Bengal', *Bengal Past and Present*, Jan. – June, 1967, pp. 33-67.

**Borrowing from the Local Credit Market:**

Naturally the Companies had no other way of solving the problem of shortage of working capital but by borrowing from the local credit market. Luckily for the Companies, the credit market in Bengal was highly organized and efficiently managed. There was indeed a remarkable growth of the financial machinery for credit and exchange, and the specialized activities of a large class of merchants, especially *shroffs* (money changers/ bankers), undoubtedly point towards the fact that merchant capital and commercial organization were highly developed in late seventeenth and early eighteenth century Bengal. So the European Companies tried to solve the problem of acute shortage of working capital by borrowing heavily from the local credit market. Though there is no systematic account of the amount borrowed annually in different factories by different Companies, quite a few references here and there in the Company records give an indication of the sum borrowed at different times in different factories.

Towards the beginning of the eighteenth century, the English Company's debts to merchants/*shroffs* in Calcutta and Kasimbazar at certain specific dates amounted to around Rs. 0.7 million and Rs. 0.25 million respectively.[17] In 1720/21 the Company's debt in Bengal amounted to Rs. 2.4 million while the amount of debt turned out to be Rs. 5.5 million in 1747/48, exclusive of interest.[18] The Dutch Company also borrowed from the local credit market. Its debt to the Kasimbazar merchants, with interest, in September 1724 amounted to around Rs. 1.5 million.[19] Among the main creditors of the Dutch Company, the house of Jagat Seth is unfailingly there even in that early period. In two separate entries on 1 September 1724, the credit of the house to the Company totalled Rs. 0.26 million.[20] The Katmas of Kasimbazar did not lag behind. According to the said list,

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[17]. S. Chaudhury, *Trade and Commercial Organization in Bengal, 1650-1720*, Calcutta, 1975, p. 114. For the English Company's borrowings and debts in Calcutta and Kasimbazar, see, Ibid., pp. 114-116.

[18]. DB, vol. 101, f. 372, para. 32, 21 Dec. 1722; C & B Abstract, vol. 5, f. 117, para. 261, 10 Jan. 1748.

[19]. VOC 2030, ff. 156-58, 16 March 1725; all fraction rounded off to the nearest figure.

wherein there were eight of the Katma family as creditors, the Company owed them Rs. 206,794.[21] Even the Ostend and the French Companies too borrowed from the local credit market. The Ostend Company was lent money by the local *shroffs* and merchants. Alexander Hume, the chief of the Company in Bengal, reported in 1730 that among other merchants, Nainsook Babu, a near relation of Jagat Seth Fatechand, had lent the Company large sums of money.[22] Similarly the French too relied heavily on the local credit market for securing their investment. Jagat Seth Fatechand was indispensable to them as their most important moneylender. Though the then French Director in Bengal, Dupleix, described Fatechand as the 'greatest of Jews' and 'our chopping-block', he had to often seek loans of one to three hundred thousand rupees from the former. He had to borrow money from the rich and power family of merchant and moneylender of Kasimbazar – the Katmas.[23]

However, the most substantial lender to the European Companies was the house of Jagat Seth. Even in the early years between 1718 and 1730, the English Company borrowed from the Jagat Seths at Murshidabad, the then capital of Bengal, on an average more than 0.4 million rupees a year.[24] In the three years between 1755 and 1757, the Dutch debt to the house of Jagat Seth amounted to Rs. 2.4 million.[25] In 1757 alone the Dutch borrowed Rs. 0.4 million from the Seths and French debt to the Seths at the time of the fall of Chandernagore[26] in March 1757 amounted to 1.5 million rupees.[27] Captain

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[20]. VOC 2030, ff. 156-57, Hughli to Batavia (henceforth HB), 16 March 1725; The house used to lend money in the name of Jagat Seth but sometimes also in the name of Manikchand and Anandchand, or simply Anandchand; See, Chapter V of my book, *From Prosperity to Decline.*

[21]. VOC 2030, ff. 156-57, HB 16 March 1725.

[22]. Hume's 'Memorie', General Indische Compagnie (henceforth GIS), 5768 Stadsarchief, Antwerpen, Antwerp.

[23]. Indrani Ray, "Some Aspects of French Presence in Bengal, 1731-40, *Calcutta Historical Journal,* vol. 1, no. 1, July 1976, pp. 99-101.

[24]. J. H. Little, *The House of Jagat Seths*, Calcutta, 1956, p. X (Introduction by N. K. Sinha); see also, Kantu Papers, BPC, vol. 8, f. 256, Annex to Consult. 29 June 1730.

[25]. Computed from VOC 2874.

[26]. Chandernagore was the chief factory of the French in Bengal which fell to the English onslaught in March 1757.

Fenwick, an English Free merchant who was in Bengal at that time, estimated that the French debt in 1747- 48 to be ‘upward of 17 lakhs’ (1.7 million) while William Watts, an English official in Bengal wrote on 18 February 1757 to Robert Clive, the victor of the battle of Plassey in which the Bengal nawab was deposed, that the French owed about 1.3 million rupees to the Seths.[28]

Though the English Company borrowed money locally in all the factories in Bengal, Kasimbazar was one of the main centers where it borrowed money freely for investments. The reason was two-fold: first, a lot of the Company’s investment was made here; secondly, because of the presence of a large number of substantial merchants and *shroffs* from various parts of India at Kasimbazar, which was the important trade mart in Bengal in the first half of the eighteenth century, money was easily available for most of the time. Hence the English Council at Kasimbazar often borrowed quite a large amount of money for securing their investments here at the proper season. Thus we find that in March 1728, it borrowed Rs. 0.4 million for giving advances to the *dadney* merchants for investmewnts.[29] But the Court of Directors of the Company in London was not very happy with this large amount of borrowing at a high rate of interest. It wrote to Calcutta with great concern that ‘upwards of 4,000 pound sterling as paid for interest’ at Kasimbazar during the year May 1730 to April 1731, besides Rs. 643,832 ‘running at an extravagant rate of twelve percent per annum from that time’ and that the Kasimbazar factors had borrowed another Rs. 257,180 afterwards. It asked the Calcutta Council that the high rate of interest (at 12 percent) which was ‘canker to the Company’s estate’ should be rooted out.[30]

But despite the reprimands from the Directors, the different factories in Bengal borrowed heavily from the local credit market almost throughout the period under

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27. J. H. Little, *Jagat Seth*, p. XI, Introduction by N. K. Sinha.
28. Orme Mss. India VI, f. 1525; Watts’ letter to Clive, 18 Feb. 1757, quoted in S. C. Hill, *Bengal in 1756-57*, vol. II, p. 229, London 1905.

29. BPC, vol. 6, f. 564vo, 12 March 1728.

30. DB, vol. 105, ff. 688-89, para. 100, 6 Feb. 1733; C & B Abstr. Vol, 3, para. 86, f. 345, 2 Dec. 1733.

review. Even as late as 1745, the Company's debt at Calcutta amounted to Rs. 0.9 million whereas in Kasimbazar and Dhaka it was computed at 1 million rupees.[31] The English Company's debt at Dhaka in 1749 amounted to Rs. 755, 400. Of this amount, as big a sum as 584,000 was due to the house of Jagat Seth and the rest to several other *shroffs*.[32] In Calcutta in the course of a single day in 1743, the English Company borrowed a sum of Rs. 825,000 from the *dadni* merchants.[33] And just a week later, the Company borrowed from the Jagat Seths a sum of Rs. 326,750 for paying advances for its investments.[34]

In this connection it should be remembered that the mainstay of the capital market in Bengal in the first half of the eighteenth century was the famous banking house of the Jagat Seth. The house itself had grown into a great financial institution during the period under study.[35] It came to the rescue of the European Companies, which as we have seen earlier, suffered from a chronic shortage of working capital. So they borrowed heavily and freely from the house. The extent of the reliance on the banking house by the English Company will be evident from the fact that even in the subordinate factory at Dhaka where the investment was quite small as compared to that in Kasimbazar and Calcutta, it borrowed a sum of Rs. 470,000 in the period between 3 December 1744 and 20 October 1745.[36] In Kasimbazar the Company owed the Seths an amount of Rs. 836,037 in 1746 and Rs. 630,213 including interest in 1748.[37] Even in 1751 the English debt to the banking house at Kasimbazar amounted to Rs. 562,820.[38] In Calcutta on one single

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[31]. C & B Abstr., vol. 5, f. 59, para. 18, 11 Aug. 1745.

[32]. Factory Records, Dacca, Consult. 8 Sept. 1749, IOR, British Library.

[33]. BPC, vol. 16, f. 177, 6 June 1743.

[34]. Ibid., vol. 16, 184vo, 203vo, 13 June 1743.

[35]. For a detailed study of the rise of the house of Jagat Seths and their role in the economic and political life of Bengal, see, Chapter five of my book, *From Prosperity to Decline*.

[36]. Factory Records, Dhaka, vol.2, Consult. 30 July 1746.

[37]. Factory Records, Kasimbazar, vol. 7, Consult. 15 April 1746; 22 Aug. 1748.

[38]. Ibid., vol. 10, Consult. 11 Nov. 1751.

occasion in 1742, the Calcutta Council borrowed Rs. 0.2 million from the Jagat Seths.[39] The Company preferred to borrow from Jagat Seth Fetechand 'as he might prove serviceable at the Darbar'.[40]

The Jagat Seths lent money to the European Companies at the rate of 12 percent per annum which was the prevalent rate at the time. But consequent to the repeated request of the English Company to reduce the rate of interest to 9 percent, the banking house lowered the rate accordingly in 1740.[41] Following this the interest rate charged by other *shroffs* and bankers was also reduced to 9 percent.[42] But the Company preferred to borrow from the Seths. The Kasimbazar Council noted in 1741: 'Futtychand having favoured us in lowering the Interest and as we are apprehensive he may be displeased, should we take up money of other people and so raise the interest again on us, agreed that we give him preference'.[43]

Generally the practice was to borrow money from merchants/bankers and *shroffs* in large amount either at Calcutta or Kasimbazar, and then to send the money to the subordinate factories in cash or by bills of exchange.[44] As the biggest creditor of the Company was the house of Jagat Seth which had its *kuthis* (agency house, subordinate office, branches) in not only all the trade marts of Bengal but also in most important trade centers all over India, the Company borrowed money from the house in all the subordinate factories. But as mentioned earlier, the Company also borrowed freely from other *shroffs* and merchant/bankers. It is interesting to note that in Calcutta many of the merchants from whom the Company often borrowed money were themselves *dadni* merchants of the Company.

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[39]. BPC, vol. 15, f. 84vo, 29 March 1742.

[40]. C & B Abstr., vol. 3, f. 345, para, 86, 26 Dec. 1733.

[41]. BPC, vol. 14, ff. 317-317vo, 11 Dec. 1740; f. 337, 26 Dec. 1740.

[42]. Ibid., vol. 14, f.338, 26 Dec. 1740.

[43]. Factory Records, Kasimbazar, vol. 6, Consult. 5 Feb. 1741.

[44]. For details, see, my book, *From Prosperity to Decline*, chapter 5.

**Problems of Borrowing**

Though there is little doubt from what we have discussed so far that the capital market in Bengal eased to a great extent the European Companies' problem of chronic shortage of working capital, it was, however not all smooth sailing for the Companies as they had to face various problems in borrowing from the local money market.

**Short Term Loans**

One of the main problems in borrowing from Bengal's credit market was that as a general rule, money was lent only on a short-term basis throughout the period under review, and there was no tradition of long-term loan. As a result, the *shroffs* and merchant/bankers including the house of Jagat Seth demanded money back as soon as the ships from Europe arrived with their supply of treasure. It was as impossible for the Companies to repay so many creditors as it was to pay the merchants' arrear for the previous year's investment. Even the Jagat Seths often threatened the Companies with stoppage of their business if their money was not repaid at the scheduled time. The English factory at Dhaka reported in November 1749 that Jagat Seth Mahtab Rai's (Jagat Seth Fatechand's successor) *gomasta* 'absolutely insisted on the payment of the sum due to his master threatening in rough terms that in case of non-payment, he would immediately put a stop to our Business'.[45] The Kasimbazar Council wrote to Calcutta on 20 October 1749 that the Seth's *gomasta* Ruidas 'complained heavily of our not having paid them anything this season of the large debt the Company owed them at that factory notwithstanding so much treasure had been imported by several ships lately arrived'.[46] Thus the Seths were often importunate in recovering their money and insisted on the loan being repaid on the arrival of the ships from Europe – something which put the Company

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[45]. Factory Records, Dhaka, vol. 3, 9 Nov. 1749; BPC, vol. 22, f.420, 15 Nov. 1749.

[46]. BPC, vol. 22, f. 38-338v0, 20 Oct. 1749.

into great inconvenience. The Kasimbazar letter of 25 August 1750 illustrates the point clearly:[47]

> … the Seths on the arrival of the treasure sent [their *gomasta*] to demand it and gave them to understand and they expected the whole of their debt at that factory should be paid off out of the money which might arrive by this year's shipping and instead of being able to raise a further credit with them it was with the utmost difficulty they could obtain their consent to apply any part of what was lately sent them to the use of the investment ….

The desperate situation that sometimes the factors of the Company were confronted with is amply clear from the Dhaka letter wherein they reported in 1751 that the *gomasta* of the Seths insisted that the 'whole of the Debt to be immediately paid him', and they requested the Kasimbazar Council to prevail on Seth Mahtab Rai not to insist on the payment of any of the money that it might send them 'as it would stop their business and render it unpracticable for them to purchase any ready money goods'.[48] It is important to note that a close study of the contemporary records reveal that in Bengal during this period money was lent only for short-time, generally for a few months, very rarely for a year at the most, and the interest was calculated at a monthly rate, and the loan not carried generally beyond a year.

## Occasional Scarcity

The Company's problem was accentuated by the fact there was occasional scarcity in the credit market resulting from various factors, the most important of which was the reluctance of the money-merchants and *shroffs* to show up money for fear of exactions by the government. Though this was true in general for most of the period under review, it became more acute in the wake of the Maratha invasions of Bengal in the 1740s and early 1750s. Even the great banking house of Jagat Seth was not free from the

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[47]. Ibid., vol. 23, f. 303vo, 25 August 1750.

[48]. Bengal Letters Received, vol. 22, f. 117, IOR; C & B Abstr., vol. 5, f. 275.

fear psychosis. Of course one should remember that the nawab, Alivardi Khan, harassed by the Maratha incursions was badly in need of money to raise and maintain a large army, and tried to get it from whichever source he could. So, though very good friends of the nawab, the Seths were scared of Alivardi's extortions. This is evident from the Kasimbazar letter of 1746:[49] '… they have not a prospect of borrowing more … for the scarcity of money is so great that it has been with some difficulty Futtichund's house has been able to pay for the bullion sold them.'

The Council further added that 'it appears to us that if they [the Seths] have money, they don't care to produce it for fear of government'. If this was the position of the Seths who were closest allies of the nawab and who wielded so much power in the political and economic life of Bengal during this period, one can well imagine the inclinations of other *shroffs* and money lenders.

Moreover, an important factor behind the occasional scarcity of money in Bengal's capital market was the fact that the availability of money depended to a large extent on the rate of exchange with Agra. If the later rate was high, money would become scarce in Bengal, the reason being that the *shroffs* and money merchants would then employ their money in the exchange to Agra, which was much more profitable than lending money at 12 percent. This was the general practice of the money market throughout the second half of the seventeenth and most part of the early eighteenth century. Our point will be borne out by the letter of the Kasimbazar Council which noted in 1700: 'We cannot get any money at interest here being very little ready money in the country and the exchange current from hence to Delhi and Agra is but 6 percent and the shroffs make use of what ready money they have that way'.[50] From about the third decade however, one does not find reference in the records to money being employed in the exchange to Agra. Probably by this time the banking house of Jagat Seth had already extended its sway in the money and exchange marts of northern India which perhaps

[49]. Factory Records, Kasimbazar, vol. 7, Consult. 22 June 1746; BPC, vol. 18, f. 265vo, 30 June 1746.
[50]. Factory Records, Calcutta, vol. 10, pt. II, f. 92, IOR.

resulted in a stability in the market, and the wide fluctuation in the exchange rate was controlled.

**High Rate of Interest**

The high rate of interest which was prevailing in Bengal till 1740 was quite a deterrent to the Companies' borrowing in the local money market. The Home authorities of the Companies always discouraged taking money at 12 percent which they considered 'exorbitant' and hence 'rank poison' to their commerce. They often advised the different factories to 'desist' from running into debt, 'the interest of which eats deep and insensibly'.[51] But as we have noted earlier, the servants of the Companies could hardly avoid borrowing money and accepted the high rate of interest as a necessary evil.

Though the house of Jagat Seth and consequently other *shroffs* reduced the rate of interest to 9 percent in 1740, it was often difficult for the Companies to borrow money at that rate, especially in the subordinate factories. Taking advantage of the helpless condition of the Companies, the merchant/bankers and *shroffs* occasionally tried to impose a higher rate of interest. The English Company's factors in Dhaka wrote in 1746 that 'as we find it will be impossible for us to raise any more money here under the rate of 12 percent per annum Interest', they asked for the Calcutta Council's permission to borrow money at that rate of interest.[52] The latter wrote back immediately that it 'positively ordered that on no account they give more than 9 percent for money at interest for it would be of utmost ill consequence to our Hon'ble Masters should they give any higher premium to any person and we doubt not that who have money to spare will let them have at the same rate as we get everywhere else'.[53] But the Dhaka factors replied on 16 September 1746 that they saw no possibility of borrowing money at 9 percent 'having already tried all the shroffs in the place who insist on 12 percent'.[54] Even as late as 12

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[51]. DB, vol. 95, f. 519, 18 Jan. 1705.
[52]. Factory Records, Dhaka, vol. 2, Consult. 16 September, 1746.

[53]. BPC, vol. 18, f. 354vo, 5 Sept. 1746.

October 1746 they wrote to Calcutta that ‘they are sorry to inform us that all their endeavours to obtain money from the shroffs of that place at the rate of 9 percent per annum have been fruitless.[55]

The Calcutta Council believed that the situation in Dhaka would improve with the arrival of the ships from Europe with treasure from Europe. So when three ships from Europe arrived in October, it wrote to Dhaka that ‘we hope the arrival of these ships will give them credit to Borrow money at the usual rate’.[56] But the Dhaka factors reported in November that they ‘can get no credit there’.[57] There was no improvement in the situation even in 1747 when the factors from Dhaka reported that they could borrow no money there under 12 percent interest rate.[58] On the contrary, the situation deteriorated as no ships from Europe arrived even by November. The Dhaka factors wrote that ‘no one being willing to let them a single rupee, their credit being quite gone, none of the Company’s ships arriving with treasure’.[59] However with the arrival of five ships from Europe with treasure, the Calcutta Council hoped ‘it will raise their credit to enable them to go on with the Investment’.[60] But that was not to be. The Dhaka factory reported in January 1748 that without a supply of money either from Calcutta or Kasimbazar ‘it will be impossible to send down any Goods this season as they could get no money there’.[61]

## EPILOGUE

However the whole situation changed drastically after 1757. The influx of bullion and specie stopped completely after the British victory at Plassey in 1757 by virtue of

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[54]. Factory Record, Dhaka, vol. 2, Consult. 16 Sept. 1746.

[55]. BPC, vol. 18, f. 391vo, 12 Oct. 1746.

[56]. Ibid., vol. 18, f. 408, 16 Oct. 1746.

[57]. Ibid., vol. 18, f. 434, 11 Nov. 1746.

[58]. Ibid., vol. 20, f. 76vo, 31 July 1747.

[59]. Ibid., vol. 20, f.235vo, 24 Nov. 1747.

[60]. Ibid., vol. 20, f. 283vo, 28 Dec. 1747.

[61]. Bengal Letters Received, vol. 21, f. 237.

which they acquired complete mastery over Bengal's polity and economy.[62] From henceforth the English Company's investments were financed by the resources of Bengal (revenues, etc.) and by the money acquired by the Company and its officials through presents, gifts and perquisites. The trade of the other European Companies shrank considerably after Plassey as the British pursued a policy of wiping out the European and Asian rivals. Whatever little European trade was left was financed by private British individuals who received bills of exchange for the sum in Europe. It is remarkable to note that after Plassey began a heavy drain of wealth from Bengal[63] (which is termed 'Plassey plunder') which completely reversed the whole process which was the prominent feature in the second half of the seventeenth and early eighteenth century - that is inflow of treasure from Europe to Bengal, and this was replaced by a process in the opposite direction – that is outflow of wealth from Bengal to Europe.

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[62]. See, S. Chaudhury, *From Prosperity to Decline; The Prelude to Empire – The Plassey Revolution of 1757*.

[63]. For drain of wealth from Bengal, see, S.Chaudhury, *The Prelude to Empire*, chapter 9; Holden Furber, *John Company at Work*, Cambridge, 1961, pp. 304-17; N. K. Sinha, *Economic History of Bengal*, vol. 1, Calcutta, 1958, pp. 218-36.