

**Indian Business History**  
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**Lecture – 04**

**Agency Houses: Jagat Seths and Early Banking operations, 1700-1800/1850 c**

Hello everyone, and welcome back to Indian Business History. This is an online course. I am Dr. Vipul Dutta from IIT Guwahati. And, this is lecture number 4. The title of this lecture is Agency Houses: Jagat Seths and Early Banking operations from 1700 till about 1850. Before starting on I want to give a brief context on the journey that we have covered so far on this online course. We began with an introductory video on this course. Then we commenced with the first week's lectures for Indian business history.

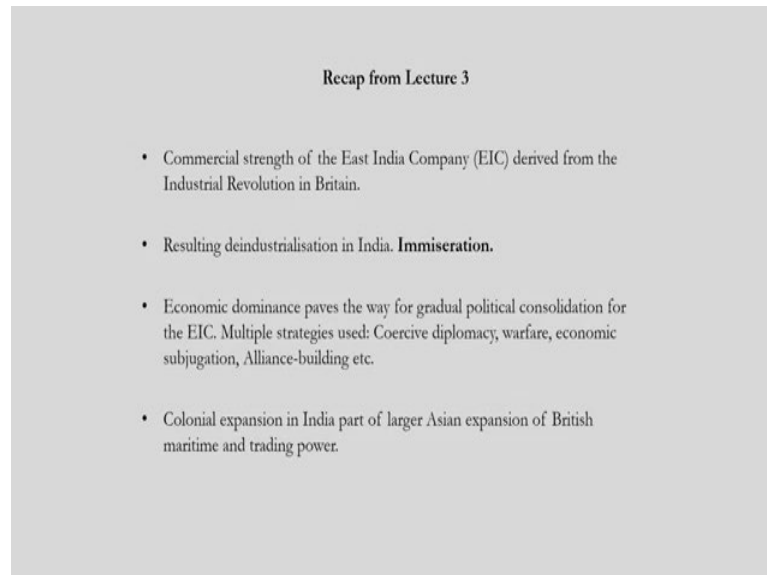
The first week had 2 lectures in it. Lecture number 1 dealt with introduction to business history and I gave a general outline for it. And, lecture 2, within week 1, discussed in detail the role and importance of sources and methodology to study business history. Then, we proceeded onwards to the second week of this course and the second week also has 2 lectures.

The previous lecture, which is lecture number 3, was on East India Company's early ventures in India. And, lecture 4 which is what you are watching right now is going to be on Agency Houses, Jagat Seths, and early banking operations. So, this is where we are in this lecture. And, I thought of giving this brief outline just to be able to give you an indication of how much ground we have covered and what is to follow after this lecture.

So, once we finish lecture 4, that will mean the beginning of week 3 in this online course and we will get to it once we reach that point. But this is just for the information of our learners who have been with us so far, and also for those of us who have just joined us in this course to be able to familiarize them with the journey that we have covered so far in

this course. As always I will take some time to offer a brief recap of what we discussed in previous lecture, which was the third lecture.

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And, a couple of important points sprang up from our discussion of the themes that were dealt in greater detail in that lecture. The first thing that we discussed was that the commercial strength of the East India Company or EIC derived from the Industrial Revolution in Britain. So, the mass based production of goods and commodities, which was made possible by a parallel revolution in technology, scientific achievements and transport in Britain, and later in Europe, contributed towards the generation of new systems of industrial processing, manufacturing, which transformed not just the economy in Britain, but also the global economy as we know it today. The search for new markets for those goods, produced cheaply partly through human labor and partly through newer technologies, that were made available at a rapid pace, transformed the whole nature of business, exchange and economic affairs of this period.

So the first thematic outline that you have to keep in mind while discussing the business history of this period is this revolutionary international moment in international history which changed the way goods and commodities were being produced; and also changed the way they were being traded or sold in not just domestic markets, but also international markets.

With the greater influx of goods produced through machines in Europe and their dumping in markets like India and China, the availability of cheaply made technologically made goods also led to what is now known as de-industrialization of the existing industry and manufacturing processes in India. This resulting the industrialization also led to a general process of immiseration, which is a phase of economic impoverishment, which could mean a decline in wages, loss of markets, loss of occupations and vocations and also a general decline in the economic profile of this period.

So, the spectacular achievements in science and technology and industrial manufacturing, and industrialization, the development of the factory system, and the systematic organization of human labor in factory settings to augment production, and profit, for entrepreneurs in Britain was accompanied by a parallel de industrialization, loss of rights, wages, incomes and jobs in India. So, in this direct comparison of economic processes happening in Europe and in India, Europe and also Britain were the winning side on this equation.

And Indian artisans, manufacturers, people invested in handicraft industry, or interested in exports of fine cloth and textile, were the obvious loser in this equation. Then, we also discussed that economic dominance, especially in the case of the East India Company, paved the way for graduate political consolidation for the East India Company. There were multiple strategies used. So as we discussed in the previous lecture, there were instances when coercive diplomacy was employed; there were also outright instances of interregional warfare in which the East India Company took an active part; also economic subjugation was the common strategy used by members of the East India Company to try and subjugate regional kingdoms to the whims and political ambitions of the East India Company; and also, alliance building, which is noticeable in the early part of the 18th century is also a common strategy used by the East India Company to extend its territorial control, and also extend its economic influence across the Indian subcontinent.

There were instances where all of these four strategies could have been used together, or the context was such that either one or two or more than two of these strategies could have been employed by the East India Company to extend its privileges in the Indian subcontinent. And on the basis of securing greater economic privileges, the East India Company transformed itself from a private trading firm into a machine of political control and authority on the Indian subcontinent.

But the basis of political authority for the East India Company was its ability to not just manipulate, but also garner greater economic and commercial privileges for itself through either of these available strategies or develop a case to case strategy based on local conditions and context. But it is safe to say that the political establishment that company rule brought to India was brought in the wake of greater economic regulation and control of India's resources, institutions, and also people.

So, the political subjugation of the Indian subcontinent to the economic principles and institutions of the East India Company was a one way trajectory in which newer systems of economic control and regulation championed by the East India Company were implemented in letter and spirit in the Indian subcontinent in a rigorous fashion.

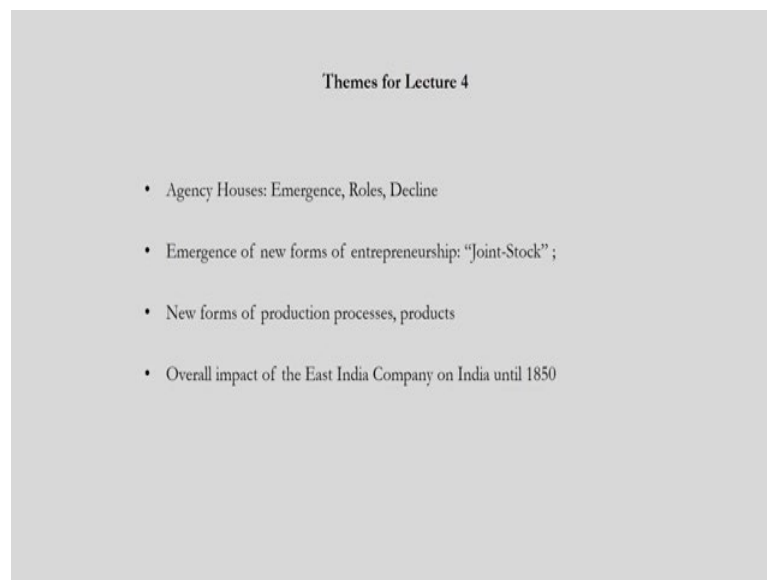
Then we ended the previous lecture by discussing that colonial expansion in India was not an isolated story. It was part of a larger Asian expansion of British maritime and trading power. In the previous lecture, we also discussed the incidents of the two opium wars, which were fought on the basis of a great wave of Chinese resentment and resistance against the illicit opium trade that the East India Company was imposing on Chinese people and the Chinese markets.

So, the opening up of the Chinese economy, the access to Chinese markets through Chinese port cities, was part of a larger Asian colonization program prosecuted by the East India Company at this time. So, the subjugation of Indian markets, or the greater inclusion of Indian territories under the flag of company rule, was part of a larger Asian phenomenon in which greater territories and more lucrative markets were being searched frantically in order to provide an outlet for the capital of the merchants and businessmen of the East India Company at this point.

So a massive sweep of global history in this period can also be studied under the terms of the colonial economic expansion that is noticed by historians at this point. This colonial economic expansion had massive social, political, and cultural ramifications, but the underlying basis of this colonial expansion into territories outside India into China and further beyond China, had a distinctive economic argument to do it. For this lecture, which is lecture number 4, we will continue the themes that are outlined in the previous lecture. In addition to those, we will also delve into greater details about the precise business operations of the East India Company at this point.

So, in addition to the themes that are outlined in the previous lecture, which was about an examination of the causes of the East India Company's rise in consolidation in the Indian subcontinent and its precise impact on India's various affairs during this period, there are also certain additional more complicated themes that I will address in this lecture.

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Specifically for lecture 4, we will be discussing the concept, or the phenomenon, of Agency Houses in the Indian subcontinent. We will discuss its emergence, we will discuss the important role it played in the financial affairs of this period, and we will also examine the causes that ultimately led to the decline of the Agency House system in the Indian subcontinent.

The agency houses were the distinctive contribution of company rule in India. Such a system of business transactions and economic activities was something that was not familiar to the Indian subcontinent before the arrival of the East India Company. So, we will take the case of agency houses in great detail, because it marks a break from past institutions and past economic activities that have governed the life and destinies of those living in the subcontinent at this point.

In addition to the discussion of agency houses, there were other new forms of entrepreneurship in the Indian subcontinent at this point. The chief example of that is the "Joint-Stock" company. What is the Joint Stock Company? What is its importance to India's economic and business affairs is something that we will also discuss today. But the concept of Joint Stock is as novel to the Indian sub-continental history of this period as is the concept of the Agency Houses.

In addition to Agency Houses and the Joint Stock companies that were dotting the map of the subcontinent at this point, there were also newer forms of production processes and

products. This 100 year period bookended by 1700 and 1800 or roughly from 1750 to 1850 is an age where a great variety of new crops and commodities were introduced into the farming landscape of the Indian subcontinent. So, greater cultivation of cotton was accompanied by the massive plantation economies of crops devoted to the cultivation of crops like indigo and certain others.

They became the chief cash crops for the East India Company because of the huge demand that they had in continents like Europe and America. And the increased cultivation and the systematic organization of cultivators, and peasants around the plantation economies of commodities like Indigo and cotton gave rise to newer forms of political control and even social control in the Indian subcontinent.

So demands, markets, for lucrative commodities like cotton and Indigo then does not remain an isolated economic story. It in fact, becomes a vital ingredient to study the politics also of this period. Then ultimately, we will end this lecture by assessing the overall impact of the East India Company, specifically in these 100 years until 1850. This is a theme that will continue to run across the major part of this online course. But specifically for this lecture and for the next couple of lectures, we will discuss the overall impact that company rule had on various Indian affairs at this point.

Whether it is economic, political, cultural or social, every aspect will be covered with a view to augment our understanding of what India's business history looked like. It was not just the story of economic transactions, but it was a composite feature of the various changes and events that have taken place in various interconnected sectors of Indian history at this point, which shaped and continue to shape India's business history even to this day. So what exactly were the "Agency Houses"?

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The "Agency Houses": A New Business Operations model for India

- 1776: American Independence; EIC tightens financial control over Asian markets.
- 1813: East India Co.'s monopoly over India abolished. Builds up momentum for Agency Houses.
- Private Traders allowed to operate in India from Britain.
- Forbes & Co. at Bombay one of the oldest Agency Houses (1767)
- A new class of entrepreneurs arose in Britain after reaping profits from Industrial revolution: Not necessarily associated with the EIC.
- New European merchants set up private "agencies" for conducting trade in India.
  - Provided capital for businesses
  - Loans
  - Remitted money back
  - Also gave loans & funds to EIC's military campaigns
- Were Agency Houses Banks?
- Agency Houses HQ at: Madras, Bombay, Calcutta: Financial Concentration

And, how does it represent a new business operations model for India? As I said before, during the heyday of the Mughal Empire in India, and also with its gradual eclipse and accompaniment of the rise of regional kingdoms in the subcontinent, the general trend of the economy remained focused in certain sectors, on certain processes, and on certain modes of production. With the arrival and the greater consolidation of the East India Company or the advent of company rule in India, we see the emergence of novel forms of economic transaction and control.

The chief example of this new way of doing business and conducting economic operations is the example of the Agency Houses. It has a longer history to it. And we begin first with a chronological outline of what was happening in international politics at this point, so that you were able to understand what and why does the system of agency housing in India arise at the time that it did?

In the year 1776 you have the granting of American independence. And the 13 colonies which initially formed what is now known as the United States gets formal political independence from the yolk of colonial rule. With the loss of such a lucrative market and such a big territory and its move away from the British Empire, the East India Company feels compelled to tighten its financial control over Asian markets.

So the greater consolidation of Indian territories and the greater attempts at pushing open the door to the Chinese market at this point was a function or was a result of the loss of this other great territory across the Atlantic Ocean, which was America.

So the loss of American colonies and its move towards formal independence from British colonial rule tighten the grip of that same colonial rule across the other ends of the earth. So the greater consolidation of the East India Company, its territorial expansion, and the spread of its economic model across the Indian subcontinent and parts of China, happened roughly at the same time when the British crown was on the verge of losing some of its very important colonies across the Atlantic Ocean.

Then in the year 1813, the East India Company's monopoly over India is abolished. The abolition of this monopoly basically meant the traders, merchants, or businessmen, not formally associated with the East India Company, were now free to trade as independent entrepreneurs and make money for themselves in the Indian market. As I said, that in the year 1600, a Royal charter was granted to the East India Company. This was a legal quasi-state backed document that entitled the East India Company to be treated as a quasi-diplomatic party in Asian negotiations and also gave it the legal basis to engage in and garner greater commercial privileges for itself.

But by 1813, there were growing voices in Britain, in the city of London, to abolish the East India Company's monopoly, because it was restricting the trading entrepreneurial abilities of several other merchants who were interested in getting a share in the Indian market, but were not formally associated with the East India Company. The mammoth administrative and trading machine, that the East India Company had begun by the 17th century, was great for the shareholders of the East India company, but it was also in object

and source of resentment for those who were not formally associated with this company, and hence formally debarred from entering the Indian market and gaining an income from it is massive lucrative potential.

So, in 1813, with the abolition of the East India Company's monopoly, you see a massive surge in the number of people interested in taking up a share of the Indian trade at this point. So with the abolition of the formal control of EIC over the Indian market, it throws the door open for numerous individuals not formerly associated with the EIC but steadily interested in trying to set up trading businesses or several other financial related services in the Indian subcontinent, because of the immense potential in the Indian market of being able to return a good profit on initial investments.

So, the scrapping of the company's monopoly in India meant a parallel rise of a new class of British traders who were not backed by the company, but we were definitely interested in taking part in the lucrative Asian trade during this period. Once private traders were allowed to operate in India from Britain, it was not just a question of scale of operations, it also led to certain other conditions which transformed the business landscape of the Indian subcontinent forever.

Of the many institutions and economic principles instituted by company rule, the Agency House was one of the most novel institutions that were put in place in the Indian subcontinent. Previous methods of governance were not familiar with this model and therefore, it is often felt, that agency houses, initially, acted as the earliest European banking firms in India.

Of course, their occupational profile was very diverse, but their mainstay of economic operations was related to lending operations or extending loan related facility to various stakeholders in the Indian subcontinent. So the question whether the agency houses were the earliest banks is still open for debate. But the major nature of their operations was related to banking.

One of the oldest agency houses to be established in the Indian subcontinent at this point was in the year 1767, when Forbes and Co. was an institution that establish itself as one of the earliest agency houses in the western part of the subcontinent. Therefore, a new class of entrepreneurs arose in Britain after reaping profits from industrial revolution. They were also not necessarily associated with the East India Company. And it was precisely this class of private traders and entrepreneurs which were responsible for setting up the agency houses in various parts of the Indian subcontinent.

These new European merchants, most of them who were British, were responsible in setting up private agencies for conducting trade in India. So, if you are looking for answers to the question of what is it exactly that the agency houses did in the Indian subcontinent? There is no one definite answer, but a composite of various economic related activities that they indulged in.



The chief operations for the agency houses was providing capital for businesses. These businesses could be purely European businesses, run by European merchants and traders, who were in great need of capital. So their need for capital infusion or seed money to start the businesses was something that was provided by these earliest agency houses. Certain Indian businesses also stood to benefit from the loans provided by these agency houses. But those exchanges were pretty early and in initial stages at this point.

So the primary or core concern of these agency houses at this point was to facilitate transfer of credit, capital, or money for starting up initial business operations of other Europeans in the Indian subcontinent at this point. And also a limited number of Indians as well. These agency houses also provided significant amount of loans. The beneficiaries of these loans could be a variety of stakeholders that existed in the Indian subcontinent at this point. In the previous lecture, I discussed that the years between 1750 to 1850 was a century of multiplication of state units, state related units and also a multiplication of political engagements in this period.

So just as there was a number of political engagements dotting the landscape of the Indian subcontinent, there were also obviously, a multitude of political actors at this point. These could be officials from the regional kingdoms, these could be the Jagat Seths, these could be private traders from other parts of the Indian subcontinent who were trying to concentrate in India's port cities at this point. And with the arrival of the East India Company, and its subsequent abolition of its monopoly in the India trade, you see a rapid multiplication of various economic stakeholders in India's business history at this point.

So starting from 1700, till about 1850, you see a gradual fragmentation of this rather monolithic structure that existed when the Mughal state held sway. And with its subsequent breakdown, you see a rise of regional kingdoms. But in the wake of the rise of those regional kingdoms, you see multiple political actors interested in undertaking economic activities.

So the need for money to start new businesses, or the need for new money to carry out existing businesses, was a gap that was importantly plugged by these agency houses, just as Jagat Seths were plugging the gaps for the regional kingdoms earlier. In addition to providing the much needed capital for business operations and loans to the East India Company, regional kingdoms and various other sorts of entrepreneurs in India, Agency Houses also indulged in operations involving the remittance of money earned in India to markets in Europe, or to households in Britain.

So this crucial operation, whereby money earned in the India trade and its ultimate destination in British households or British banks, was an important service that was rendered by the Agency Houses. So this whole discourse of whether or not the Agency Houses represented the earliest modern examples of banking in the Indian subcontinent is mainly because of the nature of the services that they rendered to different stakeholders in the Indian subcontinent.

Most significantly, the East India Company also extended loans and funds to the East India Company's military campaigns. So the Jagat Seths no longer remained the sole source of income or loans for the East India Company. The merchants, officials of those who instituted company rule in India, now had access to an alternative source of funding for extending the territorial political control across the subcontinent, and this was in the form of Agency Houses.

Because of the fact that most of the Agency Houses were controlled by Europeans, and more specifically, people from Britain, they also came across as natural allies for the roles, responsibilities and the ultimate political agenda of the East India Company. So the merging of political authority with sources of financial revenue and loans was made more convenient by the fact that Agency Houses were trying to become more active financial players in the Indian subcontinent at this point.

So there is a two way development in India's business history at this point. We see the rise of a European trading firm and its gradual transformation into a political authority. But we also see the rise and consolidation of European sources of income for that East India Company itself. So there is now a gradual move away from the economic relationship that the EIC cultivated with the Jagat Seths. And there is now a greater rapport or the move away from Jagat Seths towards cultivating a more deeper political and intimate relationship between the East India Company and these Agency Houses.

The purely commercial, mercantilist, and subsequently military role, that these Agency Houses played made them very important players in India's business history at this point. They were a new model for business operations in the Indian subcontinent. And just as the Jagat Seths owing to their economic influence became important political actors in this period, the same strategy is also noticeable in the political trajectory of these Agency Houses as well.

Needless to say Agency Houses were also concentrated where the most important sources of revenue or wealth were also concentrated in this period. So the port cities of the Indian subcontinent like, Madras, Bombay and Calcutta, which were also the hubs of trade and manufacturing, became the earliest sources for the location of Agency Houses at this point.

So greater financial concentration led to the greater accumulation of these Agency Houses in the Indian subcontinent at this point. The theme that we discussed in the previous lectures, which was that capital gravitated towards centers of political control, is also noticeable in the case of Agency Houses, where just as the Jagat Seths accumulated in greater numbers alongside important political centers in the Indian subcontinent, the agency houses too started shifting or gravitating towards centers which held enormous potential for their own growth and for the cultivation of important political links between themselves and the various other political stakeholders.

So in addition to the Agency Houses extending loans and capital to start new businesses, or to provide financial services for those who were in need of those financial services, they were also responsible in indulging in their own private businesses. All were either related

directly or indirectly to the ongoing business operations in the Indian subcontinent at this point. So, while on the one hand agency houses can informally be regarded as the earliest banking institutions run on modern European lines, they were also institutions that indulge in significant trading opportunities for private benefit themselves.

So the abolition of the East India companies monopoly at this point, led to a dual function for institutions such as the Agency Houses, which on the one hand engaged in formal or informal banking operations, but on the other hand, they indulged in practicing or earning an income out of existing businesses practices in India or the Indian subcontinent at this point.

So how exactly did the Agency Houses affect the Indian entrepreneurship?

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**How did "Agency Houses" affect Indian Entrepreneurship?**

- Wide range of operations
  - Indigo cultivation
  - Export of Tobacco, spices, Ivory from India
  - Money-lending
  - Shipping
  - Opium
- Growth spurt based on "Speculation": Investments done with the aim of profit but also with high risk of loss.
- **Business operations by Europeans or the British required Indian Collaboration:** Coming together of Indian and European capital and labour
- Capital raised to start new industries in India
  - Leather processing
  - Insurance, Banks
  - Journals & Newspapers

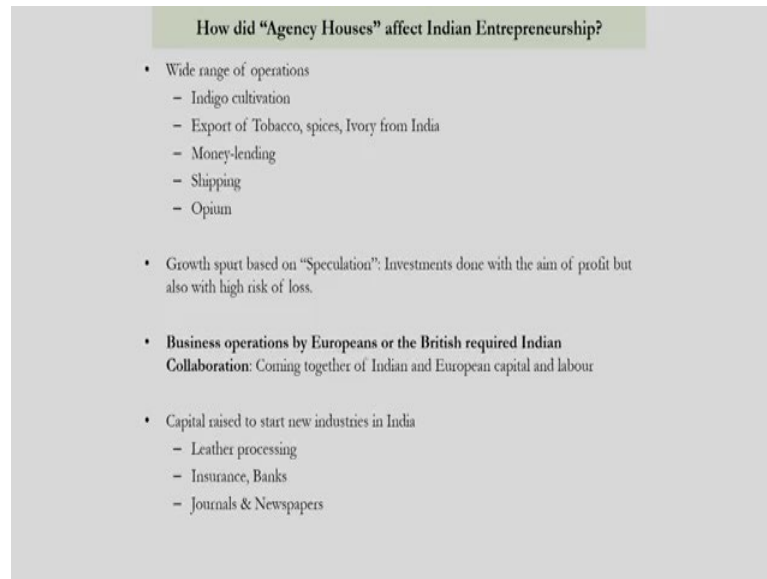
Well they did so by starting up or diversifying the existing portfolio of operations. The Agency Houses indulged in a wide range of economic activities and operations. So in addition to the loans and capital infusion, these Agency Houses also indulged in funding Indigo cultivation. They were also involved in the export of cash crops like Tobacco. They were also involved in the spice trade. And they were also involved in the transfer, retail of ivory from India.

Then these Agency Houses, obviously, also indulged in money lending and that money would be returned to them on a particular rate of interest. So, that also represented an additional source of income for these Agency Houses. And in addition to above, the Agency Houses also had significant interests in shipping, and also in the ongoing illicit Opium trade that we spoke about, and which was a triangular trade between the Company, India and China.

So, a substantive scale of commercial operations was mounted by Agency Houses at this point. And they transformed from their initial role as providers of capital to active agents in the conduct and organization of domestic and international trade at this point.

Much of the growth that arose out of the Agency Houses' participation in these trades and also the participation of the East India Company in these trades, was based on speculation.

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**How did "Agency Houses" affect Indian Entrepreneurship?**

- Wide range of operations
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Speculation, in its economic interpretation, basically refers to investments done with the aim of profit, but also with a high amount of risk involved in it. So the greater scale of Indigo cultivation, or the export related activities of commodities like Tobacco and spices, may have registered a great profit potential for those involved in those business operations. Yet, it was all based on speculation.

So the amount of investments, or the projected earnings, based on those international trades, were at the end of the day, based on projected earnings. So the amount of speculation that was injected into the international trade at this point, was solely a doing of the greater involvement of institutions like the Agency Houses in international trade at this point.

Another notable feature of Agency Houses and their business operations was the fact that it brought along two different sets of people into India business history together.

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#### How did "Agency Houses" affect Indian Entrepreneurship?

- Wide range of operations
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- Growth spurt based on "Speculation": Investments done with the aim of profit but also with high risk of loss.
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Business operations by Europeans or the British required significant Indian collaboration at this point. Therefore, in order to conduct business operations successfully, or to carry out economic activities during this period, there was a necessity of Indian capital merging with either European capital or British capital.

The collaborative nature of international operations at this point suggests a coming together of various stakeholders, various financial stakeholders in the Indian subcontinent at this point. And this was a brief episode in India's business history where European institutions planted by the company had the effect of trying to invite, attract, or co-opt significant sources of domestic Indian capital at this point.

So, a successful training operation mounted by the British necessarily required Indian labour, necessarily required a knowledge of Indian customs and traditions and it also required a necessary knowledge of the Indian terms of trade that were being agreed upon at this point. So, the other hardly noticed impact of the Agency Houses at this point was the way in which it tried to bind together Indian capital.

While the agency houses conducted a various types of financial and economic operations, in the Indian subcontinent at this point, like Indigo cultivation and the export of tobacco cash crops and shipping and opium trade. Much of this growth was based on what is now called speculation.

Speculation is basically a process in which investments are done with the aim of gaining rate of profits, but it is also attended by a high element of risk with a potential for great losses. So, incomes, earnings, revenues, were at the end of the day in the rosters and registers of the agency houses, based on a future projection. These future predictions could either be true or they could also be as was too often the case false. So, the high growth rate registered by those who were involved in tradings through the institutions of Agency

Houses, or also the merchants and businessmen associated with the East India Company, did so on the basis of a high element of speculation in this point.

So, Indigo cultivation was also attended by a high amount of speculation. Profits, demand, the scale of operations, were always registered or studied on the basis of future projections. There was little account taken of international events or the availability of alternative goods that ultimately led to the downfall of these trades. But in the initial decades when the agency houses dabbled in these trading and business operations, most of their earnings and revenue operations were built on future projected figures.

Another notable feature of the Agency House system at this point was the coming together of Indians and the British stakeholders as far as business operations are concerned. Any successful business operation in the Indian subcontinent carried out by British merchants or European merchants could not have succeeded without the collaboration or the active help sought British traders from Indian traders at this point. So, the coming together of Indian capital and British capital, or the coming together of British traders and Indian traders at this point, represented a significant break from the past economic and business related activities of the Indian subcontinent at this point.

Any successful economic or business operation required an intimate knowledge of Indian traditions and customs; it required an intimate knowledge of the Indian terms of trade and negotiations; it also required an intimate knowledge of the ways in which Indian society and polity were organized in order to maximize the economic advantages for people involved in agency houses. So, in order to gain greater intelligence, economic intelligence, and knowledge and insights about their market required, at least briefly, the coming together of Indian stakeholders in businesses as well as European or British stakeholders in the businesses of this period.

So, one major notable feature of the Agency House system was its ability in trying to bring together various stakeholders in India's business landscape in this period. The terms of this coming together were far from equal. So, the majority ownership or the majority stock in Agency Houses, were of course, held by Europeans and there was rarely, if ever, a case in which Agency Houses, were built on equal partnerships between British capital and Indian capital.

So even though the Agency System represented the coming together of two diverse strands of economic thought and economic capital. Yet the terms of negotiation, the character of the composition of this partnership was unequal, and it varied from city to city and from place to place, and it also was dependent on the nature of businesses in which the agency houses were involved. In addition to taking part in these lucrative trades that I have just outlined above, whether it was indigo cultivation, tobacco, spices, money lending shipping or opium, the money raised by Agency Houses was also instrumental in starting certain new businesses and ventures in the Indian subcontinent at this point.

It is crucial to outline the segment, because the starting of these new industries had also enormous cultural, social and political consequences for the ways in which Indian history

has been studied. So, there was capital raised to start new industries in India, the chief industries amongst this new entrants were leather processing; there was also an element of insurance and banking that was made more professional and regularized in the Indian subcontinent; and also crucially the advent of the Agency House system in India also led to the growth of modern newspapers and journals in the Indian subcontinent.

The starting of new industries, new production models, new methods to process and manufacture commodities, and the advent of newspapers and journals, transformed the cultural and social and political landscape of the Indian subcontinent at this point.

So, events merely economic and character, were also now responsible in catalyzing certain other processes, that had important ramifications for the ways in which people identified and define themselves politically, socially and also culturally. The circulation of news events around the world in English language, printed newspapers, mainly for the consumption of the European population in India at this point, also led to not just a spread of western education amongst Indians at this point, but also transformed the whole cultural sphere as it existed in the Indian subcontinent at this point.

The availability of journals, printed material, the availability of political ideas in printed material also transformed the intellectual ecosystem in which Indians found themselves at this point.

I want to talk certain other consequences of the Agency House system at this point. Because, apart from their enormous economic services and financial consequences for the Indian subcontinent, the Agency House were also instrumental in catalyzing certain other related political, social and cultural developments in the Indian subcontinent.

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**"Demonstration Effect"**

- Made available a new **Business institution** for Indian merchants.
- Many Indians partnered with European firms to engage in businesses.
- Promotion of **"Joint-stock"** companies in India: **New concept**
- 1835 onwards: **Diversification in Indian Business interests:**
  - Coal Mining
  - Tea
  - Railways
- New and unprecedented infrastructural developments: Geared towards colonial profit and expansion.
- New forms of social and cultural engagements in India
  - Spread of western education
  - Socio-religious reform movements

The first obvious element of the Agency House system was the fact that it made available a new business institution for Indian merchants. The fact that new capital, or at least a portion of seed money, was now available from a European institution was something that was unprecedented in the economic life of the Indian sub-continent. Most sources of revenue available to Indian traders and entrepreneurs came from traditional sources of income and money. The arrival of new European, somewhat banking related institutions, made available an alternative sources of finance for these very Indian traders in businessmen.

As discussed before, many Indians also partnered with Europeans to engage in businesses. So, the Agency Houses was also responsible in trying to bring together different financial and political actors in communication with each other. Than the Agency House system was also instrumental in promoting Joint Stock companies in India. This was a very new concept in India's business history. The whole concept of joint stock is basically a public or private ownership of capital invested in a company, by either an individual or groups of individuals in that company.

So, the method and mechanism of raising money from the public, in order to start a new business, was a novel European mechanism that was instituted into the vocabulary of Indian business at this point. So, just as the Agency Houses transformed Indian business, the promotion and gradual expansion of joint stock companies in India, which exist even today by the way, was uniquely novel economic experiment that that was instituted in the Indian subcontinent in this period.

After 1835, you see a gradual diversification in India's business interests. So, just as agency houses are making available capital for the starting of newer industries and newer sectors for investment and earning revenue. There are also new sectors coming up in a more rapid fashion at this point. These are also sectors that require a heavy capital infusion. So, the arrival of light industries, alongside heavy industries and the whole nature of economic and business operations changed dramatically from 1835 onwards.

So, for instance, coal mining becomes a significant area of operation at this point. In addition to coal mining, there was also the tea industry that takes off. And in addition to coal mining and tea, you see the gradual development and expansion of the railway sector in India. Much of the railway expansion happens mainly as a consequence to facilitate greater earnings out of coal mining and tea.

So the initial spot in the institutional expansion of the railway sector is basically to facilitate the greater convenience that could be had from dealings in either the transfer of coal or the transfer of tea from one market to the other. While the railways started becoming a practical reality in the Indian subcontinent by the mid-19th century, this was also part of the larger and unprecedented infrastructural development in the Indian subcontinent in this period.

But, most of this infrastructural development was geared towards colonial profit and expansion. A significant strand of economic thought, today regards colonial expansion as



beneficial to the colony. To an extent the infrastructural development had an impact on the ways in which communication and other revolutions were brought alongside in those colonies. Yet it must be remembered that much of this infrastructural push for services and other kinds of infrastructures in the Indian subcontinent was geared mainly towards maximizing the economic and financial potential for the East India Company in India, for instance, and other European stakeholders in other parts of the world, wherever they existed.

So this greater push for establishment of the railways or the telegraph service for instance, or the institution of modern banking principles in the Indian subcontinent has to be studied in its proper political context. These services may have been beneficial to a small section of Indians at this point, but the main role or the mainstay of this infrastructural development in the Indian subcontinent was tied very closely to the incomes and revenues of the company, or more specifically the East India Company in India.

In addition to this financial revolution, in addition to instituting newer economic principles, and new terms of trade and international cooperation, company rule was also responsible and witness to the growth of new forms of social and cultural engagements in India. Social and cultural engagements cannot be studied in isolation to economic affairs of this period. So, the economic systems of regulation and authority that governed the business landscape of the Indian subcontinent at this point also had important social cultural consequences.

The greater availability of journals and newspapers, transformed the cultural ecosystem of India at this point, it transformed public spaces in India, news and events of neighboring regions came to be discussed more publicly and more actively, which contributed to the emergence of a public-cum-political sphere in India, which also had long-term consequences for the development of a political ecosystem in India. And, yet, there were also certain other cultural and social factors, deriving from economic factors, that transformed the state of Indian history in this period.

The chief mode of social and cultural engagement in this period was the spread and consolidation of western education in India. With the arrival of a great number of European merchants and businessmen in India at this point, there was also a consequential rise in the number of institutions, that was set up to deliver primarily western based education to Indians and also the children of Europeans settled in the subcontinent at this point.

So the introduction and spread of western based education, also was responsible in transforming the sensibilities of people who consume that education and it was also a step towards realigning the cultural, social sensibilities associated with trade, businesses and other economic operations at this time. In addition to the spread of western education within Indian communities and groups of Indian individuals, you see a noticeable trend which was the emergence of social religious reform movements. So, Indian leaders, or members of certain Indian religious communities or groups of individuals in the Indian subcontinent some of them trained in western education, came up with ideas to reform or

think about new avenues to make members of their religious or cultural communities more in alignment with the sensibilities that were represented by the East India Company and also members of the European establishment in India at this point.

So, this need to reform certain principles practices traditions or customs of indigenous religious communities in India was also a response to the westernizing influences that were represented by either the banking institutions, cultural institutions, and political institutions of company rule in Indian subcontinent during this a 100 year period of India's business history.

So, economic transformation of India's business landscape also has to be closely studied by the responses that it witnessed in response to those economic influences. So, social and cultural factors played a big role in the way in which the whole economic profile of the country changed in the last 100 years. While the agency houses played a very critical role in the finance and economy of the subcontinent, and was responsible in setting up newer industries, and also for transforming the political and cultural profile of the subcontinent, by the 1840s you notice a drastic decline in their numbers and in the influence.

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The slide is titled "Collapse of the Agency Houses" and contains the following text:

- **1820s-1840:** Collapse of the Agency system in India.
  - Mismanagement
  - Corruption
  - Misappropriation of funds
- "Speculation Crisis"
  - Collapse of Indigo Industry
  - Introduction of synthetic dyes
  - Loans, funds given to Indigo planters futile for banks.
- Large scale collapse of European, Indi-European Banking wiped out: **Public Savings obliterated in Calcutta**
- British firms, banks dependent on Indian firms also suffered

To the right of the text is an image of the book cover for "Nil Darpan or the Indigo Planting Mirror A Drama" by Dinabandu Mitra. The cover is blue with a marbled pattern and a central title box.

This was due to a number of reasons - there were issues of mismanagement, corruption, and misappropriation of funds, that were noticed in multiple Agency Houses at this point. And the financial bungling and misappropriation and embezzlement of funds ultimately contributed to the collapse and decline and their diminishing status as financial actors in the subcontinent.

So, after a 40 to 50 year run, the agency houses, owing to their own internal contradictions and problems, start declining in financial scope and influence and they become reduced

actors in India's business history in this period. The speculation crisis, as I spoke about, was also instrumental in the collapse and failure of the agency house system. So, the collapse of the indigo industry mainly as a result of the availability of synthetic dyes for instance, totally collapsed the revenue projections of the indigo industry at this point.

So, much of the money involved in the indigo cultivation business or the money invested in its sale and transfer to different markets, whether domestic or foreign, also collapsed or evaporated almost overnight. So, the loss of revenue, the loss of capital, the loss of stock, as a result of speculative trading was instrumental in the decline of agency houses in the 1840s and afterwards. As a result of the collapse of indigo industry, and others certain allied economic operations associated with the cultivation of indigo in certain other commodities, there was a large-scale depression in the economic landscape of India at this point.

So, the collapse in one industry radiated outwards and it had consequential effects on the ways in which certain other industries were dependent on them. So, the declining economic health of one commodity had enormous consequences for the economic viability of certain associated economic processes associated with one particular sector. But the money involved in this trading was exclusively from Agency Houses and also from merchants of the East India Company. So, the loss and collapse of the indigo trade meant an immediate loss in the fortunes or projected earnings of the agency houses.

So, the obvious loss of revenue, the profit motive and a steady income from what were otherwise lucrative trading operations meant that the agency houses also collapsed in a rapid fashion, in a very short span of time. As a result of the collapse of agency houses, much of the money that was deposited in those where agency houses also was obliterated. So, private savings whether of European merchants or businessmen or Indian traders and entrepreneurs also took a massive hit in this period?

So, the collapse of the agency system was not just a collapse of a European trading institution. It was also the evaporation and the wiping out of the private savings of people who had invested their deposits in those agency houses. So, this could be seen as an earliest example of a speculative crisis and the institutional impact it had on agency houses and how the collapse of those various houses had an enormous demographic impact on the society and polity in which they were located.

In addition to the collapse of these institutions, British firms and Indian trading operations that were dependent on the agency houses also suffered a massive hit. So, the amount of money or capital invested in indigo cultivation, whether through the channel of agency houses or whether through the channels of traditional Indian business operations also were impacted in a negative fashion.

So, a crisis in one sector had an enormous destructive potential for the economic viability and health of the larger economic ecosystem in which that sector was located. If, you want to get a political assessment of the economic volatility of this period, I would recommend

a reading of this book that you see in front of you which is a play called Nil Darpan or the Indigo Planting, or the Indigo Mirror a Planting Drama, authored by the Dinabandu Mitra.

This was published in 1860 at a time when the indigo trade was almost collapsing all across the sub-continent and which was representing a colossal ruin and economic misfortune for those involved in that business. The resulting decline in the fortunes of those associated with indigo, cultivation and export, whether it was owners, entrepreneurs or whether it was the humble Indian peasant who was coerced into planting indigo resulted in a massive public resentment against the exploitative character of company rule in India at this point.

So, the speculative growth model that was brought into the Indian landscape through the channels of Agency Houses or the speculative trading practices of the East India Company. Now, had gradually began to politicize the very people that were now involved in those very economic operations. A common example of that politicization was the efflorescence of a political culture in Indian subcontinent at this point that reflected the deep anxieties and worries associated with this trading model that could be immensely destructive for those involved in it.

So, books like Nil Darpan, the massive plays organized at this point, examples of art and literature in the Indian subcontinent emerging and this point, therefore, becomes a mirror to understand the political costs of economic ventures of the East India Company during this period. I want to spend some time on assessing the impact of the East India Company on the Indian subcontinent at this point and I will divide this section into two parts.

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### Impact of EIC on India

- **Political:**
  - Growing emergence of educated Indians: Conscious of western liberal ideas and their absence in India
  - Politically conscious of the exploitative character of EIC, British trade
  - **Increased unrest amongst Indian peasants across India, 1840-1860**
- **Economic:**
  - Gradual realisation that British terms of trade were harmful for India
  - Local crops, economy was plundered in favour of profits in Europe
  - New Business organisational models set up
  - Growing alignment of Indian economy with British economy.
  - Re-emergence of purely European firms



The first obvious impact that was felt with the arrival of the East India Company and its greater territorial control of the Indian subcontinent was definitely political. And the other

part, that is critical to our course specifically, is assessing the economic impact that the East India Company had on India's business and economic landscape.

The most obvious political impact was the growing emergence of educated Indians at this point. Most of these Indians were conscious or trained in western liberal ideas and thought. And, this very spread of western education, ideas, institutions and ideologies to Indian people at this point, had the impact or effect of making those very Indians conscious of the absence of those very ideas in practice in the Indian sub-continent.

So, the obvious fallout of spreading western education in India was to politicize to a great extent that very generation which consumed western education with enthusiasm. So, one consequence of the spread of western cultural and educational institutions was the role that they played in setting up institutions and spaces for public protest and public dissent in India by those very people who were trained in western educational concepts and ideas.

So, that was the chief political impact of company rule in India by 1850. By 1850, people in India, whether it is academics or leaders of specific cultural organization, or religious organizations, or political leaders in India are also becoming politically conscious of the exploitative character of the East India Company, and the larger terms of the British trade as it is being carried out in the subcontinent today.

One example of the ways in which Indian people were getting politicized at this point comes in the form of Birsa Munda, who is one of the leading members of the Indian national movement at this point, and also one of the tallest leaders from the tribal community in the Indian subcontinent at this point. He was a leader of the various tribes that today inhabit modern day Bihar and Jharkhand, and he was responsible in organizing mobilizing people against indigo cultivation, which had become exploitative and with the availability of synthetic dyes, it also spelled economic ruin for those involved in that very indigo trade.

So, the politically conscious environment of India was becoming more strident by the 1850s, and there was also the emergence of important tribal religious and political leaders at this point. Obviously, there was also increased unrest amongst Indian peasants across India from 1840s to 1860s. Birsa Munda is one of the chief examples of this trend noticed in Indian agrarian relations at this point.

So, the greater incidents of peasant unrest or peasant depression or movements against the exploitative character of the East India Company was represented by the mushrooming of these politically active movements across the Indian subcontinent at this point. So, economic recession or the volatility of markets or the collapse and wholesale surrender of a plantation economies to the whims and fancies of the priorities of the East India Company had the effect of politicizing Indian communities who were involved in those operations.

The economic impact of the East India Company is more serious and deserves to be studied in its own right. But economically speaking also, there is gradual realization that British

terms of trade were harmful for India. Whether it was the collapse of the Indigo trade, whether it was to collapse of certain other cash crops, whether it was the collapse of agency houses, or mismanagement of public funds deposited in those Agency Houses, people in India, at least those who were in the cities at this point, were gradually realizing that the terms of trade instituted by the East India Company and the institutions, models, and ideas being spread by the East India Company or the Agency Houses were not compatible with the values, systems and ideas that were in prevalence in India at this point.

In addition to the fundamental incompatibility between the East India Company business model and what existed in India at that point, the local economy was also plundering in favour of profits in Europe. So, the transformation of the agrarian landscape of Indian subcontinent also took place at this point when Indigo was in demand in the markets of Europe and Africa. Whole fields and farmlands in India were devoted to indigo cultivation. This was always voluntary. So, peasants, so groups of peasants and communities were coerced.

The economic impact of company rule in India was more harmful and deserves to be studied more analytically. Firstly, there was a gradual realization that British terms of trade were harmful for Indians the repeated collapse of agency houses and the obliteration of public savings, meant that there was a growing fundamental incompatibility of ideas represented by the British and the sensibilities governing Indian businesses. Secondly, the local crops and the economy was plundered in favor of profits in Europe. So, the cultivation of indigo and other cash crops meant that peasants or agrarian labor was coerced into cultivating cash crops, for which there was a greater demand in Europe and elsewhere. Of course, new business organization models were also set up. So, Agency Houses, Joint Stock Companies was a decisive impact on India's business landscape. But its consequence was a mixed bag of opportunities and tragedies. There was also a growing alignment of Indian economy with the British economy in this period.

And, also with the collapse of Agency Houses and the wiping out of Indian reserves of capital and deposits, it made Indians or at least Indian entrepreneurs, resistant and fearful of engaging in trade with the Europeans and British at this point. So, with the collapse of agency houses in 1840s, you see the reemergence of similar institutions in India, but these were governed, owned, and worked upon primarily by either British capital or European capital. So, the brief coming together of Indian stakeholders, Indian financial actors, and British stakeholders and British financial actors comes to an end in the 1840s with the collapse of Agency Houses.

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#### Sum-up

- New economic partnerships emerging: Not necessarily equal in nature
- Wide range of business operations across different sectors. New crops and commodities favoured over others.
- New modes of raising capital for economic and business functions. "Joint-stock"
- New forms of social and cultural engagements: Social Reform Movements etc.
- 1820-1840s: Decline of Agency Houses
- Growing political consciousness of the unequal terms of trade.

A quick summary of what has been discussed in this lecture. We discussed the new, Economic partnership that emerged briefly in this period. But these partnerships were not necessarily equal in nature. Indian capital was employed in agency houses, but not necessarily on an equal footing. And, this partnership also was very brief. A wide range of business operations across different sectors were inaugurated, new crops and commodities were favored over certain others, new modes of raising capital for economic and business functions was also instituted in the Indian subcontinent at this point.

So, the concept of a joint stock company was a novel European phenomena that was made more familiar in India at this point. As a result of this economic revolution, new forms of social and cultural engagements now emerge. So, spread of western education, the politicization of western educated Indian youth and the arrival of journals and newspapers transformed, the cultural and public sphere of certain regions of the Indian subcontinent at this point, which had long-term consequences on India's development of its polity.

1820s to 1840s is the decline of the agency house system because of financial mismanagement. And, finally, we discussed the harmful impact of company rule in India and its chief consequence was this growing political realization that the model of business organization of the East India Company or the agency houses was not something that was ultimately beneficial to India or Indian stakeholders at this point.

In the next lecture, we will discuss the rise of Indian cities and industrial houses and we will focus on cities like Bombay and Calcutta and the role played by the cotton trade and certain other industries during this period of 1750 to 1850.

Thank you.