Part III: Regimes of Re/Productive Finance in Modern India

“[W]hat the new economic system did permit small farmers to do was to live on, and by, credit – which was itself a valuable source of subsistence”
– *David Washbrook (1994)*

“The poor women must have rupees in their own pocket, so they are no longer bound without her will to the local moneylenders, contractors, landlords and social structure”
– *Ela Bhatt (1998)*

“We have mainstreamed
the underbanked”
– *Kshama Fernandes (Sinha 2018)*

Chapter 9
The Making of the Indebted Peasant

In the previous chapters, I laid out the methodological foundations for studying the fractured lives that emerge from the chasm between benevolent rhetoric and the violent practices of financial inclusion. I argued that tracing history backwards provides a fruitful pathway to gain a broader understanding of how and why commercial microfinance became successful in recent years. But how far and deep must we explore the history of subaltern indebtedness to gain a meaningful understanding of the present? And how can we engage in such an endeavour without getting lost in the complexity and unevenness of history?

I suggest limiting the investigation to modern regimes of re/productive finance, starting with British colonisation of the subcontinent in the eighteenth century, for two reasons. First, India's subordination under the British-dominated world economy signalled a significant shift in the (global) political economy, which fundamentally altered the social structure on the subcontinent and crucially affected both the chronic subsistence crisis and related indebtedness of subaltern classes. Second, British colonial rule also gave rise to a centralised modern state that would govern access to credit on the subcontinent for the first time. This is not to deny that there were also usurious moneylending practices in pre-colonial India or that the developments described below played out unevenly throughout the vast landmass and diverse population. Instead, it emphasises that despite different pre-conditions and variations, a common thread underpins the shattered story of India's unbanked people, one which is intimately bound up with uneven capitalist development. And this is the experience of managing a chronic subsistence crisis through re/productive finance.

This part is divided into three major chapters and an interim conclusion. We will begin in this chapter with exploring the formation of the first modern regime of re/productive finance under British rule during the nineteenth and early twentieth centuries. Chapter 10 investigates the post-colonial era and describes how, under the leadership of the Indian National Congress (INC), a second regime replaced the imperial political economy while simultaneously reproducing some of its contradictions. In a third step, Chapter 11 covers the contemporary neoliberal regime and discusses why and how the rise of commercial and financialised microfinance must be understood in relation to the legacy of the previous two regimes. Finally, the fourth chapter part summarises key insights of this regime analysis for studying microfinance and financial inclusion.

For the longest time in the past 2,000 years, Asia has been the epicentre of the world economy, with China and India constituting the most extensive manufacturing base in the world and accounting for a significant share of the world's total income (Nayyar 2016; Parthasarthi 2011; Pomeranz 2000). This trend only radically changed relatively recently, with Europe's imperial expansion and subordination of the world under an emerging capitalist world market, which began in the long sixteenth century but had manifested itself only in the late nineteenth century. India's subordination under the British-dominated world economy was a critical strategic success in Europe's rise to global supremacy (Anievas and Nişancıoğlu 2015, 245ff.). If there is a single overarching feature of this imperial political economy, it is the plunder of the East India Company (EIC), which appropriated returns that "no other investment of comparable size, industrial or otherwise, could ever have generated" (Arrighi 2010, 215; see also Patnaik 2017; Reinhard 2017). Engaging with this political economy of plunder is crucial for understanding the history of India's unbanked populations, the roots of the modern subsistence crisis of subaltern classes, and how they managed it through chronic indebtedness. This chapter starts by outlining the colonial political economy of plunder, continues with an exploration of what I describe as a contested moneylender-state nexus, and concludes by describing the roots of the unbanked, including the ambiguous introduction of credit cooperatives on the subcontinent.

A Political Economy of Plunder

When the British Atlantic system was in decline towards the end of the eighteenth century (amongst other things because of the abolition of slavery and the independence of the United States), the imperial expansion to Asia became ever more important to back the political economy of Britain's empire. This shift was both geopolitically and geoeconomically motivated, as can be illustrated by the case of the cotton trade. During the seventeenth and eighteenth centuries, cotton textiles were the most important manufactured goods in world trade, and India clothed the whole world "from Mexico to the Philippines and from England to Java" (Washbrook 2007, 90). As a result, massive amounts of precious metals (esp. gold and silver, but also copper) and cowrie flowed to the subcontinent as a means of payment:

> "A very conservative calculation reveals that between 1600 and 1800 about 28,000 tons of bullion in silver equivalents (and much of it actually silver), which repre-

sented roughly a fifth of the world's production of 142,000 tons, flowed into the Indian subcontinent. In this period, the major silver producers in the world were the Americas, which added 132,000 tons of bullion, in silver equivalents, to world supplies, and Japan, which accounted for about 10,000 tons" (Parthasarthi 2011, 46)

Private merchant companies, the so-called East India Companies of England, Holland, France, and Denmark, facilitated the import of textiles from South Asia, both for consumption in Europe and to pay for enslaved Africans who would toil on the plantations in the Caribbean. However, these transnational corporations remained largely dependent on local traders (*banias*) who would run a decentralised network, sourcing the much sought-after fabric from villages in the hinterland. Consequently, the weavers "had control over the rhythm and organization of their work, owned their tools, just as they had for centuries, and even retained the right to sell their products to whomever they pleased" (Beckert 2014, 34). Moreover, their living standards were generally higher than those of their counterparts in England – measured in calorific terms and financial security (Parthasarathi 1998, 82; Washbrook 2007, 90).

In an attempt to dominate the vibrant trading activities and source manufacturing goods and other resources more directly, the British East India Company (EIC) expanded its military presence on the subcontinent and waged decades of wars against different local rulers since the mid-eighteenth century (Manjapra 2020; Robins 2012). This expansion was accompanied by a broader paradigm shift amongst the ruling classes in Britain from mercantilism to liberal political economy, "which prioritized the command of the worldwide movements of goods, capital, and people, and which increasingly treated territorial occupation as a means to this end rather than as an end in itself" (Lowe 2015, 109). Increasingly, the Company approached weavers directly through its own agents and imposed draconian measures, like flogging and other corporeal punishment, on weavers who produced for private merchants.

As a result, the producer's share in revenue from cloth had declined to a minuscule share of about six per cent toward the end of the eighteenth century, while it had been roughly one-third a hundred years earlier (Beckert 2014, 45). In the words of Irfan Habib, after controlling ever more territories on the subcontinent, the Company lived every merchant's dream: "to be able to buy without having to pay, and yet to be able to sell at the full price" (Habib 1975, 25). This was only possible since the Company declared all revenue it generated in India as gross profits, deducted expenses necessary for the colonial administration, paid out dividends to European creditors, and 'invested' in Indian commodities with the remaining net profits (see also Bagchi 2010, 150; Habib 1975). In a piece written for the *New York Daily Tribune* in June 1853, Marx highlights that the East India Company's stock rose significantly with its transition from a "commercial into a military and territorial power [...] and dividends were paid at the rate of 12 ½ per cent" (Marx 1853b). This was not just a speculative fancy. The miraculous power of fictitious capital, which the stocks of the EIC and other joint-stock companies undoubtedly were, was rooted in the productivity of plunder on which the colonial political economy rested (Banaji 2013; McNally 2020).

In contrast to other imperial expansions of European capitalist powers, England hardly used its biggest colony as a market to sell their own goods in the early decades of colonial rule. Imports from East India surged from 1.5 million to 5.8 million pound sterling in the second half of the eighteenth century and accounted for up to one-fourth of all imports. At the same time, exports to India had risen comparatively slowly during this period (Habib 1975, 26). This would radically change a hundred years later when the Company had established a firm grip over the continent, and the British Crown banned Indian textiles on the island to protect its emerging cotton manufacturing, crushing India's cotton mills through discriminatory tariffs, effectively facilitating a process of "deindustrialisation" (Bagchi 2010, 179). While the British cotton industry thrived, India's cotton imports reached unbelievable levels. By the late nineteenth century, British cotton yarn and piece-goods accounted for between 40 and 50 per cent of the total Indian imports (Bagchi 2010, 179). The new trading imbalance created a problem of tribute realisation (Habib 1975). Indian made goods (esp., cotton textiles) had served as a tribute to the colonial motherland before, now this was hardly possible. Indigo exports from India increased rapidly with rising demand from the growing British textile industry but could hardly reverse the new trade imbalance.

In this context, opium emerged as India's most significant export good, accounting for roughly one-third of total exports in the late 1850s (Habib 1975, 40). The Company's monopoly over opium production and trading from the subcontinent quickly turned it into the world's largest drug dealer. It was crucial for financing the colonial administration and (indirectly) balancing trade relations with England. In the second half of the nineteenth century, the opium monopoly was the second largest revenue of the colonial state, accounting for between 16 and 17 per cent of total revenue (Bose 2019, 140; Reinhard 2017, 794). Perhaps even more critical, opium exports from India to China – heavily backed by another set of year-long and brutal wars – were crucial to securing imperial tribute and balancing trade relations between England and China: "In 1855, England consumed tea and silk to the value of £ 8.5 million, while exporting a mere £ 1 million of goods to the country. The balance was sheer gain obtained through Indian exports of opium, which in 1855 amounted to £ 6.23 million" (Habib 1975, 40).

The transformation of the agrarian economy in northern India backed these macroeconomic relations. The Opium Department of the Company was one of the largest enterprises on the subcontinent and had a monopoly over the opium trade.

Despite the meagre prospects to make a living from growing the cash crop, an estimated 1.5 million small peasant households cultivated the labour-intensive poppy. This was because they would receive interest-free advances when committing to produce at a set price for the Company and because the colonial administration exercised extensive pressure through local elites, like landowners, forcing indebted peasants into cultivation (Banaji 2013; Bauer 2019). Based on a detailed regional study on poppy cultivation in Northern India, Bauer (2019, 5) concludes: "[E]ven if we take the highest possible gross income and the lowest possible costs of poppy cultivation, we must conclude that the peasants produced opium at a loss". Subordinating these peasants allowed the Company to extract enormous profits while simultaneously balancing the trade between England and China through opium exports from India (Banaji 2013; Bose 2019).

By the end of the nineteenth century, India's status as a major manufacturing hub in the world economy (accounting for a quarter of the world's manufacturing in 1750) had dwarfed to less than two per cent, while the country had become a supplier of labour-intensive primary products with little added value, including raw cotton, raw jute, tea, coffee, and wheat amongst others (Bose 2019; Habib 1975; Simmons 1985). The Deccan Districts experienced a massive commodity-expansion in the second half of the nineteenth century, exporting a substantial share of its agricultural produce to Europe (e.g. cotton, sugarcane, groundnut) and to Bombay (e.g. cabbage, potatoes and other fresh vegetables). In total, the share of commercial produce to overall agricultural production in the region increased sharply from roughly one-quarter to two-thirds (Banaji 1977). But contrary to what one might expect, the increasing commercialisation of India's agrarian economy and its integration into the capitalist world economy led to the deterioration of the livelihoods of the masses, especially for artisans, weavers, agricultural labourers and small peasants (Bagchi 2010, 145; Washbrook 2007). Between 1757 and 1947, there was no increase in India's per capita income, while it is likely that incomes and living standards declined significantly in the last half of the nineteenth century (Davis 2011, 329; Prasannan Parthasarathi and Riello 2014). Moreover, the colonial plunder that sustained the drain of wealth from the subcontinent extended well beyond unequal trade relations and the production of cheap goods for export.

Around one-fifth of India's land area was covered by forests, which provided livelihoods for "nomadic, pastoral and gathering economies [which] were as significant as peasant farming" (Bayly 1985). By the end of the nineteenth century, India's forests were entirely enclosed by the imperial state, mainly for commercial logging activities, extracting resources, expanding agricultural plantations, and building infrastructure, such as railway sleepers (Bayly 1985, 593; Damodaran 2002, 143; Davis 2011, 345). These enclosures were legally warranted by the Indian Forest Act of 1865, which gave the colonial administration total control over the Indian forest land, turning the Company's Indian Forest Department effectively into one of the largest forestry enterprises in the world (Rangarajan 1994; Roy 2023). Since gathering wild food resources, firewood, and fodder was primarily a responsibility of women according to the prevailing gendered division of labour, it was them who were hit hardest by this trend, many resorting to agricultural labour as a livelihood alternative (Damodaran 2002; Patnaik 1983). Moreover, these enclosures adversely affected Adivasi (tribal communities) and other forest dwellers and threatened their subsistence: "Corporations, like those involved in the timber trade or iron mining, entered areas where *adivasis* had lived and were granted a monopoly right over forest produce. Once a forest area was officially reserved, *adivasis* no longer had any claim to these lands and were charged fees for collecting produce or grazing in these areas" (Verghese 2016, 1633).[1]

In addition to commercial interest, enclosing forest and hill lands was also important for subordinating the subcontinent's diverse population under a centralised state bureaucracy, suppressing vagrancy and banditry (Damodaran 2002; Mayaram 2003; Verghese 2016). In the early 1870s, entire communities, especially from lower castes and nomadic tribes, were designated as habitual criminals by the Criminal Tribes Act (CTA). Regardless of whether individuals had committed any criminal offence, they were registered and under surveillance simply because they belonged to a certain community that was deemed as a class of hereditary criminals, turning them effectively into outlaws (Nigam 1990; Verghese 2016). Likewise, transgender people, commonly known as *hijras,* who performed songs, dance and other performances in public as a means of subsistence (esp. on markets and festive occasions like weddings or religious ceremonies), were often policed under the CTA, with the mission to erase them from the public (Hinchy 2014). It is estimated that between three and four million people had been notified under CTA upon independence in 1947 (Schwarz 2010). Policies like the CTA were crucial in dissecting the social body, creating manageable units that hierarchised the subordinated population and entrenching racialised notions of caste.

As much as the rise of the capitalist world economy under British hegemony was linked to the spread and sophistication of commerce and finance, the empire crucially relied upon the racialised exploitation of agro-industrial labour in an increasingly globalised "plantation complex" (Arrighi 2010, 180f.; Lowe 2015, 77; Manjapra 2020, 71–99). Labour control regimes became increasingly sophisticated after slavery had been abolished officially in the first half of the nineteenth century. The

1 Expropriating land for commercial purposes was not restricted to forest areas. With the Bengal Regulation Act (1824) which would later culminate in the Land Acquisition Act (1894) pertaining to the entire subcontinent, the British introduced the principle of eminent domain in India. Henceforth, private land could be forcibly acquired for a 'public purpose', that is, extracting mineral resources, growing plantation crops, constructing roads, canals or other public amenities with a minuscule compensation (Levien 2018; Roy 2023).

role of indentured labourers from Asia – who, in contrast to their white counterparts, were referred to as *coolies* – was of particular relevance in this regard (Behal and van der Linden 2007). Export-oriented production, such as tea plantations in Northern India, coffee plantations in Ceylon, rubber and petroleum production in Burma and Malaya, or newly emerging mines for coal, tin and other raw materials in South (East) Asia, were all based on contracted *coolie labour*. Liberals celebrated the new contract system as advancement of free wage labour. Though indentured labourers were no commodities like slaves, brute force played a vital part in subordinating and disciplining them, which is why scholars have referred to these labour relations as "second slavery" (Zeuske 2017): "Being recruited, collected, concentrated, transported, physically exploited until exhaustion, and corporally punished were all characteristics of the indentured labor system" (Mann 2011, 128). In addition, humiliation in forced medical examination, omnipresent gender-based violence, hardship of long-distance transport with insufficient foodstuffs and widespread diseases all characterised the new form of 'free wage labour' (Anderson 2009; Behal and van der Linden 2007).

Far from marginal, this emergent migrant working class sustained the imperial political economy for more than a century. Komlosy (2018) suggests that at least 30 million Indian *coolies* and another five or six million labourers from other Asian regions worked to supply European industrialisation between 1830 and 1930 through the supply of primary goods. Vagrant communities and those in increasing despair to provide for their livelihoods were a crucial and abundant source for contractors and recruiting agencies, while policies like the CTA further increased their vulnerability by fragmenting and segmenting the subaltern population (Damodaran 2002; Kaur 2011; Mann 2011; Sharma 2009; Varma 2017). However, the vicious indentured labour system also fed on the chronic indebtedness of the small peasantry and the widespread deprivation of landless labourers. Within this broader context, the first modern regime of re/productive finance took shape on the subcontinent.

The Contested Moneylender-State Nexus

In *The Accumulation of Capital*, Rosa Luxemburg discusses capital's imperial nature, annihilating and disintegrating all other forms of reproduction whilst spreading on the globe. Rather than a technical or purely economic process, she describes the expansion of capital as deeply political, based on force, unequal trade relations and oppressive taxation (Luxemburg 2003, 349). While the previous section has discussed the role of political force and unequal trade relations in detail, this section will explore how oppressive taxation was essential to plundering the subcontinent and maintaining colonial rule while simultaneously exacerbating the indebtedness of the peasantry. Throughout the nineteenth century, land tax contributed, on average, half of all state revenue, securing the costly military expansion on the subcontinent and the imperial tribute to the British Crown and the shareholders of the EIC (Reinhard 2017, 794). Perhaps even more important, the tax reforms under colonial rule fundamentally and permanently altered the social structure by creating regionally distinct property titles to land, intensifying caste-based class inequalities and vulnerability to indebtedness.

The land tax had already been a central source of revenue for the Mughal Empire, which relied on regionally dominant, hereditary upper-caste landowners (*zamindars*) who had the right to collect taxes. With the Permanent Settlement of Bengal in 1793, the EIC both subjugated *and* incorporated these landed classes under colonial rule by turning the *zamindars* into an intermediary institution between the rural masses and the colonial administration. This incorporation of domestic elites in Bengal, Bihar and Orissa was a crucial mechanism in dividing colonial subjects, with obedient elites being rewarded with land titles, while those who resisted the Company's rule and fought against the colonisers were sentenced to death or imprisoned (Nigam 1990; Yang 2007).[2] The liberals, who increasingly gained the upper hand in the Company, criticised this feudal arrangement and pushed for direct taxation of peasants, presumably creating incentives to invest in land and enhance productivity (Dutt 2001). Eventually, the so-called *ryotwari system* was introduced in Madras and Bombay Presidency in the early nineteenth century. Under this system, the peasant households (*ryot*) were required to pay their dues directly to the colonial state.

Despite differences, both the *zamindari* and *ryotwari* system had a significant commonality. Rather than creating a steady title on immovable property for landlords, occupiers of land or cultivators, the security of land ownership was contingent upon paying land tax, which, in turn, sustained the colonial state (Bagchi 1992; Washbrook 1994). In other words, the inability to pay would effectively lead to land expropriation and transfer in expanding land markets. Moreover, in the pre-colonial era, land taxation was fixed as a share of the crop and varied according to the crop cultivated, with the state occasionally supporting cultivation through loans, tax remissions, or fostering irrigation (Habib 1975). In contrast, under the colonial system, land tax was calculated on the average potential yield of the land, which would inevitably lead to the impossibility of all cultivators to produce sufficient output, especially for less irrigated plots and regions particularly affected by recurring droughts or crop failure (Bagchi 1992; Bose 1994; Reinhard 2017). Since most peasants could not accumulate surpluses under the new system, they lacked the means to invest in

2 Yang (2007) shows how collaborating and obedient local elites in Southern India were rewarded with property and status as landlords, while those who openly resisted imperial rule were sentenced to death or imprisoned and exiled to outposts of the British empire – though retaining a higher social status, since they were generally not forced to work like subaltern classes had to.

traditional irrigation and water storage systems, while the colonial administration reduced public financing for such means (Davis 2011, 327; Hardiman 1996).

The absence of banks or government programmes that would support agrarian production through (subsidised) access to credit or investments in irrigation meant that both cultivators and landlords were usually dependent on moneylender's advances, whose business practices increasingly monetised (Bose 1994; Habib 1975). In the pre-colonial era, merchant-moneylenders usually provided advances in seed-grain, foodstuff and other necessities and demanded a share of their produce upon harvest (Hardiman 1996). Most peasants were also trapped in continuous and exploitative debt relations (Habib 1964; Hardiman 1996). However, these were generally personal and only partly monetised, rarely leading to eviction, while monetised debts' abstract and non-negotiable value reigned supreme in the new system. In an article for the *New York Daily Tribune* from June 1853, Marx succinctly summarises the ambiguous dynamic the land taxes had brought about:

> "The Ryot is subject, like the French peasant, to the extortion of the private usurer; but he has no hereditary, no permanent title in his land, like the French peasant. Like the serf' he is forced to cultivation, but he is not secured against want like the serf. Like the *métayer [sharecropper]* he has to divide his produce with the State, but the State is not obliged, with regard to him, to advance the funds and the stock, as it is obliged to do with regard to the *métayer.* In Bengal, as in Madras and Bombay, under the *Zemindari* as under the *Ryotwar,* the Ryots-and they form 11–12ths of the whole Indian population — have been wretchedly pauperized" (Marx 1853a)

Against this backdrop, rising rural indebtedness during the nineteenth century must be understood as a response to the insufficient subsistence produce, pressures from land taxation, export-oriented commercialisation of agriculture, and a lack of other income opportunities (Bagchi 1992; Banaji 1977; Bose 1994). As David Washbrook summarised it: "Small peasants, in effect, reproduced themselves and their cultivation, from day-to-day and season-to-season, through the credit system" (Washbrook 1994, 150).

Notably, the power of moneylenders was rooted in the reform of the judicial system, modelled after the British one. In pre-colonial times, disputes between creditors and debtors were often resolved through locally based, communal institutions such as village councils (*panchayat*). While these can hardly be imagined as democratic institutions, even upper-caste peasants who dominated such assemblies tended to be sceptical of moneylenders if they were not part of the village community (Habib 1964; Hardiman 1996). In contrast, the colonial *ryotwari system* was based solely on written contracts, which in turn were considered the basis of jurisprudence. Most peasants could not read the agreements and terms, nor did they have access to lawyers who could represent them in court. Even the British politician Thomas Macaulay, a central figure in the colonial education policy on the subcontinent, described the introduction of the British judicial system in South Asia in an essay as a "reign of terror" in which arbitrariness triumphed over reason and arrogance over understanding: "[The reign of terror] consisted of judges not one of whom was familiar with the usages of the millions over whom they claimed boundless authority. Its records were kept in unknown characters; its sentences were pronounced in unknown sounds" (Macauly 1965, 449).

In effect, the new legal system gave unprecedented power to the creditors as long as they could provide written proof of the debt, while no policy was in place that regulated moneylending anyhow. Even borrowing small amounts (Rs. 10) could add up to massive debts within ten years (Rs. 330), turning credit both into a vital mode of surplus appropriation and facilitating cheap agricultural labour at the expense of peasant household's subsistence (Bagchi 1992, 38; Bose 1994; Washbrook 1994, 155). The chronic subsistence crisis and vulnerability to crop failure were intensified by the increased indebtedness and the erosion of protective systems. Though far from idyllic or egalitarian, the old patron-client relationships in rural areas usually entailed safeguarding the subsistence of oppressed classes/castes. This "right to subsistence" (Hardiman 1996) increasingly eroded under British colonial rule and gave way to new forms of dependency mediated by monetised debts, while the colonial administration restrained from any measures to protect the social reproduction of the rural masses (see also Breman 1974).

This wilful ignorance is perhaps best illustrated by the devastating consequences of recurrent famines in the nineteenth and twentieth centuries. Between 1876 and 1908, famines killed around 20 million people in British India, despite millions of tons of grain in commercial circulation and modern railroads that could have reduced rather than exacerbated regional grain shortages (Bagchi 2008; Bose 2019; Washbrook 2007). The fatal consequences were distributed rather unevenly. For instance, in Madras Presidency the great famine of 1876–78 took the lives of 10 per cent of the population, with a larger percentage of landless labourers and small peasants (Roy 2005, 28). Since the imperial political economy and colonial administration had significantly exacerbated these population's vulnerability to droughts and crop failures, and failed to prevent mass deaths, Mike Davis has referred to the series of famines as late Victorian Holocausts: "Millions died, not outside the 'modern world system', but in the very process of being forcibly incorporated into its economic and political structures" (Davis 2011, 9). These famines not only provided a testament for the profound subsistence crisis of subaltern classes in British India. They also exacerbated the indebtedness and provided a vital trigger for widespread and sustained unrest.

Increasingly, credit formed the advances "for the reproduction of [his] labour-power" and social reproduction of agrarian households more generally, with many households from the lower segments being indebted to multiple "monied capitalists", especially during recurring droughts and famine (Banaji 1977, 1373). While a share of borrowing would always also be for cultivation, purchasing bullock, and paying the land tax, the relevance of borrowing for other reproductive needs (including social functions) and the repayment of old debts increased over time (Bose 1994, 282). This also implied new forms of dependency and exploitation:

> "Once indebted to a bania, it was difficult [for them] to avoid being caught up in a vicious circle, whereby debts generated more debts—and the debtor who objected to the arrangement always had the threat of a civil suit hanging over him. In this way the bania, without whose finance cultivation could hardly have continued at all, prospered at the expense of the agrarian population, simultaneously keeping agriculturists alive and impoverishing them" (Cheesman 1982, 462)

The rise of professional moneylenders fed primarily on caste-based class inequality. On the one hand, large families from merchant castes (known as *baniya*, *marwari* or *mahajan* depending on the region), who guaranteed the flow of goods and finances between towns and villages, were often also moneylenders (*sahukar* or *sowkar*). Frequently, they travelled long distances to establish networks along caste lines. The power of these merchant-moneylenders grew greatly under British colonial rule and was not regulated in any way until the early twentieth century (Bagchi 1992; Hardiman 1996; Saikia 2010; Warner 2020). Moreover, the commercialisation of agriculture and changes in land property allowed for the increasing land concentration in the hands of a relatively small rural class of landowners and large farmers, who lent money to the small and middle peasantry and hired the impoverished as agricultural labourers (Banaji 1977; Washbrook 1994, 152).

The concentration of land ownership exacerbated the subsistence crisis of subaltern classes and provided one of the most pertinent legacies of colonial rule. The region of Punjab, long considered the land of small farmers, vividly illustrates the profound effects. At the end of British colonial rule, about half of the land belonged to a relatively small landowning class, about four per cent of the rural population, while 80 per cent of the population sought to secure their livelihood as impoverished small farmers, landless tenants, or wage labourers (Hamid 1982). Notably, powerful landlords were not necessarily cultivators. The roughly 2,000 principal village officers in Bellary district, one of the driest districts in South India, were bestowed 22 per cent of land through a feudal title equivalent to that of the *zamindars* in 1804. Six decades later, their landholding amounted to 60 per cent, covering nearly 400,000 acres (Washbrook 1994, 136). The rising agrarian inequality also meant that an increasing share of the rural population became landless and had to sell their labour power as agricultural labourers in order to survive. While this trend was already visible towards the end of the nineteenth century, it gained rapid momentum in the early twentieth century (Saikia 2010). In the Madras Presidency, which then covered much of southern India, the proportion of landless agricultural labourers rose from about 12 to 52 per cent between 1871 and 1931 (Patnaik 1983, 7). Finally, the chronic indebtedness of the small peasantry and the destitution of landless labourers also fed into the vicious indentured labour system that sustained the global plantation complex discussed above (Manjapra 2018, 376).

In contrast to today's prevailing development discourse, in which informal moneylenders usually appear as exploitative evils from pre-modern times, the rise of these moneylenders was closely linked to the power of the colonial state as well as caste-based class formation under British rule. On the one hand, access to credit was an important tool for large segments of peasant households to guarantee their subsistence and pay taxes to the state. If they were unable to pay the taxes, they faced eviction or imprisonment (including forced labour). On the other hand, informal credit relations were *de facto* formalised by the new judicial system because moneylenders could be sure that the courts would guarantee payment of debt service with state force as long as creditors could produce a written document. Informal moneylenders were thus central, sustaining the colonial state and its drain of wealth. In Surat, for example, an administrative district north of Bombay (now Mumbai), approximately 85 per cent of the land taxes payable by the peasantry were advanced by moneylenders in 1900 (Reinhard 2017, 796).

Thus, a moneylender-state nexus developed under British colonial rule that expressed the violence of racial finance capitalism on the subcontinent as a fusion of colonialism, capitalism and casteism, re-ordering the social structure. This nexus describes the simultaneous deepening of political power on the part of the colonial state and economic power in the fusion of capital and casteism – a process that particularly favoured merchant castes and (emerging) landlords, who now became professional moneylenders. In other words, the moneylender-state nexus describes a colonial class compromise that was built on the prevailing caste hierarchy. Amiya Kumar Bagchi has aptly summarised this process: "As British domination of the rural economy grew, so did the power of the moneylenders" (Bagchi 1992, 29). The growing power of merchant-moneylenders and landlord-moneylenders was also possible because the colonial bureaucracy did nothing to regulate usurious lending, land transfers and debt bondage until the end of the nineteenth century, while creditors could be sure that the liberal rule of law guaranteed them payment of the debt, including interest, as long as the loan contract was in writing (Kumar 2018, 209).

Though a powerful expression of class domination within the imperial political economy, the moneylender-state nexus was contested by appeals, protests, and peasant rebellions across the subcontinent. Many peasants were acutely aware of the significance that colonial policies (esp. land revenue) had on their lives, calling upon the British administration to revoke the law or at least transfer judicial responsibility from Court Laws back to the *village panchayat*. In a petition from 1840, the *ryots* could not have analysed the situation more clearly: "Under the present government, by the sale of our immovable property, we are reduced to a starving condition in the same manner, as a tree when its roots are pulled out, dies. […]" (Kumar 1965, 616). Moreover, speculative grain trading during famines further fuelled rural unrest, which was, in many cases, led by the middle peasantry (Arnold 1979; Bagchi 1992). Between 1770 and 1970, there were at least 77 peasant rebellions. The smallest of these comprised several thousand peasants in active support or in combat, while about 30 revolts must have affected tens of thousands and about twelve several hundreds of thousands (Gough 1976). Ranajit Guha suggests that these uprisings were an "antithesis of colonialism" because they were directed against the "triumvirate" that dominated the rural masses, that is, the colonial administration, the moneylenders, and landlords: "By directing his violence against all three members of this trinity irrespective of which one of them provoked him to revolt in the first place, the peasant displayed a certain understanding of the mutuality of their interests and the power on which this was predicated" (Guha 1999, 27).

Although certainly diverse in triggers, form and dynamics, these peasant insurgencies were not random or individualised outbreaks of violence. In many cases, social and economic boycotts of moneylenders, particularly from upper-caste cultivators, preceded more direct actions, including the destruction of debt records in moneylender's homes, courts, and registries, as well as the looting of police stations and other symbols of British rule (Bagchi 1992; Gough 1976; Kumar 1965). As such, these rebellions must be understood as strategic acts of enforced debt cancellation in the context of chronic indebtedness. Destroying account books or mortgage records was crucial in this endeavour because these documents symbolised, legalised and entrenched the domination and exploitation of the rural masses (Hardiman 1996, 144). As such, rioting must be understood as "established form[s] of protest, coercion and revenge to which the poor and underprivileged not infrequently resorted in defence of their material interests and their continued subsistence" (Arnold 1979, 114). The moneylender-state nexus became increasingly contested throughout the nineteenth century and pressured the colonial administration to provide alternatives for accessing credit.

Colonial Roots of the Unbanked

The contemporary financial inclusion discourse takes the existence of the unbanked as a given characteristic of so-called developing economies (see Chapter 2). Yet, the emergence of a modern banking system is intimately rooted in the violent history of European colonialism and imperial expansions – both in core capitalist countries and the peripheries (Gruffydd Jones 2013; Manjapra 2020; McNally 2020). The exclusion of the masses of peasants and labourers from these institutions was no coincidence. It was rooted in the extractive imperial political economy described above.

Towards the end of colonial rule, it increasingly expressed the growing power of a small but powerful class of domestic capitalists. In this context, the colonial state's growing preoccupation with governing access to credit for the rural masses through establishing credit cooperatives turned out to be an ambiguous strategy navigating between the growing unrest of the masses and the co-optation of domestic political and economic elites. These developments cast their shadows well into the post-colonial era.

India's modern banking system emerged during the nineteenth century under the dominance of metropolitan capital. European agency houses and joint-stock companies dominated public finance, the financing of export-oriented businesses, and trading with foreign exchange (Bagchi 1985; Chandavarkar 1983). Their business was confined mainly to the Presidency towns (Calcutta, Bombay, and Madras) and hardly interacted directly with ordinary Indians. These institutions were critical to realising imperial tributes and facilitating the drain of wealth on which the imperial political economy relied. This is particularly visible in the case of the few powerful Exchange Banks, which were either well-known British banks based in London, such as Oriental Bank Corporation (OBC), the National Bank of India, or other 'imperial banks' that specialised in trade of their respective countries with India, like the Deutsch-Asiatische Bank (German), Yokohama Specie Bank (Japanese), or International Banking Corporation (American) (Chandavarkar 1983, 782).

The Exchange Banks had access to money markets in London and elsewhere and retained a monopoly over the profitable business of facilitating foreign exchange and trade. Moreover, they were tightly connected with powerful institutions of the British Empire, such as the Bank of England, the Treasury, and the India Office (Bagchi 1985; Chandavarkar 1983; McGuire 2005). Their business activities comprised, for example, opium trade with China, investing in coffee plantations in Ceylon or sugar plantations in Mauritius, where indentured labour was exploited, or using privileged access to cheap money in London to profit from lending in South Asia (Banaji 2013). Though not directly interacting with the rural masses, the Exchange Banks assumed the role of a "final link in the chain whereby the surplus of the cultivating peasantry was extracted in a range of different forms and fed into the larger circuits of capital that linked the domestic to the global economy" (McGuire 2007, 87). Undoubtedly, facilitating the drain of wealth was extremely profitable, with European shareholders earning the highest dividends and bonuses amongst all London-based banks at the end of the 1850s by investing in the OBC (McGuire 2005, 147, 2007, 91).[3]

3 A second type of joint-stock banks were government-backed commercial banks that effectively operated as central banks on the subcontinent in term of public debt management and acting as banker's bank, while they were precluded from any authority over monetary policy or dealings in foreign exchange. These three Presidency Banks were founded in the

While domestic bankers were largely excluded from the commanding heights of the imperial political economy, there were numerous Indian banking houses from upper-class mercantile castes who usually ran them as family businesses (Bagchi 1985; Chandavarkar 1983). Traditionally, these larger Indian banks were fusions of commercial and financial capital, engaging in facilitating trade, manufacturing, and financing the extravagances of domestic elites. Towards the early twentieth century, there was a notable nexus between emerging domestic industrial capitalists and proliferating Indian joint-stock banks, many of which would support the nascent nationalist movement to protect "indigenous capital" and further their political and economic interests (Birla 2009, 206; Goswami 1998, 628). But none of these engaged directly and to a significant extent with the Indian peasantry. There were connections between professional moneylenders who provided working capital and subsistence finance to cultivators, and artisans in rural areas and larger Indian banking houses, but these were regionally confined and remained overall limited (Bagchi 1985).

In the 1870s, there had been lively debates amongst the colonial elites on creating a state-sponsored or joint-stock bank, specifically focussing on agricultural credit for the Indian peasantry. A proposal by William Wedderburn, who would later become a founding member of the Indian National Congress (INC), clamoured for establishing agricultural banks in Bombay. It was later declined by the Government of India as it seemed too worrisome to build-up a large credit network that would penetrate rural areas, and too risky to support a banking industry with an indebted peasantry as primary customer base (Robert 1970). However, the prolonged resistance in the forms of riots, robbing, vagrancy, and political mobilisation increasingly forced the British to act upon mass indebtedness, the carnage of colonial famines and the cumulating agrarian crisis. Toward the end of the nineteenth century, the colonial administration introduced several new legislations and schemes that sought to tackle these issues through improved access to agricultural credit, a ceiling of land transfers and ordering that interest payments should not exceed the principal (Dantwala 1952; Kumar 2018; Unger 2018).[4] Yet, these interventions failed to contain the destructive dynamics that had been unleashed decades ago and remained marginal, if not insignificant, for the rural masses. The extended state-backed loans amounted to not more than one per cent of the total credit supply in rural areas, primarily reaching the agrarian middle and upper classes

first half of the nineteenth century, first in Calcutta (Bank of Bengal), then in Bombay (Bank of Bombay) and Madras (Bank of Madras), and later merged into the Imperial Bank of India in 1920, which after nationalisation in 1955 would eventually become India's largest public bank in the post-colonial era: the State Bank of India (Bagchi 1987).

4 These measures included, for example, the Deccan Agriculturalist Relief Act (1879), Land Improvement Loans Act (1883), Land Alienation Act (1900), and Usurious Loan Act (1918).

(Dantwala 1952; Kamenov 2019). Moreover, there were neither sufficiently effective institutions on the ground, nor the political will to implement ceilings of land deals or regulate moneylending, then leading to continuous land transfers in which moneylenders cooperated with dominant landlords who, in turn, disguised land ownership through intermediaries (Hamid 1982; Islam 1995).

At the end of the nineteenth century, the increasing organisation of fractured resistance into a nationalist movement increasingly threatened British dominance on the subcontinent. The formation of the Indian National Congress (INC) in 1885 and the popularity of the Swadeshi movement, which sought to protect local industries from imperial domination and increasingly called for self-rule, were considered particularly dangerous for the British ambitions on the continent. Headed by middle-class intellectuals, with support from domestic business elites, this nationalist movement could potentially channel the widespread anger of the rural masses and orchestrate nationwide resistance (Goswami 1998). Within these broader developments, the establishment of credit cooperatives rooted in the agrarian economy turned out as a panacea for the colonial administration to effectively and efficiently deal with mass indebtedness and the power of moneylenders on the one hand, and discontent, riots and political mobilisation on the other hand, while at the same time neither investing nor risking much economically (Kamenov 2019; Unger 2018).

A distinguished civil servant called Frederick A. Nicholson was commissioned by the Madras Government in the 1890s to draft a report on the possibility of introducing land and agricultural banks in the Madras Presidency and to compare rural banking structures in Europe and India. Since his studies on credit relations in rural Madras demonstrated that the preponderance of loans was based on mutual trust and made in kind between *ryots* for small sums negotiated on a short-term basis, he enthusiastically suggested the introduction of cooperatives according to the *Raffeisen* model, which had been successfully applied in rural Germany to revive the agrarian economy during famine and sluggish growth prospects a few decades earlier (Robert 1970, 165). Nicholson's report was deemed "radically unsound", "dangerous", and "naïve" and hence rejected by the Madras Board of Revenue (Robert 1970, 176). However, his ideas were revived only a few years later at the all-India level after another series of devastating famines killed millions of Indians, with landless labourers and poor *ryots* being disproportionately affected (Bose 2019; Roy 2005).[5] Against this backdrop, Nicholson and other reformers would draft legislation on cooperatives, which came into effect as the *Cooperative Credit Societies Act* in 1904.

The cooperative framework seemed to offer a perfect mixture of a decentralised system that worked through intimate knowledge amongst borrowers and lenders and thus reduced risk and excessive expenses for the colonial state. At the same time,

5 The official death toll for the famines of the 1890s were as high as 4.5 million, while unofficial estimates claimed up to 16 million deaths (Bose 2019).

it blended perfectly with the civilisational mission of colonial rule to educate their subjects in terms of economically rational and accountable behaviour, introducing "a good dose of Victorian morality" (Bose 1994; Robert 1970, 167; Unger 2018). A community in a village had to raise Rs. 2,000 to register a credit society and could usually borrow another Rs. 2,000 from the state (Kamenov 2019, 226). The credit would be dispersed through a pyramid of credit institutions, with primary societies at the village-level receiving low-interest long-term loans (up to 10 years) from district central banks, which in turn were financed by the central urban bank for the whole Presidency (Robert 1970). The growth of credit cooperatives was certainly impressive. There had already been roughly 2,000 registered primary credit cooperatives in 1906, and the number spiked to 100,000 in 1930. In Bengal, the average debt per family increased at least threefold in this period, while the percentage of debtless families decreased from 55 to 17 (Iqbal 2017, 225). Yet, despite the stunning outreach, the cooperative movement neither tackled the entrenched class inequalities nor did it prevent the rural masses from being trapped in indebtedness. Three reasons may explain this.

First, since its inception, credit cooperatives were designed by the British as effective tools to contain anti-colonial resistance (Iqbal 2017; Kamenov 2019; Unger 2018). Notwithstanding the political rhetoric of crowding out usurious moneylenders and the displayed concern with mass indebtedness, cooperatives were never implemented to raise living standards for the bulk of the rural population. Ifthekar Iqbal has summarised colonial attitude in Bengal as follows: "While the initial years of the cooperative movement saw the government trying to use it to contain the swadeshi political tide, later on the threat of terrorist movement, communism and economic depressions informed the government attitude towards the movement" (Iqbal 2017, 234). The swadeshi movement that gained momentum rapidly around the turn of the century, became increasingly incorporated into the cooperative movement, for example, by integrating "competent leaders" (Iqbal 2017, 228).

Second, the governance structure of cooperatives reflected local or regional class and caste hierarchies and further entrenched these through selective access to credit. In effect, wealthy peasants, landlords or local merchant-moneylenders, who were all usually from upper castes, would head the society's village council (Iqbal 2017; Shah, Rao, and Shankar 2007). The colonial government encouraged wealthy and influential peasants in the village to become leading members both to set an example for 'idle' ones and to contain uprisings locally. Cooperative leaders proved mostly loyal to British rule, but their 'service' came at a price. Like the share that *zamindars* would keep for collecting land tax, many cooperative leaders appropriated wealth through the control of the local credit business. When the nationalist movement gained momentum, the participation of Indian politicians in government affairs increased. The 'elite capture' of credit cooperatives was now increasingly tainted by political ambitions. In the Madras Presidency, ministerial reforms in 1919 meant that the Cooperative Department fell into the hands of Indian politicians. In this process, cooperative societies became a political steppingstone as much as they were a vote bank for emerging Indian politicians, with presidents of credit cooperatives becoming politicians or endorsing candidates (Robert 1970). Moreover, the lower ranks of the rural population, including tenants, landless labourers, and small farmers, were largely excluded from equal participation (Iqbal 2017, 231).

Third, cooperative societies were never able to compete with moneylenders. On the one hand, demand for credit was simply so high that even the rapid growth of the cooperative movement seemed little compared to the vast debt business that had emerged in recent decades. Despite considerable outreach, credit supply through cooperatives amounted to less than ten per cent of total credit amongst rural households (Bose 1994, 277; Kumar 2018; Robert 1970). On the other hand, cooperatives adhered to accountancy standards, which moneylenders did not follow in the same way. Cooperatives could not be as flexible with regard to long-lasting overdue credit by their members since much of their working capital was borrowed (Kamenov 2019, 227). Issues with mass default built up during the 'credit cooperative boom' and became particularly apparent after the economic chain reactions of the Great Depression in the United States led the British to implement strict austerity measures, including reduced investments in the cooperative credit system (Robert 1970). As a result, default rates reached 80 per cent in 1934–35 in most districts of Bengal, and Rs. 30 million of the Rs. 40 million of cooperative loans were defaulted in 1940 (Iqbal 2017). Moreover, cooperatives seemed to have grossly misunderstood the increased relevance of reproductive debts for the rural masses: "One of the major causes of the failure of rural credit cooperatives in India to compete with the moneylenders is their doctrinaire aversion to provide consumption credit to cultivators" (Chandavarkar 1983, 803).

In sum, the credit cooperatives provided the first large-scale attempt to govern access to credit for the rural masses across the subcontinent. Their impressive growth within a few decades testified to the massive demand for financing both cultivation and subsistence, which almost exclusively relied on various moneylenders. However, contrary to the colonial presumption that these were primarily welfare institutions freeing the peasantry from the stranglehold of moneylenders, the previous sections demonstrated that the rise of moneylenders and rural indebtedness was a result of colonial policies and India's subordination under the British-centred world economy. As such, the credit cooperatives did not signal the start of a new regime of re/productive finance. Rather, it must be understood as a significant shift within the formation of the first modern regime. Put differently, the introduction of credit cooperatives can be understood as a early form of development policy ("big D") working through the contradictions of uneven capitalist development ("small d"), seeking to pacify widespread unrest and searching for a new compromise with the nascent nationalist movement.

The exclusion of subaltern classes from modern banking was no accident and certainly no result of a lack of financial means. The vibrant financial flows on the subcontinent, including the commercialising of agrarian production, investments in export-oriented plantations, or building of infrastructure like railways, were dominated by European joint-stock companies and exclusively geared towards securing British dominance and the imperial drain of wealth. Meanwhile, the larger share of the peasantry was exposed to increasing indebtedness with merchant-moneylenders and landlord-moneylenders, fostered by reforming the land tax and judicial system. The legacies of this political economy of plunder, to name a few, include the impoverishment and chronic indebtedness of the rural masses, the excessive power of moneylenders, a massive concentration in landownership amongst few upper-caste elites, and a corrupted infrastructure of credit cooperatives. These were the foundations upon which the second regime of re/productive finance would emerge.