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## The Emergence of Indigenous Industrialists in Calcutta, Bombay, and Ahmedabad, 1850–1947

This article describes and explains three patterns in the entry of Indian entrepreneurs in large-scale industries in South Asia, 1850–1947. It begins with Marwari businessmen in the jute industry in Calcutta. Then I discuss the success of the Parsi community in the Bombay cotton industries, and, finally, Gujarati (mainly Hindu) industrialists in Ahmedabad. I focus on three variables that might explain the timing, degree, and social and cultural variations in the emergence of indigenous industrialists in these cities. These variables concern: first, the colonial attitude towards indigenous industrialists in this field; second, whether or not these men belonged to a (religious) middleman minority; and, finally, their social and, in particular, occupational background.

**F**rançois Crouzet described early industrialists in Europe as the emergence of “new men” on the economic scene. In his view, industrialists differed from traders, financiers, and protocapitalists in that they needed a long-term perspective, found new ways of financing their business, and

This article is based on research in various archives and libraries in Bombay, Ahmedabad, New Delhi, and London between 1993 and 1994. The research was made possible by a grant from WOTRO Science for Global Development of NWO (Netherlands Organization for Scientific Research), the Dutch foundation for tropical research. I would like to thank my colleagues in the history department of Erasmus University for creating the environment to write and develop new ideas, especially H. W. van Schendel for supervising my Ph.D. project. Ferry de Goey has become a fine and critical colleague over the years, and I would also like to thank Ellen Bal for her support. In India I wish to thank Dwijendra Tripathi and M. M. Mehta for their detailed comments. I am also grateful to the editors for encouraging me to rewrite this earlier published paper and make it accessible to a wider Western academic audience. See Vipin Gupta (and others), “Culturally-Sensitive Models of Family Business in Southern Asia: A Compendium using the GLOBE Paradigm,” Hyderabad, 2008; and Nasreen Taher and Swapna Gopalan, eds., *Business Communities of India* (Hyderabad, 2006). I have entirely revised and updated this article for this publication.

*Business History Review* 88 (Spring 2014): 43–71. doi:10.1017/S0007680513001414  
© 2014 The President and Fellows of Harvard College. ISSN 0007-6805; 2044-768X (Web).

supervised large numbers of workers.<sup>1</sup> These new men were by no means unique to Europe. Indeed, in other parts of the world, indigenous investors paved the way for local industrialization. I compare the emergence of three different local business communities in the field of large-scale industries in India from 1850 to 1947: the jute industry in Calcutta, and the cotton textile industries in Bombay and Ahmedabad. These dominant sectors in India's industry eventually started to compete with the heart of the British Empire.<sup>2</sup>

Calcutta, Bombay, and Ahmedabad were, by far, the three biggest industrial centers in India between 1850 and 1947. In Calcutta, British businessmen started the local jute industry, but Marwaris took over on the eve of independence in the 1930s. In contrast, right from the start, non-Europeans took the lead in developing cotton textile industries in Bombay and Ahmedabad. As a result, the imperial economic center of the world, Manchester, faced its toughest competition from local business communities based in the so-called periphery, namely Bombay and Ahmedabad.

In this article, I assess two major characteristics of research on the emergence of Indian industrialists. The first concerns the extent to which British colonial rule hindered or promoted industrial development, particularly the emergence of indigenous industrialists. In this context, researchers have questioned whether successful local business groups should be seen as "compradors" or "collaborators." In the South Asian context in particular, Nationalist and Marxist historians both emphasize the role of the colonial state as an important barrier to emerging local business elites.<sup>3</sup> Secondly, much research focuses on one particular business community or caste in a narrowly defined geographical area. These studies tend to overemphasize some specific group particularity, such as religious background, the role of "unique" ethnic minority background, and the importance of a family business.<sup>4</sup>

<sup>1</sup> François Crouzet, *The First Industrialists: The Problems of Origins* (Cambridge, U.K., 1985).

<sup>2</sup> A. K. Bagchi, *Private Investment in India, 1900–1939* (Cambridge, U.K., 1972); Bipan Chandra, *Nationalism and Colonialism in Modern India* (New Delhi, 1979), 144–71; Debdas Banerjee, *Colonialism in Action: Trade, Development and Dependence in Late Colonial India* (Hyderabad, 1999); Dharma Kumar, *The Cambridge Economic History of India* (Cambridge, U.K., 1982); Rajat Kanta Ray, *Growth and Conflict in the Private Corporate Sector, 1914–1947* (Oxford, 1979); B. R. Tomlinson, *The New Cambridge History of India: The Economy of Modern India, 1860–1970* (New Delhi, 1993); and Dwijendra Tripathi, *The Oxford History of Indian Business* (New Delhi, 2004).

<sup>3</sup> Among others, see Bagchi, *Private Investment in India*, esp. 163–69; Chandra, *Nationalism and Colonialism in Modern India*, 144–71; Banerjee, *Colonialism in Action*; and Ulbe Bosma and Gijsbert Oonk, "Bombay Batavia: Parsi and Eurasian Variations in the Middlemen Theme," in *Mediators between State and Society*, ed. N. Randeraad (Hilversum, 1998), 17–41.

<sup>4</sup> Among others: D. R. Gadgil, *Business Communities in India* (New York, 1951); T. A. Timberg, *The Marwaris: From Traders to Industrialists* (New Delhi, 1978); Robert E.

This work tends to overlook the social/occupational background of protoindustrialists.

These two characteristics have formed the empirical and political backbone of the debate for the last four decades. This article aims to take a comparative perspective and to explore the distinctions and similarities between Calcutta, Bombay, and Ahmedabad from a bird's-eye view. This approach will transform individual case studies into a comparative piece of research. Its strength lies in comparing three cities, while also focusing on the backgrounds of the early industrialists in India and the colonial attitude towards indigenous industrialization.

The article explores the distinctions among the three cities and the historiographical debate to which each has contributed. I realize that making comparisons between Calcutta, Bombay, and Ahmedabad is, like most comparisons, an ambitious task. Indeed, as far as I know, it has never been done systematically before.<sup>5</sup> Therefore, this article is a first attempt based on primary as well as secondary sources. I emphasize three variables that are mentioned in the literature, which may have hindered or encouraged the emergence of Indian businessmen in large-scale industries: colonial attitudes towards indigenous industrialization, being a member of a (religious community, caste-based) middleman minority, and the social/occupational backgrounds of the entrepreneurs. In my view, there is some sketchy evidence that supports the notion that there were differences in colonial attitudes between Calcutta and Bombay. Ahmedabad, however, is a special case, because the colonial influence there was limited. Nevertheless, this city makes an excellent counterpoint.

The evidence is much stronger if I examine the differences in community backgrounds in the three cities. In each we see that minorities played an important role, with Ahmedabad again being the exception. In Calcutta, the Marwari minority played a dominant role, whereas in Bombay the Parsis became important. Both groups often acted as middleman minorities. However, in the case of Ahmedabad, Hindu and Jain Gujaratis entered the cotton textile industry sector, with these industrialists belonging to the majority community. These similarities and differences need explanation. The most striking similarity in each

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Kennedy, "The Protestant Ethic and the Parsees," *American Journal of Sociology* 68 (1962): 11–20; Makrand Mehta, *The Ahmedabad Cotton Textile Industry: Genesis and Growth* (Ahmedabad, 1982); Eckhard Kulke, *The Parsees: A Minority as Agents of Social Change* (Munich, 1974); and Dwijendra Tripathi, ed., *Business Communities of India: A Historical Perspective* (New Delhi, 1984).

<sup>5</sup>Claude Markovits makes a useful comparison between Bombay and Ahmedabad: "Bombay as a Business Centre in the Colonial Period: A Comparison with Calcutta," in *Bombay: Metaphor for Modern India*, ed. Sujata Patel and Alice Thorner (New Delhi, 1995), 26–46.

of the cities is that most protoindustrialists had a background in trade, finance, and speculation. This may not come as a surprise, because early industrialists in the heart of the empire had similar backgrounds. Nevertheless, there is a strong Asian notion that these industrialists should come from a middle class of engineers and artificers.<sup>6</sup> This article aims to revise this perspective.

*The colonial attitude.* A central issue in the Indian historiography is the question of to what extent British colonial rule hindered or promoted industrial development. This article will focus on the attitude of the colonial government as well as on the approach of British entrepreneurs to local businessmen. John Gallagher and Ronald Robinson argue that because of their minority status, some local business communities were suitable middlemen when it came to supporting colonial empires abroad. As these businessmen belonged to nonmajority groups—and were not therefore an important military or demographic factor—many colonial governments supported them as local suppliers, translators, or informants. In this way, these groups are seen as collaborators and exploiters in both Marxist and Nationalist historiographies. This is because they supposedly would not reinvest their profits in the host society, but in the region from which they came.<sup>7</sup>

*Middleman minority.* Sociologist Georg Simmel argues that the migrant traders who decided to settle in their host societies were strangers, which might have helped them to develop their business. On the one hand, they were able to fill economic niches that local business communities were not allowed to, like selling alcohol. On the other hand, they developed a more detached attitude towards local markets, which may have helped them to set prices with a view to greater profits. The famous sociologist Max Weber argued that there is a strong relationship between the religious background of entrepreneurs and their capitalistic, entrepreneurial ethic. He hypothesizes that particularly in the Protestant religion, people developed an ethic where hard work, (re)investment, long-term perspectives, and rational risk calculation became primary aims of the business community. For India, Weber stresses the anticapitalist attitude of Indian (especially Hindu) entrepreneurs. Indeed, because of their otherworldly outlook, Hindus do not focus on success in this life, but in the next. Consequently, according to Weber, they

<sup>6</sup> For an excellent overview of this debate, see Mario Rutten, *Asian Capitalists in the European Mirror* (Amsterdam, 1994). In this article, I follow his lead.

<sup>7</sup> See William Roger Louis, ed., *Imperialism: The Robinson and Gallagher Controversy* (New York, 1976); D. R. Gadgil, *The Origins of the Indian Business Class* (New York, 1959); A. D. D. Gordon, *Businessmen and Politics: Rising Nationalism and a Modernising Economy in Bombay, 1918–1933* (New Delhi, 1978); and Claude Markovits, *Indian Business and Nationalist Politics, 1931–1939* (Cambridge, U.K., 1985).

would not develop a “hard working and saving money” ethic comparable to that displayed by Protestants.<sup>8</sup> As a result, he did not foresee long-term investment in large-scale industries in India. Social historians from the 1960s to the 1980s seriously questioned Weber’s theory.<sup>9</sup>

The most important economic historians on the Indian economy have largely ignored Weber’s explanations. D. R. Gadgil, Amiya Kumar Bagchi, Rajat Kanta Ray, and Amartya Sen have argued that the formation of the European cartel and social ethos led to the Indian business community refraining from investing long-term in large-scale industries. They show that, when the rates of return were favorable for Indian business, Indian entrepreneurs would stand up and enter large-scale industry, rather than question ethics.<sup>10</sup>

Sociologist Edna Bonacich and social historian Christine Dobbin built on Simmel’s and Weber’s work by arguing that minorities in particular became successful entrepreneurs; because of their minority status (and, as a consequence, having confronted all kinds of discrimination, such as not being allowed to own land or to undertake certain jobs), they developed a stronger desire to become successful.<sup>11</sup>

*Social background.* Within the predominant Marxist literature, the transition from mercantile to industrial capital is of primary importance. Here we find that Asian assumptions about the European transition to industrialization (especially in the British cotton textile industry) greatly influenced the Indian historiography on indigenous industrialization.<sup>12</sup> Central to the Asian notion of the background of early European industrialists is the fact that they did not belong to the trading or merchant-manufacturer community. This view is a consequence of dated European literature on the industrial transformation in Europe. Here, economic historian Maurice Dobb, for example, argues that merchant capital could not, ultimately, be responsible for the Industrial

<sup>8</sup> See Max Weber, *Die Wirtschaftsethik der Welreligionen II: Hinduismus und Buddhismus* (Tübingen, 1922). For a fair summary of Weber’s work, see Reinhard Bendix, *Max Weber: An Intellectual Portrait* (London, 1966). For a fundamental critique, see Morris D. Morris, “Values as an Obstacle to Economic Growth in South Asia: A Historical Survey,” *Journal of Economic History* 27, no. 4 (1976): 588–91.

<sup>9</sup> Among others: Timberg, *The Marwaris*; Kennedy, “The Protestant Ethic and the Parsees,” 11–20; Mehta, *The Ahmedabad Cotton Textile Industry*.

<sup>10</sup> Bagchi, *Private Investment in India, 1900–1939*; Ray, *Growth and Conflict in the Private Corporate Sector, 1914–1947*; Gadgil, *Business Communities in India*; Amartya K. Sen, “The Pattern of British Enterprise in India, 1854–1914: A Causal Analysis,” in *Social and Economic Change*, ed. B. Singh and V. B. Singh (Bombay, 1967).

<sup>11</sup> Edna Bonacich, “A Theory of Middleman Minorities,” *American Sociological Review* 38 (1973): 583–94; Christine Dobbin, *Asian Entrepreneurial Minorities* (Richmond, U.K., 1996). Georg Simmel, “The Stranger,” in *The Sociology of George Simmel*, ed. K. H. Wolf (New York, 1950).

<sup>12</sup> “Asian assumptions” refers to assumptions made by Asian historians as well as by European historians concerned with the industrialization debate on South Asia.

Revolution because short-term trading and financing goals were more important than long-term industrial investments. Dobb adopts Marx's description that the "second road to capitalism," where the merchant classes take possession of production, eventually became "an obstacle to a real capitalistic mode of production."<sup>13</sup>

However, I argue that the trading and banking classes in India played a vital role in the emergence of indigenous industrialists. Accordingly, I emphasize the importance of the social (occupational) background of future industrialists. Indeed, despite their varying backgrounds in terms of religion, caste, and minority status, they all had a history in trading (including finance and some speculation) in cotton or jute. This similarity may not come as a surprise. Some background in trade and knowledge of the different qualities of yarn and cloth and markets were important assets in starting large-scale industries. The surprise, then, should be the amount of research and literature devoted to caste, religion, and being part of a minority.<sup>14</sup>

The story of Marwari businessmen in the jute industry in Calcutta fits almost perfectly within the Indian Nationalist and Marxist historiography, which argued that colonialism hindered the emergence of local business communities while, at the same time, Indian cultural factors, like religion, could not explain the slow rise of local business communities. In the success of the Parsi community in the cotton industries of Bombay, colonialism promoted the emergence of local business communities, even when they started to compete with the major industries in the United Kingdom. Finally, the story of the Hindu industrialists in Ahmedabad demonstrates that not only may minority groups become industrialists, but the majority group of Hindus as well. In the final section, I compare the three patterns of industrialization. While the circumstances in Calcutta, Bombay, and Ahmedabad all led to the successful emergence of Indian businessmen in large-scale industries, they differ in the importance to be attributed to the different variables and, as a consequence, to the importance of the various theories.

### Calcutta's Industrial Transformation: Marwari Competitors

At the end of World War I, the imperial sun was probably at its highest in Calcutta. The most important buildings of the British managing-agency houses of Andrew Yule, Bird and Heilgers, and the

<sup>13</sup> Karl Marx, *Capital*, vol. 3, 388–96, as quoted in Maurice Dobb, *Studies in the Development of Capitalism* (New York, 1976 [1<sup>st</sup> ed. 1947, rev. ed. 1963]). For an excellent overview of how a selection of the European historiography influenced notions on the Asian transformation to industrialization, see Rutten, *Asian Capitalists in the European Mirror*.

<sup>14</sup> Rutten, *Asian Capitalists in the European Mirror*.

Duncan Brothers literally dominated the area around Dalhousie Square, which was the economic and political center of the city. At that time, no respected Indian trader would have believed that he could challenge British supremacy in the Calcutta jute industry. However, this is precisely what happened. Slowly and subtly, the Marwaris increased their influence in the jute industry, finally opening their own jute mills and becoming competitors to British jute industrialists in Calcutta and, eventually, Dundee.<sup>15</sup>

### Colonial Attitude toward the Marwaris in Calcutta

Calcutta served as the capital city of British India until 1911, after which this role shifted to Delhi. The city had the largest concentration of Europeans and capital in India. The Indian government, and therefore the city of Calcutta, played an important role in the allocation of resources between regions, particularly in the development of railway companies and railway lines. The European business community in Calcutta used its influence and networks to serve European (mainly Scottish) business interests in the jute trade and tea production. In this context, less discrimination and shared resentment marked the business relationship between Indian and European businessmen.<sup>16</sup> Claude Markovits argues that historians have put forward the main explanation for this difference:

Firstly, . . . Western India was conquered by the British at a later stage than Eastern India, thus escaping the period of unabashed exploitation which cost so dearly to indigenous merchants from Bengal, and secondly the exceptional role played in Bombay by the Parsi community which was Indian but had a special relationship with the British.<sup>17</sup>

This special relationship was barely seen in Calcutta. The British there did not welcome the Marwaris, although the British did deal with them because of their knowledge of the inland market and their financial capabilities, and to secure the supply of raw jute for British-owned jute factories. However, the British viewed the Marwaris not as friends or even formal collaborators, but as competitors. Their strength was that they were not formally organized and were, therefore, not obliged to follow formal rules.<sup>18</sup> This exemption from organization

<sup>15</sup> I derive the image of the imperial sun, which I also use in the other sections of this article, from Omkar Goswami, "Then Came the Marwaris: Some Aspects of the Changes in the Pattern of Industrial Growth in Eastern India," *Indian Economic and Social History Review* 22, no. 3 (1985): 225–49.

<sup>16</sup> Markovits, "Bombay as a Business Centre in the Colonial Period," 31.

<sup>17</sup> *Ibid.*, 41.

<sup>18</sup> Anne Hardgrove makes an interesting observation that the "contests between the government and the Marwaris over legislation concerning gambling, speculation, and commodity

made them unpopular with the more formally organized British. Take, for example, the attitude of British jute mill owners in the early 1920s. One of them, M. P. Thomas of Bird, singled out G. D. Birla, the Marwari business spokesman at that time, as the main villain: “He has done more to encourage new mills than anyone. If he can’t get us out by kicking us out, he will try to get us out by unfair competition.”<sup>19</sup> During the 1930s depression, when there were internal problems in the Indian Jute Mill Association, the British frequently referred to the Marwaris as “short-sighted industrialists,” “mugs with money,” and “pirates.”<sup>20</sup> Whenever a Marwari attempted to enter the industry, he was “up to do some dirty work.”<sup>21</sup> Claude Markovits even argues that the “racial arrogance of the Scots, signaled by their refusal to seek a compromise with the Marwaris, was partly responsible for the long-term decline of the industry in the post-1947 period.”<sup>22</sup> So, which Marwaris eventually emerged in the industry that the British had dominated from its very beginnings in the 1850s?

### Middleman Minority?

In Calcutta what kind of outsider minority group did the Marwaris represent? They were certainly culturally different from the Bengalis, who had their own language and culture. In addition, there were very few intermarriages between Bengalis and Marwaris.<sup>23</sup> Nevertheless, they were all still Indians who, generally speaking, followed the same Hindu religion. The British entrepreneurs in Calcutta often regarded Marwari men as local, indigenous Indian or Hindu businessmen. This raises questions about the background of the outsider minority status. Are Hindus and Jains from Marwar outsider enough to fit within the Simmel thesis? Or, are they to be seen as insiders and locals? The reality is that we do not know. On the one hand, Simmel did not give

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adulteration proved to be a rallying point for the emergence of Marwari political solidarity.” Hardgrove, *Community and Public Culture: The Marwaris in Calcutta, c. 1897–1997* (New York, 2004), 127.

<sup>19</sup> Thomas Benthall, 12 Dec. 1928, Benthall papers, Center for South Asians Studies, Cambridge, U.K., cited in Goswami, “Then Came the Marwaris,” 150.

<sup>20</sup> Morton Benthall, 16 Sept. 1935, Benthall papers, Centre for South Asian Studies, Cambridge, U.K.; Indian Jute Mill Association, *Report of the Committee* (1934), 12; as cited in Goswami, “Then Came the Marwaris.”

<sup>21</sup> Thomas Benthall, 12 Dec. 1928, Benthall papers, cited in Goswami, “Then Came the Marwaris.”

<sup>22</sup> Markovits, “Bombay as a Business Centre in the Colonial Period,” 43.

<sup>23</sup> Bengali businessmen burnt their fingers in Indo-British partnerships in the 1830s and 1840s, and remained too cautious to become involved with further initiatives. Blair B. Kling, *Partner in Empire: Dwarkarnath Tagore and the Age of Enterprise in Eastern India* (Berkeley, 1976); Bagchi, *Private Investment in India*, 203–6.

any clues about these kinds of questions, as his primary examples mainly related to the Jews in Europe. Other Europeans in the nineteenth century viewed Jews in racial terms, as well as being members of a different religion. The Marwaris, however, have the same religion, but have a different regional background and culture. On the other hand, the sources do indicate that Marwaris were also seen as an outsider minority group, as they were, for example, counted separately in the census. Nevertheless, there is no real evidence that Marwaris were, because of their minority status, more motivated to become successful entrepreneurs.<sup>24</sup>

In addition, the negative qualifications of Max Weber towards the economic potential of Indian entrepreneurs raised enormous counterarguments and inspired empirical research to prove that Hindu businessmen could become successful. In one well-known example on Calcutta, *The Marwaris: From Traders to Industrialists* (Delhi, 1978), Thomas A. Timberg revealed how a small part of the Marwari community in Calcutta became competitors of the British jute mill owners. Timberg argues that Hindus could very well become great entrepreneurs. At the same time, as we can see from the book's title, he emphasizes that religious background is not important, but occupational background is.

### The Social Background

The Marwaris originally came from Marwar, a region in Rajasthan in Northwest India.<sup>25</sup> They were known as keen businessmen, traders, speculators, and bankers. During the nineteenth century, they migrated from Marwar to various parts of India. According to Timberg, this was a consequence of colonial rule. Initially, some of them lost their principal position as financiers to the Princess of Rajasthan. Others shifted in accordance with their trade interests to the main ports of India, i.e., Calcutta, Bombay, and Madras. The growing emergence of British traders in the nineteenth century opened up new opportunities for Marwaris as the financiers of British trade and as middlemen between the British (international) and local markets. In 1881, there were no fewer than nine

<sup>24</sup> David McClelland developed a psychological test (Need for Achievement, or N-Ach test) to demonstrate the relationship between being a member of a minority and the need for achievement. This test did apply to the Parsis in Bombay, but no test was conducted on the Marwaris in Calcutta. See David McClelland, *The Achieving Society* (New York, 1961).

<sup>25</sup> The Marwaris belong to various Hindu and Jain castes. During the second half of the nineteenth century, they migrated from Marwar to East India and settled as petty traders and small businessmen. Within Marwar they were known by their specific caste name, while outside Marwar they are referred to as Marwaris. Sometimes even businessmen from Rajasthan or West India are referred to as Marwaris. For a general introduction, see Timberg, *The Marwaris*.

thousand Marwaris in Bengal, and because of their growing business interests, this number grew rapidly. Indeed, between 1891 and 1931, the number of Marwaris in Bengal grew from 33,000 to 51,000.<sup>26</sup>

The transformation of a few Marwari families from traders to industrialists was gradual. This pattern followed these steps: first, they slowly increased their importance in the trade of raw jute and jute manufacturing; second, some of the Marwari traders became members of formal jute trade organizations, while others became brokers to British managing-agency houses or got a place on the board of directors thereof by buying shares. Finally, in the early 1920s, a few Marwaris entered the jute industry by setting up their own jute mills or buying them from other people.

*Importance in jute trade and finance.* In Calcutta, the Marwaris built on their traditional occupations as traders and bankers. They had settled as small traders, financiers, and brokers to mainly British trading firms. They were often mediators between the international market, which was dominated by the British, and the Indian market. From an 1864 directory, it appears that more than 50 percent of the Indian bankers in Calcutta were Marwari. The British-dominated Bengal Chamber of Commerce confirmed the importance of these bankers: "The indigenous banking system favoured their own Marwari friends and they did not put their money in bank stocks, where it could serve the general trading interest."<sup>27</sup>

However, the Marwaris not only favored their own Marwari friends; they were also simply cheaper than their British competitors. In 1904, British shipowners informed the Calcutta Jute Mill Association (an organization set up by British jute mill owners) that it was cheaper to buy manufactured jute goods through native traders than through European brokers:

Business in jute manufactured goods can be transacted on more favourable terms through native brokers than it is possible to obtain when business is done through European brokers . . . They return 0.5 per cent of their commission to buyers, which is in direct contravention of the rules of the Jute Fabric Brokers Association.<sup>28</sup>

<sup>26</sup> Timberg, *Marwaris*, 88; and Haraprasad Chattopadhyaya, *Internal Migration in India: A Case Study of Bengal* (Calcutta, 1987), 336–43. Fluctuations in the number of Marwaris can be partly explained by the fact that counting procedures varied in the period between 1881 and 1931. For example, in the more recent censuses, traveling merchants were counted as living in the place where they were counted, not where they actually lived. Another limitation in the census data is the change in regional borders. However, it seems fair to state that there were between 30,000 and 55,000 Marwaris in Calcutta.

<sup>27</sup> Bengal Chamber of Commerce, *Annual Report* (1894), 33.

<sup>28</sup> Indian Jute Mill Association, *Report of the Committee* (1904), 103.

Initially, European traders dominated the Jute Balers Association, founded in 1892, but by the beginning of the twentieth century the number of Indians, especially Marwaris, was growing. In 1903–04, 133 members were listed, seventy of whom were Indian and sixty-three were European (mainly from Scotland). Out of seventy Indian members, the majority, forty-four, were Marwaris. Therefore, Marwaris were overrepresented in Bengal. Fifteen years later, 137 members were Indian, amounting to 63 percent of the overall membership.<sup>29</sup> Among these members were Marwari future industrialists G. D. Birla, Sir Onkar-mull Jatia, and brothers Isswari Prasad, Devi Prasad, and Keshav Prasad Goenka.

These examples demonstrate the growing importance of the Marwaris, despite the negative British attitude towards them. It is also clear that the colonial market economy could not have functioned without indigenous credit and knowledge.<sup>30</sup> It seems fair to state that the Marwaris and the British business communities constantly negotiated their interests between conflict and collaboration.

*Shareholders, brokers, and directorships.* Starting in the late nineteenth century, a few Marwari families had developed close commercial links with British managing agencies. These agencies were privately held joint-stock companies or, more frequently, partnership firms. On the strength of past managerial performances, they floated shares to build new jute mills or other companies. Owing to oversubscription and stock exchange regulations, it was possible for entrepreneurs to control a mill even if they owned less than 10 percent of the shares.

The Marwari firms initially offered raw jute to these British agencies. In addition, they sometimes offered short-term credit to finance the supply of jute. Furthermore, they eventually financed new jute mills by buying shares or giving long-term loans to the British agents. In return for their growing financial share in these managing agencies, the Marwaris finally secured seats on the boards and, jointly with the British managers, were responsible for the floating of jute mills.<sup>31</sup>

<sup>29</sup> Omkar Goswami, "Sahibs, Babus, and Banias: Changes in Industrial Control in Eastern India, 1918–50," *Journal of Asian Studies* 48, no. 2 (1989): 292. Goswami estimates that the trading profits of the Marwaris were around Rs. 440 million per year in this period. This estimate excludes their profits from different future markets and from trade in jute bags and cloth; see Goswami, "Sahibs, Babus, and Banias," 293.

<sup>30</sup> L. C. Jain, *Indigenous Banking in India* (London, 1929); Rajat Kanta Ray, "The Bazaar: Changing Structural Characteristics in the Indigenous Section of the Indian Economy before and after the Great Depression," *Indian Economic Social History Review* 25, no. 3 (1988): 263–318; Rajat Kanta Ray, "Pedhis and Mills: The Historical Integration of the Formal and the Informal Sectors in the Economy of Ahmedabad," *Indian Economic and Social History Review* 19, nos. 3–4 (1982): 387–96.

<sup>31</sup> Goswami described this process well in "Sahibs, Babus, and Banias."

During the inflationary years of the early 1920s, many European-managed companies found themselves undercapitalized, strapped for cash, and needing funds to expand capacity in their jute mills. Marwaris provided these funds in exchange for positions on various boards. In this way, they could secure the purchase of raw jute. Despite the earlier unfavorable political and economic climate, some Marwaris were now allowed to build close relationships with the European traders and mill owners.<sup>32</sup> During the process of this growing collaboration, the Marwaris were able to learn the ins and outs of jute-mill management.

Historian Omkar Goswami describes the increasing influence of Marwaris in the jute-mill industries. In 1918, of 114 seats on the boards of British managing agencies in the Calcutta jute industry, the British occupied 111 of them (97.4 percent). This percentage clearly reflected their managerial control over the industry. However, this situation changed rapidly and, in 1930, 57 percent of the jute mill companies managed by European managing agencies had Marwaris on their board of directors. In a quarter of the European managing agencies, the Marwaris had equality on the board. In one case, they even outnumbered the European directors.<sup>33</sup> The growing shortage of capital experienced by these companies due to the losses experienced by British mills explains this sudden influx of Marwaris to the boards of British managing agencies.

*Industrialists.* The transition from trade to industry is not necessarily a linear process, whereby having accumulated sufficient capital, the merchant capitalist decides one day to move into industry. Some form of prior association with the industry, either as a middleman supplying inputs or as someone dealing with finished products, is a critical factor, provided, of course, that there are no major entry barriers such as those that existed in a typical early colonial environment. This process does not imply, however, that having realized the advantages of industrial investment, and having plowed a certain amount of capital into industry, the merchant capitalist would progressively increase his association with industry; this may or may not have been the consequence. In the colonial context, it is more likely that the entrepreneur would be inclined to play it safe by maintaining a diversified investment portfolio combining investment in industry with trade and indigenous banking.<sup>34</sup> Family histories show that Marwaris from various occupational backgrounds entered the jute industry.

<sup>32</sup> The Jatia family, for example, developed close ties to the Andrew Yule Company. David Yule was a close friend of Onkarmull Jatia. The Goenka family had a close connection to Bird and Heilgers, and the Kanorias were connected to McLeod.

<sup>33</sup> Goswami, "Then Came the Marwaris," 228–36.

<sup>34</sup> However obvious this may be, this observation developed after intensive discussions and correspondence with Dr. Raman Mahadevan, whom I thank for his time and insights.

Nevertheless, [Table 1](#) shows that the transformation from trader to industrialist was not as systematic as Timberg suggested. At first glance, the patterns of the Birlas, Goenkas, and Bangurs are similar; these three families had a background in trade, finance, and/or speculation. They had also all worked as brokers for British managing agents and were active on the board of directors in their agencies. Then, ultimately, they set up their own jute mills. Nevertheless, the differences are important. The Birlas established their first jute mill in 1919, whereas the Goenkas and Bangurs did so after the Second World War when an independent India was on the horizon. Neither the Goenkas nor the Bangurs built their own mills, instead taking over the loss-making mills of the British agents for whom they were working. They thus became industrialists serendipitously, whereas G. D. Birla had built his own mills.<sup>35</sup>

Furthermore, there were important differences in the backgrounds of Marwaris in terms of being brokers or occupying board seats of British managing agencies. On the one hand, a British shortage of capital was an important variable in explaining the Marwari emergence in industry. As well, there was more variation in the path from being a trader to an industrialist than Timberg had suggested. In addition, for most families, industrialization was a matter of diversification and not their primary aim. From a list of 510 Marwari firms, only about one hundred held more than 50 percent of their assets in industrial investments.<sup>36</sup> Indeed, almost all Marwari families remained faithful to their traditional occupations of trade, finance, and speculation.<sup>37</sup>

*Concluding observations.* In the Calcutta pattern, the Marwari business community competed with British jute industrialists and finally dominated the industry in a slow and subtle process. The Marwaris provided the British with raw jute, short-term credit, and long-term loans. The British did need mediators in trade and finance, but did not welcome the Marwaris. They could not conceive of a mutually profitable relationship and saw the Marwaris only as a necessary evil. This negative colonial attitude could have hampered the Marwaris'

<sup>35</sup> G. D. Birla, *In the Shadow of the Mahatma* (Calcutta, 1953), xv.

<sup>36</sup> D. K. Taknet, *Industrial Entrepreneurship of the Shekhawati Marwaris* (Columbia, Mo., 1986), 179–228.

<sup>37</sup> Sarupchand Hukumchand made his money in banking and speculating on the opium market. In the early twentieth century he settled in Calcutta, where he was very lucky in his speculative business. In 1910, he used borrowed money to buy Rs. 200,000 worth of opium, which within a month yielded him ten times that amount. In 1915, he opened a very profitable trading office in Calcutta. By then, he already owned a cotton mill in Indore. However, without much knowledge of jute industries, he became a partner in Birla's first jute venture. Nevertheless, speculation and the opium trade remained his most important sources of income.

*Table 1*  
The Transformation from Traders to Industrialists of Some  
Marwari Families

<i>Family Name of Industrialist</i>	<i>Trader/ Banker</i>	<i>Broker</i>	<i>Speculator</i>	<i>Board of Director of British Managing Agency</i>
Birla	Yes	Yes	Yes	Yes
Goenka	Yes	Yes	Yes	Yes*
Bangur	Yes	-	Yes	Yes**
Hukumchand	Yes	No	No	Yes
Jalan	Yes	No	No	Yes
Jatia	Yes	No	Yes	No
Singhania	Yes	No	Yes	Yes

- No information available.

\* Due to the failure of two British managing agencies, McLeod and Octavius Steel; not by setting up a mill themselves.

\*\* By buying the British managing agency Kettlewell Bullen & Co.

Sources: See Gijsbert Oonk, "Het geheim van de Marwaris: Een onderzoek naar Indiaas ondernemerschap, 1900–1939" [Secrets of the Marwaris: A Study of Indian Entrepreneurship, 1900–1939], unpublished MA thesis, Erasmus University Rotterdam, 1991, 61.

emergence in the jute mill industry, but did not. They simply had to choose the right moment to emerge.

The Marwaris can be seen as an example of a migrant Hindu/Jain minority that was able to follow the British example of jute industrialists and flourish economically within a politically and economically unfavorable colonial context. However, their status as outsider minority could not explain their success. In this section, we have raised questions about what an outsider is. According to the Bengalis, Marwaris were outsiders, although according to many British businessmen they were just seen as locals or Indian. Simmel and Dobbin do not provide us with the tools to distinguish between types of outsiders. Yet, outsider or not, Timberg and others agree that the Hindu/Jain religion of the Marwaris did not hinder their economic development. One commonsense explanation for the success of the Marwaris as a *community* is that those who did not succeed in Calcutta generally returned to their properties in Marwar and Shekawati. Only those who were successful remained in the city.<sup>38</sup> Accordingly, it is fair to describe the Marwaris in Calcutta as successful traders or bankers from Marwar, Rajasthan.

<sup>38</sup> For more details on success and failure stories of migrant businessmen see: Gijsbert Oonk, *Settled Strangers: Asian Business Elites in East Africa, 1800–2000* (Delhi, 2013).

In this explanation, neither a cultural factor nor a colonial attitude is of prime importance.

In my view, Timberg and others were right to highlight the importance of the trading, banking, and speculating backgrounds of the Calcutta protoindustrialists. Colonial attitudes and religious community background may be important to a certain extent. However, occupational background has its own logic. It is unsurprising that successful traders and bankers would eventually diversify their investments into production. In the two examples that follow, we will see that colonial attitudes and community backgrounds in Bombay and Ahmedabad differed from the Calcutta case, although the occupational backgrounds of the future industrialists were remarkably similar.

### Bombay's Industrial Transformation: A Symbiosis of Parsis and Britons

The imperial sun in Bombay never shone with the same intensity as it did in Calcutta. Up to 1750, Surat—not Bombay—was the economic center of West India. The establishment of the headquarters of the English East India Company (EIC) in Bombay in 1672 was not enough to secure its prosperity. The socioeconomic development of the city was due to a symbiotic relationship between Parsis and Britons. The Victoria railway station currently symbolizes this relationship; across the main road in front of the station is a statue of Daoroji Naoroji, an important Parsi spokesman and founder of the Indian National Congress.

### Colonial Attitude towards Parsis

The positive relationship between Parsis and the English in West India sharply contrasted with the hostility between the Marwaris and the British in Calcutta.<sup>39</sup> In the latter city, the EIC had a monopoly on foreign trade, whereas in Surat it competed with French and Dutch companies. Accordingly, it was more important to attract local traders as collaborators. The English were not allowed to build a fort in Surat to protect their trades. Therefore, in 1672, the English decided to shift the EIC headquarters in West India from Surat to Bombay. There they had to attract local businessmen because at that time, Bombay was no more than an “inhospitable fishing hamlet, where Englishmen did not expect to survive two monsoons.”<sup>40</sup>

<sup>39</sup> The term “English” is used here for the period prior to the 1707 Act of Union that created Great Britain and “British” for the time after 1707.

<sup>40</sup> Rajnarayan Chandavarkar, *The Origins of Industrial Capitalism in India: Business Strategies and the Working Classes in Bombay, 1900–1940* (Cambridge, U.K., 1994), 21.

Gerald Aungier, the EIC governor in West India, realized that Bombay's prosperity depended as much on indigenous traders, money-lenders, and artisans as on English businessmen. He and his followers succeeded in persuading local Indian businessmen to put themselves and their capital under EIC protection.<sup>41</sup> Moreover, the EIC offered these local traders a minimum price for the products they sold and exempted them from levies on imports and exports.<sup>42</sup> In other words, the English *invited them* to settle in Bombay and made it profitable for them to do so.

Despite the endeavors of Aungier and the first English governor of the Bombay Presidency, Humphrey Cook, and other Englishmen, the Parsis and other Indian traders were initially not interested in settling in Bombay. Indeed, not until the eighteenth century did the Indians migrate to the city in considerable numbers. After thorough analysis, historian Ashin Dasgupta concludes: "The core of the matter was that Surat did not decline because Bombay grew; Bombay grew because Surat declined. The history of Bombay did not begin properly until about the middle of the eighteenth century."<sup>43</sup>

The relationship between the Parsis and the British in Bombay was a continuation of their positive relationship in Surat. As the Parsis in Surat were economically independent and prosperous, the British had to create an attractive economic environment to persuade them to migrate to Bombay. Secondly, the Parsis had proven their loyalty towards the British; they partly financed the military defense of Bombay Fort and financed the British military apparatus during the 1857 mutiny. Thirdly, a section of the Parsi community quickly recognized that it was useful to learn English, adopt British customs, and intensify the relationship with the British in order to improve the socioeconomic position of the community in West India.<sup>44</sup>

From the seventeenth century on, the British viewed the Parsis as hard workers, keen and reliable traders, and loyal:

They are an industrious people and indigenous in trade, wherein they totally employ themselves. There are at the present but few of them but we expect a greater number, haveing [sic] gratified them in

<sup>41</sup> Holden Furber in Ashok V. Desai, "The Origins of Parsi Enterprise," *Indian Economic and Social History Review* 5, no. 4 (1968): 307–17.

<sup>42</sup> Bombay Public Proceedings, 8 Feb., 13 Aug., 27 Sept. 1723; 18 Oct. 1728; 3 Sept. and 3 Dec. 1731. Maharashtra State Archives, Mumbai.

<sup>43</sup> Ashin Das Gupta, *Indian Merchants and the Decline of Surat, 1700–1750* (Wiesbaden, 1979), 8.

<sup>44</sup> This is explained by their "minority status" in Kulke, *Parsees*, or by their supposed "Protestant Ethic," in Kennedy, "The Protestant Ethic and the Parsees," 11–20.

their desire to build a bureing [sic] place for their dead on the Island.<sup>45</sup>

Throughout the Rebellion [1857] in the East, the Parsees have maintained an unshaken loyalty to the British whom they are proud to call their fellow subjects, and while preserving their own independence of religion and customs, their chief desire is that British rule in India should be consolidated upon a basis of strict justice and mutual interest.<sup>46</sup>

The British actively preferred to collaborate with Parsi businessmen, but also cooperated with Hindus, Jains, and Muslims. In return, the Parsis demonstrated their loyalty when needed. Indigenous loyalty did not happen to the same extent in Calcutta.

In the early nineteenth century, five thousand Parsis lived within Bombay Fort, whereas only one Hindu trader owned a house there at that time.<sup>47</sup> Around 1850, the Parsis accounted for up to 20 percent of the Bombay population; this fell to 7 percent in 1881. This sudden reduction in the relative number of Parsis was due to the huge numbers of Hindu and Muslim migrants who settled in the city in that period.<sup>48</sup> From being a majority community in Bombay Fort, the Parsis became a minority group in Bombay proper. Their economic importance remained strong as their relative number declined. The Parsis were overrepresented in occupations such as translators, traders, moneylenders, bankers, and artisans. The British directly employed a small group of Parsis, but most of them were self-employed. They also occupied half of Bombay Island and owned the Indian merchant navy.<sup>49</sup>

The most remarkable aspect of the Bombay pattern is that many Indian, mainly Parsi, business families sent their sons to work in British trading firms. Thus, Dinshaw Petit worked as a clerk and translator for the British firm Dirom Richmond; the Wadia family traded for various British firms and even built ships for them; and the Thackersey

<sup>45</sup> Gerald Aungier, Governor of Bombay, in a letter dated 1673, printed in Somerset Playne, compiler, Arnold Wright, editor, and J. W. Bond, assistant, *Bombay Presidency, the United Provinces, the Punjab, Kashmir, Sindh, Rajputana and Central India: Their History, People, Commerce and Industrial Resources* (Bombay, 1917–1920), 26–27.

<sup>46</sup> Dosabhoj Framjee, *The Parsees: Their History, Manners, Customs and Religion* (London, 1858), x.

<sup>47</sup> The name of the Hindu trader was Motichand. See D. E. Wacha, *Shells from the Sands of Bombay* (Bombay, 1902), 102.

<sup>48</sup> My discussion of numbers can be found in Gijsbert Oonk, *Ondernemers in Ontwikkeling: Fabrieken en fabrikanten in de Indiase katoenindustrie, 1850–1930* [Entrepreneurs in Development: Mills and Mill Owners in the Indian Cotton Textile Industry] (Hilversum, 1998), 75–76.

<sup>49</sup> Wacha, *Shells from the Sands of Bombay*, 84, 85; H. G. Briggs, *The Parsis, or Modern Zerdusthians: A Sketch* (Bombay, 1852), 85, Oonk, *Ondernemers in Ontwikkeling*, 76.

family worked for several European firms, such as the traders Goddam Bythel & Co. and Soloman Betch & Co.<sup>50</sup> With the exception of the Birla and Jatia families, this work pattern did not occur in Calcutta. Accordingly, this evidence supports Markovits's thesis that Bombay benefited from a "more dynamic atmosphere of emulation and competition" and "less racial and communal strife," with the consequence being the more rational use of capital resources and knowledge.<sup>51</sup>

*Middleman minority?* The minority and Protestant ethic theses seem to apply in the Bombay case.<sup>52</sup> However, in spite of apparent evidence, I have some serious doubts about these viewpoints. The minority thesis certainly has its drawbacks in the Bombay case. First of all, the Parsis were a minority in Western India and in Surat, where they started their trading careers in the eighteenth and nineteenth centuries. The Parsi migration to Bombay had drawbacks. Initially, they were not a minority, but a majority group within Bombay Fort. However, owing to the accelerated urban growth that took place, mainly due to Hindu migrants, the Parsis became a minority group in Bombay proper from the 1850s onwards. However, by then, they had already developed their trading firms and their transition to industry was only a matter of time.

The question remains as to why, more than other communities, the Parsis decided to settle in Bombay. Most of the regulations that encouraged local businessmen to remain in the city did not apply just to the Parsis, but to the entire Indian business community. Sometimes, however, there is evidence that the English invited the Parsis in particular to move to Bombay. This favor was certainly the case when Aungier allowed Parsis to build a Tower of Silence (a resting place for the Parsi dead) in Bombay, and when the EIC sent George Dudley to Surat to invite well-known Parsi shipbuilders to settle in the city.<sup>53</sup>

The Weber thesis confronts us with more complex issues. I am inclined to accept historian Robert Kennedy's comparison of the Protestant and the Parsi ethic. In addition, he demonstrates how this ethic of hard work and saving money is part of Parsi daily experience.<sup>54</sup> Nevertheless, unlike Kennedy, we cannot ignore the fact that the Parsis were invited to settle in Bombay. Indeed, the English offered them all kinds of economic and social benefits, which, at the very least, helped them

<sup>50</sup> *Bombay Dyeing: The First Hundred Years, 1879–1979* (Bombay, 1979).

<sup>51</sup> Markovits, "Bombay as a Business Centre in the Colonial Period," 44–45.

<sup>52</sup> Kennedy, "The Protestant Ethic and the Parsees," 11–20; Kulke, *The Parsis in India*; David L. White, *Competition and Collaboration: Parsi Merchants and the English East India Company in Eighteenth-Century India* (New Delhi, 1995).

<sup>53</sup> H. D. Darukhanawala, *Parsi Lustre on Indian Soil* (Bombay, 1939).

<sup>54</sup> Kennedy, "The Protestant Ethic and the Parsees."

to improve their economic position. Here, we face a chicken-and-egg scenario; we could argue that it was simply the case that the Parsis were offered these benefits; alternatively, it may be that they were just more likely than others to accept them because of their Parsi ethic.

*Social background.* The Parsis were among the first to build the Indian cotton textile industry in Bombay. Indeed, they owned nine of ten mills built in the city between 1854 and 1863. These included two mills belonging to the Petit family. In the period between 1878 and 1915, the Parsis owned between 30 and 41 percent of the mills in the city.<sup>55</sup> Given that the Parsis never exceeded 7 percent of the population of Bombay in the period 1881–1915, it is clear that they were over-represented as mill owners. Yet, other communities—like the Gujaratis, Bhatias (both mainly Hindus), Muslims, and Jains—also became increasingly important in this period.<sup>56</sup>

The transformation of a few Parsi families from traders to industrialists was gradual. This pattern followed two steps. First, the Parsis settled in Bombay and made money in the cotton and opium trade, earning huge profits by trading in raw cotton (designed for the Manchester cotton factories) and opium with China. Second, the Parsis used these profits at times to expand the Indian cotton industry in Bombay.

Most Parsi families followed a common path to entering the cotton textile industries. They started their careers as traders (in opium and raw cotton). Then, some became formal brokers to British trading houses and, finally, diversified into the cotton industry. As mentioned previously, an interesting aspect of this transformation is the Parsi tradition of sending their sons to work in the British firms, where they could learn on the job. Then, after working for other families for some years, a Parsi son could start his career in his father's businesses, taking the British management experience with him. The European businesses in Bombay warmly welcomed these trainees. This was almost impossible in the more hostile economic context of Calcutta, as we have seen earlier.

For Bombay, having selected a list of ninety-two mills, I was able to acquire reliable information about the occupational background of their promoters for nearly half of them (forty-five).<sup>57</sup> It appeared that more than 80 percent of the early industrialists had initially worked for a managing agency (mostly British, sometimes French, and, in a few

<sup>55</sup> S. M. Rutnagur, *Bombay Industries: The Cotton Mills* (Bombay, 1927), 54; Bombay Mill Owners' Association, *The Annual Report of the Bombay Mill-Owners' Association* (1878).

<sup>56</sup> According to Markovits, the more "cosmopolitan character" of the Bombay business community (as compared with Calcutta) is a key factor in explaining its success. Markovits, "Bombay as a Business Centre in the Colonial Period," 26–46.

<sup>57</sup> Rutnagur, *Bombay Industries*.

cases, Parsi).<sup>58</sup> In addition, 90 percent of the cotton industrialists had been traders in cotton and/or opium.<sup>59</sup> In many cases, they continued to trade on their own account while also working for Europeans. In this way, Parsis became quite familiar with European management styles, business correspondence, and culture. This enculturation may have helped them with their transformation to industrialists.

British firms formed a direct link between Parsi traders and international markets. Naturally, these trading links had existed even before the British entered India, but their involvement strengthened these networks. While working for British trading firms, Parsis gathered more than information about foreign markets, also experiencing the practice of international business. They then started to trade on their own account and accumulated huge amounts of money, especially in the opium trade with China. In the meantime, these Indian businessmen learned about the Industrial Revolution in Lancashire. The famous J. N. Tata, for example, was known for his detailed knowledge of the cotton industry in Manchester, including its management, financing, and production potential.<sup>60</sup>

Parsi cotton industrialists were rarely ever just mill owners.<sup>61</sup> Their family-based businesses included (international) trade (and often ship-owning), banking, land ownership, and various other activities. My major interest is the management of the mills. In some cases, the mill owners had used their mills as a trading or even speculative unit rather than a unit of production. In particular, they speculated in land belonging to the mills' premises. They would buy and sell raw cotton without ever producing cloth during periods of rapid changes in the cotton price. Moreover, they slowly included wholesale cotton products in their spheres of interest: "It should, however, be pointed out that these results [huge profits of the Bombay cotton mills in 1912] were due in many cases to the extraordinary profits made by the mill agents on the sale of cotton and not on the sale of yarn and cloth."<sup>62</sup> Their

<sup>58</sup> See Appendix A in Oonk, *Ondernemers in Ontwikkeling*.

<sup>59</sup> *Ibid.*

<sup>60</sup> G. N. Natesan, ed., *Famous Parsis* (Madras, 1930), 217–21; F. R. Harris, *J. N. Tata* (Bombay, 1958); Dwijendra Tripathi and Makrand Mehta, *Business Houses in Western India: A Study in Entrepreneurial Response, 1850–1956* (New Delhi, 1990).

<sup>61</sup> That the Bombay mill industry was merely a matter of the diversification of cotton and opium traders can be found in Chandavarkar, *The Origins of Industrial Capitalism in India*, ch. 6. However, Chandavarkar does not include its consequences for the industry.

<sup>62</sup> A summary of annual reports of cotton textile mills can be found in the *Indian Textile Journal* 23, no. 267 (1913): 290. Similar examples can be found in various places in the *Indian Textile Journal*: "Annual Meeting of the Swam Mills and the Finlay mills were held. . . . Both have shown good profits thanks to adventurous variations in the price of cotton as the supplies have been bought greatly in advance of requirements and this proved profitable." *Indian Textile Journal* 38, no. 449 (1928): 160. The Colaba Land and Mill

trading background greatly influenced the way in which the Parsis managed their mills and the role that these played in their family business activities.<sup>63</sup>

*Concluding observations.* In Bombay, the Parsis did not experience a hostile colonial attitude. On the contrary, the English invited them to settle in the city. Despite this encouragement, the Parsis only shifted their economic interests from Surat to Bombay gradually. This delay indicates that they—and not the British—had a strong negotiating position. A mutual interest between the British and the Parsis developed in Bombay. The Parsi traders acted as intermediaries for British traders in the Indian market. They also worked as employees for British trading houses, where they learned the ins and outs of international trade.<sup>64</sup> This cooperative learning would have been almost impossible in Calcutta (and did not exist there, as far as I know). The British encouraged the Parsis to invest in Bombay, to become junior partners, and to trade with them. In the nineteenth century, the Parsis discovered the mechanization process in Britain and started to diversify their trading activities by establishing their own cotton industry in the city. Accordingly, the transition from trade industries can be described in four steps: first, the Parsis gained trading experience in cotton and opium; second, a symbiosis developed between Parsi and British interests; third, Parsis formally collaborated with the British and learned lessons from them; and, finally, Parsis set up their own cotton mills.

#### Ahmedabad's Industrial Transformation: From Bankers to Industrialists

There was no imperial sun in Ahmedabad. After 1818, when the British officially started to rule there, there may have been a few rays of imperial sunshine, but the old city preserved its traditional structure of guilds and castes as well as its commercial outlook. The British created a stable, reliable bureaucratic system and a less exploitative tax system (compared to that of the Mughal and Marathi rulers) and, therefore, a larger potential for economic growth. They did not, however, shape the skyline of the economic center as they did in Calcutta and Bombay. The Indians built Ahmedabad, and its transition to industry was an

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Company was accused of speculating in land and raw cotton. The profits of these mills were not made by spinning and weaving, but by trading and speculating: *Indian Textile Journal* 10, no. 109 (1899): 2; 22, no. 253 (1911): 25.

<sup>63</sup> I deal more thoroughly with this in Gijsbert Oonk, "Motor or Millstones? The Managing Agency System in Bombay and Ahmedabad, 1850–1930," *Indian Economic and Social History Review* 4 (2001): 419–52.

<sup>64</sup> Desai, "Origins of Parsi Enterprise," 307–17.

indigenous affair, in which British businessmen only played a background role.<sup>65</sup>

### No Colonial Attitude

Ahmedabad transformed from an administrative city into a more commercial city in the seventeenth and eighteenth centuries. Although generally known for wealth, trade, and commerce, Ahmedabad's history reveals remarkable economic growth as well as decline. In the early eighteenth century, many weavers, traders, and artisans fled the city because of the war between the Mughals and Marathis. However, thanks to the active policies of the British, indigenous traders and weavers settled there again in the nineteenth century. Accordingly, in 1818, Ahmedabad had 80,000 inhabitants, a number that gradually grew to 181,000 by 1901.<sup>66</sup>

The British played no role in the commercial life of Ahmedabad. They were mainly government officials and rarely acted as traders or bankers. They also had no role as intermediaries for Ahmedabad businessmen. Moreover, there was neither a positive colonial attitude (as in Bombay), nor a negative attitude (as in Calcutta). Initially, the Indian colonial civil servant Ranchhodlal Chhotalal approached British administrators and businessmen to ask for help with his plan to build a cotton textile factory. When this mill proved to be successful, others (mainly bankers/financers) followed his example. What is important to note here is that Ranchhodlal came from a very traditional Hindu caste.<sup>67</sup> This example shows that someone with a traditional Hindu background could become a mill owner. Only after Ranchhodlal's success did other Hindu and Jain bankers in Ahmedabad decide to build cotton mills on their own account.

*From bankers to industrialists.* The occupational background of the textile industrialists in Ahmedabad differed from that of their counterparts in Bombay. None of them had any experience in a British trading firm or had ever worked as a broker for a European trading company,

<sup>65</sup> K. L. Gillion, *Ahmedabad: A Study of Urban History* (Berkeley, 1968). Howard Spodek, "The 'Manchesterization' of Ahmedabad as an American Research Worker Sees It," *Indian Textile Journal* 4 (1965): 303–9. See also Salim Lakha, *Capitalism and Class in Colonial India: The Case of Ahmedabad* (New Delhi, 1988); and S. R. B. Leadbeater, *The Politics of Textiles: The Indian Cotton Mill Industry and the Legacy of Swadeshi, 1900–1985* (New Delhi, 1993).

<sup>66</sup> Office of the Registrar General and Census Commissioner, *Census of India* 9 (1921), 26.

<sup>67</sup> Ranchhodlal was married at the age of seven. His sister became a widow when still a child and was never allowed to marry again. His grandmother performed sati, i.e., she immolated herself with the body of her dead husband. See Mehta, *The Ahmedabad Cotton Textile Industry*, 58n4. See also M. J. Mehta, "Ranchhodlal Chhotalal and the Ahmedabad Textile Industry: A Study in Entrepreneurial History," PhD thesis, Gujarat University, Ahmedabad, 1976.

as was often the case in Bombay. Three short biographies will confirm this. Lalbhai Dalpathi (1863–1912) inherited the family business in 1885. His family had made its fortune as bankers and cotton traders between 1861 and 1864. During the American Civil War, the price of raw cotton increased spectacularly, and those involved in the trade profited. Some of this money was invested in the cotton textile industry. After his death in 1912, Dalpathi's son, Kasturbhai Lalbhai, made his name in the Ahmedabad cotton textile industry.<sup>68</sup> In a second example, the young entrepreneur Manganbhai Sarabhai started the Ahmedabad Manufacturing and Calico Printing Co. in 1881. His father was a banker/financier who died at an early age, but had asked Ranchhodlal Chhotalal and Bholanath Sarabhai to take care of his son. Accordingly, it was foreseeable that some of the banking profits would be invested in the cotton textile industry.<sup>69</sup> Lastly, Jamnabhai Bagubhai (1859–1924) started the Gujarat Spinning and Weaving Co. in 1877. His family had made its fortune by speculating during the American Civil War. However, they did not have any prior experience with cotton trade or finance.<sup>70</sup> (See Table 2.)

Of the thirty-five mill owners whose initial occupational background I traced, twenty (63 percent) were originally bankers. Eight mill owners (23 percent) in Ahmedabad were initially traders, but they were not guaranteed brokers to British trading houses. Some of the mill owners were known as speculators, but these cases were exceptional. We do not know the occupational background of the others, but in some cases this was a combination of banker, trader, and/or speculator.

The banking background of Ahmedabad's cotton industrialists influenced the way in which the cotton mills were financed. Banks and shareholders financed Bombay's mills to a greater extent than in Ahmedabad. This was mainly because a formal (Western) banking system was more developed in Bombay than it was in Ahmedabad. However, the Ahmedabad mill owners accumulated capital in the form of deposits made by individuals for a fixed interest rate. Normally, these deposits were made for a period of three to twelve months. Up to the First World War, the public in Ahmedabad believed that it was more secure to deposit their money with one of the Ahmedabadi bankers or mill owners than with a "modern" bank.<sup>71</sup> Most of the deposits were fairly

<sup>68</sup> A. D. Shroff, *Kasturbhai Lalbhai: A Biography* (Bombay, 1978); Tripathi and Mehta, *Business Houses*, 88–105; and Dwijendra Tripathi, *Dynamics of a Tradition: Kasturbhai Lalbhai and his Entrepreneurship* (New Delhi, 1981).

<sup>69</sup> A. K. Rice, *Productivity and Social Organisation: The Ahmedabad Experiment* (London, 1958), 23; Mehta, *The Ahmedabad Cotton Textile Industry*, 87–89; Leadbeater, *The Politics of Textiles*, 66–71.

<sup>70</sup> Mehta, *The Ahmedabad Cotton Textile Industry*, 87.

<sup>71</sup> This changed after the First World War, when the Indian government sold government securities against a relatively high interest rate. The Ahmedabad Mill Owners' Association

*Table 2*  
 Typical Examples of the Ahmedabad Path from Financier to Industrialist

<i>Family Name of Industrialist</i>	<i>Social/ Occupational Background</i>			
	<i>Banking</i>	<i>Trade (Cotton)</i>	<i>Finance in Cotton Textile Industries</i>	<i>Industry</i>
Sarabhai	Yes	Yes	Yes	Yes
Lalbhai	Yes	Yes	No	Yes
Bhagubai	Yes	No	No	Yes

Source: Gijsbert Oonk, *Ondernemers in Ontwikkeling: Fabrieken en fabrikanten in de Indiase katoenindustrie, 1850–1930* [Entrepreneurs in Development: Mills and Mill Owners in the Indian Cotton Industry, 1850–1930] (Hilversum, 1998), 117.

small; building an average cotton mill cost about Rs. 30,000 in Ahmedabad, and most deposits were between Rs. 500 and Rs. 2000.

Table 3 reveals three striking differences between Bombay and Ahmedabad in the financing of cotton mills. First, the banks in Bombay supported the mills to a greater extent than their counterparts in Ahmedabad. In the former, banks lent an average of 9 percent of capital, whereas in the latter this figure did not exceed 4 percent. Secondly, shareholders in Bombay invested 49 percent of capital, whereas in Ahmedabad they only put up 32 percent.<sup>72</sup> Thirdly, cotton manufacturers in Ahmedabad depended more on deposits from small investors than the cotton manufacturers in Bombay; in the latter, depositors raised only 11 percent of capital, whereas in Ahmedabad this figure was 39 percent.

It was well known that banks in India were not inclined to issue substantial loans to cotton mills.<sup>73</sup> It was also known that cotton manufacturers in Bombay could expect slightly more support from banks than manufacturers in Ahmedabad. The reluctance of banks to back industrial enterprises may have been due to a lack of capacity to estimate the value of such undertakings.<sup>74</sup> Moreover, Indian banks had not yet developed

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complained about the loss of deposit holders. See, *Report of the Indian Tariff Board, 1927*, vol. 3 (Calcutta, 1927), 396.

<sup>72</sup> I found hardly any supplementary information in the sources about the role played by letters of credit in financing, so do not discuss this question.

<sup>73</sup> *Report of the Indian Industrial Commission, 1916–1918*, vol. 2 (Calcutta, 1919), 178. Basu also confirmed this, *Industrial Finance*, 99–142. For a detailed discussion on the role attributed to the Managing Agency System, see Oonk, “Motor or Millstones,” 419–52.

<sup>74</sup> Indian Central Banking Enquiry Committee, *Cotton Textile Industry*, vol. 1 (Calcutta, 1927), 270, 271, 776.

*Table 3*  
Sources of Capital of the Cotton Mills in Bombay and Ahmedabad in 1930

<i>Sources of Capital</i>	<i>Bombay</i>		<i>Ahmedabad</i>	
	<i>Rs. (1000s)</i>	<i>%</i>	<i>Rs. (1000s)</i>	<i>%</i>
Borrowed by Managing Agents	53.2	21.4	26.4	24.4
Bank Loan	22.6	9.1	4.2	3.9
Deposits	27.3	11.0	42.6	39.4
Shares	121.4	48.9	34.0	31.5
Debentures	23.8	9.5	0.8	0.7
Total	248.3	100*	108.0	100*
Number of Factories		64		56

\* rounded

Source: *The Indian Central Banking Enquiry Commission*, vol. 1 (Calcutta, 1931), 278.

the habit of issuing loans with buildings and machinery as collateral. Indeed, the banks long retained the system of issuing loans (especially short-term loans) on the basis of supplies. Indian bankers rightly ridiculed this tradition in the 1940s.

One of the consequences of the banks' reticence was that managing agents looked for other sources of financing. Those in Ahmedabad proved true to their money-lending origins and found creative ways of financing cotton mills. They enjoyed the confidence of a large group of small investors who preferred to put their money in a mill run by a well-known and reliable Indian banker or moneylender than in some newfangled (institutional) bank. Deposits were made for a period ranging from several months to seven years, and the interest rate was around 5 to 7 percent per annum. These small investors thought it safer to entrust their capital to a managing agent with a good reputation than to an unknown bank.<sup>75</sup> Due to the strong ties between cotton manufacturers and financiers in Ahmedabad (often one and the same person), many small investors were able to place deposits with one mill.<sup>76</sup> Not for nothing did Kasturbhai Lalbhai claim that small investors

<sup>75</sup> Meetings of the Boards of Directors of the Saraspur Mills, Calico Mills, Raipur Mills, and New Shorrock Mills over various years. Private Company archives of the respective mills, Ahmedabad. After the First World War, the pace of change slowed because the Indian government issued loans with high security and interest. The Ahmedabad Mill Owners' Association accordingly complained about this. *Indian Tariff Board* vol. 3, 396.

<sup>76</sup> *Bombay Provincial Banking Enquiry Committee*, vol. 3, 408–16. Rajat Kanta Ray has written an interesting but speculative article on this topic, in which he shows how formal and informal relationships were integrated in Ahmedabad. Ray, "Pedhis and Mills," 387–96.

in Ahmedabad formed the backbone of the cotton industry in the town.<sup>77</sup> Indeed, as Ahmedabad's main newspaper, the *Prajabandu*, wrote in 1909, the depositors of Ahmedabad stood surety for more than 50 percent of capital.<sup>78</sup>

The close relationship between the Ahmedabad mill owners and their small investors is confirmed by the fact that these investors shared the commissions of the managing agents in prosperous days. Indeed, the mills did so even though they were not compelled to formally: "The Company will . . . in addition to the interest payable to the depositor on the said loan, pay each year to the depositor a share of the total commission calculated at the rate of 3% on the sale proceeds of all goods manufactured and sold by the company."<sup>79</sup> Furthermore, the Ahmedabad mill owners developed a system in which they not only accepted deposits for three to twelve months, but for several years as well.<sup>80</sup> I found no case in which Bombay managing agents shared commissions with their deposit holders or where deposit holders deposited their money for longer than one year.

*Some general observations.* The Ahmedabad traders and bankers faced neither a hostile nor an encouraging colonial attitude. Indeed, there were very few British administrators and businessmen in the city. In spite of this, the British were responsible for introducing a more stable economic climate than people were used to under the Mughals and Marathis. This British influence did not, however, shape the commercial center of Ahmedabad, with the city preserving its original structure of guilds and business castes.

*No minority thesis.* The Ahmedabad industrialists did not emerge from a minority group. They were Hindus belonging to the majority in Ahmedabad. M. M. Mehta's biography of the pioneer of the Ahmedabad cotton textile industries, Ranchhodlal Chhotalal, reveals that he was a very conservative Hindu. This means that he was among the last people whom Weber and others would have expected to become an industrial pioneer.<sup>81</sup> Despite this, the Ranchhodlal cotton mills did emerge, and he was no exception. After his mills had proved successful, others, mainly Hindus and Jains, were quick to follow in his footsteps.

One striking factor in Ahmedabad was the fact that many future industrialists had a background in banking rather than trading. This meant that they had no experience with cotton at all. In particular,

<sup>77</sup> Indian Central Banking Enquiry Committee, *Cotton Textile Industry*, vol. 3, 480.

<sup>78</sup> *Prajabandhu*, 4 Feb. 1909, 2.

<sup>79</sup> Members of the Board of Directors, New Shorrock Mill, Company Archive, Ahmedabad, 1905.

<sup>80</sup> P. S. Lokanathan, *Industrial Organisation in India* (London, 1935), 182.

<sup>81</sup> Mehta, *The Ahmedabad Cotton Textile Industry*.

they had no practical knowledge of the quality of cotton, no trading experience, and hardly any knowledge of machinery. Despite this, and because of their banking background, they were able to raise capital from the general public in Ahmedabad to build cotton mills. Ample capital meant that these mills were less dependent on shares and formal banks than those in Bombay.

### Conclusion

In this article, I compared the emergence of indigenous industrialists in Calcutta, Bombay, and Ahmedabad in three ways: first, the colonial attitude towards indigenous industrialists; second, the importance of an economic (religious, community, caste-based) middleman minority; and, finally, the social/occupational background of future industrialists. I concluded that the three cities differed with respect to the colonial attitude towards the emergence of indigenous industrialists. However, it is difficult to measure this in terms of scale. In addition, the importance attributed to the religious and community-based middleman minority thesis differs from city to city. Finally, there is a striking similarity and explainable value in the occupational backgrounds of the would-be industrialists.

Calcutta served as the capital city of British India until 1911, with the majority of the European population and businessmen in the country living there. British jute mill owners used harsh language when they wrote about the Marwaris in Calcutta; they were seen as competitors, not collaborators, and as exploiters. This was not an environment that encouraged partnerships. The Calcutta-based pioneer G. D. Birla was a respected board member of various mills under the Yule agents. Yet, even at the Yule offices, he was not allowed to ride the elevator, but was instead obliged to climb the stairs.

In Bombay, the relationships between Indian and European businessmen were marked by less discrimination and less mutual antagonism than in Calcutta. Perhaps an explanation is that the British conquered West India at a later stage than East India. Accordingly, Indian businessmen in Bombay (as well as in Ahmedabad) escaped the early period of unabashed exploitation described by Bagchi and others. Furthermore, the British in Bombay realized that they could develop the fishing hamlet only by enticing local businessmen and implementing an active policy to attract Parsis to settle there. In Bombay, a symbiotic relationship evolved in that many sons of Parsi businessmen worked for British managing agents. With the exception of Andrew Yule's agency, this was hardly ever possible in Calcutta.

In Ahmedabad, there were virtually no relationships between Indian and British and European businessmen, although the civil servant Ranchhodlal Chhotalal's relationship with the British was important for his industrial outlook. In Ahmedabad, local businessmen were oriented toward the local markets, and there was little commercial interest in what happened in Bombay.

By the end of the nineteenth century, the contrasts between Bombay, Calcutta, and Ahmedabad were clear to see. In Calcutta, Indian businessmen were excluded from the upper ranks of the business hierarchy and operated as brokers, but not as partners, while in Bombay partnerships between Europeans and Parsis were a common feature. In Ahmedabad, partnerships were rare, but British civil servants promoted rather than hindered industrial development, as we have seen in the case of Ranchhodlal Chhotalal.

The religious, community, and caste-based backgrounds of minority middlemen can be an important factor in explaining the emergence of entrepreneurial capacity. Current economic historians do not follow Weberian arguments that the Indian (especially the Hindu) culture was averse to risk taking and making long-term investments because of their supposedly otherworldly values. Nevertheless, it is important to highlight that a significant part of historiography has dealt with these issues and has therefore endorsed different types of explanations related to the cultural or community background of entrepreneurs. In the case of Parsis in Bombay, historians like Robert E. Kennedy and Eckhard Kulke found some elements of "Protestant" ethic in their cases. However, these scholars conveniently forget the mutual relationship between the Parsis and the British in Bombay; the British offered the Parsis all kinds of economic and social benefits that at least helped them to improve their economic position.

Here we come to a chicken-or-egg issue. Perhaps it was simply the case that the British actually offered Parsis these benefits; alternatively, were they just more likely to accept them because of their Parsi ethic? Moreover, the Weberian thesis cannot really explain the emergence of the Marwaris in Calcutta. However, the stranger minority thesis does help explain the commercial outlook of the Parsis and the Marwaris. Being strangers meant that they had a more objective attitude towards the market, while according to the minority thesis, being a minority meant that they both could develop a positive attitude towards commercial improvement and even success. In both cities, historians and contemporaries alike often compared these business communities with the Jews in Europe. However, the example of the Marwaris in Calcutta raises the question of whether we have to define them as insiders or outsiders. They were Hindus and Jains from Marwar; the British considered

them insiders but the Bengalis considered them outsiders. In the case of the Parsis of Bombay, it may be argued that they were a minority from the 1850s onwards, but were a majority group before that, as I have shown. Last, but not least, the example of the Hindus in Ahmedabad demonstrates that the Hindu majority in Gujarat was well able to develop indigenous industries at the right time and in the right place. The Weber thesis cannot explain the emergence of industrialists in Ahmedabad (who had a Hindu-majority background), which Weber and others would not have anticipated.

In all of these debates it is striking that the research on India underestimates the occupational background of the industrialists. In all three cities, most future industrialists had a background in finance and trade. They were by no means people of humble origins or self-made men, as the classic rags-to-riches stories go. Indeed, they were not craftsmen, technicians, or mechanics who had owned small workshops and then expanded. Most of them had virtually no idea how to build factories, use mechanized (steam) power, and manage large-scale production units.

Despite their backgrounds, an indigenously owned and managed large-scale industry emerged. Indigenous industrialists were new men in the history of India, but they had experience in finance and trade. Despite differences in financing cotton textile mills, small-scale investors in Ahmedabad seemed to be more important than in Bombay. Nevertheless, whatever the colonial attitude and the community background of indigenous industrialists (Marwaris in Calcutta, Parsis in Bombay, and Hindu Gujaratis in Ahmedabad), creative indigenous traders and investors found room to step into profitable large-scale industries. At the beginning of the second half of the nineteenth century, Indians built the first indigenous cotton mills in Bombay and Ahmedabad. Not until 1919 was the first Indian mill (jute) built in Calcutta. In all cases, these industrialists, the new men in history in India, were traders and bankers.

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