



A BANKER'S OFFICE

INDIGENOUS BANKING IN INDIA

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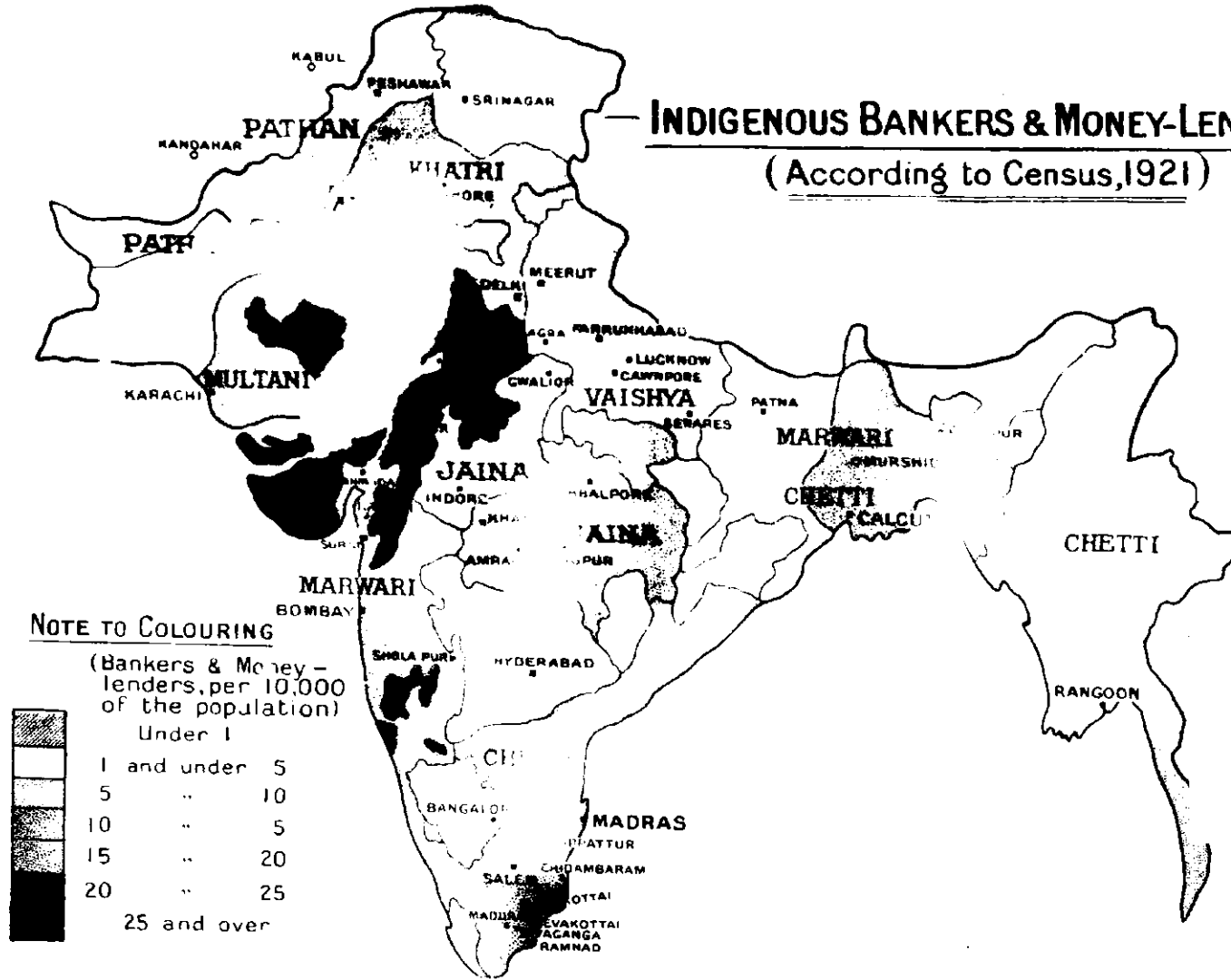
*(Thesis approved for the Degree of Doctor of Philosophy (Economics)
in the University of London)*

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TO
MY REVERED FATHER
BALMUKAND JAIN, Esq.
B.A., C.T., A.C.P. (LONDON)
AN APOLOGY
FOR TWO YEARS' ABSENCE FROM HOME

INDIGENOUS BANKERS & MONEY-LENDERS —

(According to Census, 1921)



NOTE TO COLOURING

(Bankers & Money-lenders, per 10,000 of the population)



Under 1	
1 and under 5	5
5 " 10	10
10 " 15	5
15 " 20	20
20 " 25	25
25 and over	

PREFACE

IN the following pages an attempt is made to describe the present indigenous banking system in India. Literature on the subject is almost non-existent. Such information as is given in works on the Indian money-market is incomplete, largely repetitive and in other ways unsatisfactory. There is sometimes confusion of thought and consequent misrepresentation of facts. For example, when in the usual fashion some writers paint the indigenous bankers as a tribe of 'Shylocks,' they do not know that they have in mind only a type of a 'money-lender' as distinct from a 'banker.' This failure to recognise the difference between a 'money-lender' and a 'banker' is responsible for the somewhat unjust light in which the so-called banking castes are represented, although, so far as money-lending is concerned, there is hardly any caste in India which has not a share in the business.

It is commonly stated and believed that usury is rampant in India—a conclusion with which I have no quarrel—but, when no authentic evidence is given relating to the functions and methods of the indigenous bankers, the rates and forms of interest and the peculiar practices in collecting interest charges, it is difficult to form an idea of the true position.

Furthermore, it is reiterated time and again that the Indian ryot is steeped in indebtedness to the bankers. If this statement is true, we are compelled to ask: What is the attitude of the client towards the banker? What is the

nature of the indebtedness? Is the burden of debt a greater evil to the borrower than the use of the borrowed capital is a benefit to him? If so, why does he borrow to his own disadvantage? What is the total amount of indebtedness? Is this amount stationary or changing? If changing, is it increasing or decreasing, and at what rate? How are the changes in the amount of indebtedness related to movements in the general level of prices? What is the total amount of interest charges received annually by the bankers from their clients?

Again, there are other questions to be investigated. To enumerate the more important of them: What is the relationship of indigenous to joint-stock banking in the Indian money-market? What are the defects peculiar to the indigenous banking system, and what attempts have been made at reform? What is the best policy to pursue, in the immediate future and ultimately, with a view to establishing a sound banking system, such as will satisfy the needs of the country, having regard to the changing character of these needs? Should the indigenous banking system be altogether abolished and replaced by another? Or should it be absorbed in the joint-stock system? Or, again, should it be reorganised and co-ordinated with the other system in a happy combination, if that be possible?

Both as a student of the Indian money-market and also as a member of one of the much maligned banking castes, I have long felt that the veil over the subject of indigenous banking should be removed, as much in the interest of a healthy credit machinery for India as in that of the indigenous bankers themselves. As it is, I believe that, if nothing be done to save the indigenous bankers, they will eventually die out. But I also believe that this will take a long time to happen and, so long as the problem of indigenous banking is not solved, it is idle to think of establishing the sound banking system which India needs.

But when, in 1925, I first formed the plan of studying the subject, there were several difficulties to be reckoned with. In the first place, was it to be an all-India or a provincial survey? India is more like a continent than a country; in no two provinces are the conditions alike. A provincial survey seemed at first to be more suitable. But, as I proceeded with the inquiry, it became clear that the broad facts and problems of indigenous banking were so similar all over the country that the subject in its larger aspects could well be treated from an all-India standpoint.

Then there was the question as to the method of investigation. As has already been pointed out, books on the Indian money-market are of little help. Even statistics on indigenous banking do not exist. The annual *Statement relating to Banks in India*, which is published by the Government, contains no figures relating to the indigenous bankers. A good deal of scattered information is contained in the official and other literature to be found in the libraries of the India Office, the office of the High Commissioner for India, the London School of Economics and the British Museum, and this has been searched for the purpose. The list of the literature of which use has been made in this monograph is given in the Appendix.

In order to elicit local information personal visits were paid to the more important centres of indigenous banking in various parts of the country. Considerations of time and expense naturally made it impossible to cover the whole of the country. Moreover, the indigenous bankers are not, as a rule, willing to disclose their trade methods or secrets or to produce their account-books. The managers of the Indian joint-stock banks and the Imperial Bank branches possess some reliable information, but they are also naturally reluctant to impart it to a private inquirer. I was able, however, through personal connections to obtain some information from interviews with a few indigenous bankers.

At the same time, a questionnaire was framed to embody most of the questions raised above. This questionnaire which is given in Appendix II, was issued on 9th March, 1926, and altogether 520 copies were distributed. It was also published in the *Indian Journal of Economics* and the *Jaina Gazette*, the leading paper of the Jaina community. The replies were disappointingly small—only twenty-three persons responded—but they contained useful and suggestive information. On certain aspects of the problem, which were of too technical a nature to be included in the questionnaire, experts in various parts of the country were consulted.

Of the imperfections of this work there is no one who is more conscious than myself. I do not pretend that it is in any way exhaustive. The only justification for its presentation is that it is the first attempt to survey the field of indigenous banking made by one who is not out of touch with the actual working of the system, and that it may form the basis of abler and more elaborate studies.

My thanks are owing to Messrs. C. D. Thompson and S. K. Rudra, my colleagues of the Economics Department in the University of Allahabad, who made helpful suggestions in the preparation of the Questionnaire ; to Sir Basil P. Blackett, who kindly examined the questionnaire and indicated sources of information ; and to all those who have helped me by replying to the questionnaire.

Mr. W. H. Moreland made valuable suggestions on Chapter I, Mr. M. M. S. Gubbay on Chapter III, Sir Atul Chatterji on Chapters I and VIII, and Sir Selwyn Fremantle on Chapters V and VII. To all of these I am deeply indebted, as also to Mrs. V. Anstey for the care with which she read through the manuscript in its early shape and to Miss M. E. Bulkley and Mr. V. Giardelli for their able comments on its general arrangement. My esteemed teacher, Prof. A. R. Burnett-Hurst, has given me willing and ready help at every stage of the inquiry. During the period of my research at the

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London School of Economics, Professor T. E. Gregory and Dr. Gilbert Slater have afforded me invaluable criticism, encouragement and advice. The latter has placed me under great obligation by writing the Introduction. My thanks are also due to the Editor of the *Vira* and the Director of the Ganga-Pustakmala Karyalaya, Lucknow, for permission to reproduce a photograph.

L. C. JAIN.

LONDON, S.W. 16

May, 1928.

INTRODUCTION

MR. JAIN'S treatise on Indian Indigenous Banking fills a notable gap in Indian economic literature. Much has been said and written about the deplorable indebtedness of the Indian peasant and the extortionate rates of interest exacted from him by the money-lender. Less has been written about the equally deplorable and less unavoidable indebtedness of the Indian urban worker. Moral indignation has naturally been kindled against the usurers whose greed may turn a temporary calamity or pardonable extravagance on the part of the borrower into the means of his permanent impoverishment. Perhaps more emphasis should have been laid on the broad fact that India is a land of greedy borrowers, with a scarcity of people willing to practise the unattractive economic virtues of thrift and forethought.

In India, as elsewhere, efforts to assist the vast mass of rural and urban workers, crushed under their debts, by measures directly aiming at restricting the activities of the lenders have been of little and of doubtful benefit. Sir Frederick Nicholson in that historic report which begins the history of Indian co-operative banking pointed out the only true line of effective aid. The success of credit banks organised on the lines which he recommended has exceeded reasonable expectations, but the field is so vast and the variety of the credit needs of the people so marked that they must be supplemented by other means. The most notable conclusion to which Mr. Jain's argument points is that nothing short of the building up of an adequate, efficient and

elastic banking system for the whole country, embracing all existing agencies, including even the reprobated indigenous money-lender, will suffice to meet the need. As Mr. Jain belongs to a religious community which in consequence of historic causes has largely specialised in banking, he is able to treat his subject from the inside and this adds greatly to the value of his survey.

GILBERT SLATER.

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