

# Industrialisation in India, 1850-1947: Three Variations in the Emergence of Indigenous Industrialists

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## Abstract

*In this paper I describe three patterns in the emergence of Indian Entrepreneurs Indian large scale industries, 1850-1930. While doing this I focus on three variables: (1) the colonial attitude towards indigenous business, especially the transformation towards large scale industrialisation<sup>1</sup>; (2) the religious, occupational and regional background of industrialists to be; and (3) whether or not they belonged to a 'minority' group. While these patterns all led to the successful entry of Indian businessmen into large-scale industries, they differ in the explainable importance to be attributed to the different variables. This paper starts with a description of the entry of Marwari businessmen into the jute industry in Calcutta. This will be followed by the success of the Parsi community in the cotton industries of Bombay and finally the story of the Hindu industrialists in Ahmedabad. In the final section, these three patterns of industrialisation will be compared.*

## 1.0 Introduction<sup>2</sup>

The social sciences have developed a plethora of explanations in describing the success -and to a far lesser extent the failure- of individual entrepreneurs as well as various business communities in World History. The most well known explanations and theories include: the concept of the stranger (Simmel); the spirit of capitalism (Weber); the innovator and the imitator (Schumpeter and Hoselitz); the collaborator (Gallagher and Robinson, in Louis) and the middlemen minorities (Bonacich and Dobbin).<sup>3</sup> Despite these long and varied theoretical traditions, we are still unable to explain the why and how some families among indigenous middlemen minorities develop towards industrialists in colonial contexts, whereas others don't.

Simmel argues that migrant traders who decided to settle in their host societies are 'strangers'. This might help them in developing their business. On the one hand they may fill economic niches which local business communities were not allowed to, like selling liquor. On the other hand they develop a more detached attitude towards the local markets which may help them to set prices at a more profitable rate. Weber argued that there is a strong relation between the religious background of entrepreneurs and their capitalistic entrepreneurial ethic. He shows that particular in the Protestant religion people developed an ethic where hard work, (re)investing, long term perspectives and rationally calculating risks became a primary aim of the business community. Bonacich and Dobbin build upon the work of Weber

and Simmel by arguing that it were especially minorities who became successful entrepreneurs. Because of their minority status (and as a consequence, the suffering of all kinds of discrimination, like not allowed to own land, not allowed to do certain jobs etc) they develop a stronger motivation to show that they can become successful. In addition to this, Gallagher and Robinson argue, that because of their minority status some local business communities were suitable middlemen to support the colonial empires abroad. Because of the fact that these businessmen belong to non majority groups many colonial governments supported these groups as their local suppliers, translators, informants etc. In this way these groups are seen as 'collaborators' in the Marxist as well as many nationalist historiography.

In this paper I argue that in different historical contexts some theories become more fruitful than others, whereas in other contexts they fail to explain the emergence of local industrialists. By describing three patterns of industrialisation in India I focus on three variables: (1) the colonial attitude towards indigenous business, especially the transformation towards large scale industrialisation<sup>4</sup>; (2) the religious, occupational and regional background of industrialists to be; and (3) whether or not they belonged to a 'minority' group. While these patterns all led to the successful entry of Indian businessmen into large-scale industries, they differ in the explainable importance to be attributed to the different variables.

By comparing these variables we will be able to recognise that, e.g. the British in India stimulated the Parsis to settle in Bombay and run their businesses there, whereas they had a hostile attitude towards the Marwari business community in Calcutta. In short; there was not such a thing as one 'colonial attitude' towards local business communities. Along the same line it is argued that the Parsis in Bombay were successful because of their minority status and their (protestant like) work ethic. Therefore the Parsis were the pioneers of the Bombay cotton Industry. However, the pioneers in the Ahmedabad cotton textile industries, were not a minority group, they were Hindus who (according to Weber) were not known for their worldly (capitalist) outlook. It will be shown that the entry of local business groups in large-scale industries in a colonial setting is a complex and varied process. By comparing three different cities, three different industries and three different business communities we may be able to show some fresh light on this complex theme.

This paper starts with a description of the entry of Marwari businessmen into the jute industry in Calcutta. This will be followed by the success of the Parsi community in the cotton industries of Bombay and finally the story of the Hindu industrialists in Ahmedabad. In the final section, these three patterns of industrialisation will be compared.

## 2.0 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 Duncan Brothers literally dominated the area around Dailhouse Square, the economic and political centre of the city. At that time, no Indian Sahib would have believed that they could challenge British supremacy in the Calcutta jute industry. However, this is exactly what happened. Slowly and subtly, the Marwaris increased their influence in the jute industry and finally started their own jute mills and became competitors to British jute industrialists in Calcutta.

### 2.1 Colonial attitude towards Marwaris

The Marwaris originally came from Marwar, a region in Rajasthan in Northwest India.<sup>5</sup> They were known as keen businessmen, traders 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. First of all, some of them lost their principal position as financiers of the princes of Rajasthan. Others shifted in accordance with their trade interests to the main ports of India, i.e., Calcutta, Bombay, and Madras. The emergence of British traders opened new opportunities for Marwaris as financiers of British trade and as middlemen between the British (international) and local markets.

In 1881, there were no less than 9000 Marwaris in Bengal. Because of their growing business interest this rapidly grew. Between 1891 and 1931, the number of Marwaris in Bengal varied from 33,000 to 51,000.<sup>6</sup> The British in Calcutta did not welcome the Marwaris. They felt that it was necessary to deal with them, because of their knowledge of the inland market and to secure the supply of raw jute for the British owned jute factories. However, one had to be alert; they were not seen as friends or even formal collaborators: they were seen as competitors. Their strength was that they were not formally organised and therefore were not obliged to follow formal rules. This made them not popular with the more formally organised British. Take, for example, the attitude of British Jute mill owners in the early twenties. One of them, M.P. Thomas of Bird, singled out G.D. Birla, the Marwari business spokesman at that time, as the villain of the piece: '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>7</sup> During the depression when there were internal problems in the Indian Jute Mill Association, Marwaris were frequently referred to as 'short sighted industrialists', 'mugs with money,' and 'pirates'.<sup>8</sup> Whenever a Marwari attempted to enter the industry, he was 'up to do some dirty work'.<sup>9</sup> How then was it possible that the Marwaris could enter the industry, which was from its beginnings in the early 1850s dominated by the British?

### 2.2 The Marwari transition to industries.

The transformation of a few Marwari families from 'traders to industrialists' was gradual. This pattern can be described in the following steps: (A) They slowly increased their importance in the trade of raw jute and jute manufactures; (B) Some of the Marwari traders became members of the formal jute-trade organisations. Others became brokers to British managing agency houses, or, by buying shares got a place on the board of directors of British managing agency houses; (C) Finally, in

the early 1920s, a few Marwaris entered the jute industries by setting up their own jute mills.

#### **(A) 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, which in Bengal was dominated by the Marwaris. From an 1864 Directory, it appears that more than 50 per cent of the Indian bankers in Calcutta were Marwari. The importance of the Marwari bankers is confirmed by the British-dominated Bengal Chamber of Commerce that complained that:

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>10</sup>

However, the Marwaris did not only favour their own Marwari friends, they were simply cheaper than their British competitors. In 1904 British ship owners informed the Calcutta Jute Mill Association (an organisation of British jute mill owners) that it was cheaper to buy jute manufactured 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>11</sup>

Their Indian background and knowledge of local transport and finance made it possible for the Marwaris to find economic niches next to European traders. Finally, a division of markets appeared where the Marwaris dominated the local and Indian jute trade and the British traders were primary exporters.<sup>12</sup>

From the membership lists of the Jute Balers Association, founded in 1892, it becomes clear that a growing number of Marwaris were among its members. Initially, European traders dominated the association, but in the beginning of the twentieth century the number of Indians, especially Marwaris, was growing. In 1903/04, 133 members were listed, 70 of whom were Indians and of these 45 were Marwaris. Fifteen years later, 137 members were Indians, which was 63 per cent of the total membership.<sup>13</sup> Among them were industrialists to be, like G.D. Birla, Sir Onkarmull Jatia and Goenka.

#### **(B) 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 performance, they floated shares to build new jute mills or other companies. Owing to oversubscription and stock exchange regulations, it was possible to control a mill in spite of owning less than 10 to 20 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 got themselves on the boards of the agencies and were jointly with the British managers responsible for the floating of jute mills.<sup>14</sup>

During the inflationary years of the early 1920s, many European managed companies found themselves undercapitalised, strapped for funds, and needing cash to expand capacity in their jute mills. Marwaris provided these funds in exchange for their entrance to the various boards of directors. In this way they could secure the purchase of raw jute. Despite the earlier unfavourable political and economic climate some Marwaris, now were allowed to build up close relationships with the White Sahibs. The Jatia family, for example, developed close ties to the Andrew Yule Company. More specifically, 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. In this process of growing collaboration, the Marwaris were able to learn the ins and outs of jute-mill management.

Goswami provides us with a detailed description of the increasing influence of Marwaris in the jute-mill industries. In 1918, out of 114 seats in the board of directors of British managing agencies in the Calcutta jute industry the British occupied 111 (97,4%). A clear reflection of their managerial control over the industry. However, this changed rapidly, and in 1930, 57 per cent of jute mill companies managed by 'European' managing agencies had Marwaris in their board of directors. In a quarter of the total number of 'European' managing agencies, the Marwaris had equality on the board. In one case, the Marwaris outnumbered the number of European directors.<sup>15</sup> The companies increasing shortage of capital explain this sudden entry of Marwaris on the boards of directors of British managing agencies; the losses made by British mills and the decrease in the rate of returns of various mills.

### (C) Industrialists

The transition from trade to industry is not necessarily a linear process, whereby having accumulated sufficient capital, the merchant capitalist decides one fine day to move into industry. Some forms of prior association with the industry, either as a middleman supplying inputs or as one dealing with finished products is a critical factor, provided, of course, that there are no major entry barriers such as those found in a typical early colonial phase. The relative weakening of entry barriers that occur during wars or because of a depression in which the terms of trade swing in favour of industries can have the cumulative effect of facilitating entry into industries. This does not imply, however, that having realised the advantages of industrial investment and having ploughed a certain amount of capital in industry, the merchant capitalist would progressively increase his association into industry. This may or may not happen. 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. The question of relative rates of return becomes important.<sup>16</sup>

To answer the question of relative rates of return, we need the business sources from the family level. However, they hardly exist. Large parts of Marwari family business are informally organised. Even when they kept accounts of business records they were destroyed or not available for research etc.. It is therefore difficult to give an impression of the relative rates of return from the family level. Nevertheless, family histories show that Marwaris from various occupational backgrounds entered the jute industry. They did so by accepting a smaller rate of

return than their British counterparts and in a context where profits in other sectors (trade, banking, coal, etc.,) were under increased pressure.

### 2.3 Family histories

The famous Birla family started their first jute mill in association with Hukumschand in 1919. By then, these families were already running three cotton mills in Delhi and Indore. The founding father of the Birla imperium G.D. Birla, settled in Calcutta in the beginning of the twentieth century. He had a background in jute and opium trade and finance. Additionally, he was broker to the Managing Agent of Andrew Yule. This managing agent was one of the few agents which was known for its liberal pro-Indian attitude. Birla was a respected member of the Board of Directors of various mills under the Yule agents. But even at the Yule offices he was not allowed to use the elevator, and he was obliged to use the stairs.<sup>17</sup>

Sarupchand Hukumchand made his money with 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 tenfold that amount. In 1915 he opened a very profitable trading office in Calcutta. By then, he already owned cotton mill in Indore. However, without much knowledge of jute industries he became a partner in Birla's first jute venture. Nevertheless, speculation and opium trade remained his most important source of income.

Reading through different family-histories of Marwari industrialists we may compose the following table which shows a variety in patterns in which Marwaris became associated with jute industries.

Table I

The transformation from traders to industrialists of some Marwari-families.

Family name	Trader/ banker	Broker/speculator	Board of Director in British firm	Industrialist
Birla	Yes	Yes	Yes	Yes
Jalan	Yes	No	No	Yes
Singhania	Yes	No	Yes	Yes
Bangur	Yes	-	Yes	Yes**
Goenka	Yes	Yes	Yes	Yes*
Hukumchand	Yes	No	no	Yes
Jatia	Yes	No	Yes	No

- no information available

\* By the failure of two British Managing Agencies, McLeod and Octavius Steel, not by starting a mill themselves

\*\* By buying the British Managing Agency Kettlwell Bullen & Co.

Sources: See G. Oonk, *Het geheim van de Marwaris. Een onderzoek naar Indiaas ondernemerschap, 1900- 1939*, eindschrijftie Erasmus Universiteit, 1991, 61. (G. Oonk, *Secrets of Marwaris: A study towards Indian Entrepreneurship, 1900-1939*, unpublished MA-thesis, Erasmus University Rotterdam.)

Table I shows that the transformation from 'trader to industrialist' is not as systematic as suggested by e.g. Timberg. At first sight, the patterns of Birla, Goenka and Bangur are similar. These three families have a background in trade and/or finance and/or speculation. They had all worked as brokers for British managing agents and were active on the board of directors in their agencies. Finally, they started their own jute mills. Nevertheless, differences remain important. The Birlas started their first jute-mill in 1919, whereas Goenka and Bangur started jute-mills after the Second World War and an independent India was on the come. Neither of the last two families built their own mills, but took over loss-making mills of the British Agents they worked for. They became industrialists by accident, whereas Birla had build his own mills.

For most families, industrialisation is a matter of diversification and not their primary aim. From a list of 510 Marwari firms, only about 100 held more then 50% of their assets in industrial investments.<sup>18</sup> Almost all Marwari families remained faithful to their traditional occupations of trade, finance, and speculation.

## 2.4 Concluding observations

The first part of this paper shows that the Calcutta pattern, in which the Marwari business community competed with the Scottish jute industrialists and finally dominated the industry, is a slow and subtle process. The British, needed mediators in trade and finance, but did not welcome the Marwaris. Marwaris were seen as 'mugs' with money. The British could not think of a mutual profitable relationship and saw them only as necessary evil.

The Marwaris provided the British with raw jute, short term credit and long term loans. They did not develop through a linear transition from trader to industrialists. Not surprisingly, all industrialists-to-be had a background in trade and finance; only a few were brokers or occupied a seat on the board of directors of

managing agents. A trader/finance background and being active on the board of directors would not necessarily lead to becoming an industrialist, as becomes clear from the Jatia family in Table I.

The Marwaris are an example of a migrant Hindu/Jain minority which was able to follow the Scottish example of jute industrialists and flourish economically within a politically and economically unfavourable colonial context. Though, this was what happened, we must not overestimate the industrial success of the Marwaris. Only about ten families, owing less than fifteen jute factories were able to do so.

One last observation is the explanation for the success of the Marwaris. Though scientists have formulated a plethora of explanations (Protestant ethic, migrant minorities, collaborators) there is one that returns to my mind all the time. Marwaris who did not succeed in Calcutta generally returned to their properties in Marwar and Shekawati. This meant that only 'successful' Marwaris remained in Calcutta. Therefore a fair description of Marwaris in Calcutta is 'successful trader or banker' from Marwar, Rajasthan.



### 3.0 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 -and not Bombay- was the economic centre of West India. The establishment of the headquarters of the British East India Company (BEIC) in Bombay in 1672 was not sufficient for its prosperity. The socio-economic development of Bombay was due to a symbiotic relation of Parsis and Britons. This relation is currently symbolised by the Victoria railway station and opposite the main Rd in front of the station the statue of Daoroji Naoroji, named after this important Parsi spokesman and founder of the Indian National Congress.

#### 3.1 Colonial attitude towards Parsis

Gerald Aungier, governor of the EIC in West India, realised that the prosperity of Bombay depended as much on the British businessmen as on indigenous traders, moneylenders, and, artisans. He and his followers succeeded in persuading local Indian businessmen to put themselves, and their capital under the protection of the BEIC.<sup>19</sup> Moreover, these traders were offered a minimum price for the products they sold to the EIC, and they were exempted from levies on imports and exports.<sup>20</sup> In other words, they were invited to settle in Bombay and the British made it profitable to do so.

The mutual relation between Parsis and the British in Bombay is sharply contrasted by the hostile relation between Marwaris and the British in Calcutta. In Calcutta the BEIC had a monopoly on foreign trade, whereas the BEIC in Surat competed with the French and Dutch companies. Consequently therefore it was more necessary to attract local traders as collaborators. The relation between the Parsis and British in Bombay was a continuation of their mutual relations in Surat. As the Parsis in Surat only had an economic merely independent status, the British had to create an attractive economic environment to persuade the Parsis to migrate to Bombay. Second, the Parsees had a proven loyalty towards the British. They partly financed the military defence of the Bombay fort; they were loyal to the British during the Mutiny (1857), financing the British military apparatus. Third, a part of the Parsee community was fast to recognise that it was very useful to learn English, to adopt British customs and to intensify their relation with the British in order to improve the socio-economic position of the community in West India.<sup>21</sup>

The Parsis were known as hard workers, keen and reliable traders, and loyal to the British:

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, having [sic] gratified them in their desire to build a bureau [sic] place for their dead on the Island.<sup>22</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>23</sup>

Within this mutual relationship between Britons and Parsis, some parsi families developed from traders to industrialists.

### 3.2 Trade, finance and artisans

In the early nineteenth century, around 5000 Parsis lived within Bombay Fort, whereas only one Hindu trader owned a house at that time.<sup>24</sup> According to my own research, the Parsis accounted for up to 20 per cent of the Bombay population around 1850. This decreased to 7 per cent in 1881. This sudden reduction of the relative number of Parsis was due to the huge numbers of Hindu and Muslim migrants who settled in Bombay in that period.<sup>25</sup> In other words, from a 'majority group' in Bombay Fort, they became group in proper Bombay.

The Parsis became translators, traders, moneylenders, bankers, and artisans. The British directly occupied a small group of Parsis, but most of them were self-employed. They occupied half of Bombay-Island and they were the owners of the Indian merchant navy.<sup>26</sup> Huge profits were earned by Parsis who traded in raw cotton (designed for the Manchester cotton factories) and opium with China. Especially those profits were used to build the Indian cotton industry in Bombay.

At the end of the eighteenth century, Nasarvanji Kavasji Petit<sup>27</sup> migrated from Surat to Bombay. By then, he was a well-known broker and 'dubashi' (translator) to French, Dutch and British traders. In 1848, he bought his own ship. While working for the British trading firm of Dirom Richmond he was allowed to trade on his own account. He mainly traded raw cotton with Britain and opium with China. Both were very lucrative. His son Dinshaw Petit (1823-1901) started working in his late teens as a clerk for Dirom Richmond & Co. In the beginning, Dinshaw earned a very modest salary of about Rs15 a month. His main duty was to co-ordinate the opium trade with China. He rapidly worked his way up and, in a short time, his salary increased to Rs100/ a month. Furthermore, he was given, according to the contemporary custom, the privilege of trading a little on his own account under the auspices of the firm.<sup>28</sup> Dinshaw and his brother Nassarvanji inherited their father's company in 1859. Nassarvanji had always worked for his fathers' company and he was closely involved in his father initiative to start their first cotton mill. Dinshaw, while shifting from Dirom Richmond & co. to the Petit family business, started a cotton mill in the early sixties. The Petits built more mills after the economic success of their first mills. Yet, they never forgot that trading was their original background. This meant that they continued tradinn in raw cotton and opium with Europe and China, while trade in cotton yarn and cloth (produced in their mills) became more and more important.

The Parsis were among the first to build up the Indian cotton textile industry in Bombay. Parsis owned nine of ten mills built in Bombay between 1854 and 1863. This included two mills of the Petit family. In the period between 1878 and 1915, the Parsis owned between 41 and 30 per cent of the mills in the city.<sup>29</sup> Considering the fact that the Parsis never counted more than 7 per cent of the population of Bombay in the period 1881-1915, it is clear that the Parsis were over-represented as millowners in Bombay. Yet, other communities like Gujaratis, Bhatias (both mainly Hindus), Moslims and Jains became increasingly important in this period.

Let us return to the Petit family. In my view, they represent a common pattern in Bombay of cotton and opium traders developing into cotton millowners. This pattern includes several aspects that are unique for Bombay and two more general aspects. First, they had been working for British trading firms. Second, they had had experience in international trade, especially opium trade with China and raw cotton trade with London. Third, they never became producers pur sang, but they continued

their trading activities. Fourth, most of the millowners in Bombay (or their) fathers were not born in Bombay, they came from Gujarat.

Tabel: 2

Examples of the Bombay Pattern: From traders to Industrialists

Name of the family	Industrialist	Cotton Trade	Opium Trade	Broker	Shipowner
Petit	Yes	Yes	Yes	Yes	Yes
Wadia	Yes	Yes	Yes	Yes	Yes
Thackersey	Yes	Yes	Unknown	Yes	Unknown
Tapidas Varajadas	Yes	Unknown	Unknown	Yes	Unknown

Source: Oonk (1998), 90.

(1) The most remarkable aspect of the Bombay pattern is the fact that many Indian business families- mainly the Parsis<sup>30</sup>- sent their sons to work in a British trading firm. Thus, Dinshaw Petit worked as a clerk and translator for the British firm of Dirom Richmond. The Wadia family traded for various British firms and they even built ships for them.<sup>31</sup> The Thackersey family worked for several European firms such as the trading firms of Goddam Bythel & Co., and Solomon Betch & Co. With the exception of the Birla and Jatia families, this pattern did not occur in Calcutta.

(2) British firms formed a direct link between Indian traders and international markets. Naturally, international trading links had existed even before the British entered India, but their entrance strengthened these international links. While working for British trading firms, Indians gathered more information about foreign markets and experienced the practice of international business. They 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 informed themselves 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, its management, finance and production potential.<sup>32</sup>

(3) Indian cotton industrialists were hardly ever just millowners.<sup>33</sup> Their family-based business included (international) trade (and often shipowners), banking, landownership, and various other activities. My major interest was the management of the mills. During my research it became clear that, in some cases, the millowners had used their mills as a trading or even speculative unit rather than a unit of production. They speculated in land belonging to the mills' premisses. They would buy and sell raw cotton, without producing cloth in periods of rapid changes in the cotton price. And, they slowly included the wholesale of 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, G.O.] were due in many cases to the extraordinary profits by the mill agents on the sale of cotton and not on the sale of yarn and cloth. <sup>34</sup>

Without making any moral judgement about these activities, it became clear to me that their trading background deeply influenced the way they managed their mills and the role the mills played in their family- business activities.<sup>35</sup>

(4) Most of the cotton industrialists in Bombay, originally came from Gujarat. Many Parsis came from Surat and Navsari. Bhatias came from Cutch and Jains came from various places around Ahmedabad.

The most remarkable aspect of the Bombay pattern is that many 'industrialists-to-be' had worked for European trading companies before they started their own mills. In many cases they traded on their own account while working for Europeans. For Bombay I selected a list of 92 mills (Rutnagur 1927). I was able to acquire reliable information about the occupational background of their promoters from nearly half of the mills (45). It appeared that more than 80% of the early industrialists had initially worked for a managing agency (mostly British, sometimes French, and, in a few cases, agencies of Parsis)<sup>36</sup>. In addition, 90% of the cotton industrialists had been traders in cotton and/or opium.<sup>37</sup>

### 3.3 Conclusion:

The Parsi traders acted as intermediaries for British traders in the Indian market. They also worked for British trading houses, where they learned the 'ins and outs' of international trade.<sup>38</sup> There was a mutual interest between the British and the Parsees. The British stimulated the Parsees to invest in Bombay, to become junior partners and to trade with them. In the nineteenth century, they came across the mechanisation process in Britain. They started to diversify their activities by establishing their own cotton industry in Bombay. This pattern may suggest that being a (migrant)trader with experience in the international market and with British trading houses were necessary conditions to become a cotton industrialist in India. However, this Bombay pattern was essentially different from the way entrepreneurs in Ahmedabad became cotton industrialists.

## 4.0 Ahmedabad's Industrial Transformation

### from Bankers to Industrialists

There was no imperial sun in Ahmedabad. A few rays of imperial sunshine may be appeared after 1818 when the British officially started to rule Ahmedabad. However, 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, a less exploited tax system (compared to the Moghul and the Marathi rulers) and therefore a potential for economic growth. They did not shape the skylines of the economic centre as they did in Calcutta and Bombay. Indians built Ahmedabad and its transition to industry was an indigenous affair, in which the British businessmen only played a background role.

### 4.1 History and migration

Ahmedabad was originally founded for administrative and military reasons. In the seventeenth and eighteenth century, it transformed to a more commercial city. Though, the city was generally known for its wealth, trade, and commerce, its history shows a remarkable development in 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 Moghuls and Marathis. However, owing to the active policy of the British, indigenous traders and weavers settled again in Ahmedabad in the nineteenth century. Thus, in 1818, Ahmedabad had 80,000 inhabitants, which gradually grew to 181,000 in 1901.<sup>39</sup>

The British played no role in the commercial life of Ahmedabad. They were government officials, but not traders or bankers. They had no role as intermediaries for Ahmedabad businessmen. There was neither a positive colonial attitude (as in Bombay) nor a negative attitude (as in Calcutta) towards them. Initially, it was the Indian colonial civil servant Ranchhodlal Chhotalal who approached British administrators as well as businessmen to assist with his plan to build a cotton textile factory. When this mill proved to be successful, others –mainly bankers- followed his example.

*Ranchhodlal Chhotalal was a traditional Nagar Brahmin in Ahmedabad. This was a high ranked, non-commercial Hindu caste. Most of them, like Ranchhodlal, were educated and trained for government jobs. Ranchhodlal started his career in 1842 as a clerk in a government office, but he soon became 'Assistant Superintendent to the Political Agent of Reva Kantha', the highest appointment an Indian could get at that time. Ranchhodlal was seriously interested in a project in Surat, where a cotton mill was built by Britishers. He contacted a British official, James Landon, who had a strong relation with the British machine industry. From Landon, he obtained cost estimates, which proved that a cotton mill in Ahmedabad could be profitable. This was in 1847 already, i.e., before the Parsis started cotton mills in Bombay. Even after a British investor guaranteed fifty per cent of the investments, the Ahmedabad bankers were not interested. It took him more than seven years to convince the bankers of Ahmedabad of the profitability of the project. Finally, in 1858, after the mills in Bombay proved profitable, Ahmedabad bankers invested in the mills.*

What is important here is that Ranchhodlal came from a very traditional Hindu caste.<sup>40</sup> This example shows that someone with a very traditional Hindu background, could become a millowner. Only after his success, (Hindu/Jain) bankers in Ahmedabad decided to build cotton mills on their own account.

#### 4.2 From bankers to industrialists

The occupational background of textile industrialists in Ahmedabad differs from 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, as often was the case in Bombay. Of the thirty-five millowners whose original occupational background I traced, twenty (63%) were originally bankers. Eight millowners (23%) in Ahmedabad were initially traders, but they were not guarantee brokers to British trading houses. Some of the millowners were known as speculators, but these cases were exceptional. We do not know the occupational background of others, or their background was a combination of banker, trader, and/or speculator.

The banking background of Ahmedabad's cotton industrialists influenced the way the cotton mills were financed. Bombay mills were to a larger extent financed by banks and shareholders than those in Ahmedabad. This was mainly because a formal (western) banking system was more developed in Bombay than it was in Ahmedabad. However, the Ahmedabad millowners accumulated capital by deposits given by individuals against a fixed interest rate. Normally, these deposits were given for a period of three to twelve months. Up to the First World War, the public in Ahmedabad felt it was more secure to deposit their money with one of the Ahmedabadi bankers or millowners, than with a 'modern' bank.<sup>41</sup> Most of the deposits were fairly small, given the fact that building an average cotton mill cost about Rs 300.000 in Ahmedabad and most deposits were between Rs 500 and Rs 2000.

The Ahmedabad moneylenders had developed strong personal relationships with the public in the city. This continued after they started to build cotton mills. Therefore, the Ahmedabad millowners relied much more on small deposit-holders than on shareholders or formal bankers than their Bombay counterparts. This shows that the banking background of Ahmedabad millowners influenced the way they financed their mills. (see Table 2)

Table 3

**Sources of Capital of Cotton mills in Bombay en Ahmedabad in 1930.**

Sources of capital	Bombay x 1000Rs	Percentage of total	Ahmedabad x 1000 Rs	Percentage of total
Borrowed by				
Managing Agents	53, 2	21	26,4	24
Bankloan	22,6	9	4,2	4
Deposits	27,3	11	42,6	39
Shares	121,4	49	34,0	32
Debentures	23,8	10	0,8	1
<b>Total</b>	<b>248,3</b>	<b>100%</b>	<b>108,0</b>	<b>100%</b>
Number of factories	64		56	

Source: *The Indian Central Banking Enquiry Commission*, Calcutta 1931 vol1, p278.

The close relationship between the Ahmedabad millowners and their small investors is confirmed by the fact that these investors shared in the commissions of managing agents in prosperous days. They did so although they were not compelled to formerly.

(...) 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>42</sup>

Furthermore, the Ahmedabad millowners developed a system in which they not only accepted deposits for three to twelve months, but for several years as well.<sup>43</sup> I did not come across any case in which Bombay managing agents shared commissions with their deposit holders or where deposit holders deposited their money for longer than one year.

Tabel 4 Examples of the Ahmedabad Pattern: From Bankers to Industrialists

Family	Background of industrialists in Ahmedabad			
	Finance	Trade	Financed first mill?	Industrialist
Sarabhai	Yes	Yes	Yes	Yes
Lalbhai	Yes	Yes	No	Yes
Bhagubhai	Yes	No	No	Yes

Source: Oonk (1998) 117.

Thus, in Ahmedabad the occupational background of early industrialists was 'banker', not 'trader'. Furthermore, most of these industrialists had lived for generations in Ahmedabad. They were not migrants like the early capitalists in Bombay and Calcutta. Finally, in the case of Bombay one could argue that the 'Protestant ethic' of the Parsis was an important factor in the emergence of industrialists in that city. In Ahmedabad, however, industrialisation started with two rather conservative Hindus. Hindus in ahmedabad did not have a minority status in Ahmedabad as the Parsis and Marwaris had in Bombay and Calcutta.

## 5.0 General conclusion and observations

A systematic comparison of Calcutta, Bombay and Ahmedabad on the emergence of indigenous industrialists has, to my knowledge, never been done. In this paper, I contrasted these cities in various ways: first, the relation between European and Indian businessmen and second the occupational background of the indigenous industrialists-to-be and the way these businessmen became involved with industries.

(1) A central issue in the Indian historiography is the question to what extent did the British colonial rule hindered or promoted Industrial development. In this paper I argue that:

In Bombay, the relations between Indian and European businessmen were marked by less discrimination and less mutual antagonism than in Calcutta. This may be explained by the fact that the British conquered Western India at a later stage than Eastern India. Therefore, Indian businessmen in Bombay (as well as in Ahmedabad) escaped the early period of unabashed exploitation described by Bagchi. Furthermore, the British in Bombay realised that they could only develop the 'fishing hamlet', by interesting local businessmen, and they implemented an active policy to attract Parsis to settle in Bombay. In Bombay a symbiotic relation evolved in the development that many sons of Parsi businessmen worked for British managing agents. With the exception of the agency of Andrew Yule, this was hardly possible in Calcutta. In Ahmedabad, there was hardly any relation between British and European businessmen, though the relation between the civil servant Ranchhodlal with the British was important for his industrial outlook.

By the end of the nineteenth century the contrasts between Bombay, Calcutta and Ahmedabad were clear: 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. The Parsis remained dominant in the opium and cotton trade with China. The imperial sun did not shape Ahmedabad. Here local businessmen were oriented towards the local markets and there was little commercial interest in what happened in Bombay. At the beginning of the second half of the nineteenth century, the first indigenous cotton mills were built by Indians in Bombay and Ahmedabad. It would take until 1919 before the first Indian mill (jute) was built.

Thus in short: in Calcutta: colonial rule hampered indigenous industrialisation. In Bombay it promoted industrialisation (without the intention to do so); and in Ahmedabad it is not quite clear, but I think it is fair to state that the British developed a profitable environment with a stable Government, tax structure and legislation.

(2) *A second central issue in the Indian historiography is the question how far the cultural background of Indian entrepreneurs hampered or stimulated Industrial growth. Naturally this refers to the important theme promoted by Max Weber and followers. To put it bold: was Indian culture able to develop business groups with a rational, industrial outlook which was comparable to the one Weber described in his ideas on the 'Protestant Ethic.'*

In the case of the Marwaris in Calcutta and the Parsis in Bombay historians like Timberg, Taknet and Kulke argue that 'some elements of a 'Protestant Ethic' can be found in their cases. They refer to a sober life style; a long term view and a notion of investing and re-investing profits.

These authors add that their 'stranger minority background' may have added to the commercial outlook of these communities. Being 'strangers' meant a more object attitude towards the market; and being a minority could develop a strong



attitude for commercial improvement and even success. In both cities these business communities were compared with the Jew in Europe.

However these theories cannot explain the success of industrialists in Ahmedabad who came from the Hindu-majority background. Here they were not 'outsiders' but insiders. Moreover, this also raises the question whether or not we have to define the Marwaris in Calcutta as insiders or outsiders? They were Hindus and Jains coming from Marwar; considered as 'insiders' by the Britishers but as outsiders by the Bengalis.....

*(3) In my Ph-D I opted to step out the discussion whether or not Weber and his followers were right or wrong in their view that Indian Religion hampered economic and Industrial development. I opted to describe the background of Indian entrepreneurs in terms of occupational background. In this I showed that industrialisation was often a matter of diversification of their trading and banking activities.*

It will not come to a surprise that 'industrialists-to-be' had a background in finance and trade. This was the case in Calcutta, Bombay and in Ahmedabad. Because of highly diverse definitions and the extent of diversification of businessmen it is very difficult to distinguish between trading and banking background. However, a few observations can be made.

Neither in Calcutta, nor in Ahmedabad did I come across the Bombay businessmen's practice sending their sons to British agencies to 'learn on the job'. This was an old tradition of Parsi business families and the fact that they sent their sons to British firms confirms their mutual relationship with the British.

Furthermore, the Bombay businessmen were more internationally oriented than their Calcutta counterparts. In Bengal there seemed to be a division of markets, where the British monopolised the international market, and the Marwari traders occupied the inland market. This did not exist in Bombay to the same extent as it did in Calcutta. In Bombay the Indian traders almost monopolised the China market, initially with their opium trade and textiles, but eventually China served as a market for their fabrics.

The Ahmedabad millowners had a strong banking background. Traditionally, they had developed a close relationship with the Ahmedabadi community who preferred to save their money with local bankers' and moneylenders rather than formal banks. The Ahmedabad industrialists continued this relation while building cotton mills. To some extent, one might state that the mills were used as banks for small investors. Last but not least, in Calcutta and Bombay, the industrialists-to-be were migrants. They did not come from the local area. Unlike the Ahmedabad industrialists who were, with a few exceptions, local entrepreneurs.

The monographs on the history of various business communities in India cannot explain the different patterns of industrialisation. In this paper I described three patterns: the Calcutta pattern, the Bombay pattern and the Ahmedabad pattern. These patterns varied in the nature of colonial relations; the caste and community background of various business communities and the way they entered the industry. These three parameters seem to me important variables in the study of a comparative history of industrialisation in India.

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## NOTES

<sup>1</sup> By industrialisation I mean the use of mechanised power. In Calcutta, the Marwaris were able to build Jute-mills. In the case of the Bombay and Ahmedabad indigenous businessmen built up the local cotton industry. In general this means that the Indian entrepreneurs imported steam engines from Britain. By taking the industry as the unit of research, rather than one business community I avoided the problem of explaining the success of entrepreneurs by their caste or community bound qualities and expertise, such as close business networks or specific family structures.

<sup>2</sup> This paper is based on Ph.D. research carried out in various archives and libraries in Bombay, Ahmedabad, Delhi and, London between 1993 and 1994. The research was made possible by a grant from WOTRO of NWO, the Dutch foundation for scientific research. In addition part of my MA research on the Marwaris in Calcutta is included. I would like to thank my colleagues in the history department of Erasmus University for creating the right environment to write and develop new ideas and especially Prof. H.W. van Schendel for supervising my Ph.D. project. Ferry de Goey has become a fine and critical colleague during the years. I thank Ellen Bal for her support during the years. I wish to thank Prof. D. Tripathi and Prof. M.M. Mehta for their detailed comments and trust in a foreigner interested in Indian business history.

<sup>3</sup> Bonacich, E. 'A Theory of Middlemen Minorities,' *American Sociological Review* 1973 38, oct, 583-594. Dobbin, C, *Asian Entrepreneurial Minorities. Conjoint Communities in the Making of the World Economy, 1570-1940*, 1996 Curzon Richmond; Hoselitz, B. 'Entrepreneurs of Lebanon: the Role of Business Leaders in a developing economy,' in *Business History Review* 1963 37 (3), 300; Louis, R.W. *Imperialism. The Robinson and Gallagher Controversy*, 1976 New York. Schumpeter, J.A. *The Theory of Economic Development*. 1959 Cambridge M. Weber, *The Protestant Ethic and the Spirit of Capitalism*, 1978 George Allen & Unwin London;

<sup>4</sup> By industrialisation I mean the use of mechanised power. In Calcutta, the Marwaris were able to build Jute-mills. In the case of the Bombay and Ahmedabad indigenous businessmen built up the local cotton industry. In general this means that the Indian entrepreneurs imported steam engines from Britain. By taking the industry as the unit of research, rather than one business community I avoided the problem of explaining the success of entrepreneurs by their caste or community bound qualities and expertise, such as close business networks or specific family structures.

<sup>5</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 petit-traders and small businessmen. Within Marwar they were known by their specific caste name, both outside Marwar they are referred to as Marwaris. Sometimes even businessmen from Rajasthan or West-India in general are referred to as 'Marwaris'. For a general introduction see Thomas a. Timberg, *The Marwaris, from Traders to Industrialists*, Delhi 1978.

<sup>6</sup> Timberg, *Marwaris*, 88; and Chattopadhyaya, *Internal Migration in India*, Calcutta 1987, 336-343.

Fluctuations in the number of Marwaris can be partly explained by the fact that counting procedures varied in the period between 1881 and 1931. E.g. in the more recent censuses travelling merchants were counted as living in the place where they were counted, not where they live. Another limitation in the census data is the change in regional borders. However, it seems fair to state that the Marwaris of Calcutta counted for between 30.000 to 55.000 people in Calcutta.

<sup>7</sup> Centre for South Asian Studies, Benthall papers, Thomas Benthall, 12 December 1928.

<sup>8</sup> Centre for South Asian Studies, Benthall papers, Morton Benthall, 16 September 1935; Indian Jute Mill Association, *Report of the Committee* 1934, 12; Capital, 2 February 1933, 171-72.

<sup>9</sup> Centre for South Asian Studies, Benthall papers, Thomas Benthall 12 December 1928.

<sup>10</sup> The Bengal Chamber of Commerce, annual report 1894, 33

<sup>11</sup> Indian Jute Mill Association, *Report of the Committee*, 1904, 103.

<sup>12</sup> The questions remains why not local Bengali businessmen filled this nich. Part of the explanation may be that they had burnt their fingers in Indo-British partnerships of the 1830s and 1840s and remained to cautious to take further initiatives. B. Kling, *Partner in Empire: Dwarkarnath Tagore and the age of Enterprise in Eastern India*, Berkeley 1976. A.K. Bagchi, *Private Investment in India*, Cambridge 1972, 203-206.

<sup>13</sup> Goswami, 'Sahibs, Babus, and Banias: Changes in industrial Control in Eastern India, 1918-50, *The Journal of Asian Studies* (48) 2, 292. Goswami estimates the trading profits of Marwaris 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. Goswami, *ibid* 293.

<sup>14</sup> This process is well described by Goswami, *ibid*.

<sup>15</sup> Goswami, Then Came the Marwaris: Some aspects of the changes in the pattern of industrial control in Eastern India, *IESHR* 22 (3) 1985, 228-236.

<sup>16</sup> However obvious this may be. This observation developed after intensive discussion and correspondence with Dr. Raman Mahadevan, whom I thank for his time and insights.

<sup>17</sup> G.D. Birla, *In the Shadow of the Mahatma*, Calcutta 1953, XV.

<sup>18</sup> Taknet, *Industrial Entrepreneurship of the Shekawati Marwaris*, 1986, 179-228.

<sup>19</sup> H. Furber in; A.V. desai, 'The Origins of Parsi Enterprise,' *IESHR* 5 (4) 1968, 307-317.

<sup>20</sup> Bombay Public Proceedings, 8 February, 13 August, 27 September 1723; BPP, 18 October 1728; 3 September and 3 December 1731.

<sup>21</sup> This is explained by their 'minority status' in Kulke *ibid* or by their supposed 'Protestant Ethic', in Kennedy, 'The Protestant Ethic and the Parsees,' *The American Journal of Sociology*, 1962 (68), 11-20.

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<sup>22</sup> G. Aungier, Gouvernor of Bombay in a letter in 1673, printed in S. Playne, *Bombay, The United Provinces, Punjab, Kashmir, Sindh, Rajputana and Central India. Their History, People, Commerce and Industrial Resources*. Bombay 1917-1920, pp26-7.

<sup>23</sup> Dosabhoj Framjee, *The Parsees: Their History, Manners, Customs and Religion*. Londen 1858 ppX..

<sup>24</sup> The name of the Hindu-trader was Motichand. See D.E. Wacha, *Shells from the sands of Bombay*, Bombay 1902, 102.

<sup>25</sup> My discussion of 'numbers' can be found in: G. Oonk, *Ondernemers in Ontwikkeling. Fabrieken en fabrikanten in de Indiase katoenindustrie, 1850-1930*, Hilversum 1998, 75-76.

<sup>26</sup> Wacha, *ibid*, 84,85; H.G. Briggs, *The Parsis, or Modern Zerdhustians. A Sketch*, Bombay 1852, 85, Oonk, *ibid*, 76.

<sup>27</sup> In it is not always clear what the word 'dubashi' means. In Maharathi it refers to 'translator', but S.M. Edwardess, the biographer of the Petit-familie defines it as follows: '(...) agents, who managed the investments of the East India Company officers in Bombay. Edwardess, *Memoir of Sir Dinshaw Manockjee Petit. First Baronet (1823-1901)*. OUP 1923 pp138.

<sup>28</sup> J. Houston (ed), *Representative Men of the Bombay Presidency*. 1897 Bombay/London pp57. Bombay/London.

<sup>29</sup> S.M. Rutnagur, *Bombay Industries: The Cotton Mills*. Bombay 1927 pp54; Bombay Millowners Association, *The Annual Report of the Bombay Millowners Association*. 1878.

<sup>30</sup> This may be explained by the fact that it was a habit of Parsi businessmen to send their sons to work in the firm of a relative. Only after he gathered experience of his own, did he join the family business. Hindu and Muslim business families employ their own sons in their own business house from the moment they start working.

<sup>31</sup> *Bombay Dyeing. The First Hundred Years, 1879-1979*. Companies publication 1979.

<sup>32</sup> G.N. Natesan (ed), *Famous Parsis*. Madras 1930, pp217-221.

<sup>33</sup> That the Bombay mill industry was merely a matter of diversification of cotton and opium traders can be found in R. Chandavarkar, *The Origins of Industrial Capitalism in India. Business Strategies and the Working Classes, in Bombay 1900-1940*. Cambridge 1994, chapter 6.. However Chandavarkar does not include its consequences for the industry.

<sup>34</sup> *Indian Textile Journal*, vol XXIII (267), 1913 pp290. 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 adventitious variations in the price of cotton as the supplies have been bought greatly in advance of requirements and this proved profitable.' *ibid*, volXXXVIII (449), 1928 pp160. The Colaba Land and Mill Company was accused of speculating in land and raw cotton. The

profits of these mills were not due to spinning and weaving, but to trade and speculation, *ibid*, volX (109), 1899 pp2; *ibid*, vol XXII (253), 1911 pp25.

<sup>35</sup> I deal more deeply with this aspect in chapter 3 and 5 of my Ph.D. G.Oonk, *Ondernemers in ontwikkeling. Fabrieken en fabrikanten in de Indiase katoenindustrie, 1850-1930*, Hilversum 1998.

<sup>36</sup> Zie appendix A in, *Ibid*.

<sup>37</sup> *ibid*

<sup>38</sup> Ashok V. Desai, 'Origins of Parsi Enterprise', *Indian Economic and Social History Review*, 5 (4) 1968, 307-317.

<sup>39</sup> Census of India IX 1921, 26.

<sup>40</sup> Ranchodlal 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., *ibid*, pp58 footnote 4.

<sup>41</sup> This changes after the First World War, when the Indian Government sells Government securities against a relatively high interest. The Ahmedabad Millowners Association complained about the loss of depositholders. See, *Indian Tarrif Board 1927* vol 3, pp396.

<sup>42</sup> Members of the Board of Directors, **New Shorrock Mill**, 1905. (Companies Archive)

<sup>43</sup> Lokanathan, *ibid* 1934, pp182.